ANNUAL FINANCIAL REPORT

AS AT 31 DECEMBER 2016

CONTENTS

CORPORATE BODIES AND COMPANY INFORMATION

Board of Directors

Chairman	Iginio Liberali
Vice Chairman	Pierluigi Faggioli
Directors	Matteo Liberali Michele Faggioli Attilio Arietti Giovanni Cavallini Michele Garulli Fabio Liberali Stefano Paleari Marco Vitale

Board of Statutory Auditors

Chairman	Carla Ceppi
Standing Auditors	Stefano Beltrame Ivano Pelassa
Alternate Auditors	Mauro Cerana Giulia Chiarella

Auditing Firm	Deloitte & Touche S.p.A.

Registered office and company information

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Share capital €62,499,723.50 fully paid in
Tax Code and VAT no.: 01570130128

DIRECTORS' REPORT AS AT 31 DECEMBER 2016

10 March 2017

Dear shareholders,

2016 was a year of significant geopolitical events, which may have considerable future economic impacts. The UK referendum in June resulting in the victory of Brexit, the attempted coup in Turkey and ensuing political tensions and the election of a new US president who hopes to radically change existing economic balances, have been combined with a rather precarious European political situation, characterised by strong and increasing separationist tendencies in many countries, susceptible to call into question the very existence of the Eurozone. The year under way will bring the presidential elections in France and the parliamentary elections in Germany within a context of growing uncertainty throughout the political landscape. Nonetheless, 2016 recorded overall economic growth at global level, and forecasts for 2017 also point to an increase of around 3% of global GDP. In advanced countries, GDP growth has turned out to be rather limited, with 1.7% growth in the Eurozone and similar values expected for 2017.

The year 2016 was one of recovery in oil prices after the collapse of previous years, resulting in stabilisation in the situation of emerging and raw material exporting countries and the recovery of investments of companies involved in the energy supply chain.

Monetary policy, highly expansionary throughout 2016, experienced a possible trend reversal in the initial months of the new year starting from the United States, although the European Central Bank's expected interventions in 2017 will tend to maintain interest rates at very low levels.

In Italy, 2016 closed with 1% growth in GDP. Industrial production was more positive, with growth for the second consecutive year at a rate of 1.6%. This figure is still much lower than pre-crisis values, and it will be difficult to return to these levels in the short term.

During the year under way, the country will need to deal with many uncertainties, starting from those in the political sphere, after the change in government at the end of 2016 and with elections on the horizon within a particularly fragmented and conflicted political environment.

Within this scenario, the LU-VE Group achieved turnover on an end-of-year basis (including 12 months of sales of the newly acquired Spirotech in India, which will be discussed in more detail below) equal to €251.3 million, with an increase of 18.4% compared to 2015. Also on a like-for-like basis, growth would have been significant (+9.1%) with an increase in turnover of €19.2 million, especially thanks to a further considerable reinforcement in the refrigeration sector.

It also should be highlighted that the growth values noted above meant even more consistent growth in volumes, especially in the OEM (Original Equipment Manufacturers) SBU, due to the cautious performance of the main raw materials until the rally recorded in London Metal Exchange prices following the US elections (linked to price trends).

In October 2016, the Group made another significant step in its strategy of gradual internationalisation, completing the acquisition of 95% of Spirotech, an Indian company with a production site in Bhiwadi, Rajasthan, roughly 60 km south of New Delhi, which manufactures high tech heat exchangers and generates more than 75% of its turnover abroad. At the same time, an agreement was signed with the non-controlling shareholder for the acquisition of the remaining 5% through a put & call agreement that can be exercised 3 years after the agreement was entered into.

The Group made the acquisition through its wholly-owned subsidiary LU-VE India, with an equity value of approximately €33.6 million for 100% of Spirotech.

With the completion of the acquisition of Spirotech, the largest ever made by the Group in its history, with turnover of €19.8 million in the twelve months of 2016, EBITDA of €3.8 million and a positive net financial position as at 31 December 2016 of €2.7 million, two strategic objectives were met simultaneously. Indeed, on one hand, the Group expanded its international presence in one of the most populated countries on the planet with an economy that is growing at some of the highest rates in the world and a cold chain that still needs significant development; on the other hand, it achieved its objective of further expanding the field of application of its products outside refrigeration thanks to the acquisition of important customers active in the domestic appliances, air conditioning and refrigerated transport markets.

This acquisition will also significantly strengthen the Group's production base in Asian markets, where important developments are expected for the industrial and commercial refrigeration industry in the medium/long-term.

In the refrigeration market, the value of sales rose by 13.9% compared to 2015 (+12.3% on a like-for-like basis) with turnover equal to €167.8 million (€165.4 million excluding Spirotech) thanks to the consolidation of relationships with some of the main customers and the acquisition of new ones, as well as growth in distribution and the receipt of important orders for logistics centres linked to the world of large scale retail stores. The impact of refrigeration on total Group sales would have reached more than 72% on a like-for-like basis and amounted to 67.6% on an end-of-year basis.

Turnover in the air conditioning market overall rose by 18.2% to €43.6 million (€38.8 million with an increase of 5.4% excluding Spirotech) with differentiated performance between the traditional OEM sector, which saw a decline in volumes with some customers (-2.6%), more than proportionately offset by growth in the market of projects linked to high power machines. The additional sales contributed by Spirotech totalled €4.8 million, primarily in the Indian market of manufacturers of air conditioning machines.

The sales area that was most favourably impacted by the acquisition of Spirotech was that of "special applications", which ranges from compressed air to domestic appliances, to the cooling of electric cabinets and panels and commercial vehicles. The value of turnover on an end-of-year basis reached €32.4 million (+60.8%) thanks to some of Spirotech's most important customers within the domestic appliances segment and in refrigerated transport, while on a like-for-like basis turnover would have risen by only 2.1%.

Vice versa, the power gen and industrial applications markets did not benefit from any impact linked to the Spirotech acquisition, recording a slight decline compared to the values of 2015 (-3.7%, for turnover equal to €4.6 million) also due to the postponement of the billing of certain projects carried out in the final months of 2016, which would have made it possible to achieve slight growth compared to the previous year. Despite the success achieved in expanding the customer base and acquiring various new smaller projects, in 2016 individual projects with a value exceeding €1 million were not repeated and one of the main customers in the segment is no longer a client.

As part of the organisational restructuring project, investments in human resources continued in order to strengthen certain functions, at individual company as well as at corporate level, with the recruitment of new managers, particularly in the IT and Procurement areas. In addition, the process of reorganising and strengthening the sales structure of both SBUs also continued with the dual aim of further increasing the average level of skill and professionalism and of having an even more widespread presence in the geographical and application areas with the most potential for growth.

The significant investment programme continued in Italy and abroad for the expansion, streamlining and automation of production sites and for the strengthening of installed production capacity, with the dual objective of guaranteeing a service level in line with the expectations of an increasingly demanding market throughout the year and having the fire power needed to achieve the growth targets outlined in the medium-term plan.
These investments were in part meant for new application segments and in part linked to technological evolutions under way (miniaturisation and specialisation of exchange surfaces) due to the constant and progressive introduction of new regulations regarding refrigerant fluids with a low environmental impact.

In October, the new release of the SAP operating system named HANA was rolled out in all of the group's production companies (with the exception of Spirotech) and in some commercial companies. This investment, which made the exploitation of data much faster in all Group offices, was necessary to introduce a system for the automatic consolidation of the financial statements of all Group companies and to launch a new Business Intelligence system at Group level, aside from laying the foundations for the "Industry 4.0" project currently in the development phase.

In line with what was agreed in the contracts with Spac Industrial Stars of Italy and with the commitments made with the market, in 2016 a process was launched to transition the Group to listing on the Mercato Telematico Azionario (MTA) market, which is expected to take place in the initial months of 2017. This process entailed a further reinforcement of the structure dedicated to management control and a considerable effort on the part of the administrative offices. As things currently stand, the timing objectives set forth are expected to be met.

On 17 February 2016, a new company was incorporated named LuveDigital S.r.l., which is 50% held by the Parent Company and 50% by the traditional provider of services for the development of special software dedicated to the calculation and sizing of air cooled equipment, heat exchangers and close control air conditioners. The objective of the new company is to create an ad hoc structure with the greatest possibilities for investment and for the aggregation of innovative resources to be devoted to the development of new instruments and platforms dedicated to the promotion of Group products

On 22 February 2016, the deed of merger by incorporation of Metalluve S.r.l. into LU-VE S.p.A. was entered into: the merger became effective as of 1 March 2016, with retroactive effect for accounting and tax purposes as of 1 January 2016. With respect to the merger transaction, as governed by the Revised OPI (Preliminary Assirevi Orientation on IFRS) 2, please refer to the dedicated statement of the pro-forma financial statements in the "LU-VE/METALLUVE MERGER - Revised OPI 2" section of this directors' report.

On 25 February 2016, the Parent Company LU-VE acquired the remaining 10% of the share capital of the Czech subsidiary Heat Transfer System S.r.o. (HTS) for total of €2,050,000. When the articles of association were amended, a 4-member Board of Directors was appointed and operational management was entrusted to two "resident managers" with a dual German-style system (with administration, finance and human resources on one side and operations on the other).

In April, the company Manifold S.r.l. was incorporated (which began operating in September 2016), for the production of specific copper components (collectors and distributor units), thus in-housing a process previously entrusted to an external supplier through a business unit lease.

In May 2016, the Parent Company acquired a total stake of 12.91% of the French subsidiary LU-VE France S.a.r.l. for roughly €162,000 from several non-controlling shareholders. After that acquisition, its stake rose to 86.06%.

In the first half of 2016, the Parent Company completed the project of developing its own organisational and management model pursuant to Italian Legislative Decree 231/2001. The organisational model was approved by the Board of Directors on 30 June 2016; on the same date, the Board of Directors appointed the supervisory body, which took office and began carrying out the functions for which it is responsible.

SUBSIDIARIES AND ASSOCIATES

As at 31 December 2016, the Group comprises the following:

Industrial subsidiaries:

- **SEST S.p.A.** in Limana (BL), wholly-owned: manufactures and markets heat exchangers for refrigerated counters and display cabinets and for other applications;

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

- **"OOO" SEST-LUVE** in Lipetsk (Russia), 95% stake held by SEST S.p.A.: manufactures and markets heat exchangers and air cooled equipment under the LUVE brand for the market comprising Russia and neighbouring countries;

- **HEAT TRANSFER SYSTEMS (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 LUVE 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 LUVE Asia Pacific Ltd: manufactures and markets air cooled products and heat exchangers;

- **LU-VE SWEDEN AB** in Asarum (Sweden), wholly-owned: manufactures and markets air cooled products (mainly large condensers and dry coolers using the AIA brand) in the Scandinavian markets;

- **THERMO GLASS DOOR S.p.A. (TGD)** in Travacò Siccomario (PV), 85% stake held by SEST S.p.A.: manufactures and markets glass doors and frames for refrigerated counters and display cases;

- **SPIROTECH HEAT EXCHANGERS PRIVATE LIMITED** in New Delhi (India), 95% stake held through LU-VE India Corporation Private Ltd: manufactures and markets heat exchangers for domestic applications, refrigeration and air conditioning;

- **MANIFOLD S.r.l.** in Uboldo (VA), 99.0% stake held: manufactures copper components (collectors and distributor units) for Group companies;

- **LUVEDIGITAL S.r.l.** in Uboldo (VA), 50% stake held: develops software and IT solutions dedicated to generating estimates and promoting Group products.

Commercial subsidiaries:

*** LU-VE France s.a.r.l.** in Lyon (France), 86.06% stake held: carries out direct sales activities and provides commercial and technical support services to distributors of air cooled equipment, heat exchangers and close control air conditioners in the French and North African markets;

*** LU-VE Deutschland GmbH** in Stuttgart (Germany), wholly-owned: sells air cooled equipment directly or through distributors throughout the German market;

*** LU-VE Iberica s.l.** in Madrid (Spain), 85% stake held: sells air cooled equipment, heat exchangers and close control air conditioners directly or through distributors in the Iberian peninsula and the Central and South American markets;

*** LU-VE Contardo Pacific pty Ltd.** in Thomastown (Australia), 75.5% stake held: markets air cooled equipment in the Oceania market. It also markets some other complementary brands of companies that are not part of the Group;

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

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

REFERENCE MARKETS

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

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

With reference to the figures provided below, please recall that in the course of the year the Group earned other revenue of roughly €3.0 million (€3.2 million in 2015), which brings revenues and operating income to a total of €251.3 million (€212.3 million in 2015).

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, etc.).

Revenues from sales of heat exchangers on an end-of-year basis represented:

- in 2016: approx. 57% of the Group's total revenues;
- in 2015: approx. 55% of the Group's total revenues.

Air Cooled Equipment

Air cooled equipment (unit coolers, condensers and dry coolers) are finished products consisting of heat exchangers of various styles and sizes (in the case of the Lu-Ve Group, up to over 12 metres long and 3 metres high), coupled with: *(i)* housings, appropriately designed and shaped to maximise the performance of the heat exchangers contained in them and to facilitate their transfer and installation on site; *(ii)* electrical or electronic fans, specifically designed and sized to optimise heat exchange, reduce electricity consumption and the level of noise generated; *(iii)* a range of other electric, electronic and mechanical accessories (designed, for example, to increase the output power in the event of extreme environmental conditions; to further reduce the level of noise pollution; to modulate both electricity consumption and silence depending on whether it is to be used during the day or night; or to enable several functioning parameters to be remotely managed according to the latest communication protocols).

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

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

Revenues from sales of air cooled equipment on an end-of-year basis represented:

- in 2016: approx. 33% of the Group's total revenues;
- in 2015: approx. 35% of the Group's total revenues.

Close control air conditioners

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

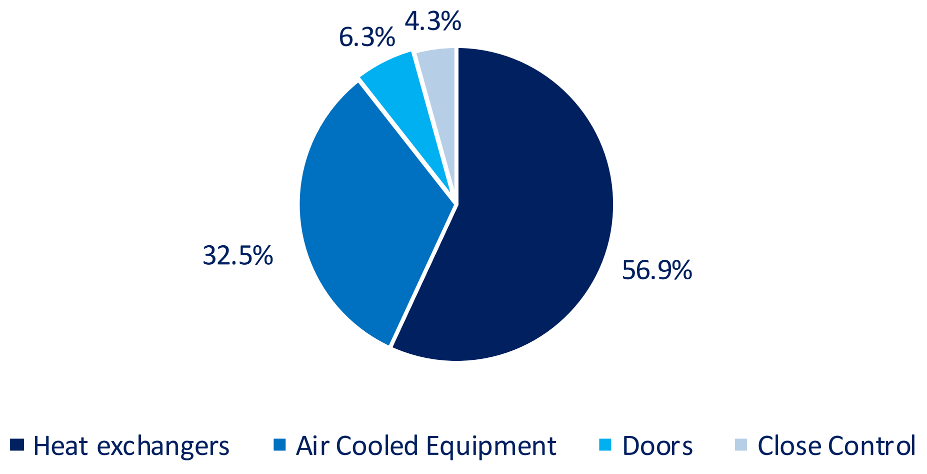
The specific nature of these air conditioners is represented by the fact that they have to guarantee (in the case of data centres, 365 days a year, 24 hours a day) the strict control, with extremely limited tolerances, of temperature, humidity and air purity parameters, as well as remotely reporting, using the latest communication protocols, any irregularities, malfunctioning or alarms.
To this end, these special air conditioners have a "brain" represented by one or more electronic microprocessors, specifically developed and designed according to the type of installation.

Revenues from sales of close control air conditioners on an end-of-year basis represented around 4% of the Group's total revenues in 2016, in line with 2015.

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 on an end-of-year basis represented around 6% of the Group's total revenues in 2016, in line with 2015.

The chart below shows the breakdown of turnover on an end-of-year basis by product type in 2016:



The table below shows turnover trends by product type on an end-of-year basis in the two years subject to comparison:

PRODUCTS	€ /000 2016	%	€ /000 2015	%	Delta %
Heat exchangers	141,283	56.9%	114,685	54.8%	23.2%
Air Cooled Equipment	80,737	32.5%	72,049	34.5%	12.1%
Doors	15,576	6.3%	13,244	6.3%	17.6%

Close Control	10,713	4.3%	9,122	4.4%	17.4%
TOTAL	**248,309**	**100.0%**	**209,100**	**100.0%**	**18.8%**

In terms of product application, the Lu-Ve Group's operations relate primarily to two 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**").
Furthermore, the Lu-Ve Group's products are also addressed to the special applications sector and to the "power gen" and industrial applications sector, although their revenues are significantly lower than those of the Refrigeration Sector and the Air Conditioning Sector.

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 Segment on an end-of-year basis represented:

- in 2016: approx. 68% of the Group's total revenues;
- in 2015: approx. 70% of the Group's total revenues.

The Air Conditioning Sector

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

Revenues from sales in the Air Conditioning Segment on an end-of-year basis represented around 18% of the Group's total revenues in 2016, in line with last year.

The Heat exchangers for special applications sector

The special applications market is highly diversified and envisages numerous different and extremely specialised applications.
The Lu-Ve Group mainly operates in the area of heat exchangers addressed to the market of manufacturers of compressed air machines for industrial applications, of heat exchangers for electric cabinets for large industrial and telecommunications plants.
With the acquisition of Spirotech, two applications in particular take on significance: the first regards special exchangers used in clothes dryers with high energy efficiency (domestic appliance segment); the second is exchangers for refrigerated transport (particularly for lorries and vans).

Revenues from sales on an end-of-year basis made by the Lu-Ve Group in this sector represented:

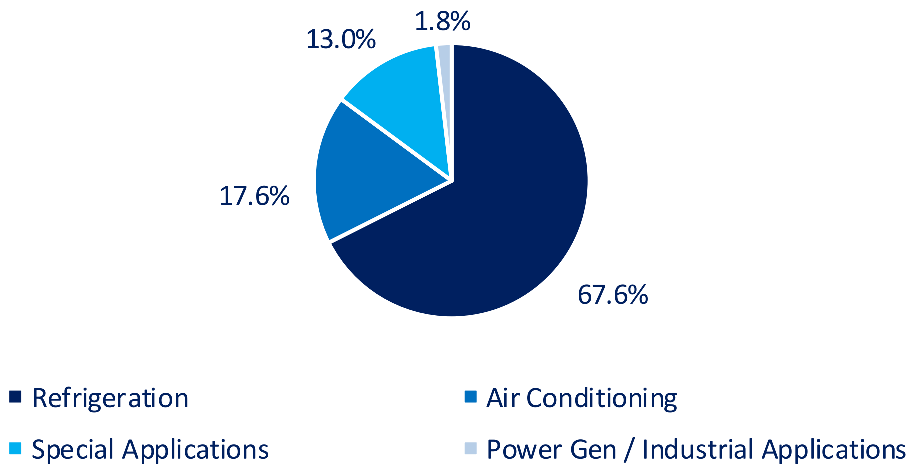
- in 2016: approx. 13% of the Group's total revenues;
- in 2015: approx. 10% of the Group's total revenues.

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 represents a sector with important future growth prospects that is still being developed. The products meant for this specific application for motor cooling in the production of electrical energy are special large, high power radiators.

Revenues from sales on an end-of-year basis made in this segment represented around 2% of total revenues in 2016, substantially in line with the previous year.

The chart below shows the breakdown of turnover on an end-of-year basis by segment in 2016:

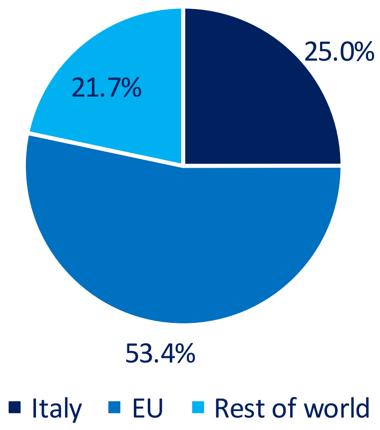


The table below shows turnover trends by application type on an end-of-year basis in the two years subject to comparison:

APPLICATIONS	**€ /000 2016**	**%**	**€ /000 2015**	**%**	**Delta %**
Refrigeration	167,765	67.6%	147,351	70.5%	13.9%
Air Conditioning	43,638	17.6%	36,905	17.6%	18.2%
Special Applications	32,354	13.0%	20,115	9.6%	60.8%
Power Gen / Industrial Applications	4,552	1.8%	4,729	2.3%	-3.7%
TOTAL	**248,309**	**100.0%**	**209,100**	**100.0%**	**18.8%**

Turnover on an end-of-year basis of the Lu-Ve Group was earned primarily abroad (75%), in more than 100 countries: in particular, its main export markets were Germany (where in 2016, the Group recorded 9% of its turnover), Russia, Poland (which posted significant growth due to the acquisition of Spirotech), France and Sweden.

The chart below shows the geographical breakdown of turnover in 2016:



The Lu-Ve Group's turnover does not depend to a significant extent on individual commercial or industrial contracts. As at 31 December 2016, sales to the top 10 customers of the Group together represented a percentage of less than 35% of the total. The turnover generated by the main customer, an international group with 14 different companies, represented around 7.6% of the Group's total turnover.

ECONOMIC AND FINANCIAL DATA

The consolidated financial statements include the initial consolidation of the company Spirotech, acquired in October of 2016. To that end, IAS/IFRS financial statements were drafted for the period 1 January - 31 December 2016 (the local financial statements of the company close on 31 March in accordance with rules in force in India). The balance sheet was consolidated in full, while the income statement was consolidated for the period 1 October - 31 December 2016. In order to allow for a better understanding of the Indian company's contribution to the Group's consolidated financial statements, an aggregated income statement is also presented which considers the Spirotech figures as of 1 January 2016.

The reclassified income statement and balance sheet are provided below:

Reclassified Consolidated Income Statement *(in thousands of Euro)*	**31/12/2016 Consolidated**	**SPIROTECH 1/1-30/09/2016**	**31/12/2016 AGGREGATED**	**% Revenues**	**31/12/2015 (*)**	**% Revenues**	**% Change AG 2016 compared to 2015**
Revenues and operating income	**236,266**	**15,013**	**251,279**	**100.0%**	**212,264**	**100.0%**	**18.4%**
Purchases of materials	(120,685)	(8,776)	(129,461)	51.5%	(108,300)	51.0%	
Changes in inventories	3,650	(161)	3,489	-1.4%	3,060	-1.4%	
Services	(37,462)	(1,875)	(39,337)	15.7%	(33,358)	15.7%	
Personnel costs	(49,902)	(1,063)	(50,965)	20.3%	(46,335)	21.8%	
Other operating costs	(1,826)	(204)	(2,030)	0.8%	(1,111)	0.5%	
Total operating costs	**(206,225)**	**(12,079)**	**(218,304)**	**86.9%**	**(186,044)**	**87.6%**	**17.3%**
EBITDA	**30,041**	**2,934**	**32,975**	**13.1%**	**26,220**	**12.4%**	**25.8%**
Change in fair value of derivatives	313	(7)	306	-0.1%	(201)	0.1%	
Depreciation and amortisation	(12,953)	(538)	(13,491)	5.4%	(12,340)	5.8%	
Gains/losses on non-current assets	430	1	431	-0.2%	241	-0.1%	

EBIT	**17,831**	**2,390**	**20,221**	**8.0%**	**13,920**	**6.6%**	**45.3%**
Net financial income and expense	1,992	177	2,169	-0.9%	(3,381)	1.6%	
EBT	**19,823**	**2,567**	**22,390**	**8.9%**	**10,539**	**5.0%**	**112.4%**
Income taxes for the year	(3,273)	(796)	(4,069)	1.6%	(942)	0.4%	
Net profit (loss) for the year	**16,550**	**1,771**	**18,321**	**7.3%**	**9,597**	**4.5%**	**90.9%**
Profit attributable to non-controlling interests	704	89	793		498		
Profit attributable to the group	**15,846**	**1,682**	**17,528**	**7.0%**	**9,099**	**4.3%**	**92.6%**

Note:

(*) The figures as at 31 December 2015 do not include Spirotech, as it was acquired in 2016.

For improved data comparability, comments on the changes in the income statement as at 31 December 2015 compared to the aggregated income statement as at 31 December 2016 are provided below.

In 2016, "Revenues and operating income" increased by around 18.4% due to the reasons already noted in the previous sections of this Directors' Report. On a like-for-like basis, the increase would have been significant in any event (+9.1% compared to 2015).

Total operating costs rose from €186.0 million (87.6% as a percentage of revenues) to €218.3 million (roughly 86.9% as a percentage of revenues). The total increase of 17.3% (+€32.3 million) was substantially caused by the following factors:

- consumption of raw materials grew by €20.7 million, from 49.6% as a percentage of revenues in 2015 to 50.1% in 2016. The increase in this percentage is essentially linked to the turnover mix.

- increase in costs for services of €6.0 million, €1.6 million of which due to costs linked to the acquisition of Spirotech (which according to IAS/IFRS must be recognised in the income statement in the year in which they are incurred), €2.6 million due to the initial consolidation of Spirotech and €1.8 million due to increases in costs for transport, costs for participation in trade fairs and the variable portion of directors' fees.

- an increase in personnel costs by €4.6 million, consisting of €1.5 million from the initial consolidation of Spirotech, €2.2 million due to the effect of the increase in sales volumes on direct labour costs and €0.9 million for the strengthening of the structure and normal salary trends.

"EBITDA" amounted to €33.0 million (13.1% of revenues) as at 31 December 2016, compared to €26.2 million (12.4% of revenues) in 2015. Excluding the costs of acquiring Spirotech (non-recurring in nature) and other "one-off" costs for the restructuring in China (€0.4 million), EBITDA would have totalled €35.0 million during the year (13.9% of sales). Without the consolidation of Spirotech, the 2016 EBITDA would have been equal to €30.8 million (13.3% of sales).

Amortisation and depreciation rose by €1.2 million, €0.7 million of which linked to the initial consolidation of Spirotech.

"EBIT" amounted to €20.2 million (8.0% of revenues) compared to €13.9 million (6.6% of revenues) in the year ending on 31 December 2015. Normalising the 2016 figure for the above-mentioned non-recurring costs, EBIT would rise to €22.2 million (8.8% of revenues).

The balance of financial income and expense for the year ending 31 December 2016 was positive, at €2.2 million, compared to a negative value of €3.4 million for the year ending 31 December 2015. The difference (positive in the amount of €5.6 million) derives primarily from returns on invested liquidity (+€1.2 million compared to 2015), the reduction in financial expense linked to the full unfolding of the effects of renegotiating outstanding medium-term loans (positive effect of €0.9 million) and exchange differences, almost exclusively unrealised (+€3.2 million compared to 2015).

The "EBT" in the year ending on 31 December 2016 was equal to €22.4 million (8.9% of revenues) against a value of €10.5 million as at 31 December 2015 (5.0% of revenues). The normalised 2016 figure would have been €24.4 million (9.7% of revenues).

The impact of taxes rose by €3.1 million due to the increase in taxable income, the change in Italian tax rules relating to ACE (support for economic growth) and the fact that 2015 benefitted from a non-recurring positive effect linked to the restatement of deferred taxation due to the new rates expected. In 2016, the income tax rate was roughly 18.2%.

The "Net profit for the year" as at 31 December 2016 was €18.3 million (7.3% of revenues) compared to €9.6 million (4.5% of revenues) as at 31 December 2015. The normalised net profit would have been €20.2 million (8.0% of sales).

Reclassified Consolidated Balance Sheet *(in thousands of Euro)*	**31/12/2016**	**% of net invested capital**	**31/12/2015**	**% of net invested capital**	**% Change 2016 compared to 2015**
Net intangible assets	58,432		39,123		19,309
Net property, plant and equipment	103,127		89,131		13,996
Deferred tax assets	3,059		2,379		680
Financial assets	2,050		921		1,129
Non-current assets (A)	**166,668**	**101.2%**	**131,554**	**108.2%**	**35,114**
Inventories	30,914		24,625		6,289
Trade receivables	45,456		33,761		11,695
Other receivables and current assets	7,525		6,145		1,380
Current assets (B)	**83,895**		**64,531**		**19,364**
Trade payables	53,070		47,072		5,998
Other payables and current liabilities	16,407		13,065		3,342
Current liabilities (C)	**69,477**		**60,137**		**9,340**
Net working capital (D=B-C)	**14,418**	**8.8%**	**4,394**	**3.6%**	**10,024**
Provisions for employee benefits	3,936		3,305		631
Deferred tax liabilities	10,329		8,866		1,463
Provisions for risks and charges	2,182		2,177		5
Medium/long-term liabilities (E)	**16,447**	**10.0%**	**14,348**	**11.8%**	**2,099**
Net Invested Capital (A+D-E)	**164,639**	**100.0%**	**121,600**	**100.0%**	**43,039**

Shareholders’ equity attributable to the group	132,572		122,355		10,217
Non-controlling interests	1,823		3,443		(1,620)
Total Consolidated Shareholders’ Equity	**134,395**	**81.6%**	**125,798**	**103.5%**	**8,597**
Medium- Term Net Financial Position	107,705		93,817		13,888
Short- Term net financial position	(77,461)		(98,015)		20,554
Total Net Financial Position	**30,244**	**18.4%**	**(4,198)**	**-3.5%**	**34,442**
Own funds and net financial debt	**164,639**	**100.0%**	**121,600**	**100.0%**	**43,039**

Non-current assets rose significantly compared to 2015 (€35.1 million). €24.4 million of this increase was linked to the initial consolidation of Spirotech (of which €17.8 million connected to the recognition of goodwill and €6.6 million linked to non-current assets recognised in the financial statements of the Indian company). Investments in non-current assets for the year amounted to around €19.2 million (of which €2.1 million for capitalised research and development costs).

The Group’s working capital (equal to the sum of inventories and trade receivables net of trade payables) rose by €12.0 million, linked for €5.8 million to the initial consolidation of Spirotech, €1.2 million to the increase in sales volumes and €5.0 million to the sales mix, which saw more considerable turnover from customers with more extended payment terms than the average.

The impact of working capital on revenues rose from 5.3% as at 31 December 2015 to 9.3% in 2016 (considering Spirotech revenues for 12 months). Without the consolidation of Spirotech, working capital as a percentage of turnover would have been 7.6%.

Consolidated shareholders' equity amounted to €134.4 million compared to €125.8 million as at 31 December 2015. The increase (of €8.6 million) was due to the profit for the year (€16.6 million), adjusted by the distribution of dividends for €4.1 million, the negative effect of the translation reserve for €0.8 million, the acquisition of treasury shares for €0.5 million, a reduction in shareholders' equity attributable to non-controlling shareholders for €2.1 million (linked to the acquisition of 10% of HTS sro and the call option on the remaining 5% of Spirotech) and other changes for €0.4 million.

The net financial position was negative by €30.2 million (positive by €4.2 million as at 31 December 2015), with a difference of €34.4 million, linked mainly to the acquisition of Spirotech, mentioned above. The cash flow from operations adjusted by extraordinary items totalled roughly €12.1 million. The debt is all medium-term, and liquidity as at 31 December 2016 totalled around €120.6 million.

ECONOMIC AND FINANCIAL DATA OF THE SEPARATE FINANCIAL STATEMENTS OF THE PARENT COMPANY LU-VE SPA

The reclassified income statement and balance sheet are provided below:

LU-VE Spa Reclassified Income Statement *(in thousands of Euro)*	31/12/2016	% Revenues	31/12/2015	% Revenues	% Change 2016 compared to 2015
Revenues and operating income	**71,339**	**100.0%**	**67,648**	**100.0%**	**5.5%**
Purchases of materials	(33,388)	46.8%	(32,685)	48.3%	
Changes in inventories	276	-0.4%	347	-0.5%	
Services	(15,791)	22.1%	(14,166)	20.9%	
Personnel costs	(15,162)	21.3%	(13,554)	20.0%	
Other operating costs	(1,795)	2.5%	(529)	0.8%	
Total operating costs	**(65,860)**	**92.3%**	**(60,587)**	**89.6%**	**8.7%**
EBITDA	**5,479**	**7.7%**	**7,061**	**10.4%**	**-22.4%**
Change in fair value of derivatives	436	-0.6%	(40)	0.1%	
Depreciation and amortisation	(5,306)	7.4%	(5,201)	7.7%	
Gains/losses on non-current assets	193	-0.3%	176	-0.3%	
EBIT	**802**	**1.1%**	**1,996**	**3.0%**	**-59.8%**
Net financial income and expense	6,864	-9.6%	1,957	-2.9%	
EBT	**7,666**	**10.7%**	**3,953**	**5.8%**	**93.9%**
Income taxes for the year	(423)	0.6%	980	-1.4%	
Net profit (loss) for the year	**7,243**	**10.2%**	**4,933**	**7.3%**	**46.8%**

"Revenues and operating income" rose by 5.5% in 2015, primarily due to the effect of sales volumes.

Total operating costs rose from €60.6 million (89.6% as a percentage of revenues) to €65.9 million (92.3% as a percentage of revenues). The overall increase was 8.7% (€5.3 million) and was primarily due to the increase in the consumption of materials (total impact of €0.7 million), the increase in costs for services of €1.6 million (due to transport costs, maintenance costs, costs for trade fairs and the variable portion of directors' fees), the increase in personnel expenses of €1.6 million (linked to ordinary salary trends and several structural strengthening activities) and a bad debt provision of €1.1 million.

"EBITDA" amounted to €5.5 million (7.7% of revenues) as at 31 December 2016, compared to €7.1 million (10.4% of revenues) in 2015. The decrease (-€1.6 million) was due to the effects on operating costs noted above, which eroded margins deriving from the increase in sales.

"EBIT" amounted to €0.8 million (1.1% of revenues) compared to €2.0 million (3.0% of revenues) in the year ending on 31 December 2015, with a negative difference of €1.2 million.

The balance of financial income and expense for the year ending 31 December 2016 was positive, at €6.9 million, compared to a positive value of €2.0 million for the year ending 31 December 2015. The difference (positive in the amount of €4.9 million) derives from higher dividends collected in 2016 (+€1.0 million), returns on invested liquidity (+€1.3 million), the reduction in financial expense linked to the full unfolding of the effects of renegotiating outstanding medium-term loans (+€1.4 million) and exchange differences, almost exclusively unrealised (+€1.2 million compared to 2015).

The "EBT" in the year ending on 31 December 2016 was equal to €7.7 million (10.7% of revenues) against a value of €4.0 million as at 31 December 2015 (5.8% of revenues).

The impact of taxes rose by €1.4 million due to the increase in taxable income, the change in Italian tax rules relating to ACE (support for economic growth) and the fact that 2015 benefitted from a non-recurring positive effect linked to the restatement of deferred taxation due to the new rates expected.

The "Net profit for the year" as at 31 December 2016 was €7.2 million (10.2% of revenues) compared to €4.9 million (7.3% of revenues) as at 31 December 2015.

LU-VE Spa Reclassified Balance Sheet ***(in thousands of Euro)***	**31/12/2016**	**% of net invested capital**	**31/12/2015**	**% of net invested capital**	**% Change 2016 compared to 2015**
Net intangible assets	22,010		22,023		(13)
Net property, plant and equipment	39,593		39,430		163
Deferred tax assets	1,453		657		796
Equity investments	58,675		55,188		3,487
Financial assets	34,286		655		33,631
Non-current assets (A)	**156,017**	**98.6%**	**117,953**	**100.5%**	**38,064**
Inventories	6,068		5,792		276
Trade receivables	29,970		27,368		2,602
Other receivables and current assets	3,607		3,539		68
Current assets (B)	**39,645**		**36,699**		**2,946**
Trade payables	20,746		22,774		(2,028)
Other payables and current liabilities	5,778		4,208		1,570
Current liabilities (C)	**26,524**		**26,982**		**(458)**
Net working capital (D=B-C)	**13,121**	**8.3%**	**9,717**	**8.3%**	**3,404**
Provisions for employee benefits	992		980		12
Deferred tax liabilities	8,953		8,325		628
Provisions for risks and charges	951		967		(16)
Medium/long-term liabilities (E)	**10,896**	**6.9%**	**10,272**	**8.7%**	**624**
Net Invested Capital (A+D-E)	**158,242**	**100.0%**	**117,398**	**100.0%**	**40,844**

LU-VE Spa Reclassified	**31/12/2016**	**31/12/2015**	**% Change**

Balance Sheet *(in thousands of Euro)*		% of net invested capital		% of net invested capital	2016 compared to 2015
Share capital	62,496		62,496		0
Reserves and retained earnings (losses)	42,600		42,507		93
Profit (loss) for the year	7,243		4,933		
Total Consolidated Shareholders' Equity	**112,339**	**71.0%**	**109,936**	**93.6%**	**2,403**
Medium- Term Net Financial Position	80,471		64,224		16,247
Short- Term net financial position	(34,568)		(56,762)		22,194
Total Net Financial Position	**45,903**	**29.0%**	**7,462**	**6.4%**	**38,441**
Own funds and net financial debt	**158,242**	**100.0%**	**117,398**	**100.0%**	**40,844**

Non-current assets rose significantly (+€38.1 million) for the following reasons:

- subscription of the bond (value of €33.9 million as at 31 December 2016) issued by LU-VE India to finance the acquisition of Spirotech;
- increase in the item Equity investments (+€3.5 million), €2.1 million of which linked to the acquisition of the remaining 10% of HTS S.r.o., €1.6 million due to the increase in the value of the equity investment in LUVE India and €0.2 million due to other minor effects.

Working capital (equal to the sum of inventories and trade receivables net of trade payables) rose by €4.9 million, linked for the most part to the increase of €2.6 million in trade receivables and the decrease of €2.0 million in trade payables.

Shareholders' equity amounted to €112.3 million compared to €109.9 million as at 31 December 2015. The increase (of €2.4 million) was due to the profit for the year (€7.2 million), net of a distribution of dividends of €3.9 million and other changes for €0.9 million.

The net financial position was negative by €45.9 million (negative by €7.5 million as at 31 December 2015), with a deterioration of €38.4 million, linked to the subscription of the bond, the increase in working capital, the purchase of equity investments and capex, net of the cash flow from operations. The debt is all medium-term, and liquidity as at 31 December 2016 totalled around €105 million.

Industrial companies

Revenues of SEST S.p.A. totalled €29.6 million, up by roughly 17%. Net profit, with around €3.3 million coming from dividends of the Polish subsidiary, came to €1.8 million (-40% compared to 2015) after depreciation and amortisation of €1.4 million and taxes of €351 thousand.

Sest Luve Polska S.p.zoo reached turnover of €42.2 million, an increase of around 13% compared to last year. Net profit came to €10.5 million (€8.6 million in 2015) after depreciation and amortisation of €1.3 million and taxes of €1.3 million.

OOO-Sest-LUVE recorded turnover of €16 million (€12.6 million in 2015).
Net profit came to roughly €3.8 million (€1.5 million in 2015) after depreciation and amortisation of €0.7 million and taxes of €0.1 million.

HTS S.r.o. reached turnover of €34.9 million, a decrease of around 6%.

Net profit came to €1.8 million (€1 million in 2015) after depreciation and amortisation of €1.8 million and taxes of €0.4 million.

LUVE Sweden AB recorded turnover of €12 million (€8.6 million in 2015), with a net profit of €0.8 million (-€0.2 million in 2015) after depreciation and amortisation of €0.3 million.

LUVE Heat Exchangers (Changshu) Limited recorded turnover of €3.8 million (€4.1 million in 2015), with a net loss of €0.5 million (loss of €0.5 million in 2015) after depreciation and amortisation of €0.3 million.

TECNAIR LV S.p.A. recorded turnover of €10.4 million (€10.2 million in 2015, marking an increase of 2%), and achieved a net profit of €10 thousand (loss of €10 thousand in 2015) after depreciation and amortisation of €52 thousand and taxes of €45 thousand.

TGD S.p.A. achieved turnover of €16.4 million (up by around 24% compared to 2015) and a net profit of €5 thousand (loss of €0.8 million as at 31 December 2015) after depreciation and amortisation and lease instalments of €0.7 million and taxes of €69 thousand.

MANIFOLD S.r.l., in the first year of consolidation, recorded turnover of €0.4 million, with a net profit of €6 thousand after depreciation and amortisation of €1 thousand and taxes of €6 thousand.

SPIROTECH HEAT EXCHANGERS, in the first year of consolidation, recorded turnover of €19.8 million over the twelve month period, with a net profit of €2.1 million after depreciation and amortisation of €0.7 million and taxes of €1 million. As noted above, the Spirotech income statement was consolidated only with reference to the last quarter of 2016.

Sales Companies

The situation of each company is summarised below:

LU-VE FRANCE recorded turnover of €8.6 million (73% compared to 2015), with a net profit of €0.1 million after depreciation and amortisation and taxes of €0.1 million.

LU-VE Deutschland Gmbh recorded turnover of €3.5 million (82% compared to 2015), with a net loss of €0.3 million after depreciation and amortisation and taxes of €21 thousand.

LU-VE Iberica SL recorded turnover of €10 million (+29% compared to 2015), with a net profit of €0.3 million after depreciation and amortisation and taxes of €139 thousand.

LU-VE Pacific Pty Ltd recorded turnover of €1.5 million (-55% compared to 2015), with a net loss of €0.5 million after depreciation and amortisation of €43 thousand.

LU-VE Asia Pacific Limited recorded turnover of €0.9 million (-55% compared to 2015), with a net loss of €0.6 million.

LU-VE India Corporation Private Limited of New Delhi (wholly owned), began operating in the last part of 2016, realising revenues of €46 thousand.

LUVE DIGITAL S.r.l., in the first year of consolidation, recorded turnover of €0.3 million, with a net loss of around €700 after depreciation and amortisation and taxes of approximately €8 thousand.

INVESTMENTS

The investments of the Group amounted to €19.2 million (€14.1 million in 2015). In addition, goodwill of €19.3 million was recognised during the year and the initial consolidation of Spirotech entailed the recognition of gross non-current assets totalling €11.3 million. The investments by company are summarised below:

In thousands of Euro	INVESTMENTS								
Category	LUVE	SEST	SEST LUVE POLSKA	"OOO" SEST LUVE	HTS	LUVE CHANGSHU	TGD	OTHER	Total
Land and buildings	434	217	2,001	11	131	-	13	-	2,807
Plant and equipment	1,026	3,525	231	694	1,613	614	72	608	8,383
Other	2,203	608	161	108	208	52	424	193	3,957
Work in progress	923	153	917	883	520	11	198	431	4,036
TOTAL	**4,586**	**4,503**	**3,310**	**1,696**	**2,472**	**677**	**707**	**1,232**	**19,183**

In 2016, the technological capex programme continued in Italy and abroad for the expansion and streamlining of certain production sites and for the strengthening of installed production capacity. These investments were in part meant for new application segments and in part linked to technological evolutions under way due to the introduction of new regulations regarding refrigerant fluids with a low environmental impact. The main investments for the year regarded:

- the expansion of existing production capacity (for €1.0 million) by the Parent Company;
- the acquisition of a cataphoresis plant for finned batteries (for €2.2 million) and a new production line (for €1.2 million) by the subsidiary SEST;
- the expansion of the production site (for €2.0 million) by the subsidiary SEST-LUVE Polska;
- the expansion of existing production capacity and the introduction of a new production line (for €1.5 million) by the Russian subsidiary OOO SEST LUVE;
- the expansion of existing production capacity (for €2.1 million) by the Czech subsidiary HTS sro;
- the introduction of a new production line (for €0.6 million) at the Chinese subsidiary LU-VE Heat Exchangers;
- the strengthening of production capacity (for €0.6 million) by the Swedish subsidiary LU-VE Sweden.

PERSONNEL

Again in 2016, the hiring of experienced personnel and younger, high potential employees continued with a view to strengthening the various company departments to support continuous Company growth and development. In particular, in the first half of the year the plan for the progressive integration of the Group companies continued, with the hiring of two new managers responsible at the corporate level for the Information Technology and Procurement functions.
Particular attention was dedicated to training projects, to a certain extent in all areas, with specific or managerial development programmes focusing for the most part on possible future managers.

Industrial relations continue within an atmosphere of reciprocal fairness and proactivity. There were however some strikes linked to the renewal of the national metalworking agreement.
The Parent Company's supplementary company employment contract will be renewed in the upcoming year Negotiations are under way.

As at 31 December 2016, the number of Group employees came to 2,404 (including 1,855 blue-collar, 525 white-collar and middle managers, 24 executives), against 1,661 as at 31 December 2015.

OCCUPATIONAL HEALTH AND SAFETY

In 2016, 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, in different manners across the various Group facilities:

- Safety evaluation of the fleet of machines and equipment to define and plan upgrading and certification activities.
- Improvement in work environments, addressing intervention priorities for workstations identified as most critical from an ergonomic perspective.
- Optimisation of internal routes in terms of the regulation of paths and the relative rules of conduct.
- Training and issue of specific appointments for workers exposed to electrical risks, when applicable, as a result also providing for the implementation of specific personal protection equipment (PPE).
- Optimised management of PPE and tracking capabilities (department, operator, PPE).
- In 2016, accident frequency and severity indexes continued to be monitored. Once again excellent results were achieved thanks to careful training, supervision and awareness-raising activities which made it possible to considerably increase the attention paid to this fundamental aspect of the working life of all employees.
- In order to meet the requirements of company policies which place the person at the very heart of the organisation, the Parent Company has started to revise the management system with a view to the integration of Safety, Environment, Quality and organisational model 231.

In the environmental realm, it is worth noting that the Group's Italian Companies have obtained the Single Environmental Authorisation and have also introduced technological innovations within processes that may have a greater environmental impact such as the surface treatment of metals and paints, thus reducing their environmental impact (also with the introduction of the use of nanotechnologies).
Proactive and constructive collaboration with all parties involved continued, by means of periodic meetings and analyses of the reports received.

MAIN RISKS AND UNCERTAINTIES

The main risk factors to which the Group is exposed, described below with an indication of the management strategies and policies applied, are classified in the following categories:

- Risks related to the external context;
- Strategic and operational risks;
- Financial risks;
- Legal and compliance risks.

RISKS RELATED TO THE EXTERNAL CONTEXT

RISKS RELATED TO GENERAL ECONOMIC CONDITIONS

The income statement results and the equity and financial position of the Group 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.

Amongst the numerous recent factors characterising the macroeconomic situation, those related to the geopolitical context are to be considered first and foremost, due to the events occurring in 2016 as well as the European elections planned for this year. The latter in particular, given the radical proposals compared to the existing framework put forth by candidates, may generate turbulence on the foreign exchange and rates front, or even create difficulties for the single currency. In addition, the new US administration's policies may have consequences on global economic and financial balances, which constitutes an element of uncertainty in the markets.

It is also necessary to consider (i) that in January 2017 in its World Economic Outlook the International Monetary Fund confirmed its previous global GDP estimates of 3.1% for 2016 and 3.4% for 2017, and cut forecasts relating to Italy by 0.2% for 2017 and 0.3% for 2018, and (ii) the risks deriving from the fact that growth outlooks for the Eurozone remain oriented downwards.

In addition, the Bank of Italy highlights that in releasing their most recent forecast scenarios, the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD) pointed to the evolution of emerging economies as the main risk factor for global growth and financial stability. In the last two years, the deceleration of economic activity in these countries was often accompanied by tensions in the financial, currency and commodities markets. In addition, for Italy, it is necessary to take into consideration the decree which committed the State in the amount of up to €20 billion for the stabilisation of the banking system, starting with the Monte dei Paschi di Siena bailout.

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.

RISKS RELATED TO EXPANSION AND PRESENCE IN EMERGING MARKETS

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 2016, 2015 and 2014, Group revenues from sales made abroad represented 75% (on the basis of data aggregated with Spirotech for 12 months), 73.1% and 76.0% of total revenues from sales, respectively);

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

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

In addition, the Group also conducts its business in countries with economic and political systems characterised by different factors of potential instability, including: (i) political and economic instability; (ii) boycotts and embargoes which could be imposed by the international community; (iii) unfavourable changes in governmental policies, in particular with respect to foreign investments; (iv) significant fluctuations in interest and exchange rates; (v) expropriation or repossession of assets; (vi)

bureaucratic requirements that are difficult to meet; (vii) the impossibility of protecting certain legal and contractual rights in certain jurisdictions; (viii) the imposition of taxes, duties or other unforeseen payments; (ix) currency controls which could limit the remittance of funds or currency conversion; and (x) widespread corruption.
In addition, operations in emerging markets could be influenced by the typical difficulties of the economies of developing countries such as, for example, transport difficulties, lack of infrastructure or greater difficulties in finding a qualified workforce.
In addition, the primary or secondary regulations of emerging countries or their interpretation could be subject to expected or unforeseeable changes, or there could be a limited number of precedents linked to the interpretation, implementation and application of those regulations.
Particularly with regard to Russia - where the Group is present with its subsidiary OOO Sest-LUVE, which has a production facility located in Lipetsk - please note that the current relations between western countries and the Russian Federation are still characterised by a high level of instability. This results in significant and unpredictable Euro/Rouble exchange rate fluctuations and further consequences that are difficult to predict, which could entail risks of: (i) expropriation or repossession of land and/or plants and/or equity investments, (ii) unfavourable measures regarding foreign investment, (iii) a block of customs procedures and/or the prohibition to export capital and/or dividends.
Particularly with respect to India - where the Group recently acquired the company Spirotech, which has a production facility located in Bhiwadi, close to the capital New Delhi - please note, against the significant potential for development, the presence of the following risks: (i) risk of political instability due to increasing autonomies and powers of the individual States of the Union; (ii) security and terrorism risk: over the years, domestic unrest has been frequent, at times involving violence, which can become more significant in the run-up to elections, and various types of terrorist attacks; (ii) corruption risk; (iv) risk of inflation and depreciation of the Rupee; (v) risks relating to infrastructures and services: the inadequacy of the transport network continues to represent a relevant cost; the inadequacy of the electricity production and distribution system causes frequent black-outs, which Spirotech has resolved with an energy co-generation plant, which moreover it has not used at all in the last 24 months; (vi) risks deriving from the uncertainty of the regulatory environment and the retroactive application of taxes; (vi) risks deriving from excessively burdensome bureaucracy and slow legal processes; consider - amongst others - the rather extended timing required for customs clearance (nearly double the timing required in other south Asian countries such as Thailand, and roughly 3 or 4 times longer than the main OECD countries).
Definitively, although the spread at global level and operations in emerging countries evidently represent significant opportunities for the Group to take advantage of the potential to develop the various geographical areas concerned, it cannot be excluded that the occurrence of one or more of the risks noted above may have negative consequences on the activities and on the profit and loss, financial position and cash flows, results and outlooks of the Group.

RISKS RELATED TO COMPETITIVE PRESSURES

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.
In addition to continuous monitoring of the market, the Group manages risk by pursuing a policy of progressive diversification and enrichment of its product portfolio and continuous product range development.

STRATEGIC AND OPERATIONAL RISKS

RISKS RELATED TO THE CAPACITY TO CONTINUE TO ACHIEVE PRODUCT INNOVATIONS AND INVESTMENTS IN RESEARCH AND DEVELOPMENT

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 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.

PRODUCTION PROCESS RISKS

The Group operates with a production process associated with fixed costs connected with the operations of its facilities. Therefore, the Group is exposed to the risk resulting from the interruption of production activities in one or more of its plants due, by way of example, to accidents, breakdowns of machinery, malfunctioning of IT systems, the revocation or contestation of permits or licenses by the competent public authorities, strikes or lack of a workforce, natural disasters and significant interruptions in the supply of raw materials or energy, or lastly disasters caused by humans such as accidents, fires and acts of terrorism. More specifically, an interruption in production activities could entail a partial lack of absorption of fixed production costs and/or render the Group temporarily unable to promptly meet the demands of its customers.
To face losses arising from potential interruptions or damages in the production cycle, the Group has taken out adequate "loss of profit" insurance policies.
Production activities are subject to compliance with environmental protection, health and safety regulations. To guarantee the proper application of these standards, the Group has created departments with specific verification and continuous monitoring duties.

RISKS RELATED TO TRENDS IN RAW MATERIAL PRICES

The production costs of the 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.
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 stock out situations 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.
However, we cannot rule out that in the future any lack of availability and/or significant fluctuations in the purchase price of the above-mentioned materials could have a negative impact on activities and on the profit and loss, equity and/or financial situation, results and outlooks of the Group.
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 POSSIBLE PROCUREMENT DIFFICULTIES AND RELATIONS WITH SUPPLIERS

The Group is exposed to risks deriving from relations with third party manufacturers and suppliers of materials and components, which may not guarantee the current continuous supply of such materials and components in the future. In particular, inter alia, the Group is exposed to a potential risk linked to difficulties in the procurement of "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 these 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 THE CONCENTRATION OF SALES

Although there is no LU-VE Group customer which alone represents more than 8.1% of consolidated turnover (7.6% on an end-of-year basis) and although the Group's top 10 customers together represent less than 35% of turnover, the sector of static heat exchangers (in which the Group is the main supplier of all of the most important European manufacturers of refrigerated counters) and of glass doors for refrigerated counters is characterised by strong commercial leadership by the main manufacturers.
As a result, if the supply to one or more of the Group's customers in the above-mentioned sector is cancelled for commercial reasons or for strategic decisions of greater integration or in-housing by such customers, 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 activities, as well as the income statement results and/or the equity and/or financial situation and business outlooks of the Group.

FINANCIAL RISKS

This section of the Directors' Report was prepared with reference to the main risks and uncertainties as well as in light of what is set forth in art. 2428, paragraph 2, number 6-bis of the Italian Civil Code, which requires an illustration of the objectives and policies with respect to financial risk management, and on the basis of the instructions set forth in the OIC 3 document. For additional information on financial instruments, please refer to the dedicated comments included in the Notes to the separate financial statements of LU-VE S.p.A. and the consolidated financial statements of the LUVE Group.

CREDIT RISK

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, as well as from the investment of liquidity. It is deemed that, also with regard to this aspect, the socio-political risks commented on above can be considered relevant.
Trade credit risk is monitored on the basis of formalised procedures for the selection and assessment of the customer portfolio, for the definition of credit limits by individual customer, for the monitoring of expected cash inflows and for any debt collection actions. In certain cases, customers are asked for further guarantees, primarily in the form of sureties. The historically low levels of losses on receivables recognised are proof of the good results achieved.

INTEREST RATE RISK

The Group makes recourse to short as well as medium/long-term bank debt in accordance with adequate procedures and technical forms in relation to the structure of its investments.
Exposure to interest rate risk derives from the fact that the Group holds assets and liabilities sensitive to fluctuations in interest rates which are needed for the management of liquidity and financial requirements.
In particular, the main source of exposure to the risk in question for the Group derives from financial debt, which is almost all floating rate. This risk is managed by entering derivative contracts (primarily interest rate swaps) to hedge this risk based on its own needs. 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.

EXCHANGE RATE RISK

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 parent company 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 (zloty, rouble, Czech koruna, Swedish Krona, rupee, Australian dollar, yuan). 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 as expressed in euro in the Group's consolidated financial statements. 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 (currency to which the cost of the main raw materials is linked): indeed, raw materials in the reference markets are quoted in US dollars 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 s.r.o. 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 parent company has subscribed derivative financial instruments used primarily with the intent of hedging the underlying risks. However, from a merely accounting perspective, although such instruments substantially hedge the risks mentioned, they do not meet all requirements laid out in IAS 39; therefore, the parent company has decided to consider these instruments as for trading and not hedges.

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.

COUNTERPARTY RISK

To limit this risk, financial risk management contracts have been entered into with counterparties selected from those that are most financially stable to limit contractual default risk to the greatest extent possible.

LEGAL AND COMPLIANCE RISKS

RISKS RELATED TO PRODUCT QUALITY AND LIABILITY

The products of the Group 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.
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.
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.

ENVIRONMENTAL PROTECTION

The industrial production carried out by the Group 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.
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. Dedicated insurance policies have also been taken out.

DEVELOPMENT ACTIVITIES

In the course of 2016, 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 32 different projects, some of which are carried out in partnership with prestigious European universities such as the Polytechnic University of Milan, the University of Parma, the University of Naples, the University of Valencia and the Danish Institute of Technology in Copenhagen.

Part of these projects are still under way and for their development, the Group incurred Research and Development costs of €2.3 million during the year (including €2.1 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.

LU-VE/METALLUVE MERGER - Revised OPI 2

As noted above, the deed of merger by incorporation of Metalluve S.r.l. into LU-VE S.p.A. was entered into on 22 February 2016. As required by the Revised OPI 2, a dedicated pro forma statement with regard to the merger is presented below. The pro forma LU-VE + Metalluve figure as at 31 December 2015 was not audited.

Figures in Euro

	31/12/16 LU-VE	31/12/15 LU-VE	31/12/15 LU-VE + Metalluve	Delta
ASSETS				
Goodwill	14,629,431	14,569,180	14,629,431	60,251
Other intangible assets	7,380,884	7,453,903	7,460,068	6,165
Property, plant and equipment	36,801,215	37,164,293	37,674,565	510,272
Other property, plant and equipment	2,792,085	2,266,181	2,353,782	87,601
Deferred tax assets	1,452,948	656,957	656,957	-
Equity investments	58,675,180	55,187,837	54,887,837	(300,000)
Other non-current financial assets	48,423,609	14,106,897	14,106,897	-
Other non-current assets	414,408	-	-	-
NON-CURRENT ASSETS	170,569,760	131,405,248	131,769,537	364,289
Inventories	6,068,306	5,791,954	5,791,954	-
Trade receivables	29,969,691	27,367,651	25,471,357	(1,896,294)
Due from the tax authorities for current taxes	2,209,543	2,564,939	2,693,261	128,322
Current financial assets	80,256,282	71,374,720	71,374,720	-
Other current assets	1,396,535	973,826	965,100	(8,726)
Cash and cash equivalents	24,627,254	36,516,531	36,549,684	33,153
CURRENT ASSETS	144,527,612	144,589,621	142,846,076	(1,743,545)
ASSETS HELD FOR SALE	-	-	-	-
TOTAL ASSETS	315,097,372	275,994,869	274,615,613	(1,379,256)
LIABILITIES AND SHAREHOLDERS' EQUITY				
Share capital	62,496,372	62,496,372	62,496,372	-
Reserves and retained earnings (losses)	42,599,534	42,507,071	42,278,006	(229,065)
Profit (loss) for the year	7,243,351	4,933,000	4,816,992	(116,008)
SHAREHOLDERS' EQUITY	112,339,257	109,936,443	109,591,370	(345,073)
Loans	95,011,426	77,611,826	77,611,826	-
Provisions	950,668	966,740	966,740	-
Employee benefits	991,544	980,104	1,087,617	107,513
Deferred tax liabilities	8,952,683	8,325,498	8,325,498	-
Other financial liabilities	12,425	63,754	63,754	-
NON-CURRENT LIABILITIES	105,918,745	87,947,922	88,055,435	107,513
Trade payables	20,745,545	22,773,546	21,556,624	(1,216,922)
Loans	35,958,689	13,878,853	13,878,853	-
Provisions	-	-	-	-
Tax payables	623,671	524,279	398,603	(125,676)
Other financial liabilities	34,355,753	37,250,894	37,250,894	-
Other current liabilities	5,155,711	3,682,932	3,883,834	200,902
CURRENT LIABILITIES	96,839,370	78,110,504	76,968,808	(1,141,696)
LIABILITIES HELD FOR SALE	-	-	-	-
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	315,097,372	275,994,869	274,615,613	(1,379,256)

	31/12/16 LU-VE	31/12/15 LU-VE	31/12/15 LU-VE + Metalluve	Delta
REVENUES AND OPERATING INCOME				
Revenues	71,228,513	67,219,743	67,641,780	422,037
Other revenues	110,545	428,519	40,589	(387,930)
Total revenues and operating income	71,339,058	67,648,262	67,682,369	34,107
OPERATING COSTS				
Purchases of materials	(33,387,593)	(32,685,391)	(30,394,271)	2,291,120
Changes in inventories	276,352	347,213	(147,248)	(494,461)
Services	(15,790,967)	(14,166,331)	(14,432,883)	(266,552)
Personnel costs	(15,162,070)	(13,553,605)	(14,929,775)	(1,376,170)
Other operating costs	(1,794,955)	(529,959)	(540,609)	(10,650)
Total operating costs	(65,859,234)	(60,588,073)	(60,444,786)	143,287
Net change in fair value of derivatives	436,223	(39,808)	(39,808)	-
Depreciation and amortisation	(5,306,315)	(5,200,738)	(5,445,846)	(245,108)
Capital gains on the sale of non-current assets	195,597	176,362	176,362	-
Write-downs on non-current assets	(3,432)	-	-	-
EBIT	801,896	1,996,005	1,928,291	(67,714)
Financial income	8,417,728	5,726,460	5,672,845	(53,615)
Financial expense	(2,782,373)	(3,870,024)	(3,870,249)	(225)
Exchange gains and losses	1,228,882	100,568	100,568	-
Gains and losses from equity investments	-	-	-	-
EBT	7,666,133	3,953,009	3,831,455	(121,554)
Income taxes	(422,781)	979,991	985,537	5,546
PROFIT (LOSS) FOR THE YEAR	7,243,351	4,933,000	4,816,992	(116,008)

The merger by incorporation between Lu-ve and Metalluve (parent-subsidiary merger) is characterised by the absence of an economic exchange with third parties and the continuation of control over the acquired entity: therefore, this transaction is not subject to IFRS 3. In particular, the merger was carried out by applying the principle of the continuity of values, placing relevance on the cost incurred by the incorporating company for the original acquisition of the merged entity.

In this manner, the merger results in the convergence between the consolidated financial statements of the incorporating company at the date of the merger and the separate financial statements of the incorporating company after the merger.

PERFORMANCE IN THE OPENING MONTHS OF 2017: significant events and business outlook

Estimated consolidated turnover of only products in the first two months of 2017 reached roughly €37.3 million, with growth of nearly 9% compared to the same period of the previous year.
The most important event recorded in the first two months of 2017 is represented by growth in the prices of the main raw materials with respect to average values in 2016, accentuated by the simultaneous strengthening of the US dollar with respect to the euro.
To protect sales margins, the Group has increased the prices of catalogue equipment in advance of its main competitors, while for products not in the catalogue, negotiations are under way to revise sales prices in cases in which they are not contractually linked to average prices on the London Metal Exchange as is typical in these market phases.
Despite the general market uncertainty, the value of the order portfolio at the end of the two-month period is €30.6 million, up on a like-for-like basis compared to 2016.

The general scenario remains highly competitive, and the visibility of demand is, as usual, rather limited. However, several projects under discussion with new and existing customers make it reasonable to predict that the Group's sales will increase again in 2017, in line with budget forecasts.

The Company has also initiated a process to transition from listing its ordinary shares and warrants on the AIM Italy to the Mercato Telematico Azionario ("MTA") market organised and managed by Borsa Italiana S.p.A.
In particular, at its meeting on 16 February 2017, the Board of Directors decided to submit a proposal to the shareholders' meeting for approval concerning admission of the LU-VE ordinary shares and warrants to trading on the MTA. At the same time, in consideration of the process under way and the need for the Company's Board of Directors to be compliant with regulations in force with reference to the number of independent directors and the presence of the less represented gender, all directors currently in office will discontinue their term of office effective as of the date of the shareholders' meeting that will appoint the new Board.
Likewise, in order to enable the shareholders to verify the fulfilment of the independence requirements set forth for statutory auditors in the Corporate Governance Code for listed companies, all standing and alternate auditors of LU-VE will discontinue their term of office effective as of the date on which the LU-VE securities begin trading on the MTA ("Trading Start Date").
In addition, starting from the Trading Start Date the Company will become an Entity of Public Interest pursuant to art. 16, paragraph 1, letter a) of Italian Legislative Decree 39/2010 and therefore will need to engage an auditing firm for a nine-year term, pursuant to art. 17 of the above-mentioned Italian Legislative Decree. To that end, the Company proposed to the currently engaged auditing firm Deloitte & Touche S.p.A. a consensual termination of the engagement effective as of the Trading Start Date, specifying that this termination was necessary considering the process of listing the LU-VE ordinary shares and warrants on the MTA. On 28 February 2017, the auditing firm accepted the consensual termination proposal, without making any observations on the reasons put forth by the Company in its proposal.

The LU-VE shareholders' meeting has been called to meet today, to resolve on, inter alia: *(i)* the admission to listing on the MTA; *(ii)* the adoption, effective as of the MTA trading start date, of articles of association compliant with regulations laid out for issuers with shares traded on a regulated market; *(iii)* the appointment of the corporate bodies; and *(iv)* the approval of the consensual termination of the auditing engagement currently in place and the assignment of the nine-year auditing engagement pursuant to art. 17 of Italian Legislative Decree 39/2012.

MANAGEMENT AND COORDINATION ACTIVITIES

There are no management and coordination relationships or activities.

RELATED PARTY TRANSACTIONS

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

TREASURY SHARES

Pursuant to law, please recall that as at 31 December 2016, the Group held 99,300 shares, equal to 0.5014% of the share capital, which was acquired at an average price of €9.9855 based on the authorisation resolutions approved by the Shareholders' Meeting on 28 April 2015 and 29 April 2016.

In application of international accounting standards, these instruments are recognised as a deduction from the Group's shareholders' equity.

SECONDARY OFFICES

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

ALLOCATION OF THE PROFIT FOR THE YEAR OF LUVE SPA

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 €7,243,352.69 (seven million two hundred and forty-three thousand three hundred and fifty-two/69) as follows:

- €362,167.63 (three hundred and sixty-two thousand one hundred and sixty-seven/63) to the legal reserve;
- €1,334,240.88 (one million three hundred and thirty-four thousand two hundred and forty/88) to the unrealised exchange gains reserve;
- €1,207,451.88 (one million two hundred and seven thousand four hundred and fifty-one/88) to the extraordinary reserve;
- €4,339,492.30 (four million three hundred and thirty-nine thousand four hundred and ninety-two/30) to the shareholders, corresponding to the distribution of a gross dividend of €0.22 (zero/22) for each of the 19,724,965 shares outstanding, net of the 111,750 treasury shares currently in the portfolio;

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

On behalf of the Board of Directors

The Chairman

Iginio Liberali

LU-VE GROUP

CONSOLIDATED FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2016

GROUP STRUCTURE AND CORPORATE BODIES

Group Structure

Parent Company

LU-VE S.p.A.

Subsidiaries and stake held by the group

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

Corporate bodies

Board of Directors

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

(*) Independent directors

Board of Statutory Auditors

Chairman	Ceppi Carla
Standing Auditor	Beltrame Stefano
Standing Auditor	Pelassa Ivano
Alternate Auditor	Cerana Mauro
Alternate Auditor	Chiarella Giulia

Auditing Firm

Deloitte & Touche S.p.A.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in thousands of Euro)	Note	31/12/16	31/12/15
ASSETS			
Goodwill	1	48,744	29,575
Other intangible assets	1	9,688	9,548
Property, plant and equipment	2	93,030	81,214
Other property, plant and equipment	2	10,097	7,917
Deferred tax assets	19	3,059	2,379
Equity investments	3	6	21
Other non-current assets	4	2,044	900
NON-CURRENT ASSETS		**166,668**	**131,554**
Inventories	5	30,914	24,625
Trade receivables	6	45,456	33,761
Due from the tax authorities for current taxes	7	5,380	3,963
Current financial assets	8	74,145	64,756
Other current assets	9	2,145	2,182
Cash and cash equivalents	10	46,455	55,266
CURRENT ASSETS		**204,495**	**184,553**
ASSETS HELD FOR SALE		-	-
TOTAL ASSETS		**371,163**	**316,107**

(in thousands of Euro)	Note	31/12/16	31/12/15	
LIABILITIES AND SHAREHOLDERS' EQUITY				
Share capital		**62,496**	**62,496**	
Reserves and retained earnings (losses)		**54,230**	**50,760**	
Profit (loss) for the year		**15,846**	**9,099**	
Total shareholders' equity attributable to the Parent Company		***132,572***	***122,355***	
Shareholders' equity attributable to non-controlling interests		***1,823***	***3,443***	
SHAREHOLDERS' EQUITY	**11**	**134,395**	**125,798**	
Loans	**12**	**105,289**	**93,434**	
Provisions	**13**	**2,182**	**2,177**	
Employee benefits	**14**	**3,936**	**3,305**	
Deferred tax liabilities	**19**	**10,329**	**8,866**	
Other financial liabilities	**15**	**2,416**	**383**	
NON-CURRENT LIABILITIES		**124,152**	**108,165**	
Trade payables	**16**	**53,070**	**47,072**	
Loans	**12**	**41,834**	**20,033**	**(*)**
Provisions	**13**	**-**	**-**	
Tax payables	**17**	**3,415**	**2,535**	
Other financial liabilities	**15**	**1,305**	**1,974**	**(*)**
Other current liabilities	**18**	**12,992**	**10,530**	
CURRENT LIABILITIES		**112,616**	**82,144**	
LIABILITIES HELD FOR SALE		**-**	**-**	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**371,163**	**316,107**	

Note:

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

CONSOLIDATED INCOME STATEMENT

(in thousands of Euro)	Note	31/12/16	31/12/15
REVENUES AND OPERATING INCOME			
Revenues	21	236,018	210,577
Other revenues	22	248	1,687
Total revenues and operating income		236,266	212,264
OPERATING COSTS			
Purchases of materials	23	(120,685)	(108,300)
Changes in inventories	5	3,650	3,060
Services	24	(37,462)	(33,358)
Personnel costs	25	(49,902)	(46,335)
Other operating costs	26	(1,826)	(1,111)
Total operating costs		(206,225)	(186,044)
Net change in fair value of derivatives	8	313	(201)
Depreciation and amortisation	1-2	(12,953)	(12,340)
Capital gains on the sale of non-current assets		430	241
Write-downs on non-current assets		-	-
EBIT		17,831	13,920
Financial income	27	2,055	511
Financial expense	28	(2,862)	(3,522)
Exchange gains and losses	29	2,814	(370)
Gains and losses from equity investments		(15)	-
EBT		19,823	10,539
Income taxes	30	(3,273)	(942)
NET PROFIT (LOSS)		16,550	9,597
Attributable to non-controlling interests		(704)	(498)
PROFIT (LOSS) FOR THE YEAR		15,846	9,099

(in thousands of Euro)	Note	31/12/16	31/12/15
EARNINGS PER SHARE	**31**		
Basic		**€0.81**	**€0.47**
Diluted		**€0.71**	**€0.43**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in thousands of Euro)	31/12/16	31/12/15
NET PROFIT (LOSS)	**16,550**	**9,597**
Comprehensive income/loss that will not be subsequently reclassified to profit/loss for the period:		
Actuarial valuation of post-employment benefits	(143)	189
Tax effect	34	(52)
	(109)	**137**
Comprehensive income/loss that will be subsequently reclassified to profit/loss for the period:		
Exchange differences from translation of financial statements in foreign currency	**(799)**	**(692)**
TOTAL COMPREHENSIVE INCOME (LOSS)	**15,642**	**9,042**
of which:		
Attributable to non-controlling interests	(704)	(498)
ATTRIBUTABLE TO THE GROUP	**14,938**	**8,544**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of Euro)	*Share capital*	*Share premium reserve*	*Legal reserve*	*FTA Reserve*	*Treasury shares*	*Translation reserve*	*Post-employment benefits discounting reserve*	*Other reserves*	*Profit (loss) for the year*	*Total shareholders' equity of the Group*	*Shareholders' equity attributable to non-controlling interests*	*Total shareholders' equity*
BALANCE AS AT 01/01/15	***10,946***	***24,762***	***1,596***	***(3,373)***	***-***	***(3,375)***	***(387)***	***25,340***	***10,114***	***65,623***	***3,233***	***68,856***
Allocation of profit 2014												
Dividends paid	-	-	-	-	-	-	-	*(3,000)*	-	*(3,000)*	*(285)*	*(3,285)*
Retained	-	-	*162*	-	-	-	-	*9,952*	*(10,114)*	-	-	-
ISI/Lu-Ve Merger	*51,550*	-	-	-	-	-	-	*502*	-	*52,052*	-	*52,052*
Purchase/sale of treasury shares	-	-	-	-	*(462)*	-	-	-	-	*(462)*	-	*(462)*
Capital transaction costs	-	-	-	-	-	-	-	*(876)*	-	*(876)*	-	*(876)*
Other	-	-	-	-	-	-	-	*474*	-	*474*	*(3)*	*471*
Comprehensive income as at 31/12/2015	-	-	-	-	-	*(692)*	*137*	-	*9,099*	*8,544*	*498*	*9,042*
BALANCE AS AT 31/12/15	***62,496***	***24,762***	***1,758***	***(3,373)***	***(462)***	***(4,067)***	***(250)***	***32,392***	***9,099***	***122,355***	***3,443***	***125,798***
Allocation of profit 2015												
Dividends paid	-	-	-	-	-	-	-	*(3,876)*	-	*(3,876)*	*(175)*	*(4,051)*
Retained	-	-	*246*	-	-	-	-	*8,853*	*(9,099)*	-	-	-
Purchase/sale of treasury shares	-	-	-	-	*(530)*	-	-	-	-	*(530)*	-	*(530)*
Capital transaction costs	-	-	-	-	-	-	-	*(70)*	-	*(70)*	-	*(70)*
Other	-	-	-	-	-	-	-	*(245)*	-	*(245)*	*(2,149)*	*(2,394)*
Comprehensive income as at 31/12/2016	-	-	-	-	-	*(799)*	*(109)*	-	*15,846*	*14,938*	*704*	*15,642*
BALANCE AS AT 31/12/16	***62,496***	***24,762***	***2,004***	***(3,373)***	***(992)***	***(4,866)***	***(359)***	***37,054***	***15,846***	***132,572***	***1,823***	***134,395***

	Consolidated Statement of Cash Flows *(in thousands of Euro)*	31/12/2016	31/12/2015	
A.	**Cash and cash equivalents at the beginning of the year**	**55,266**	**29,738**	
	Contribution of change in consolidation area	**1,804**	**-**	
	Profit (loss) for the year	15,846	9,099	
	Adjustments for:			
	- Depreciation and amortisation	12,953	12,340	
	- Realised gains on non-current assets	(430)	(241)	
	- Net financial income and expense	807	3,011	
	- Income taxes	3,273	942	
	- Fair value changes booked in operating income	313	(201)	
	Changes in post-employment benefits	387	(196)	
	Changes in provisions	5	(931)	
	Changes in trade receivables	*(9,262)*	*4,227*	
	Changes in inventories	*(1,776)*	*(2,932)*	
	Changes in trade payables	*5,191*	*2,164*	
	Changes in net working capital	***(5,847)***	***3,459***	
	Changes in other receivables and payables, deferred taxes	2,514	(370)	
	Tax payment	(3,633)	(3,429)	
	Paid net financial expenses	(714)	(2,929)	
B.	**Cash flows generated/absorbed by operating activities**	**25,474**	**20,554**	
	Investments in non-current assets			
	- intangible assets	(4,066)	(2,632)	**(**)**
	- property, plant and equipment	(16,728)	(10,512)	
	- financial assets	15	-	
	Business combination net acquisition price	(32,234)	-	
C.	**Cash flows generated/absorbed by investing activities**	**(53,013)**	**(13,144)**	
	Repayment of loans	(21,616)	(48,496)	
	New loans	55,154	84,392	**(*)**
	Changes in other financial liabilities	676	505	**(*),(**)**
	Changes in short-term financial assets	(9,389)	(64,487)	
	Purchase of treasury shares	(530)	(462)	
	Contributions/repayments of own capital	(70)	51,176	
	Payment of dividends	(3,876)	(4,500)	
	Other changes	(2,381)	210	
D.	**Cash flows generated/absorbed by financing activities**	**17,968**	**18,338**	
	Exchange differences	(799)	(692)	
	Other changes	(245)	472	
E.	**Other changes**	**(1,044)**	**(220)**	
F.	**Net cash flows in the year (B+C+D+E)**	**(10,615)**	**25,528**	
	Cash and cash equivalents at the end of the year (A+F)	**46,455**	**55,266**	
	Current financial debt	(31,006)	(42,749)	
	Non-current financial debt	107,705	93,817	
	Net financial debt (Note 20)	**30,244**	**(4,198)**	

Note:

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

(**) The items do not include the value deriving from the application of IAS 17 on the rent of the company Master Cold by the subsidiary Manifold, as these are non-monetary movements. For further information, please refer to note 15.

Notes

INTRODUCTION

Acquisition of Spirotech

On 5 October 2016, on the basis of a preliminary purchase agreement signed on 18 September 2016, the LU-VE Group acquired 95% of the shares of the Indian company Spirotech. The company is active in the production of high tech heat exchangers.
The company was acquired through the LU-VE Group's Indian subsidiary, LU-VE India Corporation Private Limited, established in 2014, which remained inoperative until July 2016.

As the equity value of Spirotech was valued at INR 2,520,000,000 (roughly €33.9 million considering the Euro/INR exchange rate of 74.3655 as at 30 September 2016), the acquisition of 95% of the share capital entailed an investment of INR 2,394,000,000 (around €32.19 million), mainly financed through recourse to debt, which generated goodwill of €17,780 thousand.
Lastly, please note that at the time of the acquisition of 95% of the share capital of Spirotech, an option agreement was also entered into with the non-controlling shareholder for the acquisition of the remaining 5% of the share capital. Thanks to this agreement, the Group may acquire full control over the company three years after the acquisition date, except in specific cases that may allow this event to take place early.

The acquired company was consolidated in the financial statements as of the acquisition date, the moment at which the risks and benefits were transferred to the Group, which typically coincides with the acquisition date. With reference to the acquisition, please recall that, on the basis of the revised IFRS 3, the cost of the business combination must be allocated to the assets, liabilities and intangible assets not recognised in the financial statements of the acquired company, up to the limits of their fair value. Any amount still remaining after this allocation should be recognised as goodwill.

In relation to the complexity of this process, which implies the valuation of numerous, diversified assets and liabilities of the entities making up the acquired company, international accounting standards (IFRS 3) allow the acquisition cost to be definitively allocated within twelve months of the acquisition date. The LU-VE Group has taken advantage of this option. Spirotech's contribution at the acquisition date is highlighted below:

In thousands of Euro		30/09/2016
Property, plant and equipment and intangible assets	G	6,567
Net working capital		5,879
Non-current net assets (liabilities)		1,080
Loans	C	(115)
Cash and cash equivalents	B	1,804
Shareholders' equity attributable to non-controlling interests		(761)
Goodwill	H	17,780
Shareholders' equity attributable to LU-VE		0
Purchase price	**A**	**(32,234)**
Effect on financial debt	**D=A+B+C**	**(30,545)**
Purchase price net of cash and cash equivalents	**E=A+B**	**(30,430)**
Property, plant and equipment and intangible assets deriving from the acquisition	**F=G+H**	**24,347**

Lastly, please note that the acquisition of Spirotech entailed accessory costs of roughly €1,590 thousand, which were recognised in the income statement for the period.

The acquired company was consolidated within the Group as of 1 October 2016. The balance sheet was consolidated in full, while the income statement was considered for the period 1 October - 31 December 2016.
In order to allow for a better understanding of the Indian company's contribution to the Group's consolidated financial statements, an aggregated income statement is presented below including the Spirotech figures as of 1 January 2016:

Consolidated Income Statement Reclassified *(in thousands of Euro)*	**31/12/2016 Consolidated**	**1/1-30/09/2016 Spirotech**	**31/12/2016 Aggregated**	**% Revenues**	**31/12/2015 (*)**	**% Revenues**	**% Change 2016 Agg over 2015**
Revenues and operating income	**236,266**	**15,013**	**251,279**	**100.00%**	**212,264**	**100.00%**	**18.40%**
Purchases of materials	(120,685)	(8,776)	(129,461)	51.50%	(108,300)	51.00%	
Changes in inventories	3,650	(161)	3,489	-1.40%	3,060	-1.40%	
Services	(37,462)	(1,875)	(39,337)	15.70%	(33,358)	15.70%	
Personnel costs	(49,902)	(1,063)	(50,965)	20.30%	(46,335)	21.80%	
Other operating costs	(1,826)	(204)	(2,030)	0.80%	(1,111)	0.50%	
Total operating costs	**(206,225)**	**(12,079)**	**(218,304)**	**86.90%**	**(186,044)**	**87.60%**	**17.30%**
EBITDA	**30,041**	**2,934**	**32,975**	**13.10%**	**26,220**	**12.40%**	**25.80%**
Change in fair value of derivatives	313	(7)	306	-0.10%	(201)	0.10%	
Depreciation and amortisation	(12,953)	(538)	(13,491)	5.40%	(12,340)	5.80%	
Gains/losses on non-current assets	430	1	431	-0.20%	241	-0.10%	
EBIT	**17,831**	**2,390**	**20,221**	**8.00%**	**13,920**	**6.60%**	**45.30%**
Net financial income and expense	1,992	177	2,169	-0.90%	(3,381)	1.60%	
EBT	**19,823**	**2,567**	**22,390**	**8.90%**	**10,539**	**5.00%**	**112.40%**
Income taxes for the year	(3,273)	(796)	(4,069)	1.60%	(942)	0.40%	
Net profit (loss) for the year	**16,550**	**1,771**	**18,321**	**7.30%**	**9,597**	**4.50%**	**90.90%**
Profit attributable to non-controlling interests	704	89	793		498		
Profit attributable to the group	**15,846**	**1,682**	**17,528**	**7.00%**	**9,099**	**4.30%**	**92.60%**

Note:
(*) The figures as at 31 December 2015 do not include Spirotech, as it was acquired in 2016.

Please note in particular that in 2016 there were no trade or financial transactions between the Parent Company and the acquired company.

Recourse to debt for the acquisition of Spirotech, taken out in September 2016, entailed the recognition in the income statement as at 31 December 2016 of financial expense totalling around €15 thousand. If the loan were taken out as of 1 January 2016, the income statement would have been negatively impacted by another roughly €30 thousand.

ACCOUNTING STANDARDS

Declaration of compliance and accounting policies

The consolidated financial statements for 2016 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. IFRS refers to all International Financial Reporting Standards and International Accounting Standards and all interpretations of the International Financial Reporting Interpretations Committee (IFRIC), previously called the Standing Interpretations Committee (SIC), endorsed by the European Union and contained in the relative EU Regulations.
The consolidated financial statements have been prepared in Euro, which is the currency used in the economies in which the Group primarily carries on business, with amounts rounded to thousands, and are compared with the consolidated financial statements for the previous year, prepared with the same criteria. They consist of the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows and these notes.

The financial statements have been drawn up on the basis of the historical cost principle and the going concern assumption. With reference to this last assumption, even within a difficult economic and financial environment, based on assessments of its strong competitive positioning, high profitability and solid financial position, the Group believes that it will continue to operate on a going concern basis pursuant to paragraphs 25 and 26 of IAS 1.

To improve the representation and comparability of the items, several comparative figures from the previous year have been reclassified without entailing any change in the income statement and financial data. In particular, these reclassifications concerned the items "Loans" and "Other current financial liabilities".

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;
- 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 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 LU-VE 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 Company in preparing its consolidated financial statements:

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

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

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

- on 17 February 2016, a new company was incorporated named LuveDigital S.r.l., which is 50% held by the Parent Company and was consolidated as the Group defines its economic, capital and financial policies;
- on 22 February 2016, the deed of merger by incorporation of Metalluve S.r.l. into the Parent Company was entered into: the merger became effective as of 1 March 2016, with retroactive effect for accounting and tax purposes as of 1 January 2016;
- on 25 February 2016, the Parent Company LU-VE acquired the remaining 10% of the share capital of the Czech subsidiary Heat Transfer System S.r.o. (HTS);

- in April 2016, the company Manifold S.r.l. was incorporated (99% stake held by LU-VE) with the objective of leasing a business specialised in the manufacture of copper components;
- in May 2016, the Parent Company acquired a total stake of 12.91% of the French subsidiary LU-VE France S.a.r.l. from several non-controlling shareholders. After that acquisition, its stake rose to 86.06%;
- on 5 October 2016, the LU-VE Group acquired 95% of the shares of the Indian company Spirotech through the subsidiary LU-VE INDIA.

Consolidation criteria

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

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

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

The separate financial statements of each company belonging to the Group are prepared in the currency of the primary economic environment in which it conducts business (functional currency). For the consolidated financial statements, the financial statements of each overseas entity are expressed in Euro, which is the functional currency of the Group and the presentation currency of the consolidated financial statements.
Balance sheet items from financial statements expressed in a currency other than the Euro are translated by applying the current exchange rates at year end. Income statement items are translated at average exchange rates for the year.
Translation exchange differences resulting from the comparison between the opening shareholders' equity translated at current exchange rates and the same converted at historical exchange rates, as well as the difference between the economic result expressed at average exchange rates and that expressed at current exchange rates, are recognised in the shareholders' equity item "Other reserves".

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

	2016		2015	
Currency	**Exchange rate at 31/12**	**Average exchange rate**	**Exchange rate at 31/12**	**Average exchange rate**
AUD	1.4596	1.4883	1.4896	1.4778
PLN	4.4103	4.3632	4.2639	4.18412
CZK	27.021	27.034	27.023	27.2792
RUB	64.300	74.1446	80.674	68.072
SEK	9.5525	9.4689	9.1895	9.35346
HKD	8.1751	8.5922	8.4376	8.60141
CNY	7.3202	7.3522	7.0608	6.97333
INR	71.5935	72.729	72.0215	71.1956

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

	2016		2015	
(in thousands of Euro)	**Net profit for the year**	**Shareholders' Equity**	**Net profit for the year**	**Shareholders' Equity**
Amounts from LU-VE S.p.A. financial statements	**7,243**	**112,339**	**4,960**	**109,963**
Difference between carrying amount of consolidated equity investments and pro rata value of shareholders' equity and profit (loss) of consolidated subsidiaries	8,953	21,122	2,763	12,013
Elimination of unrealised intra-group profits	(37)	(256)	(106)	(219)
Other	(313)	(633)	1,482	598
Profit and shareholders' equity attributable to the Group	**15,846**	**132,572**	**9,099**	**122,355**

Segment reporting

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

- Air cooled, which includes air cooled products and close control air conditioners;
- OEM (Original Equipment Manufacturers), which includes heat exchangers and glass doors.

Measurement criteria

The accounting standards and measurement criteria adopted to prepare the consolidated financial statements as at 31 December 2016, which did not change compared to the previous year, are described below:

INTANGIBLE ASSETS

Goodwill and business combinations

Goodwill represents the difference between the purchase price and the current value of the identifiable assets and liabilities of the investees on the acquisition date.
Any negative difference (negative goodwill), after a further verification, is instead recognised in the income statement at the time of acquisition. Any liabilities associated with the business combinations for payments subject to conditions are recognised at the date of acquisition of the companies and business units relating to the business combinations. The costs connected to the business combinations are recognised in the income statement.
With respect to acquisitions prior to the date of adoption of IFRS, the LU-VE Group exercised the right set forth in IFRS 1 not to apply IFRS 3 relating to business combinations to the acquisitions that took place before the transition date. As a result, the goodwill resulting from acquisitions that took place in the past was not restated and was recognised at the value determined on the basis of the previous accounting standards, net of amortisation accounted for as at 31 December 2013 and any impairment losses.
As of 1 January 2014, goodwill, representing an intangible asset with an indefinite useful life, is not amortised, but rather subject to impairment testing every year or more frequently any time there is an indication that there may have been an impairment loss. However, the original value is not written back if the reasons resulting in the impairment loss no longer apply. Goodwill is not revalued, not even in application of specific laws, and any write-downs are not subject to any subsequent write-backs.
In the event of the sale of part of a business or the entire business previously acquired, the acquisition of which resulted in goodwill, in the determination of the capital gain or loss from the disposal, the corresponding attributable value of goodwill is taken into account.

Other intangible assets

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

Research and development costs
Development costs on projects for the production of new products or components are recognised as assets only if the costs can be reliably determined, the Group has the intent and available resources to complete the asset, it is technically feasible to complete the project so as to make it available for use and expected volumes and prices indicate that the costs incurred in the development phase will be capable of generating future economic benefits.
Capitalised development costs include only expenses incurred that may be directly attributed to the development process.
Capitalised development costs are amortised systematically, beginning from the start of production and throughout the estimated life of the product or process, which has been evaluated as four years. All other development costs are recognised in the income statement when incurred.
Research costs are attributed to the income statement when incurred.

Other intangible assets
Other intangible assets are recognised as assets in accordance with IAS 38 when it is probable that the use of the asset will generate future economic benefits and when the cost of the asset can

be determined in a reliable manner. If such future economic benefits do not arise with reference to development costs, they are written down in the year in which this is confirmed.

These assets are measured at acquisition or production cost and amortised on a straight line basis throughout their estimated useful life, if they have a finite useful life.
In particular, investments in software are amortised over a period of 3 years.

PROPERTY, PLANT AND EQUIPMENT

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

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

Ordinary maintenance costs are charged to the income statement in the year in which they are incurred; costs that increase the value or useful life of the asset are capitalised and depreciated in line with the remaining useful life of the assets to which they refer.
If there are indicators of impairment, property, plant and equipment are tested for impairment. The testing process is described in the “Impairment of assets” section. Any impairment losses may be subject to subsequent write-backs.

Land is not depreciated.

Leased assets

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

Equity investments and non-current receivables

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

Impairment of assets

At each reporting date, the Group reviews the carrying amount of its property, plant and equipment and intangible assets to determine 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 to which the asset belongs.
In particular, the recoverable amount of the cash-generating units (which generally coincide with the legal entity to which the non-current assets refer) is verified by determining the value in use. The recoverable amount is the higher of the net sale price and 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 recognised in the income statement.
If there is no longer a reason to continue to recognise this impairment, 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 in the income statement.

Financial Instruments

Derivative financial instruments
Derivative financial instruments are used primarily for hedging, in order to reduce the risk of fluctuating exchange rates, interest rates and raw material costs. In line with IAS 39, derivative financial instruments are accounted for using hedge accounting methods only when:
a) at the inception of the hedge, the hedging relationship is formally designated and documented;
b) the hedge is expected to be highly effective;
c) this effectiveness may be reliably measured;
d) the hedge is determined to have been highly effective during the different accounting periods for which it is designated.

All derivative financial instruments are measured at fair value, as established by IAS 39.
If the instrument is not eligible for hedge accounting, the gains or losses arising from the measurement of the derivative financial instrument at fair value are recognised in the income statement.
The Group notes that the derivative instruments were subscribed in order to hedge the underlying risks.
However, at the date of presentation of these financial statements, not all requirements of IAS 39 were satisfied. Therefore, the Group management deemed it appropriate to treat those instruments as trading, not hedging, transactions.
The relative effects were recognised under "Net change in fair value of derivatives" in the income statement.

Disclosure
IFRS 7 requires additional information that enables users to evaluate the significance of the financial instruments in relation to the economic performance and financial position of the Group. This accounting standard requires a description of the objectives, policies and procedures put into place by the Management for the different types of financial risk

(liquidity, market and credit) to which the Group is exposed, inclusive of a sensitivity analysis for each type of market risk (exchange rate, interest rate, equity, commodity) and a disclosure regarding the concentration and average, minimum and maximum exposures to the various types of risk during the reference period, if the exposure at the end of the period is not sufficiently representative.
IAS 1 governs, inter alia, the disclosures to be provided regarding capital management objectives, policies and processes, specifying, if there are any externally imposed capital requirements, their nature and management methods and any consequences of non-compliance.

Inventories

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

Trade receivables and other receivables

The receivables are initially recognised at fair value.
Subsequently, receivables are valued with the amortised cost method on the basis of the effective internal interest rate represented by the rate which makes the present value of future cash flows and the carrying amount equal at the moment of initial recognition.
The value thus determined is reduced to the realisable value if there are any impairment losses.
Write-downs are calculated in relation to the degree of solvency of individual debtors, also based on the specific characteristics of the underlying credit risk, taking into account available information and also considering historical experience.

Assignment of receivables

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

Current financial assets

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

Loans

Loans are initially measured at cost net of accessory acquisition costs. This value is subsequently adjusted to take into account any difference between the initial cost and the repayment value throughout the term of the loan using the effective interest rate method.
Loans are classified as current liabilities unless the Group has the unconditional right to defer the settlement of the liability for at least twelve months after the reporting date.

Provisions

Provisions for risks and charges represent probable liabilities of uncertain amount and/or timing deriving from past events, the settlement of which will entail an outflow of resources. Provisions are recognised exclusively if there is a present legal or constructive obligation requiring the use of economic resources, provided such obligation can be reliably estimated. The amount recognised in the provision represents the best estimate of the expenditure required to settle the obligation at the balance sheet date. Provisions are reviewed at each balance sheet date and adjusted so as to represent the best current estimate.
If the outflow of resources connected to the obligation is expected to take place beyond normal payment terms and the effect of discounting is relevant, the amount of the provision is represented by the present value of the expected future payments for the settlement of the obligation.
Contingent assets and liabilities are not recognised in the financial statements. However, they are subject to adequate disclosure.

Employee benefits

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

Post-employment benefits
On 1 January 2007, the Financial Act (law 296/2006) and the relative implementing decrees introduced considerable amendments to the rules on post-employment benefits, including the selection to be made by the worker with respect to the allocation of accruing benefits. In particular, for companies with more than 50 employees on the date of introduction of the reform, these new regulations required new post-employment benefit contributions to be allocated to pension plans chosen by the worker or, if the worker decided to keep those contributions within the company, to an INPS treasury account. The method for accounting for post-employment benefits was updated based on these regulatory amendments.
Before the reform introduced by Law 296/2006, international accounting standards classified post-employment benefits as “defined-benefit plans”. Now, only the post-employment benefits accrued up to 31 December 2006 continue to be classified as “defined-benefit plans”, while those accruing subsequent to that date are classified as a “defined-contribution plan”, as all obligations of the company are met when it makes the periodic contribution to third-party entities. Therefore, discounted amounts are no longer recognised in the income statement. Instead, outlays made to the various types of pension plans selected by employees or to the separate INPS treasury fund, calculated based on art. 2120 of the Italian Civil Code, are recognised under personnel costs.

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

Defined-contribution plans
The Group participates in publicly or privately managed defined-contribution pension plans on an obligatory, contractual or voluntary basis. As noted above, this category includes provisions for post-employment benefits calculated based on art. 2120 of the Italian Civil Code and paid to the various types of pension plans selected by employees or to the separate INPS treasury fund.

The Group meets its obligation to employees with the payment of these contributions. Therefore, the contributions are classified as costs in the period in which they are due.

Payables

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

Criteria for the translation of items in foreign currency

Receivables and payables originally expressed in foreign currencies are translated to euro at the exchange rates of the date on which the transactions giving rise to them take place. The exchange differences realised upon collection of the receivables and payment of the payables in foreign currency are recognised in the income statement. Income and expenses relating to transactions in foreign currency are recognised at the current exchange rate on the date on which the relative transaction takes place.
At year end, assets and liabilities expressed in foreign currency, with the exception of non-current assets, are recognised at the spot exchange rate as at the end of the financial year and the relative exchange gains and losses are recognised in the income statement. If the translation gives rise to a net profit, a non-distributable reserve for a corresponding amount is restricted until its actual realisation.

Revenue and cost recognition

Revenues are recognised net of returns, discounts, allowances and premiums, as well as taxes directly connected to the sale of goods and the provision of services.
Revenues from sales are recognised when the Group has transferred the significant risks and benefits connected to ownership of the asset and the amount of the revenue may be reliably determined.
Costs and expenses are recognised in the financial statements on an accrual basis.

Financial income

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

Financial expense

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

Income taxes for the year

Income taxes include all taxes calculated on the Group’s taxable income. Income taxes are recognised in the income statement, with the exception of those relating to items directly charged or credited to shareholders' equity, in which case the tax effect is recognised directly under shareholders' equity. Other taxes not correlated with income, such as property taxes, are classified as operating expenses.
Deferred tax liabilities are recognised based on the full liability method. They are calculated on all temporary differences emerging between the taxable amount of an asset or liability and the

carrying amount in the consolidated financial statements, with the exception of goodwill which is not tax deductible and those differences from investments in subsidiaries which are not expected to be offset in the foreseeable future.
Deferred tax assets on tax losses and unused tax credits that may be carried forward are recognised to the extent to which 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 respective legal systems of the countries in which the Group carries on business, in the years in which the temporary differences will be realised or extinguished.

Dividends

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

Treasury shares

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

Earnings per share

Basic earnings per share are calculated by dividing the profit or loss attributable to shareholders of the Parent Company by the weighted average of ordinary shares outstanding during the year. Diluted earnings per share are calculated by dividing the profit or loss attributable to shareholders of the Parent Company by the weighted average of ordinary shares outstanding, taking into account the effects of all potential ordinary shares with a dilutive effect.

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 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. More specifically:
Recoverability of the value of property, plant and equipment and intangible assets
The procedure for determining impairment losses on property, plant and equipment and intangible assets described in the “Impairment of assets” accounting standard requires - in estimating the value in use - the use of the Business Plans of the investees, which are based on a set of assumptions and hypotheses relating to future events and actions of the investee management bodies, which may or may not take place. On the other hand, in estimating market value, assumptions are made on foreseeable trading trends between third parties on the basis of historical performance, which may not actually be repeated.

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. 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; the assessment of this expected income depends on factors that could change over time and have significant effects on the measurement of deferred tax assets.

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

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

New accounting standards

IFRS ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLIED AS OF 1 JANUARY 2016

The following IFRS accounting standards, amendments and interpretations have been applied by the Group for the first time as of 1 January 2016:

- Amendments to **IAS 19 "*Defined Benefit Plans: Employee Contributions*"** (published on 21 November 2013): relating to the recognition in the financial statements of contributions made by employees or third parties to defined-benefit plans. The adoption of these amendments had no effects on the Group's consolidated financial statements.
- Amendments to **IFRS 11 "*Accounting for acquisitions of interests in joint operations*"** (published on 6 May 2014): relating to accounting for the acquisition of interests in a joint operation the activities of which constitute a business. The adoption of these amendments had no effects on the Group's consolidated financial statements.
- Amendments to **IAS 16** and **IAS 41 "*Bearer Plants*"** (published on 30 June 2014): relating to bearer plants, or fruit trees that will be harvested annually (for example grapevines and hazelnut plants), which must be accounted for in accordance with the

requirements of IAS 16 (rather than IAS 41). The adoption of these amendments had no effects on the Group's consolidated financial statements.

- Amendments to **IAS 16** and **IAS 38 "*Clarification of acceptable methods of depreciation and amortisation*"** (published on 12 May 2014): according to which depreciation and amortisation based on revenues are considered to be inappropriate as the revenues generated by an activity which includes the use of the asset subject to depreciation or amortisation generally reflect factors other than only the consumption of the economic benefits of the asset, which is instead required for depreciation and amortisation. The adoption of this amendment had no effects on the Group's consolidated financial statements.
- Amendment to **IAS 1 "*Disclosure Initiative*"** (published on 18 December 2014): the objective of these amendments is to provide clarifications on disclosure elements that may be perceived as impediments to a clear and intelligible preparation of the financial statements. The adoption of this amendment had no effects on the Group's consolidated financial statements.
- Amendments to **IFRS 10**, **IFRS 12** and **IAS 28 "*Investment Entities: Applying the Consolidation Exception*"** (published on 18 December 2014), laying out amendments relating to topics that emerged following the application of the consolidation exception granted to investment entities. The adoption of this amendment had no effects on the Company's separate financial statements.

Lastly, as part of the annual improvement process, on 12 December 2013 the IASB published **"*Annual Improvements to IFRSs: 2010-2012 Cycle*"** (including IFRS 2 Share Based Payments – Definition of vesting conditions, IFRS 3 Business Combinations – Accounting for contingent consideration, IFRS 8 Operating segments – Aggregation of operating segments and Reconciliation of total of the reportable segments' assets to the entity's assets, IFRS 13 Fair Value Measurement – Short-term receivables and payables) and on 25 September 2014 **"*Annual Improvements to IFRSs: 2012-2014 Cycle*"** (including: IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 – Financial Instruments: Disclosure and IAS 19 – Employee Benefits), which partially supplement pre-existing standards. The adoption of these amendments had no effects on the Group's consolidated financial statements.

IFRS ACCOUNTING STANDARDS AND AMENDMENTS AND IFRIC INTERPRETATIONS ENDORSED BY THE EUROPEAN UNION, FOR WHICH APPLICATION IS NOT YET REQUIRED AND NOT ADOPTED EARLY BY THE GROUP AS AT 31 DECEMBER 2016

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

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

The standard applies as of 1 January 2018, but early application is permitted. The amendments to IFRS 15, Clarifications to IFRS 15 - Revenue from Contracts with Customers, published by the IASB on 12 April 2016, have instead not yet been endorsed by the European Union.

- Final version of **IFRS 9 - *Financial instruments*** (published on 24 July 2014). This document incorporates the results of the IASB project for the replacement of IAS 39:

    - it introduces new criteria for the classification and measurement of financial assets and liabilities;
    - With reference to the impairment model, the new standard requires losses on receivables to be estimated on the basis of the expected losses model (and not the incurred losses model used in IAS 39) using supportable information available without unreasonable cost or effort, including historical, current and forecast data;
    - it introduces a new hedge accounting model (increase in the type of transactions eligible for hedge accounting, change in the methods for accounting for forward contracts and options when included in a hedge accounting relationship, amendments to the effectiveness test).

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

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

As at 31 December 2016, 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.

- **IFRS 16 – *Leases*** (published on 13 January 2016) which is meant to replace IAS 17 – Leases, as well as the interpretations IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.
  The new standard provides a new definition of lease and introduces an approach based on control (right of use) of an asset to distinguish lease agreements from service agreements, identifying as distinguishing factors: the identification of the asset, the right of substitution, the right to substantially obtain all economic benefits deriving from the use of the asset and the right to direct the use of the asset underlying the contract.
  The standard establishes a single model for the recognition and measurement of lease agreements for the lessee which requires the recognition of the asset subject to the lease, including an operating lease, in the assets with a matching entry under financial payables, also providing the possibility not to recognise as leases those contracts which concern low-value assets and leases with a contract term of equal to or less than 12 months. The standard does not include significant amendments for lessors.
  The standard applies as of 1 January 2019, but early application is permitted, only for Companies that apply IFRS 15 - Revenue from Contracts with Customers early.

- Amendment to **IAS 12 "*Recognition of Deferred Tax Assets for Unrealised Losses*"** (published on 19 January 2016). The document has the objective of providing several clarifications on the recognition of deferred tax assets on unrealised losses in certain circumstances and on the estimate of taxable income for future years. The amendments apply as of 1 January 2017, but early adoption is permitted.

- Amendment to **IAS 7 "*Disclosure Initiative*"** (published on 29 January 2016). The document aims to provide several clarifications to improve the disclosure on financial liabilities. In particular, the amendments require a disclosure to be provided which enables users of financial statements to understand changes in liabilities deriving from loan transactions. The amendments apply as of 1 January 2017, but early application is permitted. The presentation of comparative information relating to previous years is not required.

- Amendment to **IFRS 2** "***Classification and measurement of share-based payment transactions***" (published on 20 June 2016), which contains several clarifications on accounting for the effects of vesting conditions in the presence of cash-settled share-based payments, the classification of share-based payments with net settlement and accounting for amendments to the terms and conditions of a share-based payment which change the classification from cash-settled to equity-settled. The amendments apply as of 1 January 2018, but early application is permitted.

- **"*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*"** (published on 12 September 2016). For entities whose business consists predominantly of insurance activities, the amendments have the objective of clarifying concerns deriving from the application of the new IFRS 9 to financial assets, before the IASB replaces the current IFRS 4 with the new standard currently being developed, on the basis of which the financial liabilities are measured.

- "***Annual Improvements to IFRSs: 2014-2016 Cycle***", published on 8 December 2016 (including IFRS 1 *First-Time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters*, IAS 28 *Investments in Associates and Joint Ventures – Measuring investees at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice*, IFRS 12 *Disclosure of Interests in Other Entities – Clarification of the scope of the Standard*) which partially supplement pre-existing standards.

- Interpretation **IFRIC 22** "***Foreign Currency Transactions and Advance Consideration***" (published on 8 December 2016). The interpretation has the objective of providing guidelines for transactions carried out in foreign currency when non-monetary advances or payments on account are recognised in the financial statements, before the recognition of the relative asset, cost or revenue. This document provides instructions on how an entity must determine the date of a transaction and as a result the spot exchange rate to be used when transactions in foreign currency are carried out, in which payment is made or received in advance. IFRIC 22 applies as of 1 January 2018, but early application is permitted.

- Amendment to **IAS 40** "***Transfers of Investment Property***" (published on 8 December 2016). These amendments clarify transfers of a property to, or from, investment property. In particular, an entity is required to reclassify a property as, or from, investment property, only when there is evidence that the property use has changed. This change must be related to a specific event that took place and therefore should not be limited to a change in the intentions of the entity's management. These amendments apply as of 1 January 2018, but early application is permitted.

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

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

1. INTANGIBLE ASSETS

(€/000)	Goodwill	Trademarks	Development costs	Other intangible assets	Total
Historical					
As at 1 January 2015	**42,473**	**10,880**	**7,170**	**7,473**	**67,996**
Increases	-	-	1,874	842	2,716
Decreases	-	-	-	(69)	(69)
Reclassifications	-	-	-	6	6
Exchange differences	5	-	10	3	18
As at 31 December 2015	**42,478**	**10,880**	**9,054**	**8,255**	**70,667**
Increases	19,342	-	1,133	2,144	22,619
Decreases	-	-	(218)	-	(218)
Reclassifications	(161)	216	207	(193)	69
Exchange differences	-	(8)	(15)	11	(12)
As at 31 December 2016	**61,659**	**11,088**	**10,161**	**10,217**	**93,125**
Provision					
As at 1 January 2015	**12,901**	**4,594**	**4,751**	**6,119**	**28,365**
Increases	-	732	1,661	747	3,140
Decreases	-	-	-	-	-
Reclassifications	-	-	-	3	3
Exchange differences	2	-	8	26	36
As at 31 December 2015	**12,903**	**5,326**	**6,420**	**6,895**	**31,544**
Increases	-	738	1,572	921	3,231
Decreases	-	-	(218)	-	(218)
Reclassifications	12	85	37	9	143
Exchange differences	-	(3)	(12)	8	(7)
As at 31 December 2016	**12,915**	**6,146**	**7,799**	**7,833**	**34,693**
Net carrying amount					
As at 31 December 2015	**29,575**	**5,554**	**2,634**	**1,360**	**39,123**
As at 31 December 2016	**48,744**	**4,942**	**2,362**	**2,384**	**58,432**

Goodwill

After the change in the consolidation area in 2016, goodwill rose by €19,342 thousand, mainly referring to the acquisition of Spirotech for €17,780 thousand, the acquisition of the remaining 10% of the share capital of the Czech subsidiary Heat Transfer System S.r.o. (HTS) for €874

thousand and the recognition in the balance sheet assets of the subsidiary Manifold for €688 thousand. For additional details on the acquisition of Spirotech and on the recognition of Manifold, refer to the Introduction to the Accounting Standards and note 15 below, respectively.
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).
LU-VE tested the recoverability of the carrying amount of Net Invested Capital (NIC) as at 31 December 2016. Net invested capital is inclusive of the value of goodwill and other assets measured with an indefinite useful life. For the purpose of impairment testing, the value of goodwill was allocated to the two cash-generating units (CGUs) identified (Original Equipment Manufacturer - OEM and Air Cooled Equipment) in line with the operating segments identified in accordance with IFRS 8. The management has not identified other lower level cash-generating units with largely independent cash flows to be considered in the allocation of goodwill.
In 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 2017-2020 Business Plan approved by the Board of Directors.
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 8.66% for the Original Equipment Manufacturer CGU and 6.68% for the Air Cooled Equipment CGU.
The recoverable amount also includes the terminal value of income flows which was calculated with the "perpetual cash flow" method considering a growth rate (g rate) of 1.5%. In the terminal value, an operating cash flow equal to the last year of the plan (2020), adjusted so as to reflect a situation "under normal circumstances", was considered. The level of amortisation and investments was balanced and a change in working capital equal to zero was assumed.
The weighted average cost of capital calculated for the discounting of cash flows is based on a weighting between the cost of debt and the cost of equity, determined on the basis of the values of companies comparable to LU-VE and therefore operating within the same business segments.
No impairment losses emerged based on the testing carried out, as the value in use of the CGUs was found to be higher than the carrying amount.
In addition, as the recoverable amount is determined on the basis of projections, the Parent Company also developed sensitivity analyses, in which the underlying assumptions of the impairment test are changed.
For both CGUs, the sensitivity analysis carried out did not bring to light potential losses in value considering a growth rate of zero and a WACC appreciably higher than the one used.

Development costs
During the year, investments of around €1,133 thousand were made, primarily relating to the development of new products (air cooled equipment, close control and glass doors). These investments are amortised over a period of four years. Development activities carried out during the year are described in detail in the Directors' Report.

Other intangible assets
The main increases during the year regarded the capitalisation of costs incurred for the development of IT systems, in particular the SAP ERP system used in nearly all of the Group's production facilities.
All intangible assets are amortised over a period of 5 years, with the exception of:
- investments in software made by the Parent Company and an Italian subsidiary, which are amortised over three years;
- the LUVE S.p.A. trademark, which is amortised over 15 years;
- development costs, which are amortised over 4 years.

In addition, this item also includes work in progress totalling €901 thousand, primarily development costs.

2. PROPERTY, PLANT AND EQUIPMENT

(€/000)	Property	Plant and equipment	Other assets	Work in progress	Total
Historical					
As at 1 January 2015	**71,779**	**89,840**	**25,947**	**2,893**	**190,459**
Increases	1,966	5,996	2,033	1,371	11,366
Decreases	-	(904)	(156)	-	(1,060)
Reclassifications	471	1,873	470	(2,897)	(83)
Exchange differences	(364)	(18)	68	97	(217)
As at 31 December 2015	**73,852**	**96,787**	**28,362**	**1,464**	**200,465**
Increases	6,539	15,197	2,533	3,296	27,565
Decreases	(17)	(2,720)	(780)	-	(3,517)
Reclassifications	(152)	108	(752)	(900)	(1,696)
Exchange differences	1,098	370	(49)	17	1,436
As at 31 December 2016	**81,320**	**109,742**	**29,314**	**3,877**	**224,253**
Provision					
As at 1 January 2015	**14,700**	**68,021**	**20,161**	**-**	**102,882**
Increases	1,751	5,628	1,820	-	9,199
Decreases	(46)	(524)	(81)	-	(651)
Reclassifications	(1)	(4)	(19)	-	(24)
Exchange differences	(50)	(50)	28	-	(72)
As at 31 December 2015	**16,354**	**73,071**	**21,909**	**-**	**111,334**
Increases	2,393	9,503	2,223	-	14,119
Decreases	(5)	(2,535)	(584)	-	(3,124)
Reclassifications	(336)	(887)	(438)	-	(1,661)
Exchange differences	153	320	(15)	-	458
As at 31 December 2016	**18,559**	**79,472**	**23,095**	**-**	**121,126**
Net carrying amount					
As at 31 December 2015	**57,498**	**23,716**	**6,453**	**1,464**	**89,131**
As at 31 December 2016	**62,761**	**30,270**	**6,219**	**3,877**	**103,127**

As at 31 December 2016, property, plant and equipment rose by €27,565 thousand.
The increase was mainly the result of the change in the consolidation area following the acquisition of the Indian company Spirotech, for €11,207 thousand.

Furthermore, in 2016 the technological capex programme continued in Italy and abroad for the expansion and streamlining of certain production sites and for the strengthening of installed production capacity. These investments were in part meant for new application segments and in part linked to technological evolutions under way due to the introduction of new regulations regarding refrigerant fluids with a low environmental impact. The main investments for the year regarded:

- The expansion of existing production capacity (for around €1,000 thousand) by the Parent Company;
- the acquisition of a cataphoresis plant for finned batteries (for around €2,200 thousand) and a new production line (for around €1,200 thousand) by the subsidiary SEST S.p.A.;
- the expansion of the production site (for around €2,000 thousand) by the subsidiary SEST-LUVE Polska;
- the expansion of existing production capacity and the introduction of a new production line (for around €1,500 thousand) by the Russian subsidiary "OOO" SESTLUVE;
- the expansion of existing production capacity (for around €2,100 thousand) by the Czech subsidiary HTS s.r.o.;
- the introduction of a new production line (for around €600 thousand) at the Chinese subsidiary LU-VE Heat Exchangers Ltd;
- the strengthening of existing production capacity (for around €600 thousand) by the Swedish subsidiary LU-VE Sweden AB.

As at 31 December 2016, the Group confirmed that there were no external or internal indicators of impairment in its property, plant and equipment. As a result, the value of property, plant and equipment was not tested for impairment.

3. EQUITY INVESTMENTS

The Group holds the following equity investments:

(€/000)	**31/12/2016**	**31/12/2015**
Industria e Università S.r.l.	6	6
LU-VE India Corporation Private Ltd	-	15
Total	**6**	**21**

Starting in 2016, following the launch of operations, the Indian subsidiary LU-VE India was consolidated line-by-line.

4. OTHER NON-CURRENT ASSETS

These amount to €2,044 thousand compared to €900 thousand in the previous year, an increase of roughly €1,144 thousand due mainly to the recognition of the residual value deriving from the prepayment (in the amount of €1,460 thousand) 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.
This item also included €409 thousand (€759 thousand in the previous year) in receivables due from the tax authorities payable beyond the year, which referred to the refund request due to the deductibility of IRES from IRAP for the period 2007-2011 (proposed legislation of 6/12/2011) as well as, for around €175 thousand, security deposits paid for the provision of services.

5. INVENTORIES

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

(€/000)	**31/12/2016**	**31/12/2015**	**Change**
Raw materials and consumables	21,922	13,023	8,899
Work in progress and semi-finished products	2,875	6,259	(3,384)
Finished products and goods for resale	8,634	7,638	996
Provision for inventory losses	(2,517)	(2,295)	(222)
Total	**30,914**	**24,625**	**6,289**

The increase in value compared to 2015 was mainly caused by the different monthly breakdown of sales in 2016 compared to the previous year and the change in the consolidation area following the acquisition of the company Spirotech. Turnover rose in the last months of the year under way, and therefore stocks increased accordingly (sales trends in the first two months of 2017, commented on in the Directors' Report, provide confirmation of this trend).

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

The provision for inventory losses, equal to €2,517 thousand as at 31 December 2016, reflects the best estimate of obsolescence risk, on the basis of specific analyses carried out at the end of the year on unsold inventory or inventory with a low turnover rate. The provision increased by €222 thousand compared to the previous year, broken down as follows:

- Change in the consolidation area of €95 thousand;
- Increase in provisions of €160 thousand;
- Uses of €42 thousand;
- Negative exchange differences of €9 thousand.

6. TRADE RECEIVABLES

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

(€/000)	**31/12/2016**	**31/12/2015**	**Change**
Trade receivables	48,588	36,722	11,866
Bad debt provision	(3,132)	(2,961)	(171)
Total	**45,456**	**33,761**	**11,695**

Trade receivables rose due to the increase in sales and the change in the consolidation area as described in more detail in the Directors' Report.
All trade receivables are due within the subsequent year and derive from normal sales transactions.
The bad debt provision rose during the year to reflect the recoverability of the receivables (roughly €275 thousand) and due to the change in the consolidation area, and approximately €217 thousand of it was used for losses recognised during the period, registering a negative exchange effect of €5 thousand.

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

€/000 Country	31/12/2016	31/12/2015
Italy	15,829	13,036
EU Countries	22,048	15,958
Non-EU Countries	10,711	7,728
Bad debt provision	(3,132)	(2,961)
Total	**45,456**	**33,761**

The ageing of trade receivables is shown below:

(€/000)	31/12/2016	31/12/2015
Current receivables (not past due)	35,881	26,891
Past due up to 30 days	4,248	3,645
Past due from 30 to 60 days	1,837	1,677
Past due from 60 to 90 days	527	610
Past due for more than 90 days	6,095	3,899
Total	**48,588**	**36,722**

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

7. DUE FROM THE TAX AUTHORITIES FOR CURRENT TAXES

This item was broken down as follows:

(€/000)	31/12/2016	31/12/2015	Change
Due from the tax authorities for VAT	2,836	1,757	1,079
Due from the tax authorities for payments on account of direct taxes	2,076	2,054	22
Others	507	152	355
Total	**5,419**	**3,963**	**1,456**

Tax receivables for payments on account of direct taxes payable within the year refer to the excess of taxes prepaid for the year 2016 with respect to the effective tax burden.

8. CURRENT FINANCIAL ASSETS

This item was broken down as follows:

(€/000)	31/12/2016	31/12/2015	Change
Asset management	39,468	39,552	(84)
Capitalisation policies	27,457	15,093	12,364
Other securities	7,102	9,954	(2,852)
Fair value of derivative instruments	118	157	(39)

Total	**74,145**	**64,756**	**9,389**

The Asset management agreement was entered into with Bnp Paribas Investment Partners SGR S.p.A. and the assets may be disinvested upon simple request. The funds are primarily invested in bonds and in units and/or shares of bond and/or flexible funds. There is also a component of investment in equity instruments and units and/or shares of equity funds, but to a limited extent, and also investment in financial instruments denominated in currencies other than the Euro. Asset management had a positive overall impact of around €313 thousand in the income statement for the year.

The Capitalisation policies taken out were issued by Aviva Vita S.p.A and are the type of policies which allow, after the payment of a lump-sum premium, for an annual capital revaluation based on the return obtained from management (almost exclusively invested in government securities and very highly rated bonds). The fair value measurement at the reporting date entailed the recognition of roughly €428 thousand under financial income. During the year, policies were taken out for an additional nominal amount of €12,000 thousand (with the payment of an entry fee totalling €64 thousand).

Other securities referred to investments made through UBI Banca (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 roughly €116 thousand under financial income. During the year, around €836 thousand was liquidated and there was a roughly €2,886 thousand increase. The net effect of disposals and acquisitions entailed the recognition in the 2016 income statement of a positive effect of around €28 thousand.
During the year, the bond issued by Mediobanca - Banca di Credito Finanziario S.p.A., which was accounted for as at 31 December 2015 for an amount of €5,018 thousand, reached maturity.

The "Fair value of derivative instruments" represented the fair value as at 31 December 2016 of derivatives subscribed by the Company. The change during the year had a positive effect of €313 thousand on the income statement.

The summary of derivative financial instruments as at 31 December 2016 broken down by type is shown below:

€/000		**31/12/2016**		**31/12/2015**		**31/12/2016**	**31/12/2015**
TYPE	**ORIGINAL NOTIONAL**	**NOT. Short**	**NOT. M/L**	**NOT. Short**	**NOT. M/L**	**FAIR VALUE**	**FAIR VALUE**
IRS on loans	169,935	23,748	66,088	21,712	58,978	(879)	(998)
Currency options	56,660	16,865	569	14,540	356	65	113
Commodity Swaps	9,609	-	-	9,609	-	-	(242)
Total	**236,204**	**40,613**	**66,657**	**45,861**	**59,334**	**(814)**	**(1,127)**
Total Notional		**107,270**		**105,195**			

The details relating to outstanding derivative financial instruments as at 31 December 2016 broken down by type are provided below:

IRS on loans (€/000)

DEBTOR COMPANY	COUNTERPARTY	TAKEN OUT	MATURITY	ORIGINAL NOTIONAL	31/12/2016 NOT. Short	31/12/2016 NOT. M/L	31/12/2016 FAIR VALUE
LU-VE S.P.A.	Banca Popolare di Bergamo S.p.A.	11/08/2014	15/09/2020	2,321	357	1,072	(26)
LU-VE S.P.A.	Banca Popolare di Bergamo S.p.A.	11/08/2014	16/10/2020	3,500	583	1,750	(37)
LU-VE S.P.A.	Banca Popolare di Bergamo S.p.A.	21/07/2015	29/06/2020	4,818	1,195	1,835	(50)
LU-VE S.P.A.	Intesa San Paolo S.p.A.	04/02/2016	31/03/2020	10,000	2,500	6,250	(32)
LU-VE S.P.A.	Cassa di Risparmio di Parma e Piacenza Spa	21/11/2012	22/11/2017	1,000	268	-	(1)
LU-VE S.P.A.	Cassa di Risparmio di Parma e Piacenza Spa	16/06/2015	31/12/2019	8,000	2,134	5,332	(88)
LU-VE S.P.A.	Deutsche Bank	29/10/2013	31/12/2018	1,000	200	200	(5)
LU-VE S.P.A.	Banca Nazionale del Lavoro	11/08/2014	16/10/2020	3,500	583	1,750	(42)
LU-VE S.P.A.	Banca Nazionale del Lavoro	20/07/2015	09/06/2020	17,778	4,444	6,667	(200)
LU-VE S.P.A.	Banca Nazionale del Lavoro	25/10/2016	21/09/2020	28,000	4,000	24,000	(34)
LU-VE S.P.A.	UniCredit Spa	17/09/2015	31/12/2020	10,000	2,500	7,500	(138)
SEST S.P.A	Cassa di Risparmio di Parma e Piacenza Spa	24/06/2015	31/12/2019	4,000	1,067	2,399	(44)
SEST S.P.A	UniCredit Spa	02/10/2015	28/06/2019	1,500	400	600	(5)
SEST S.P.A	UniCredit Spa	02/10/2015	28/06/2024	5,100	600	3,900	(95)
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas Spolka Akcyjna	05/09/2015	18/04/2017	3,750	2,250	-	(5)
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas Spolka Akcyjna	05/10/2016	08/11/2021	3,500	667	2,833	(77)
				107,767	**23,748**	**66,088**	**(879)**

Currency options (€/000)

DEBTOR COMPANY	COUNTERPARTY	TYPE	HEDGED ELEMENT	TAKEN OUT	MATURITY	ORIGINAL NOTIONAL	31/12/2016		31/12/2016
							NOT. Short	NOT. M/L	FAIR VALUE
LU-VE S.P.A.	Deutsche Bank	Range TPF	€/$ Exchange Rate	22/12/2016	27/03/2018	2,277	1,708	569	(46)
LU-VE S.P.A.	Banca Nazionale del Lavoro	OPTION	€/$ Exchange Rate	26/07/2016	27/12/2017	2,277	2,277	-	35
LU-VE S.P.A.	Barclays	FX Option	€/$ Exchange Rate	30/10/2015	28/12/2016	1,102	82	-	4
LU-VE S.P.A.	Barclays	FX Option	€/$ Exchange Rate	19/11/2015	28/12/2016	3,674	274	-	10
LU-VE S.P.A.	Barclays	FX Option	€/$ Exchange Rate	28/01/2016	28/04/2017	922	922	-	25
LU-VE S.P.A.	Barclays	FX Option	€/$ Exchange Rate	10/03/2016	31/05/2017	1,167	1,167	-	32
LU-VE S.P.A.	Barclays	FX Option	€/$ Exchange Rate	17/06/2016	22/12/2017	2,372	2,372	-	52
LU-VE S.P.A.	Barclays	FX Option	€/$ Exchange Rate	18/10/2016	22/12/2017	2,846	2,846	-	33
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas Spolka Akcyjna	FX Option	€/PLN Exchange Rate	05/01/2016	05/01/2017	400	400	-	(4)
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas Spolka Akcyjna	FX Option	€/PLN Exchange Rate	26/02/2016	06/02/2017	400	400	-	(3)
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas Spolka Akcyjna	FX Option	€/PLN Exchange Rate	08/03/2016	06/03/2017	400	400	-	(5)
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas Spolka Akcyjna	FX Option	€/PLN Exchange Rate	08/04/2016	07/04/2017	400	400	-	(9)
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas Spolka Akcyjna	FX Option	€/PLN Exchange Rate	05/05/2016	05/05/2017	400	400	-	2
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas Spolka Akcyjna	FX Option	€/PLN Exchange Rate	14/06/2016	05/06/2017	400	400	-	2
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas Spolka Akcyjna	FX Option	€/PLN Exchange Rate	05/07/2016	05/07/2017	400	400	-	4
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas Spolka Akcyjna	FX Option	€/PLN Exchange Rate	22/08/2016	07/08/2017	400	400	-	(10)
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas Spolka Akcyjna	FX Option	€/PLN Exchange Rate	17/10/2016	05/09/2017	400	400	-	(8)
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas Spolka Akcyjna	FX Option	€/PLN Exchange Rate	17/10/2016	05/10/2017	400	400	-	(8)
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas Spolka Akcyjna	FX Option	€/PLN Exchange Rate	09/11/2016	06/11/2017	400	400	-	(6)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	25/07/2016	31/01/2017	50	50	-	(2)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	29/07/2016	31/01/2017	51	51	-	(2)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	09/09/2016	31/01/2017	26	26	-	(2)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	09/09/2016	28/02/2017	26	26	-	(2)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	09/09/2016	31/03/2017	26	26	-	(1)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	09/09/2016	28/04/2017	26	26	-	(1)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	09/09/2016	31/05/2017	26	26	-	(1)

DEBTOR COMPANY	COUNTERPARTY	TYPE	HEDGED ELEMENT	TAKEN OUT	MATURITY	ORIGINAL NOTIONAL	31/12/2016		31/12/2016
							NOT. Short	NOT. M/L	FAIR VALUE
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	09/09/2016	30/06/2017	26	26	-	(1)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	09/09/2016	31/07/2017	26	26	-	(1)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	09/09/2016	30/08/2017	26	26	-	(1)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	12/09/2016	31/01/2017	26	26	-	(2)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	12/09/2016	28/02/2017	26	26	-	(2)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	12/09/2016	31/03/2017	26	26	-	(1)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	12/09/2016	28/04/2017	26	26	-	(1)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	12/09/2016	31/05/2017	26	26	-	(1)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	12/09/2016	30/06/2017	26	26	-	(2)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	12/09/2016	31/07/2017	26	26	-	(1)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	12/09/2016	30/08/2017	26	26	-	(1)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	04/11/2016	31/01/2017	30	30	-	(2)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	04/11/2016	28/02/2017	30	30	-	(2)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	04/11/2016	31/03/2017	30	30	-	(1)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	04/11/2016	28/04/2017	30	30	-	(1)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	04/11/2016	31/05/2017	30	30	-	(1)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	04/11/2016	30/06/2017	30	30	-	(1)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	04/11/2016	31/07/2017	30	30	-	(1)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	04/11/2016	31/08/2017	30	30	-	(1)
SPIROTECH	Citi Bank Gurgaon (India)	Currency options	€/INR Exchange Rate	04/11/2016	29/09/2017	30	30	-	-
SPIROTECH	Citi Bank Gurgaon (India)	Currency options	€/INR Exchange Rate	04/11/2016	31/10/2017	30	30	-	-
					Total	**21,854**	**16,865**	**569**	**65**

9. OTHER CURRENT ASSETS

The details of this item are shown below (in thousands of Euro):

(€/000)	**31/12/2016**	**31/12/2015**	**Change**
From employees	78	84	(6)
Advances to suppliers	-	525	(525)
Advances and other receivables	2,067	1,573	494
Total	**2,145**	**2,182**	**(37)**

10. CASH AND CASH EQUIVALENTS

The item, equal to €46,455 thousand as at 31 December 2016 (€55,266 thousand as at 31 December 2015), represented the asset balances in current accounts of €46,403 thousand and cash and valuables in hand of €52 thousand. For further details, refer to the Statement of Cash Flows.

11. SHAREHOLDERS' EQUITY

The Parent Company's share capital amounted to €62,496 thousand and was broken down into 19,803,206 ordinary shares and 50,000 special shares, all with no nominal value. The share capital, fully subscribed and paid up, increased during the year by €0.3 following the conversion of warrants.

In 2016, dividends of €3,876 thousand were paid out from the reserves and retained earnings.

As at 31 December 2016, the Parent Company held 99,300 treasury shares (0.50% of the share capital), recognised in the financial statements as an adjustment of shareholders' equity for a total value of roughly €992 thousand (for further details, see the Directors' Report).

Non-controlling interests amounted to €1,823 thousand (€3,443 thousand as at 31 December 2015). The profit attributable to non-controlling interests for 2016 totalled €704 thousand (€498 thousand in 2015).

12. LOANS

This item was broken down as follows (in thousands of Euro):

(€/000)	**31/12/2016**		**31/12/2015**	
	Current	**Non-current**	**Current**	**Non-current**
Bank loans	41,531	105,289	18,039	93,434
Advances subject to collection on bank receipts or invoices	303	-	1,994	-
Total	**41,834**	**105,289**	**20,033**	**93,434**

As at 31 December 2016, bank loans amounted to €146,820 thousand.
The breakdown of this item, the evolution with respect to the previous year and the characteristics of the bank loans held by the Group are provided below (thousands of Euro):

DEBTOR COMPANY	COUNTERPARTY	LOAN TYPE	TAKEN OUT	MATURITY	RATE APPLIED	ORIGINAL AMOUNT	31/12/2016		31/12/2015	
							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 + 0.85%	1,185	286	119	405	117
LU-VE	Mediocredito Italiano S.p.A.	Mortgage Loan	26/07/2011	15/06/2016	6M Euribor + 0.80% (on €2500K EIB funding) - 1.90% (on €2500K BANK funding)	5,000	-	-	556	556
LU-VE	Cassa di Risparmio di Parma e Piacenza S.p.A.	Unsecured loan	04/12/2014	31/12/2019	3M Euribor + 0.60%	8,000	6,853	2,134	7,915	1,045
LU-VE	CREDITO EMILIANO	Unsecured loan	22/03/2013	30/03/2017	3M Euribor + 3.20%	3,000	-	-	-	-
LU-VE	Unione di Banche Italiane Società cooperativa per azioni	Mortgage Loan	18/07/2013	15/03/2020	6M Euribor + 0.95% (as of 03/2017 ==>0.90)	5,000	2,857	714	3,571	714
LU-VE	Deutsche Bank S.p.A.	Unsecured loan	05/11/2013	31/12/2018	3M Euribor + 2.80%	2,000	-	-	-	-
LU-VE	Banca Popolare di Bergamo S.p.A.	Unsecured loan	28/11/2014	28/11/2019	3M Euribor + 0.8%	5,000	3,040	1,000	4,023	980
LU-VE	Banca Nazionale del Lavoro S.p.A.	Unsecured loan	09/06/2015	09/06/2020	6M Euribor + 0.55% (PRICING GRID FROM 01/2017)	20,000	15,476	4,364	19,907	4,361
LU-VE	Banca Popolare di Bergamo S.p.A.	Unsecured loan	29/06/2015	29/06/2020	3M Euribor + 0.80%	6,000	4,210	1,195	5,394	1,182
LU-VE	UniCredit S.p.A.	Unsecured loan	17/09/2015	31/12/2020	3M Euribor + 0.60%	10,000	10,000	2,500	10,000	-
LU-VE	Banca Popolare di Milano	Mortgage Loan	25/09/2015	31/12/2021	3M Euribor + Spread from pricing grid LR >=1.5 = 1.05%; LR 1.5-0.5 = 0.95%; LR <0.5 = 0.85%	30,000	24,846	4,946	29,720	4,924
LU-VE	Mediocredito Italiano S.p.A.	Unsecured loan	29/10/2015	30/09/2020	6M Euribor + 0.65%	10,000	10,000	2,500	10,000	-
LU-VE	Banca Popolare di Sondrio Società Cooperativa per Azioni	Unsecured loan	24/06/2016	31/10/2017	Average of 3M Euribor prev. quarter + 0.05% + 0.20% spread ==> minimum 0.20%	5,000	4,001	4,001	-	-
LU-VE	Banca Nazionale del Lavoro S.p.A.	Unsecured loan	20/09/2016	20/09/2020	3M Euribor floor 0% + 0.45%	30,000	29,889	8,000	-	-
LU-VE	Banca Popolare di Bergamo S.p.A.	Unsecured loan	30/09/2016	30/09/2021	3M Euribor + 0.40%	10,000	9,505	1,986	-	-
LU-VE	Banca Popolare di Sondrio società Cooperativa per Azioni	Unsecured loan	15/12/2016	31/01/2020	Average of 3M Euribor prev. quarter + 0.30% spread ==> minimum 0.30%	10,000	10,000	2,492	-	-
LU-VE	Banca Popolare di Milano	Mortgage Loan	15/04/2014	31/12/2019	3M Euribor + 3.05% (pricing grid LR>=2=3.35%; LR 2-1.75=3.2%; LR 1.75-1.25=3.05%; LR 1.25-1=2.8%; LR 1-0.75=2.55%; LR<0.75=2.3%)	15,400	-	-	-	-
LU-VE	Banca Popolare di Milano	Mortgage Loan	23/101/2008	30/09/2016	3M Euribor + 1.50% (pricing grid LR>=2%; LR 3-2.5=1.85%; LR 2.5-2.2=1.7%; LR 2.2-1.5=1.5%;LR <1.5=1.4%)	12,800	-	-	-	-
LU-VE	GE Capital Interbanca S.p.A.	Mortgage Loan	16/10/2013	16/10/2020	6M Euribor + 2.85%	7,000	-	-	-	-
HTS	FORTIS BANK SA/NV	Mortgage Loan	17/04/2012	31/03/2017	3M Euribor + 0.90%	3,000	150	150	750	600
HTS	BNP PARIBAS FORTIS SA/NV	Mortgage Loan	26/06/2013	30/06/2017	3M Euribor + 2.50%	1,000	125	125	375	250
SEST	UniCredit S.p.A.	EIB Mortgage Loan	14/04/2014	30/06/2024	6M Euribor + 1%	6,000	4,500	600	5,100	600
SEST	UniCredit S.p.A.	Unsecured loan	14/04/2014	30/06/2019	3M Euribor + 1%	2,000	1,000	400	1,400	400
SEST	Cassa di Risparmio di Parma e Piacenza S.p.A.	Unsecured loan	04/12/2014	31/12/2019	3M Euribor + 0.60%	4,000	3,466	1,067	4,000	534
SEST LU-VE POLSKA SP. Z O.O.	BNP Paribas bank Polska SA	Unsecured loan	16/04/2014	18/04/2017	3M Euribor + 0.80%	5,000	2,500	2,500	3,500	1,000
SEST LU-VE POLSKA SP. Z O.O.	BNP Paribas bank Polska SA	EIB Mortgage Loan	08/11/2011	08/11/2021	3M Euribor + 0.70%	5,000	3,532	690	4,172	675
TGD	Banca Popolare di Milano	Unsecured loan	10/05/2011	30/06/2016	3M Euribor + 2.75%	500	-	-	55	55
LU-VE FRANCE S.A.R.L.	BNP PARIBAS S.A.	Mortgage Loan	08/11/20144	03/11/2016	0.041	798	584	48	630	46
						Total	146,820	41,531	111,473	18,039

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 2016, the details of loans that require financial covenants to be met are provided below (in thousands of Euro):

DEBTOR COMPANY	COUNTERPARTY	LOAN TYPE	TAKEN OUT	MATURITY	RATE APPLIED	FINANCIAL COVENANTS	ORIGINAL AMOUNT
LU-VE	Cassa di Risparmio di Parma e Piacenza S.p.A.	Unsecured loan	04/12/2014	31/12/2019	3M Euribor + 0.60%	NFP/EBITDA <= 2.36 Dec14; <=3.25 Jun15;<= 1.80 Dec15; <=2.85 Jun16;<= 1.65 Dec16; <=2.75 Jun17;<= 1.50 Dec17; <=2.50 Jun18;<= 1.50 Dec18; <=2.50 Jun19; NFP/SE <=1.0 Dec14;<=0.85 Dec15;<=0.75 Dec16;<=0.75 Dec17;<=0.65 Dec18	8,000
LU-VE	Banca Popolare di Bergamo S.p.A.	Unsecured loan	28/11/2014	28/11/2019	3M Euribor + 0.8%	NFP/EBITDA <=3; NFP/SE <=1.5; EBITDA/net financial expense <= 4	5,000
LU-VE	Banca Nazionale del Lavoro S.p.A.	Unsecured loan	09/06/2015	09/06/2020	6M Euribor + 0.55% (PRICING GRID FROM 01/2017)	NFP/EBITDA <= 2.5; NFP/SE <= 1.5	20,000
LU-VE	Banca Popolare di Bergamo S.p.A.	Unsecured loan	29/06/2015	29/06/2020	3M Euribor + 0.80%	NFP/EBITDA <=3; NFP/SE <=1.5; EBITDA/net financial expense <= 4	6,000
LU-VE	Banca Popolare di Milano	Mortgage Loan	25/09/2015	31/12/2021	3M Euribor + Spread from pricing grid LR >=1.5 = 1.05%; LR 1.5-0.5 = 0.95%; LR <0.5 = 0.85%	NFP/EBITDA at 30/06 <= 3; NFP/EBITDA at 31/12 <= 2.5	30,000
LU-VE	Mediocredito Italiano S.p.A.	Unsecured loan	29/10/2015	30/09/2020	6M Euribor + 0.65%	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 floor 0% + 0.45%	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 + 0.40%	NFP/EBITDA <=3; NFP/SE <=1.5; EBITDA/net financial expense <= 5	10,000
HTS	FORTIS BANK SA/NV	Mortgage Loan	17/04/2012	31/03/2017	3M Euribor + 0.90%	CONSOLIDATED NFP/EBITDA <=2 in 2012; <=1.5 subsequent years; CONSOLIDATED NFP/SE <=0.75 2012-13-14-15-16	3,000
HTS	BNP PARIBAS FORTIS SA/NV	Mortgage Loan	26/06/2013	30/06/2017	3M Euribor + 2.50%	CONSOLIDATED NFP/EBITDA <=2 in 2012; <=1.5 subsequent years; CONSOLIDATED NFP/SE <=0.75 2012-13-14-15-16	1,000
SEST	Cassa di Risparmio di Parma e Piacenza S.p.A.	Unsecured loan	04/12/2014	31/12/2019	3M Euribor + 0.60%	NFP/EBITDA <= 2.36 Dec14; <=3.25 Jun15;<= 1.80 Dec15; <=2.85 Jun16;<= 1.65 Dec16; <=2.75 Jun17;<= 1.50 Dec17; <=2.50 Jun18;<= 1.50 Dec18; <=2.50 Jun19; NFP/SE <=1.0 Dec14;<=0.85 Dec15;<=0.75 Dec16;<=0.75 Dec17;<=0.65 Dec18	4,000
SEST LU-VE POLSKA SP. Z O.O.	BNP Paribas bank Polska SA	Unsecured loan	16/04/2014	18/04/2017	3M Euribor + 0.80%	NFP/EBITDA <=2.5, SE / TOTAL ASSETS >= 40%, DSCR >= 1.2	5,000
SEST LU-VE POLSKA SP. Z O.O.	BNP Paribas bank Polska SA	EIB Mortgage Loan	08/11/2011	08/11/2021	3M Euribor + 0.70%	NFP/EBITDA <=2.5, SE / TOTAL ASSETS >= 40%, DSCR >= 1.2	5,000

Note:
NFP: net financial position;
SE: shareholders' equity;
DSCR: debt service coverage ratio
LR: leverage ratio (NFP/Ebitda)
GR: gearing ratio (NFP/SE)

The following changes took place in loans in 2016:

- unsecured medium/long-term loan for a total of €5,000 thousand taken out by the Parent Company from Banca Popolare di Sondrio Società Cooperativa per Azioni, maturing on 31 October 2017, with repayment in quarterly increasing instalments and an interest rate equal to the three-month Euribor plus a spread. The loan did not require the issue of guarantees and is not subject to compliance with financial covenants;
- unsecured medium/long-term loan for a total of €30,000 thousand taken out by the Parent Company from Banca Nazionale del Lavoro S.p.A., maturing on 20 September 2020, with repayment in equal quarterly instalments and an interest rate equal to the three-month Euribor plus a spread. The loan did not require the issue of guarantees, but is subject to compliance with financial covenants;
- unsecured medium/long-term loan for a total of €10,000 thousand taken out by the Parent Company from Banca Popolare di Bergamo S.p.A., maturing on 30 September 2021, with repayment in increasing quarterly instalments and an interest rate equal to the three-month Euribor plus a spread. The loan did not require the issue of guarantees, but is subject to compliance with financial covenants;
- unsecured medium/long-term loan for a total of €10,000 thousand taken out by the Parent Company from Banca Popolare di Sondrio Società Cooperativa per Azioni, maturing on 31 January 2020, with repayment in quarterly increasing instalments and an interest rate equal to the average of the three-month Euribor plus a spread. The loan did not require the issue of guarantees and is not subject to compliance with financial covenants;
- repayment by the Parent Company of the residual amount of €556 thousand of the Mediocredito Italiano S.p.A. loan taken out on 26 July 2011 and maturing on 15 June 2016;
- repayment by the subsidiary TGD S.p.A. of the residual amount of €55 thousand of the Banca Popolare di Milano loan taken out on 10 May 2011.

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. Note 34 below provides the information on financial risks required by IFRS 7.

13. PROVISIONS

The details of this item are shown below:

(€/000)	31/12/2015	Prov./incr	Exchange delta	Uses	Release of excess portion	31/12/2016
Provision for agents' leaving indemnities	110	-	-	(85)	-	25
Product warranty provision	1,410	205	(1)	(17)	-	1,597
Other provisions for risks and charges	657	-	-	-	(97)	560
Total	**2,177**	**205**	**(1)**	**(102)**	**(97)**	**2,182**

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 and rose, in particular, due to the change in the consolidation area.
Other provisions for risks and charges recognised to cover sundry risks in a number of Group companies were partly released in the course of 2016 following an update of estimated contingent liabilities.
Provisions, which represent the estimated future outflows calculated partly based on historical experience, were subject to actuarial valuation at the reporting date. As the effect was deemed negligible, it was not incorporated in the consolidated financial statements.

14. EMPLOYEE BENEFITS

Employee benefits amounted to €3,936 thousand, a net increase of €631 thousand compared to 31 December 2015, mainly due to the entry of Manifold into the consolidation area. The entire amount referred to the provision for post-employment benefits.
The provision for post-employment benefits refers only to the Group's Italian companies and includes substantially the post-employment benefits accrued by personnel employed as at 31 December, net of advances paid out to employees.
In accordance with what is established by domestic regulations, the amount due to each employee accrues based on services rendered and is disbursed when the employee leaves the company. The amount due upon termination of the employment relationship is calculated on the basis of its duration and the taxable wages of each employee. The liability is revalued each year on the basis of the official cost of living index and legal interest.
The relative regulations were supplemented by Italian Legislative Decree no. 252/2005 and Law no. 296/2006 (2007 Financial Act), which established that for companies with at least 50 employees the amounts accrued starting in 2007 would be allocated to the INPS Treasury Fund or to supplementary pension plans, at the choice of the employee, and would therefore become "Defined contribution plans".

In application of IAS 19, the provision for post-employment benefits is recalculated using the actuarial valuation methodology with the support of an external expert, and adjusted in relation to the occurrence of events which require its updating.
The date of the last actuarial valuation was 31 December 2016.
The breakdown and changes in the item as at 31 December 2016 are shown below:

(€/000)	**31/12/2016**	**31/12/2015**
Liabilities as at 1 January	**3,305**	**3,639**
Provisions	550	151
Financial expense	100	52
Payments made	(162)	(349)
Actuarial (gains)/losses	143	(188)
Liabilities as at 31 December	**3,936**	**3,305**

The equity adjustment for actuarial gains and losses includes a net actuarial loss of €143 thousand, calculated as follows:

- Actuarial loss deriving from the change in the main actuarial assumptions used as at 31 December 2016 with respect to the previous valuation as at 31 December 2015: €147 thousand;
- Actuarial gain deriving from the effect of the change in the group subject to valuation between one valuation and another, which was different from what was assumed: €4 thousand.

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

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

The main financial and demographic assumptions used at the date of the last reference valuation of 31 December 2015 are shown below:

FINANCIAL ASSUMPTIONS	**31/12/2016**	**31/12/2015**
Discount rate	1.31%	2.03%
Inflation	1.50%	1.50%
Salary increase rate	2.50%	2.50%
Wage increase rate	1.00%	1%

DEMOGRAPHIC ASSUMPTIONS	**31/12/2016**	**31/12/2015**
Mortality rate	State General Accountancy Table RG48	State General Accountancy Table RG48
Disability	INPS Tables	INPS Tables
Personnel turnover	1.3%-5.5%	1.5%-6%
Advances	0.5% - 5%	0.5% - 8%
Retirement age	100% upon satisfaction of requirements	100% upon satisfaction of requirements

15. OTHER FINANCIAL LIABILITIES

The details of this item are shown below:

M/L term financial liabilities

(€/000)	31/12/2016	31/12/2015	Change
Lease payables	656	383	273
Other financial liabilities	1,760	-	1,760
Total	**2,416**	**383**	**2,033**

Short-term financial liabilities

(€/000)	31/12/2016	31/12/2015	Change
Fair value of derivatives	932	1,284	(352)
Lease payables	373	243	130
Due to other lenders	-	447	(447)
Total	**1,305**	**1,974**	**(669)**

Upon acquisition of 95% of the share capital of Spirotech, in October 2016 LU-VE India signed an agreement with the non-controlling shareholder for the acquisition of the remaining 5% through a put & call agreement that can be exercised 3 years after the option agreement was entered into, at the value resulting from the application of a formula set forth in the agreement (put option in favour of the non-controlling shareholder and call option in favour of LU-VE India).
The option represents a financial liability measured at fair value, recognised in the financial statements in the amount of €1,760 thousand. Taking into account that the put option is held by the non-controlling shareholders of Spirotech, the option's fair value was not recognised in the income statement, but in the share of shareholders' equity pertaining to the non-controlling shareholders, with a matching entry under "other financial liabilities". Subsequent fair value measurements likewise will not be recognised in the income statement, but in the portion of shareholders' equity attributable to non-controlling shareholders ("Shareholders' equity attributable to non-controlling interests").

In addition, in September 2016 the newly incorporated subsidiary company Manifold S.r.l. entered into a business lease agreement whereby it became lessee of the company Master Cold, formerly a contractor of LU-VE S.p.A. The agreement duration is from 1 September 2016 to 31 December 2020 and calls for the payment of a fixed annual fee of €150 thousand, with an option granted by Master Cold in favour of Manifold for the acquisition of Master Cold itself, which may be exercised as of 1 July 2020, effective as of 1 January 2021 for a variable value depending on the date on which the option is exercised.
As the risks and benefits deriving from the lease agreement were substantially transferred by the lessor to the LU-VE Group, the agreement is considered a deferred business acquisition and was valued as a finance lease in accordance with IAS 17.
As the fair value of the transferred assets and liabilities is substantially irrelevant, the carrying amount was equal to the total payable arising from the lease agreement plus the valuation of the option in favour of the lessor, with a matching entry in "Goodwill" (totalling €688 thousand).
As at 31 December 2016, the residual debt is equal to €638 thousand, of which €150 thousand payable within the subsequent year.

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

16. TRADE PAYABLES

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

(€/000) Country	31/12/2016	31/12/2015	Change
Italy	33,660	28,876	4,784
EU Countries	14,246	15,397	(1,151)
Non-EU Countries	5,164	2,799	2,365
Total	**53,070**	**47,072**	**5,998**

The average payment terms have not changed since the previous year. As at 31 December 2016, there were no past-due payables of significant amounts, and the Group has received no payment orders for past-due payables.
No trade payables with a residual maturity of more than 5 years were recognised in the financial statements.

17. TAX PAYABLES

The details of this item are shown below:

(€/000)	31/12/2016	31/12/2015	Change
Due to the tax authorities for income taxes	1,677	1,311	366
Tax withholdings	1,406	1,199	207
Other tax payables	332	25	307
Total	**3,415**	**2,535**	**880**

18. OTHER CURRENT LIABILITIES

The details of this item are shown below:

(€/000)	31/12/2016	31/12/2015	Change
To personnel	7,333	5,320	2,013
To social security institutions	3,184	3,083	101
To Directors and statutory auditors	1,211	1,117	94
Other current payables	1,264	1,010	254
Total	**12,992**	**10,530**	**2,462**

As at 31 December 2016, amounts due to personnel rose due to the change in the consolidation area.
In the beginning of 2017, payables to personnel and social security institutions were paid in accordance with the relative due dates.

19. DEFERRED TAX ASSETS AND LIABILITIES

The details of this item are shown below:

(€/000)	31/12/2016	31/12/2015	Change
Deferred tax assets	3,059	2,379	680
Deferred tax liabilities	(10,329)	(8,866)	(1,463)
Net position	**(7,270)**	**(6,487)**	**(783)**

	31/12/2015	31/12/2014	Change
Deferred tax assets	2,379	3,581	(1,202)

Deferred tax liabilities	(8,866)	(12,890)	4,024
Net position	**(6,487)**	**(9,309)**	**2,822**

	31/12/2015	31/12/2014	Change
Deferred tax assets	2,379	3,581	(1,202)
Deferred tax liabilities	(8,866)	(12,890)	4,024
Net position	**(6,487)**	**(9,309)**	**2,822**

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.

(€/000)	TAX LOSSES	DEPREC./AMORT. AND LEASING	FAIR VALUE OF DERIVATIVE INSTRUMENTS	MERGER GROSS UP 2008	ACTUARIAL VALUATION	PROV. AND VALUE ADJUST.	OTHER DIFFERENCES	TOTAL
As at 31/12/2014	**(1,215)**	**3,164**	**(308)**	**9,634**	**(115)**	**(1,329)**	**(522)**	**9,309**
In income statement	(25)	(705)	12	(1,461)	3	317	408	**(1,451)**
In shareholders' equity	(164)	(281)	-	-	52	-	(967)	**(1,360)**
Exchange differences	(11)	-	-	-	-	-	0	**(11)**
As at 31/12/2015	**(1,415)**	**2,178**	**(296)**	**8,173**	**(60)**	**(1,012)**	**(1,081)**	**6,487**
In income statement	304	(359)	249	(446)	5	(153)	785	**385**
In shareholders' equity	-	-	6	-	(34)	-	70	**42**
Exchange differences	20	-	-	-	-	3	-	**23**
Other	-	473	(26)	-	-	(148)	34	**333**
Reclas.	1	473	-	(2)	(1)	(145)	(326)	-
As at 31/12/2016	**(1,090)**	**2,765**	**(67)**	**7,725**	**(90)**	**(1,455)**	**(518)**	**7,270**

As at 31 December 2016, deferred tax assets referred to:
- tax losses that may be carried forward relating to some subsidiaries;
- the fair value of derivative instruments, exchange rates and interest rates, subscribed by the Parent Company and three subsidiaries;
- the deferred tax impact of the actuarial valuation of the post-employment benefits of Italian companies following the application of IAS 19;
- tax differences on increases in the provisions of Group companies;
- other tax differences, regarding net temporary recoveries such as unpaid remuneration, exchange differences and other.

As at 31 December 2016, deferred tax liabilities referred to:
- tax differences on depreciation, amortisation and leasing, regarding primarily the application of IAS 17, with respect to Italian GAAP;
- the recognition of taxes on the 2008 merger deficit allocated to trademarks, buildings, land, plant and equipment.

The increase during the period was due mainly to the change in the consolidation area.

20. NET FINANCIAL POSITION

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

	€/000	31/12/2016	31/12/2015	Change
A.	Cash (Note 10)	52	46	6
B.	Unrestricted current account asset balances (Note 10)	46,403	55,220	(8,817)
C.	Current financial assets (Note 8)	74,145	64,756	9,389
D.	**Liquidity (A+B+C)**	**120,600**	**120,022**	**578**
E.	Current bank payables (Note 12)	303	1,994	(1,691)
F.	Current portion of non-current debt (Note 12)	41,531	18,039	23,492
G.	Other current financial liabilities (Note 15)	1,305	1,974	(669)
H.	**Current financial debt (E+F+G)**	**43,139**	**22,007**	**21,132**
I.	**Net current financial debt (H-D)**	**(77,461)**	**(98,015)**	**20,554**
J.	Non-current bank payables (Note 12)	105,289	93,434	11,855
K.	Other non-current financial liabilities (Note 15)	2,416	383	2,033
L.	**Non-current financial debt (J+K)**	**107,705**	**93,817**	**13,888**
M.	**Net financial debt (I+L)**	**30,244**	**(4,198)**	**34,442**

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

Comment on the main items of the consolidated income statement

21. REVENUES

In 2016, revenues from sales amounted to €236,018 thousand, an increase of 12.08% compared to the previous year (€210,577 thousand as at 31 December 2015).

Revenues by product family

(€/000)

PRODUCTS	€ /000 2016	%	€ /000 2015	%	Delta	Delta %
Heat exchangers	127,474	54.0%	114,685	54.5%	12,789	11.2%
Air Cooled Equipment	80,366	34.1%	72,049	34.2%	8,317	11.5%
Doors	15,576	6.6%	13,244	6.3%	2,332	17.6%
Close Control	10,713	4.5%	9,122	4.3%	1,591	17.4%
Sub-total	**234,129**	**99.2%**	**209,100**	**99.3%**	**25,029**	**12.0%**
Other	1,889	0.8%	1,477	0.7%	412	27.9%
TOTAL	**236,018**	**100.0%**	**210,577**	**100.0%**	**25,441**	**12.1%**

Revenues by geographical area

(€/000)

GEOGRAPHICAL AREA	€ /000 2016	%	€ /000 2015	%	Delta	Delta %
Italy	61,996	26.3%	56,185	26.7%	5,811	10.3%
Germany	22,311	9.4%	21,244	10.1%	1,067	5.0%
Russia	18,434	7.8%	16,003	7.6%	2,431	15.2%
Czech Republic	10,750	4.5%	11,804	5.6%	(1,054)	(8.9%)
France	13,413	5.7%	11,773	5.6%	1,640	13.9%
Sweden	11,936	5.1%	10,220	4.9%	1,716	16.8%
Poland	9,672	4.1%	8,237	3.9%	1,435	17.4%
Great Britain	8,040	3.4%	7,573	3.6%	467	6.2%
Other countries	79,466	33.7%	67,538	32.0%	11,928	17.7%
TOTAL	**236,018**	**100.0%**	**210,577**	**100.0%**	**25,441**	**12.1%**

In 2016, revenues from sales amounted to €236,018 thousand, an increase of 12.1% compared to the previous year (€210,577 thousand as at 31 December 2015), thanks to natural growth as well as the initial consolidation of the company Spirotech.

Please refer to the Directors' Report for detailed comments on trends in the reference markets during the year.

22. OTHER REVENUES

(€/000)	2016	2015	Change
Own work capitalised	-	151	(151)
Contingent assets	110	967	(857)
Royalty income	3	6	(3)
Rent income	3	-	3
Other income	132	563	(431)
Total	**248**	**1,687**	**(1,439)**

The decrease compared to the previous year was primarily due to the release of a provision in 2015 due to updates in estimates of contingent liabilities.

23. PURCHASES OF MATERIALS

(€/000)	2016	2015	Change
Raw materials and purchased components	116,203	105,124	11,079
Consumables	4,482	3,176	1,306
Total	**120,685**	**108,300**	**12,385**

In 2016, the cost for the purchase of materials rose significantly, basically due to the turnover mix. The cost of raw materials over revenues essentially remained unchanged (from 51.0% in 2015 to 51.1% in 2016).

24. SERVICES

(€/000)	2016	2015	Change
Expenses for energy, telephone and telex	3,368	3,450	(82)
General and advisory expenses	12,647	11,064	1,583
Advertising and promotional expenses	1,291	648	643
Transport expenses	5,053	4,105	948
Maintenance expenses	2,699	2,186	513
External processing	3,904	4,320	(416)
Commissions	995	871	124
Remuneration to the corporate bodies	2,474	1,867	607
Other costs for services	2,956	2,903	53
Costs for use of third-party assets	2,075	1,944	131
Total	**37,462**	**33,358**	**4,104**

As at 31 December 2016, the change in “General and advisory expenses” resulted from costs incurred during the year for the acquisition of Spirotech (equal to €1,590 thousand), as described in more detail in the Directors’ Report.

25. PERSONNEL COSTS

(€/000)	2016	2015	Change
Wages and salaries	38,052	34,258	3,794
Social security costs	10,238	9,913	325
Post-employment benefits	1,446	1,222	224
Other personnel costs	166	942	(776)
Total	**49,902**	**46,335**	**3,567**

The average number of Group employees was 2,032 in 2016. As at 31 December 2016, the number of Group employees came to 2,404 (1,855 blue-collar, 525 white-collar and middle managers, 24 executives), against 1,661 in 2015 (1,169 blue-collar, 467 white-collar and middle managers, 25 executives).
As at 31 December 2016, the number of temporary workers came to 571, against 110 in 2015.

26. OTHER OPERATING COSTS

(€/000)	2016	2015	Change
Losses and write-downs on trade receivables	344	291	53
Contingent liabilities	75	1	74
Non-income taxes	582	676	(94)
Provisions for risks	60	17	43
Other operating costs	765	126	639
Total	**1,826**	**1,111**	**715**

Non-income taxes included mainly taxes on owned property.
Provisions related to increases in the provisions described in Note 13.

27. FINANCIAL INCOME

(€/000)	2016	2015	Change
Interest income	87	114	(27)
Other income	1,968	397	1,570
Total	**2,055**	**511**	**1,544**

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

28. FINANCIAL EXPENSE

(€/000)	2016	2015	Change
Interest expense to banks	1,668	2,078	(410)
Interest expense to other lenders	126	22	104
Other financial expense	1,068	1,422	(354)
Total	**2,862**	**3,522**	**(660)**

“Interest expense to banks” decreased due to the reduction in interest rates compared to 2015.
“Other financial expense” includes expense deriving from the measurement at fair value of investments of liquidity (see Note 8).

29. EXCHANGE GAINS AND LOSSES

In 2016, the Group realised net gains of roughly €2,814 thousand (net losses of €370 thousand in 2015).

30. INCOME TAXES

(€/000)	2016	2015	Change
Current taxes	3,371	2,493	878
Deferred tax liabilities	385	(1,451)	967
Adjustment previous year	(484)	(100)	485
Total	**3,273**	**942**	**2,331**

In 2016, taxes relating to previous years referred primarily to the adjustment of taxes from 2015.

(€/000)	2016	2015
Theoretical income taxes	5,451	2,898
Tax effect of permanent differences	(2,080)	(405)
Income taxes recognised in the financial statements	**3,371**	**2,493**
Broken down as follows:		
IRES Italian subsidiaries	774	171
Of which IRES Parent Company	497	-
IRAP	406	310
Taxes foreign companies	2,191	2,012
Total	**3,371**	**2,493**

Theoretical taxes were determined by applying the IRES tax rate in force, equal to 27.50%, to the pre-tax profit.

As at 31 December 2016, there were no significant tax disputes.

31. EARNINGS PER SHARE

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

CALCULATION OF BASIC AND DILUTED EARNINGS

EARNINGS (in thousands of Euro)	**2016**	**2015**
Net profit for the year	15,846	9,099

NUMBER OF SHARES	**2016**	**2015**
Average weighted number of ordinary shares for the calculation of basic earnings per share	**19,499,993**	**19,539,629**
Dilution effect deriving from potential ordinary shares	2,717,167	1,496,772
Average weighted number of ordinary shares for the calculation of diluted earnings per share	**22,217,160**	**21,036,401**

EARNINGS PER SHARE *(in Euro)*	**2016**	**2015**
Basic earnings per share	0.81	0.47
Diluted earnings per share	0.71	0.43

32. DIVIDENDS

In May 2016, dividends totalling €3,876 thousand were distributed, corresponding to the distribution of a gross dividend of €0.20 (zero/20) for each of the 19,380,156 shares outstanding, net of treasury shares.

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

The proposed dividend will be payable on 20 April 2017 (ex-dividend date 18 April and record date 19 April).

33. SEGMENT REPORTING

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

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

- Air cooled SBU, which includes air cooled equipment and close control air conditioners;
- OEM SBU, which includes heat exchangers and special glass doors for refrigerated counters and display cabinets.

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

(€/000)

SEGMENT	**€ /000 2016**	**%**	**€ /000 2015**	**%**	**Delta**	**Delta %**
Air Cooled Equipment	80,366	34.3%	72,049	34.5%	8,317	11.5%
Close Control	10,713	4.6%	9,122	4.4%	1,591	17.4%
AIR COOLED AND CLOSE CONTROL SBU	**91,079**	**38.9%**	**81,171**	**38.9%**	**9,908**	**12.2%**
Heat exchangers	127,474	54.4%	114,685	54.8%	12,789	11.2%
Doors	15,576	6.7%	13,244	6.3%	2,332	17.6%
OEM SBU	**143,050**	**61.1%**	**127,929**	**61.1%**	**15,121**	**11.8%**
TOTAL PRODUCT TURNOVER	**234,129**	**100%**	**209,100**	**100%**	**25,029**	**12.0%**

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

Information is provided below by SBU as at 31 December 2016 and 31 December 2015 (in thousands of Euro):

-	**2016**				**2015**			
-	Original Equipment Manufacturer	Air cooled	Unallocated costs	**Total**	Original Equipment Manufacturer	Air cooled	Unallocated costs	**Total**
Revenues	143,050	91,079	-	**234,129**	127,929	81,171	-	**209,100**
EBITDA	21,315	8,726	-	**30,041**	18,565	8,531	-876	**26,220**
Investments	43,025	6,800	-	**49,825**	8,545	5,537	-----	**14,082**
Property, plant and equipment	**111,591**	**112,661**	-	**224,253**	99,755	100,712	-----	**200,467**

Unallocated costs in 2015 related to the listing.

34. INFORMATION ON FINANCIAL RISKS

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

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

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

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

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

Categories of financial instruments

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

(€/000)	31/12/2016	31/12/2015
Financial assets		
Amortised cost		
Cash and cash equivalents	46,455	55,266
Trade receivables	45,456	33,761
Current financial assets	74,027	64,599
Fair Value		
Trading derivatives	118	157
Financial liabilities		
Amortised cost		
Loans	148,152	114,540
Trade payables	53,070	47,072
Fair Value		
Trading derivatives	2,692	1,284

One of the LU-VE Group's policies is to protect its exposure to fluctuations in prices, exchange rates and interest rates using derivative financial instruments. This hedging may be achieved using forward contracts, options and interest rate swaps. Generally, the maximum term of these hedges is no longer than 18 months.
Please note that all derivative instruments were subscribed in order to hedge the underlying risks. However, at the date of presentation of these financial statements, not all requirements of IAS 39 were satisfied. Therefore, the Group management deemed it appropriate to treat those instruments as trading, not hedging, transactions.

Credit risk management

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

Exchange rate risk management

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

Furthermore, the Group companies located in countries in which the reference currency is not the euro, which also acquire raw materials with contracts under which the euro is the payment currency (and therefore bear the USD/Euro exchange rate risk noted above) are also exposed to the risk of fluctuations in the euro/local currency exchange rate.
Sales are mainly made in euros. In addition, although Sest LuVe Polska and HTS 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 2016, a theoretical and immediate revaluation of the euro by 10% compared to other currencies would have entailed a loss of €1,047 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 2016, a theoretical increase in interest rates by 100 basis points with respect to the exact interest rates in force at the same date, with all other variables remaining the same, would have entailed an increase in financial expense equal to €2,961 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 2016 the Group has unused short-term credit lines totalling roughly €50 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 2016 is provided below by maturity:

(€/000)	Carrying amount	Contractual cash flows	Within 1 year	From 1 to 5 years	More than 5 years
Bank loans	146,820	148,991	42,409	104,723	1,859
Advances on invoices	303	303	303	-	-
Finance lease	1,029	1,046	383	663	-
Total financial payables	**148,152**	**150,340**	**43,095**	**105,386**	**1,859**
Trade payables	53,070	53,070	53,070	-	-
Total	**201,222**	**203,410**	**96,165**	**105,386**	**1,859**

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

Fair value hierarchy

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

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

The table below shows the assets and liabilities measured at fair value as at 31 December 2016, by fair value hierarchy level.

	Level 1	*Level 2*	*Level 3*	*Total*
Other financial assets	-	118	-	118
Other financial liabilities	-	932	-	932
Total liabilities	**-**	**814**	**-**	**814**

35. RELATED PARTY TRANSACTIONS

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

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

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

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

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

The table below shows the economic and financial transactions carried out by Group Companies with related parties in 2016:

(€/000)	Other Revenues	Costs of raw materials and consumables	Costs for services	Fin. Inc.	Fin. Ex.	Trade receivables	Other receivables	Receivables and other current financial assets	Trade payables	Financial payables	Other payables
RELATED COMPANIES											
FINAMI S.R.L.	-	-	251	29	-	-	-	29	25	-	-
MGPE S.R.L.	-	-	281	-	-	-	-	-	-	-	-
VITALE-NOVELLO & CO SRL	-	-	40	-	-	-	-	-	12	-	-
Total	**-**	**-**	**572**	**29**	**-**	**-**	**-**	**29**	**37**	**-**	**-**

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 Novello & CO S.r.l., in which a close family member of a LU-VE director holds an equity investment, provides strategic advisory services to LU-VE for annual compensation of €40 thousand.

36. SHARE-BASED PAYMENTS

As at 31 December 2016, there were no share-based incentive plans in favour of Group Directors or employees.

37. COMMITMENTS AND GUARANTEES

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

€/000	31/12/2016	31/12/2015
Mortgages	74,682	89,736
Third-party goods	1,155	982
Total	**75,837**	**90,718**

Mortgages refer to guarantees granted by Group companies to obtain medium/long-term bank loans. As at 31 December 2016, the details of the loans for which a mortgage was granted on properties owned by the Group were:

DEBTOR COMPANY	COUNTERPARTY	LOAN TYPE	TAKEN OUT	MATURITY	GUARANTEES	ORIGINAL AMOUNT
LU-VE	Unione di Banche Italiane Società cooperativa per azioni	Mortgage Loan	18/07/2013	15/03/2020	Mortgage	5,000
LU-VE	Banca Popolare di Milano	Mortgage Loan	25/09/2015	31/12/2021	Mortgage	30,000
HTS	FORTIS BANK SA/NV	Mortgage Loan	17/04/2012	31/03/2017	LU-VE Guarantee + Mortgage	3,000
HTS	BNP PARIBAS FORTIS SA/NV	Mortgage Loan	26/06/2013	30/06/2017	LU-VE Guarantee + Mortgage	1,000
SEST	UniCredit S.p.A.	EIB Mortgage Loan	14/04/2014	30/06/2024	Mortgage	6,000
SEST LU-VE POLSKA SP. Z O.O.	BNP Paribas bank Polska SA	EIB Mortgage Loan	08/11/2011	08/11/2021	Mortgage 7,500K	5,000
LU-VE FRANCE S.A.R.L.	BNP PARIBAS S.A.	Mortgage Loan	08/11/20144	03/11/2016	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 2016 and 2015.

38. CONSOLIDATION AREA AND SIGNIFICANT EQUITY INVESTMENTS

COMPANIES CONSOLIDATED LINE-BY-LINE

Company name	**Registered office**	**% stake**	**Share capital**		**Shareholders' equity as at 31/12/2016**		**Profit (loss) for the year 2016**
Direct subsidiaries:							
SEST S.p.A.	Limana (BL)	100.00%	EUR 1,000,000	EUR	24,710,596	EUR	1,794,114
Tecnair LV S.p.A.	Uboldo (VA)	79.90%	EUR 200,000	EUR	2,539,220	EUR	9,705
Heat Transfer Systems s.r.o. (HTS)	Novosedly (Czech Rep.)	100.00%	CZK 133,300,000	CZK	326,651,704	CZK	49,318,465
LU-VE Sweden AB	Asarum (Sweden)	100.00%	SEK 50,000	SEK	(25,156,364)	SEK	7,933,455
LU-VE France S.a.r.l.	Lyon (France)	86.06%	EUR 84,150	EUR	1,261,433	EUR	117,440
LU-VE Pacific pty Ltd	Thomastown (Australia)	75.50%	AUD 200,000	AUD	(2,708,374)	AUD	(699,588)
LU-VE Deutschland GmbH	Stuttgart (Germany)	100.00%	EUR 230,000	EUR	(71,894)	EUR	(303,919)
LU-VE Iberica S.l.	Madrid (Spain)	85.00%	EUR 180,063.23	EUR	(709,798)	EUR	322,786
LU-VE Asia Pacific Limited	Wan Chai (Hong Kong)	100.00%	HKD 10,000	HKD	(14,469,751)	HKD	(5,391,378)
LU-VE INDIA CORPORATION PRIVATE LTD	New Delhi (India)	99.98%	INR 100,000	INR	(1,528,300)	INR	(1,498,905)
LuveDigital S.r.l.	Uboldo (VA)	50.00%	EUR 10,000	EUR	10,690	EUR	690
MANIFOLD S.r.l.	Uboldo (VA)	99.00%	EUR 10,000	EUR	16,318	EUR	6,318

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	185,863,187	PLN	45,769,735
« OOO » SEST LUVE (95% owned by SEST S.p.A.)	Lipetsk (Russia)	95.00%	RUB 136,000,000	RUB	537,911,416	RUB	282,968,010
LU-VE HEAT EXCHANGERS Ltd (wholly-owned by LU-VE Asia Pacific Limited)	Changshu (China)	100.00%	CNY 38,211,761	CNY	17,600,938	CNY	(3,797,403)
Thermo Glass Door S.p.A.	Travacò Siccomario (PV)	85.00%	EUR 150,000	EUR	155,131	EUR	5,131
Spirotech Ltd 95% owned by Lu-VE India	New Delhi (India)	95.00%	INR 25,448,050	INR	1,156,754,516	INR	27,336,870

39. GENERAL INFORMATION ABOUT THE PARENT COMPANY

Registered and administrative office: Via Vittorio Veneto, 11
21100 Varese

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	E-mail:	info@luve.it
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Tax information:	VARESE Economic and Administrative Index	191975
	Tax Code	01570130128
	VAT no.	01570130128

REPORT OF THE INDEPENDENT AUDITING FIRM
PURSUANT TO ART. 14 OF ITALIAN LEGISLATIVE DECREE NO. 39 OF 27 JANUARY 2010

To the Shareholders of
Lu-Ve S.p.A.

Report on the consolidated financial statements

We have audited the consolidated financial statements of Lu-Ve S.p.A. and its subsidiaries (the "Lu-Ve Group"), consisting of the statement of financial position as at 31 December 2016, the consolidated income statement, the consolidated statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows for the year ending on that date, a summary of the significant accounting standards and the other notes.

Directors' responsibility for the consolidated financial statements

The Directors are responsible for the preparation of consolidated financial statements that provide a true and fair view in compliance with the International Financial Reporting Standards adopted by the European Union.

Responsibility of the auditing firm

It is our responsibility to provide an opinion on the consolidated financial statements on the basis of the audit. We conducted our audit in compliance with the international audit standards (ISA Italy) developed in accordance with art. 11 of Italian Legislative Decree 39/10. These standards require compliance with ethics principles, as well as the planning and execution of the audit in order to obtain reasonable certainty that there are no material errors in the consolidated financial statements.

The audit entails carrying out procedures meant to obtain proof to support the amounts and information contained in the consolidated financial statements. The procedures chosen depend on the professional judgement of the auditor, including an assessment of the risks of material errors in the consolidated financial statements due to fraud or unintentional conduct or events. In conducting those risk assessments, the auditor considers the internal control to check that the company's consolidated financial statements provide a true and fair view in order to define appropriate audit procedures for the circumstances, and not to express an opinion on the effectiveness of the company's internal control. The audit also includes an assessment of the appropriateness of the accounting standards adopted and the reasonability of the accounting estimates developed by the Directors, as well as an assessment of the presentation of the consolidated financial statements overall.

We believe that we have acquired sufficient and appropriate proof on which to base our opinion.

Opinion

In our opinion, the consolidated financial statements provide a true and fair view of the statement of financial position of the Lu-Ve Group as at 31 December 2016, the economic result and the cash flows for the year ending on that date in compliance with the International Financial Reporting Standards adopted by the European Union.

Report on other legal and regulatory provisions

Opinion on the consistency of the directors' report with the consolidated financial statements

We have carried out the procedures set forth in auditing standard (SA Italy) no. 720B in order to express, as required by legal standards, an opinion on the consistency of the directors' report, for which Lu-Ve S.p.A.'s Directors are responsible, with the consolidated financial statements of the Lu-Ve Group as at 31 December 2016. In our opinion, the directors' report is consistent with the consolidated financial statements of the Lu-Ve Group as at 31 December 2016.

DELOITTE & TOUCHE S.p.A.

Andrea Restelli
Partner

Milan, 13 March 2017

LU-VE S.p.A.

SEPARATE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2016

STATEMENT OF FINANCIAL POSITION

(in euro)	Note	31/12/16	31/12/15	
ASSETS				
Goodwill	**1**	**14,629,431**	**14,569,180**	
Other intangible assets	**1**	**7,380,884**	**7,453,903**	
Property, plant and equipment	**2**	**36,801,215**	**37,164,293**	
Other property, plant and equipment	**2**	**2,792,085**	**2,266,181**	
Deferred tax assets	**19**	**1,452,948**	**1,828,782**	**(*)**
Equity investments	**3**	**58,675,180**	**55,187,837**	
Other non-current financial assets	**4**	**48,423,609**	**13,451,819**	**(*)**
Other non-current assets	**5**	**414,408**	**655,078**	**(*)**
NON-CURRENT ASSETS		**170,569,760**	**132,577,073**	
Inventories	**6**	**6,068,306**	**5,791,954**	
Trade receivables	**7**	**29,969,691**	**26,760,221**	**(*)**
Due from the tax authorities for current taxes	**8**	**2,209,543**	**2,564,939**	
Current financial assets	**9**	**80,256,282**	**71,374,720**	
Other current assets	**10**	**1,396,535**	**1,825,296**	**(*)**
Cash and cash equivalents	**11**	**24,627,254**	**36,516,531**	
CURRENT ASSETS		**144,527,612**	**144,833,661**	
ASSETS HELD FOR SALE		**-**	**-**	
TOTAL ASSETS		**315,097,372**	**277,410,734**	

Note:

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

(in euro)	Note	31/12/16	31/12/15	
LIABILITIES AND SHAREHOLDERS' EQUITY				
Share capital		**62,496,372**	**62,496,372**	
Reserves and retained earnings (losses)		**42,599,534**	**42,507,071**	
Profit (loss) for the year		**7,243,353**	**4,933,000**	
SHAREHOLDERS' EQUITY	**12**	**112,339,259**	**109,936,443**	
Loans	**13**	**95,011,426**	**77,611,826**	
Provisions	**14**	**950,668**	**966,740**	
Employee benefits	**15**	**991,544**	**980,104**	
Deferred tax liabilities	**19**	**8,952,683**	**9,497,323**	**(*)**
Other financial liabilities	**16**	**12,425**	**63,754**	
NON-CURRENT LIABILITIES		**105,918,745**	**89,119,747**	
Trade payables	**17**	**20,745,545**	**22,773,546**	
Loans	**13**	**35,958,689**	**13,878,853**	
Tax payables	**18**	**623,671**	**524,279**	
Other financial liabilities	**16**	**34,355,753**	**37,250,894**	
Other current liabilities	**21**	**5,155,709**	**3,926,972**	**(*)**
CURRENT LIABILITIES		**96,839,368**	**78,354,544**	
LIABILITIES HELD FOR SALE		**-**	**-**	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**315,097,372**	**277,410,734**	

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

INCOME STATEMENT

(in euro)	Note	31/12/16	31/12/15
REVENUES AND OPERATING INCOME			
Revenues	22	71,228,513	67,219,743
Other revenues	23	110,545	428,519
Total revenues and operating income		71,339,058	67,648,262
OPERATING COSTS			
Purchases of materials	24	(33,387,593)	(32,685,391)
Changes in inventories	6	276,352	347,213
Services	25	(15,790,967)	(14,166,331)
Personnel costs	26	(15,162,070)	(13,553,605)
Other operating costs	27	(1,794,955)	(529,959)
Total operating costs		(65,859,234)	(60,588,073)
Net change in fair value of derivatives	9-16	436,223	(39,808)
Depreciation and amortisation	1-2	(5,306,315)	(5,200,738)
Capital gains on the sale of non-current assets	2	195,597	176,362
Write-downs on non-current assets	2	(3,432)	-
EBIT		801,896	1,996,005
Financial income	28	8,417,728	5,726,460
Financial expense	29	(2,782,373)	(3,870,024)
Exchange gains and losses	30	1,228,882	100,568
Gains and losses from equity investments		-	-
EBT		7,666,134	3,953,009
Income taxes	31	(422,781)	979,991
PROFIT (LOSS) FOR THE YEAR		7,243,353	4,933,000
Profit (loss) from assets/liabilities held for sale		-	-
NET PROFIT (LOSS) FOR THE YEAR		7,243,353	4,933,000

STATEMENT OF COMPREHENSIVE INCOME

(in euro)	31/12/16	31/12/15
PROFIT (LOSS) FOR THE YEAR	**7,243,353**	**4,933,000**
Comprehensive income/loss that will not be subsequently reclassified to profit/loss for the year:		
Actuarial valuation of post-employment benefits	(26,785)	60,738
Tax effect	7,366	(16,703)
	(19,419)	**44,035**
TOTAL COMPREHENSIVE INCOME (LOSS)	**7,223,934**	**4,977,035**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(in euro)	Share capital	Share premium reserve	Legal reserve	FTA Reserve	Treasury shares	Translation reserve	Post-employment benefits discounting reserve	Other reserves	Profit (loss) for the year	Total shareholders' equity
BALANCE AS AT 01/01/15	**10,945,800**	**24,762,200**	**1,595,722**	**1,197,927**	**-**	**-**	**(83,629)**	**13,321,654**	**5,030,458**	**56,770,132**
Allocation of profit 2014										
Dividends paid	-	-	-	-	-	-	-	(3,000,000)	-	(3,000,000)
Retained	-	-	161,937	-	-	-	-	4,868,521	(5,030,458)	-
ISI/Lu-Ve Merger	51,550,000	-	-	-	-	-	-	503,000	-	52,053,000
Purchase/sale of treasury shares	-	-	-	-	(461,776)	-	-	-	-	(461,776)
Capital transaction costs	-	-	-	-	-	-	-	(875,948)	-	(875,948)
Other	-	-	-	-	-	-	-	474,000	-	474,000
Comprehensive income as at 31/12/2015	-	-	-	-	-	-	44,035	-	4,933,000	4,977,035
BALANCE AS AT 31/12/15	**62,495,800**	**24,762,200**	**1,757,659**	**1,197,927**	**(461,776)**	**-**	**(39,594)**	**15,291,227**	**4,933,000**	**109,936,443**
Allocation of profit 2015										
Dividends paid	-	-	-	-	-	-	-	(3,876,031)	-	(3,876,031)
Retained	-	-	246,650	-	-	-	-	4,686,350	(4,933,000)	-
Purchase/sale of treasury shares	-	-	-	-	(529,786)	-	-	-	-	(529,786)
Capital transaction costs	-	-	-	-	-	-	-	(70,227)	-	(70,227)
Other	-	-	-	-	-	-	-	(345,074)	-	(345,074)
Comprehensive income as at 31/12/2016	-	-	-	-	-	-	(19,419)	-	7,243,353	7,223,934
BALANCE AS AT 31/12/16	**62,495,800**	**24,762,200**	**2,004,309**	**1,197,927**	**(991,562)**	**-**	**(59,013)**	**15,686,245**	**7,243,353**	**112,339,259**

	Statement of cash flows *(in euro)*	31/12/2016	31/12/2015	
A.	**Cash and cash equivalents at the beginning of the year**	**36,516,531**	**12,713,029**	
	Profit (loss) for the year	7,243,353	4,933,000	
	Adjustments for:			
	- Depreciation and amortisation	5,306,315	5,200,738	
	- Realised gains on non-current assets	(192,164)	(176,362)	
	- Net financial income and expense	(5,635,355)	(1,856,436)	
	- Income taxes	422,781	(979,991)	
	- Fair value changes booked in operating income	436,223	(39,808)	
	Changes in post-employment benefits	(30,929)	(72,834)	
	Changes in provisions	(16,072)	(48,663)	
	Changes in trade receivables	(3,209,470)	(3,635,433)	**(*)**
	Changes in inventories	(276,352)	(347,213)	
	Changes in trade payables	(2,028,001)	2,354,507	
	Changes in net working capital	**(5,513,823)**	**(1,628,139)**	
	Changes in other receivables and payables, deferred taxes	620,196	(2,061,422)	**(*)**
	Tax payment	(54,334)	(1,702,491)	
	Paid net financial expenses	5,692,761	1,853,966	
B.	**Cash flows generated/absorbed by operating activities**	**8,278,952**	**3,421,558**	
	Investments in non-current assets			
	- intangible assets	(1,999,063)	(1,437,000)	
	- property, plant and equipment	(2,781,107)	(3,161,000)	
	- financial assets	(38,459,133)	(1,573,117)	**(*)**
C.	**Cash flows generated/absorbed by investing activities**	**(43,239,303)**	**(6,171,117)**	
	Repayment of loans	(15,520,565)	(43,364,575)	
	New loans	55,000,000	79,848,100	
	Changes in other financial liabilities	(2,946,470)	9,123,469	
	Changes in short-term financial assets	(8,881,562)	(65,743,408)	
	Changes in other financial assets	240,670	-	**(*)**
	Purchase of treasury shares	(530,000)	(462,000)	
	Contributions/repayments of own capital	-	51,177,000	
	Payment of dividends	(3,876,000)	(4,499,525)	
D.	**Cash flows generated/absorbed by financing activities**	**23,486,073**	**26,079,061**	
	Exchange differences	-	474,000	
	Other changes	(415,000)	-	
E.	**Other changes**	**(415,000)**	**474,000**	
F.	**Net cash flows in the year (B+C+D+E)**	**(11,889,277)**	**23,803,502**	
	Cash and cash equivalents at the end of the year (A+F)	**24,627,254**	**36,516,531**	
	Current financial debt	(9,941,840)	(20,244,973)	
	Non-current financial debt	80,472,032	64,223,761	
	Net financial debt (Note 20)	**45,902,938**	**7,462,257**	

Note:

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

LUVE S.p.A.

NOTES AS AT 31 DECEMBER 2016

INTRODUCTION

Acquisition of Spirotech - Compulsory Convertible Debentures (CCD)
In October 2016, the LU-VE Group acquired 95% of the shares of the Indian company Spirotech Heat Exchangers Private Limited. The company was acquired through the Indian subsidiary Lu-Ve India Corporation Private Limited and was financed with the issue by Lu-Ve India of a bond (Compulsory Convertible Debentures – CCD) subscribed by Lu-Ve S.p.A. for INR 2,425 million (€33,872 thousand).
The main characteristics of these CCDs are:

- They are convertible into shares at any moment at the request of the holders. If they are not converted, the CCDs must be converted at the end of the 15th year after issue. The conversion must take place at the fair market value of the Company's shares on the day of conversion.
- The fair market value at the conversion date cannot in any event be less than the fair market value of the CCD on the day of issue (INR 17 per CCD).
- The CCDs do not generate interest for the first 24 months after issue.
- The CCDs do not give the holders any voting right.
- The CCDs constitute a direct debt of the company, which is not conditional and not subordinated with reference to the payment of interest as well as the repayment of principal in the case of the company's liquidation.

At the conversion date, Lu-Ve S.p.A. will obtain a variable number of shares of Spirotech Heat Exchangers, calculated on the basis of the latter's fair value. The instrument was considered a derivative instrument on the shares of the investee, and as a result it was measured at fair value through profit and loss.

STRUCTURE AND CONTENT OF THE FINANCIAL STATEMENTS

Declaration of compliance and accounting policies

The separate financial statements for 2016 of LU-VE S.p.A. 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. The reference to IFRS also includes all International Accounting Standards (IAS) in force. The separate financial statements have been prepared in Euro, which is the currency used in the economies in which the Company carries on business, with amounts rounded to thousands, and are compared with the separate financial statements for the previous year, prepared with the same criteria. They consist of the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows and these notes. The financial statements have been drawn up on the basis of the historical cost principle and the going concern assumption. With reference to this last assumption, even within a difficult economic and financial environment, based on assessments of its strong competitive positioning, high profitability and solid financial position, the Company believes that it will continue to operate on a going concern basis pursuant to paragraphs 25 and 26 of IAS 1.
As the Parent Company, LU-VE S.p.A. has also prepared the consolidated financial statements of the LUVE Group as at 31 December 2016.

Reclassifications

For a better presentation and comparison, the following 2015 financial statement items were reclassified:

- Loans receivable from subsidiaries for €13,451,819 were reclassified from "Other non-current assets" to "Other non-current financial assets";
- Deferred taxes on leases of €1,171,825 were reclassified from "Deferred tax assets" to "Deferred tax liabilities";
- Total receivables and payables for tax consolidation with SEST of €607,430 were reclassified from "Trade receivables" to "Other current liabilities" (€244,040) and to "Other current assets" (€851,470).

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;
- 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 separate financial statements as at 31 December 2016, which did not change compared to the previous year, are described below:

INTANGIBLE ASSETS

Goodwill and business combinations

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

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

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

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

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

Other intangible assets

Trademarks

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

Research and development costs

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

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

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

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

These assets are measured at acquisition or production cost and amortised on a straight line basis throughout their estimated useful life, if they have a finite useful life.
Investments in software are amortised over a period of 3 years.

PROPERTY, PLANT AND EQUIPMENT

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

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

Ordinary maintenance costs are charged to the income statement in the year in which they are incurred; costs that increase the value or useful life of the asset are capitalised and depreciated in line with the remaining useful life of the assets to which they refer.
If there are indicators of impairment, property, plant and equipment are tested for impairment. Any impairment losses may be subject to subsequent write-backs.

Land is not depreciated.

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

Equity investments and non-current receivables
Other equity investments not classified as held for sale are measured with the cost method, less impairment losses. The original value is written back in subsequent years if the reasons for the write-down recognised no longer apply.
Non-current receivables are recognised at their estimated realisable value.

Impairment of assets

At each reporting date, the Company reviews the carrying amount of its property, plant and equipment and intangible assets to determine 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 to which the asset belongs.

In particular, the recoverable amount of the cash-generating units (which generally coincide with the legal entity to which the non-current assets refer) is verified by determining the value in use. The recoverable amount is the higher of the net sale price and 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 most recently prepared by the Directors of the consolidated companies 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 recognised in the income statement.

If there is no longer a reason to continue to recognise this impairment, 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 in the income statement.

Derivative financial instruments

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

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

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

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

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

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

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

Disclosure

IFRS 7 requires additional information that enables users to evaluate the significance of the financial instruments in relation to the economic performance and financial position of the Company. This

accounting standard requires a description of the objectives, policies and procedures put into place by the Management for the different types of financial risk (liquidity, market and credit) to which the Company is exposed, inclusive of a sensitivity analysis for each type of market risk (exchange rate, interest rate, equity, commodity) and a disclosure regarding the concentration and average, minimum and maximum exposures to the various types of risk during the reference period, if the exposure at the end of the period is not sufficiently representative.
IAS 1 governs, inter alia, the disclosures to be provided regarding capital management objectives, policies and processes, specifying, if there are any externally imposed capital requirements, their nature and management methods and any consequences of non-compliance.

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

Trade receivables and other receivables
The receivables are initially recognised at fair value.
Subsequently, receivables are valued with the amortised cost method on the basis of the effective internal interest rate represented by the rate which makes the present value of future cash flows and the carrying amount equal at the moment of initial recognition.
The value thus determined is reduced to the realisable value if there are any impairment losses.
Write-downs are calculated in relation to the degree of solvency of individual debtors, also based on the specific characteristics of the underlying credit risk, taking into account available information and also considering historical experience.

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

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

Loans
Loans are initially measured at cost net of accessory acquisition costs.
This value is subsequently adjusted to take into account any difference between the initial cost and the repayment value throughout the term of the loan using the effective interest rate method.
Loans are classified as current liabilities unless the Group has the unconditional right to defer the settlement of the liability for at least twelve months after the reporting date.

Provisions
Provisions for risks and charges represent probable liabilities of uncertain amount and/or timing deriving from past events, the settlement of which will entail an outflow of resources. Provisions are

recognised exclusively if there is a present legal or constructive obligation requiring the use of economic resources, provided such obligation can be reliably estimated. The amount recognised in the provision represents the best estimate of the expenditure required to settle the obligation at the balance sheet date. Provisions are reviewed at each balance sheet date and adjusted so as to represent the best current estimate.
If the outflow of resources connected to the obligation is expected to take place beyond normal payment terms and the effect of discounting is relevant, the amount of the provision is represented by the present value of the expected future payments for the settlement of the obligation.
Contingent assets and liabilities are not recognised in the financial statements. However, they are subject to adequate disclosure.

Employee benefits

Short-term benefits

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

Post-employment benefits

On 1 January 2007, the Financial Act (law 296/2006) and the relative implementing decrees introduced considerable amendments to the rules on post-employment benefits, including the selection to be made by the worker with respect to the allocation of accruing benefits. In particular, these new regulations required new post-employment benefit contributions to be allocated to pension plans chosen by the worker or, if the worker decided to keep those contributions within the company, to an INPS treasury account. The method for accounting for post-employment benefits was updated based on these regulatory amendments.
Before the reform introduced by Law 296/2006, international accounting standards classified post-employment benefits as "defined-benefit plans". Now, only the post-employment benefits accrued up to 31 December 2006 continue to be classified as "defined-benefit plans", while those accruing subsequent to that date are classified as a "defined-contribution plan", as all obligations of the company are met when it makes the periodic contribution to third-party entities. Therefore, discounted amounts are no longer recognised in the income statement. Instead, outlays made to the various types of pension plans selected by employees or to the separate INPS treasury fund, calculated based on art. 2120 of the Italian Civil Code, are recognised under personnel costs.

Defined-benefit plans

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

Defined-contribution plans

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

Payables

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

Criteria for the translation of items in foreign currency

Receivables and payables originally expressed in foreign currencies are translated to euro at the exchange rates of the date on which the transactions giving rise to them take place. The exchange differences realised upon collection of the receivables and payment of the payables in foreign currency are recognised in the income statement. Income and expenses relating to transactions in foreign currency are recognised at the current exchange rate on the date on which the relative transaction takes place.
At year end, assets and liabilities expressed in foreign currency, with the exception of non-current assets, are recognised at the spot exchange rate as at the end of the financial year and the relative exchange gains and losses are recognised in the income statement. If the translation gives rise to a net profit, a non-distributable reserve for a corresponding amount is restricted until its actual realisation.

Revenue and cost recognition

Revenues are recognised net of returns, discounts, allowances and premiums, as well as taxes directly connected to the sale of goods and the provision of services.
Revenues from sales are recognised when the Company has transferred the significant risks and benefits connected to ownership of the asset and the amount of the revenue may be reliably determined.
Costs and expenses are recognised in the financial statements on an accrual basis.

Financial income

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

Financial expense

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

Income taxes

Income taxes include all taxes calculated on the Company’s taxable income. Income taxes are recognised in the income statement, with the exception of those relating to items directly charged or credited to shareholders' equity, in which case the tax effect is recognised directly under shareholders' equity. Other taxes not correlated with income, such as property taxes, are classified as operating expenses. Deferred tax liabilities are recognised based on the full liability method. They are calculated on all temporary differences emerging between the taxable amount of an asset or liability and the carrying amount in the consolidated financial statements, with the exception of goodwill which is not tax deductible and those differences from investments in subsidiaries which are not expected to be offset in the foreseeable future. Deferred tax assets on tax losses and unused tax credits that may be carried forward are recognised to the extent to which 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 or 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 or loss attributable to shareholders of the Company by the weighted average of ordinary shares outstanding, taking into account the effects of all potential ordinary shares with a dilutive effect.

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 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. More specifically:

Recoverability of the value of property, plant and equipment and intangible assets
The procedure for determining impairment losses on property, plant and equipment and intangible assets described in the “Impairment of assets” accounting standard requires - in estimating the value in use - the use of the Business Plans of the investees, which are based on a set of assumptions and hypotheses relating to future events and actions of the investee management bodies, which may or may not take place. On the other hand, in estimating market value, assumptions are made on foreseeable trading trends between third parties on the basis of historical performance, which may not actually be repeated.

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

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

Provisions for warranties
The Company recognises provisions for the estimated costs of product warranties. The management establishes the consistency of these provisions on the basis of historical information with reference to the frequency and average cost of warranty claims.
Employee benefits
The present value of liabilities for employee benefits depends on a series of factors determined with actuarial techniques using specific assumptions. The assumptions regard the discount rate, estimates of future wage increases, mortality rates and resignations. Every change in these assumptions may have significant effects on the liability for pension benefits.

Income taxes

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

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

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

New accounting standards

IFRS ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLIED AS OF 1 JANUARY 2016

The following IFRS accounting standards, amendments and interpretations have been applied by the Company for the first time as of 1 January 2016:

- Amendments to **IAS 19 "*Defined Benefit Plans: Employee Contributions*"** (published on 21 November 2013): relating to the recognition in the financial statements of contributions made by employees or third parties to defined-benefit plans. The adoption of these amendments had no effects on the Company's financial statements.
- Amendments to **IFRS 11 "*Accounting for acquisitions of interests in joint operations*"** (published on 6 May 2014): relating to accounting for the acquisition of interests in a joint operation the activities of which constitute a business. The adoption of these amendments had no effects on the Company's financial statements.
- Amendments to **IAS 16** and **IAS 41 "*Bearer Plants*"** (published on 30 June 2014): relating to bearer plants, or fruit trees that will be harvested annually (for example grapevines and hazelnut plants), which must be accounted for in accordance with the requirements of IAS 16 (rather than IAS 41). The adoption of these amendments had no effects on the Company's financial statements.
- Amendments to **IAS 16** and **IAS 38 "*Clarification of acceptable methods of depreciation and amortisation*"** (published on 12 May 2014): according to which depreciation and amortisation based on revenues are considered to be inappropriate as the revenues generated by an activity which includes the use of the asset subject to depreciation or amortisation generally reflect factors other than only the consumption of the economic benefits of the asset, which is instead required for depreciation and amortisation. The adoption of this amendment had no effects on the Company's financial statements.
- Amendment to **IAS 1 "*Disclosure Initiative*"** (published on 18 December 2014): the objective of these amendments is to provide clarifications on disclosure elements that may be perceived as impediments to a clear and intelligible preparation of the financial statements. The adoption of this amendment had no effects on the Company's financial statements.
- Amendments to **IFRS 10**, **IFRS 12** and **IAS 28 "*Investment Entities: Applying the Consolidation Exception*"** (published on 18 December 2014), laying out amendments relating to topics that emerged following the application of the consolidation exception granted to

investment entities. The adoption of this amendment had no effects on the Company's separate financial statements.

Lastly, as part of the annual improvement process, on 12 December 2013 the IASB published **"*Annual Improvements to IFRSs: 2010-2012 Cycle*"** (including IFRS 2 Share Based Payments – Definition of vesting conditions, IFRS 3 Business Combinations – Accounting for contingent consideration, IFRS 8 Operating segments – Aggregation of operating segments and Reconciliation of total of the reportable segments' assets to the entity's assets, IFRS 13 Fair Value Measurement – Short-term receivables and payables) and on 25 September 2014 **"*Annual Improvements to IFRSs: 2012-2014 Cycle*"** (including: IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 – Financial Instruments: Disclosure and IAS 19 – Employee Benefits), which partially supplement pre-existing standards. The adoption of these amendments had no effects on the Company's financial statements.

IFRS ACCOUNTING STANDARDS AND AMENDMENTS AND IFRIC INTERPRETATIONS ENDORSED BY THE EUROPEAN UNION, FOR WHICH APPLICATION IS NOT YET REQUIRED AND NOT ADOPTED EARLY BY THE COMPANY AS AT 31 DECEMBER 2016

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

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

  The standard applies as of 1 January 2018, but early application is permitted. The amendments to IFRS 15, Clarifications to IFRS 15 - Revenue from Contracts with Customers, published by the IASB on 12 April 2016, have instead not yet been endorsed by the European Union.

- Final version of **IFRS 9 - *Financial instruments*** (published on 24 July 2014). This document incorporates the results of the IASB project for the replacement of IAS 39:

    - it introduces new criteria for the classification and measurement of financial assets and liabilities;
    - With reference to the impairment model, the new standard requires losses on receivables to be estimated on the basis of the expected losses model (and not the incurred losses model used in IAS 39) using supportable information available without unreasonable cost or effort, including historical, current and forecast data;
    - it introduces a new hedge accounting model (increase in the type of transactions eligible for hedge accounting, change in the methods for accounting for forward contracts and options when included in a hedge accounting relationship, amendments to the effectiveness test).

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

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

As at 31 December 2016, 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.

- **IFRS 16 – *Leases*** (published on 13 January 2016) which is meant to replace IAS 17 – Leases, as well as the interpretations IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.
  The new standard provides a new definition of lease and introduces an approach based on control (right of use) of an asset to distinguish lease agreements from service agreements, identifying as distinguishing factors: the identification of the asset, the right of substitution, the right to substantially obtain all economic benefits deriving from the use of the asset and the right to direct the use of the asset underlying the contract.
  The standard establishes a single model for the recognition and measurement of lease agreements for the lessee which requires the recognition of the asset subject to the lease, including an operating lease, in the assets with a matching entry under financial payables, also providing the possibility not to recognise as leases those contracts which concern low-value assets and leases with a contract term of equal to or less than 12 months. The standard does not include significant amendments for lessors.
  The standard applies as of 1 January 2019, but early application is permitted, only for Companies that apply IFRS 15 - Revenue from Contracts with Customers early.

- Amendment to **IAS 12 "*Recognition of Deferred Tax Assets for Unrealised Losses*"** (published on 19 January 2016). The document has the objective of providing several clarifications on the recognition of deferred tax assets on unrealised losses in certain circumstances and on the estimate of taxable income for future years. The amendments apply as of 1 January 2017, but early adoption is permitted.

- Amendment to **IAS 7 "*Disclosure Initiative*"** (published on 29 January 2016). The document aims to provide several clarifications to improve the disclosure on financial liabilities. In particular, the amendments require a disclosure to be provided which enables users of financial statements to understand changes in liabilities deriving from loan transactions. The amendments apply as of 1 January 2017, but early application is permitted. The presentation of comparative information relating to previous years is not required.

- Amendment to **IFRS 2** "***Classification and measurement of share-based payment transactions***" (published on 20 June 2016), which contains several clarifications on accounting for the effects of vesting conditions in the presence of cash-settled share-based payments, the classification of share-based payments with net settlement and accounting for amendments to the terms and conditions of a share-based payment which change the classification from cash-settled to equity-settled. The amendments apply as of 1 January 2018, but early application is permitted.

- **"*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*"** (published on 12 September 2016). For entities whose business consists predominantly of insurance activities, the amendments have the objective of clarifying concerns deriving from the application of the new

IFRS 9 to financial assets, before the IASB replaces the current IFRS 4 with the new standard currently being developed, on the basis of which the financial liabilities are measured.

- "***Annual Improvements to IFRSs: 2014-2016 Cycle***", published on 8 December 2016 (including IFRS 1 *First-Time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters*, IAS 28 *Investments in Associates and Joint Ventures – Measuring investees at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice*, IFRS 12 *Disclosure of Interests in Other Entities – Clarification of the scope of the Standard*) which partially supplement pre-existing standards.

- Interpretation **IFRIC 22** "***Foreign Currency Transactions and Advance Consideration***" (published on 8 December 2016). The interpretation has the objective of providing guidelines for transactions carried out in foreign currency when non-monetary advances or payments on account are recognised in the financial statements, before the recognition of the relative asset, cost or revenue. This document provides instructions on how an entity must determine the date of a transaction and as a result the spot exchange rate to be used when transactions in foreign currency are carried out, in which payment is made or received in advance. IFRIC 22 applies as of 1 January 2018, but early application is permitted.

- Amendment to **IAS 40** "***Transfers of Investment Property***" (published on 8 December 2016). These amendments clarify transfers of a property to, or from, investment property. In particular, an entity is required to reclassify a property as, or from, investment property, only when there is evidence that the property use has changed. This change must be related to a specific event that took place and therefore should not be limited to a change in the intentions of the entity's management. These amendments apply as of 1 January 2018, but early application is permitted.

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

Comment on the main items of the statement of financial position

1. INTANGIBLE ASSETS

(€/000)	Goodwill	Trademarks	Development costs	Other intangible assets	Total
Historical					
As at 31 December 2014	**21,018**	**10,799**	**3,693**	**3,415**	**38,925**
Increases	-	-	1,287	150	**1,437**
Decreases	-	-	-	-	-
Reclassifications	-	-	-	-	-
As at 31 December 2015	**21,018**	**10,799**	**4,980**	**3,565**	**40,362**
Increases	60	-	957	1,038	**2,055**
Decreases	-	-	-	-	-
Reclassifications	-	-	-	-	-
As at 31 December 2016	**21,078**	**10,799**	**5,937**	**4,603**	**42,417**
Provision					
As at 31 December 2014	**7,845**	**4,528**	**2,345**	**3,054**	**16,376**
Increases	-	717	1,010	236	**1,963**
Decreases	-	-	-	-	-
Reclassifications	-	-	-	-	-
As at 31 December 2015	**6,449**	**5,245**	**3,355**	**3,290**	**18,339**
Increases	-	717	1,000	351	**2,068**
Decreases	-	-	-	-	-
Reclassifications	-	-	-	-	-
As at 31 December 2016	**6,449**	**5,962**	**4,355**	**3,641**	**20,407**
Net carrying amount					
As at 31 December 2015	**14,569**	**5,554**	**1,625**	**275**	**22,023**
As at 31 December 2016	**14,629**	**4,837**	**1,582**	**962**	**22,010**

Goodwill

The goodwill emerged from the inverse merger by incorporation of the parent company Europarts S.r.l. in 2008 and represents the difference between the purchase price and the current value of the identifiable assets and liabilities of the investee on the acquisition date. The increase during the year was due to the merger of the subsidiary Metalluve into LU-VE (Note 3).

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 Company tested the recoverability of the carrying amount of Net Invested Capital of LU-VE Spa as at 31 December 2016. Net invested capital is inclusive of the value of goodwill.

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 Net Invested Capital (unlevered discounted

cash flow method), the management made reference to the 2017-2020 Business Plan approved by the Board of Directors on 16 February 2017.
In more detail, in order to determine the recoverable amount of Net Invested Capital, cash flows were discounted using a discounting rate (WACC) which takes into account the specific risks of the asset and which reflects current market assessments of the cost of money. The calculation of the weighted average cost of capital resulted in a value of 6.62%.
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 1.5%. In the terminal value, an operating cash flow based on the last year of the plan (2020), adjusted so as to reflect a situation "under normal circumstances", was considered. The level of amortisation and investments was balanced and a change in working capital equal to zero was assumed.
The weighted average cost of capital calculated for the discounting of cash flows is based on a weighting between the cost of debt and the cost of equity, determined on the basis of the values of companies comparable to LU-VE Spa and therefore operating within the same business segments.
No impairment losses emerged based on the testing carried out, as the value in use was found to be higher than the carrying amount.
In addition, as the recoverable amount is determined on the basis of projections, the Company also developed sensitivity analyses, in which the underlying assumptions of the impairment test are changed. The sensitivity analyses on the WACC and the growth rate brought to light potential impairment losses with a g growth rate of 0, considering an unchanged WACC with respect to the base scenario.

Development costs
During the year, investments of around €957 thousand were made, relating to the development of new air cooled products. These investments are amortised over a period of 4 years.
The intense activities carried out have aimed to offer the market increasingly advanced products, also in response to the ongoing international crisis. The main projects during the year regarded the creation of innovative adiabatic and spray systems to optimise the performance of high power heat exchange equipment, the miniaturisation and specialisation of tube surfaces and matrixes for the improvement of heat exchange efficiencies, the introduction of electronic control systems optimised for unit coolers and air coolers as well as the development of new ranges of products, components and accessories in the heat exchanger segment.

Development costs were capitalised with the consent of the Board of Statutory Auditors.

Other intangible assets
The main increases for the year (around €1,038 thousand) regarded the capitalisation of the costs of technical and operating software and work in progress and development costs on projects not yet completed (roughly €358 thousand).

All intangible assets are amortised over a period of 5 years, with the exception of investments in software, which are amortised over three years, the LU-VE trademark, which is amortised for 15 years and development costs, which are amortised for 4 years.

2. PROPERTY, PLANT AND EQUIPMENT

(€/000) Historical	Property	Plant and equipment	Other property, plant and equipment	Work in progress	Total
As at 31 December 2014	**38,822**	**39,812**	**14,868**	**217**	**93,719**
Increases	60	2,020	845	428	**3,353**
Decreases	-	(252)	-	-	**(252)**
Reclassifications	-	216	-	(216)	-
As at 31 December 2015	**38,882**	**41,796**	**15,713**	**429**	**96,820**
Increases	434	3,001	758	772	**4,965**
Decreases	-	-	(288)	-	**(288)**
Reclassifications	32	200	-	(232)	-
As at 31 December 2016	**39,348**	**44,997**	**16,183**	**969**	**101,497**
Provision					
As at 31 December 2014	**7,254**	**33,845**	**13,289**	**-**	**54,388**
Increases	653	1,998	587	-	**3,238**
Decreases	-	(236)	-	-	**(236)**
Reclassifications	-	-	-	-	-
As at 31 December 2015	**7,907**	**35,607**	**13,876**	**-**	**57,390**
Increases	662	3,367	653	-	**4,682**
Decreases	-	-	(168)	-	**(168)**
Reclassifications	-	-	-	-	-
As at 31 December 2016	**8,569**	**38,974**	**14,361**	**-**	**61,904**
Net carrying amount					
As at 31 December 2015	**30,975**	**6,189**	**1,837**	**429**	**39,430**
As at 31 December 2016	**30,779**	**6,023**	**1,822**	**969**	**39,593**

The increase in Plant and equipment (€3,001 thousand) referred to the acquisition of latest generation equipment with the objective of increasing production capacity and efficiency for roughly €1,000 thousand and the assets of Metalluve following the merger for around €2,000 thousand (Note 3).
The increase in Other property, plant and equipment referred mainly to the acquisition of industrial equipment and moulds.
Machinery and vehicles were also disposed of, generating a capital gain of €196 thousand and a capital loss of €3 thousand.
During the year, financial expense was not capitalised on property, plant and equipment.
As at 31 December 2016, the Company confirmed that there were no external or internal indicators of impairment in its property, plant and equipment. As a result, the value of property, plant and equipment was not tested for impairment.

The table below provides detailed information on assets still owned on which the revaluations provided under specific laws were carried out:

Types of revaluations	Item						
In thousands of Euro	Property		Plant and equipment		Other property, plant and equipment		
	Gross amount	Net amount as at 31/12/2016	Gross amount	Net amount as at 31/12/2016	Gross amount	Net amount as at 31/12/2016	**Net total as at 31/12/2016**
Law no. 413 of 30 December 1991	5	1	-	-	-	-	1
Law no. 342 of 21 November 2000	-	-	1,347	-	1,080	-	-
Law no. 350 of 24 December 2003	-	-	1,814	-	1,183	-	-
Law no. 266 of 23 December 2005	-	-	847	-	296	-	-
TOTAL	**5**	**1**	**4,008**	**-**	**2,559**	**-**	1

3. EQUITY INVESTMENTS

The details of this item are shown below:

(€/000)	31/12/2016	31/12/2015
Subsidiaries:		
SEST S.p.A.	44,895	44,895
TECNAIR LV S.p.A.	1,043	1,043
METALLUVE S.r.l.	-	300
LUVE France S.a.r.l.	890	722
HTS s.r.o.	9,539	7,486
LUVE Sweden AB	390	390
LUVE Iberica S.l.	145	145
LUVE Pacific pty Ltd	-	-
LUVE Asia Pacific Limited	13	13
LUVE Deutschland GmbH	173	173
LUVE India Corporation Private Ltd	1,566	15
MANIFOLD S.R.L.	10	-
LUVE DIGITAL S.R.L.	5	-
Total subsidiaries	**58,669**	**55,182**
The other companies are:		
Industria e Università S.r.l.	6	6
Total	**58,675**	**55,188**

The transactions carried out in 2016 were:

On 17 February 2016, a new company was incorporated named LuveDigital S.r.l., which is 50% held by the Parent Company and 50% by a sector specialist, for the design of special software dedicated to the calculation and sizing of air cooled equipment, heat exchangers and close control air conditioners and for the development of new instruments and platforms dedicated to the promotion of Company products;

On 22 February 2016, the deed of merger by incorporation of Metalluve S.r.l. into LU-VE S.p.A. was entered into: the merger became effective as of 1 March 2016, with retroactive effect for accounting and tax purposes as of 1 January 2016;

On 25 February 2016, the parent company LU-VE acquired full control over the Czech subsidiary Heat Transfer System S.r.o. (HTS) by acquiring the remaining 10% of the share capital, for total of €2,050,000;

In April 2016, the company Manifold S.r.l. was incorporated (99% stake held by the Parent Company) with the objective of leasing a business specialised in the manufacture of copper components. As at 30 June 2016, the company was not yet operational;

In May 2016, the Parent Company acquired a total stake of 12.91% of the French subsidiary LU-VE France S.a.r.l. for roughly €162,000 from several non-controlling shareholders. After that acquisition, its stake rose to 86.06%.

Pursuant to IAS 36, the Company carried out an analysis in order to test for the presence of impairment indicators. To that end, in particular it tested the recoverability of the carrying amount of equity investments in order to ensure that the value recognised in the financial statements does not exceed the recoverable amount.
The method for verifying the recoverable amount, as expressed by IAS 36, is based on the discounting of expected future cash flows from equity investments along with the calculation of the respective terminal value (the DCF or discounted cash flow method).
LU-VE tested the recoverability of the carrying amount of the following equity investments as at 31 December 2016:

- LU-VE Sweden AB;
- LU-VE Deutschland Gmbh;
- LU-VE Asia Pacific Limited (Hong Kong);
- LU-VE Pacific pty Ltd (Australia).

In determining the recoverable amount, identified as the value in use, i.e., the sum of discounted cash flows generated in the future and on an ongoing basis, the management made reference to the 2017-2020 Business Plan approved by the Company's Board of Directors.
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 sectors and economies of the countries in which the tested equity investments were located. In the terminal value, an operating cash flow equal to the last year of the plan (2020), adjusted so as to reflect a situation "under normal circumstances", was considered. The level between amortisation and investments, which reflects a stable situation in the long term, was balanced, and a change in working capital equal to zero was assumed.

	WACC	g rate
LU-VE Sweden	5.62%	1.5%
LU-VE Deutschland Gmbh	5.33%	1.5%
LU-VE Asia Pacific Limited (HK)	7.73%	1.5%
LU-VE Pacific pty Ltd (Australia)	7.34%	1.5%

The level of net financial debt as at 31 December 2016 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, with the exception of LU-VE Pacific pty Ltd (Australia) for which the carrying amount was already written down and for which a bad debt provision of €1,100 thousand was recognised to partly cover LU-VE's receivables from LU-VE Pacific pty Ltd (Note 7).
In addition, as the recoverable amount is determined on the basis of projections, the Company also developed sensitivity analyses, in which the underlying assumptions of the impairment test are changed.
The sensitivity analysis developed by changing the WACC by 0.5% and the g rate by 1% showed no impairment losses.

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

4. OTHER NON-CURRENT FINANCIAL ASSETS

(€/000)	31/12/2016	31/12/2015	Change
LUVE India CCD	33,872	-	33,872
Other financial receivables from subsidiaries	14,552	13,452	1,100
Total	**48,424**	**13,452**	**34,972**

This item amounted to €48,424 thousand compared to €13,452 thousand in the previous year. This change depends substantially:

- for €33,872 thousand on the LUVE INDIA CCD described previously (in the introduction to these Notes);
- for €1,100 thousand on the increase in receivables for loans to Group companies 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 Iberica s.l. (unchanged with respect to 2015);
  - around €6,575 thousand for a long-term loan granted to the subsidiary LU-VE Asia Pacific Limited (increased by €300,000 in 2016). In the past, the subsidiary used part of that loan to subscribe 100% of the share capital of LU-VE Heat Exchangers (Changshu) Limited in China.
  - around €4,001 thousand for a long-term loan granted to the subsidiary LU-VE Sweden AB (unchanged with respect to 2015). 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 €2,420 thousand for the long-term loan granted to the subsidiary HTS s.r.o. The initial loan in 2015 of €1,620 thousand was increased by €800 thousand in 2016.

5. OTHER NON-CURRENT ASSETS

(€/000)	31/12/2016	31/12/2015	Change
Other non-current assets	414	655	(241)
Total	**414**	**655**	**(241)**

They amounted to €414 thousand, a decrease of €241 thousand compared to €655 thousand in the previous year, and referred:

- for €408 thousand to receivables due from the tax authorities payable beyond the year (referring to the refund request due to the deductibility, carried out in previous years, of IRES from IRAP for the period 2007-2011) with a decline of €241 thousand for reimbursements received;
- for €6 thousand to security deposits (unchanged from the previous year).

6. INVENTORIES

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

(€/000)	31/12/2016	31/12/2015	Change
Raw materials and consumables	4,214	4,418	(204)
Work in progress and semi-finished products	945	424	521
Finished products and goods for resale	1,554	1,595	(41)
Provision for inventory losses	(645)	(645)	-
Total	**6,068**	**5,792**	**276**

The increase in value compared to 2015 was mainly caused by the increase in sales volumes.
The provision for inventory losses, equal to €645 thousand as at 31 December 2016 (unchanged with respect to 2015), 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.
For a better presentation and comparison, the following 2015 financial statement items were reclassified within the inventory item: raw materials rose by €2,036 thousand, semi-finished products declined by €1,939 thousand and finished products decreased by €97 thousand.

7. TRADE RECEIVABLES

This item was broken down as follows at the end of the year (in thousands of Euro):

(€/000)	31/12/2016	31/12/2015	Change
Trade receivables	33,098	28,630	4,468
Bad debt provision	(3,128)	(1,870)	(1,258)
Total	**29,970**	**26,760**	**3,210**

Trade receivables included receivables due from some subsidiaries. For the details, refer to the Note on Related Parties (Note 34). All trade receivables are due within the subsequent year and derive from normal sales transactions. Please note that no receivables with a duration of more than 5 years were recognised in the financial statements.
The bad debt provision rose during the year by €1,258 thousand for provisions recognised to reflect the recoverability of the receivables (€1,100 thousand for receivables from LU-VE Pacific pty Ltd, Note 3).

The breakdown of receivables by geographical area is shown below:

(€/000) Country	2016	2015	Change
Italy	7,424	8,738	(1,314)
EU Countries	17,351	13,765	3,586
Non-EU Countries	8,323	6,127	2,196
Bad debt provision	(3,128)	(1,870)	(1,258)
Total	**29,970**	**26,760**	**3,210**

The ageing of trade receivables is shown below:

(€/000)	31/12/2016	31/12/2015	Change
Current receivables (not past due)	13,998	13,785	213
Past due up to 30 days	1,579	1,303	276
Past due from 30 to 60 days	1,350	1,279	71
Past due from 60 to 90 days	813	1,299	(486)
Past due for more than 90 days	15,358	10,963	4,395
Total	**33,098**	**28,630**	**4,468**

8. DUE FROM THE TAX AUTHORITIES FOR CURRENT TAXES

This item was broken down as follows (in thousands of Euro):

(€/000) Payable within the year:	31/12/2016	31/12/2015	Change
Due from the tax authorities for VAT	1,473	1,437	36
Due from the tax authorities	665	1,021	(356)
Others	72	107	(35)
Total payable within the year	**2,210**	**2,565**	**(355)**

Receivables due from the tax authorities refer to advances paid in 2016 and in previous years.

9. CURRENT FINANCIAL ASSETS

The details of this item are shown below:

(€/000)	31/12/2016	31/12/2015	Change
Asset management	39,468	39,552	(84)
Capitalisation policies	27,457	15,093	12,364
Other securities	7,102	9,953	(2,851)
Cash pooling	6,085	6,619	(534)
Fair value of derivative instruments	144	157	(13)
Total	**80,256**	**71,374**	**8,882**

The Asset management agreement was entered into with Bnp Paribas Investment Partners SGR S.p.A. and the assets may be disinvested upon simple request. The funds are primarily invested in bonds and in units and/or shares of bond and/or flexible funds. There is also a component of investment in equity instruments and units and/or shares of equity funds, but to a limited extent, and also investment in financial instruments denominated in currencies other than the Euro. Asset management had a positive overall impact of around €313 thousand in the income statement for the year.

The Capitalisation policies taken out were issued by Aviva Vita S.p.A and are the type of policies which allow, after the payment of a lump-sum premium, for an annual capital revaluation based on the return obtained from management (almost exclusively invested in government securities and very highly rated bonds). The fair value measurement at the reporting date entailed the recognition of roughly €428 thousand under financial income. During the year, policies were taken out for an additional nominal amount of €12,000 thousand (with the payment of an entry fee totalling €64 thousand).

Other securities referred to investments made through UBI Banca S.p.A. (where the securities account is held) in Italian government securities, corporate bonds, bond funds and mixed funds whose fair value measurement at the reporting date entailed the recognition of roughly €116 thousand under financial income. During the year, around €836 thousand was liquidated and there was a roughly €2,886 thousand increase. The net effect of disposals and acquisitions entailed the recognition in the 2016 income statement of a positive effect of around €28 thousand.

During the year, the bond issued by Mediobanca - Banca di Credito Finanziario S.p.A., which was accounted for as at 31 December 2015 for an amount of €5,018 thousand, reached maturity.

“Cash pooling” represented receivable balances for the Company from the Group’s centralised treasury.

The “Fair value of derivative instruments” represented the fair value as at 31 December 2016 of derivatives subscribed by the Company. The change during the year had a positive effect of €436 thousand on the income statement.

The summary relating to outstanding derivative financial instruments as at 31 December 2016 broken down by type is provided below:

€/000		31/12/2016		31/12/2015		31/12/2016	31/12/2015
TYPE	ORIGINAL NOTIONAL	NOT. Short	NOT. M/L	NOT. Short	NOT. M/L	FAIR VALUE	FAIR VALUE
IRS on loans	150,246	18,764	56,356	19,178	44,012	(653)	(861)
Currency options	41,994	11,648	569	9,840	356	144	158
Commodity Swaps	9,609	-	-	9,609	-	-	(242)
Total	**201,849**	**30,412**	**56,925**	**38,627**	**44,368**	**(509)**	**(945)**
Total Notional		**87,337**		**82,995**			

The details relating to outstanding derivative financial instruments as at 31 December 2016 broken down by type are provided below:

IRS on loans (€/000)

DEBTOR COMPANY	COUNTERPARTY	TAKEN OUT	MATURITY	ORIGINAL NOTIONAL	31/12/2016		31/12/2016
					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	1,072	(26)
LU-VE S.P.A.	Banca Popolare di Bergamo S.p.A.	11/08/2014	16/10/2020	3,500	583	1,750	(38)
LU-VE S.P.A.	Banca Popolare di Bergamo S.p.A.	21/07/2015	29/06/2020	4,818	1,195	1,835	(50)
LU-VE S.P.A.	Intesa San Paolo S.p.A.	04/02/2016	31/03/2020	10,000	2,500	6,250	(32)

LU-VE S.P.A.	Cassa di Risparmio di Parma e Piacenza Spa	21/11/2012	22/11/2017	1,000	268	-	(1)
LU-VE S.P.A.	Cassa di Risparmio di Parma e Piacenza Spa	16/06/2015	31/12/2019	8,000	2,134	5,332	(87)
LU-VE S.P.A.	Deutsche Bank	29/10/2013	31/12/2018	1,000	200	200	(5)
LU-VE S.P.A.	Banca Nazionale del Lavoro	11/08/2014	16/10/2020	3,500	583	1,750	(42)
LU-VE S.P.A.	Banca Nazionale del Lavoro	20/07/2015	09/06/2020	17,778	4,444	6,667	(200)
LU-VE S.P.A.	Banca Nazionale del Lavoro	25/10/2016	21/09/2020	28,000	4,000	24,000	(34)
LU-VE S.P.A.	UniCredit Spa	17/09/2015	31/12/2020	10,000	2,500	7,500	(138)
				89,917	**18,764**	**56,356**	**(653)**

Currency options (€/000)

DEBTOR COMPANY	COUNTERPARTY	TYPE	HEDGED ELEMENT	TAKEN OUT	MATURITY	ORIGINAL NOTIONAL	31/12/2016		31/12/2016
							NOT. Short	NOT. M/L	FAIR VALUE
LU-VE S.P.A.	Deutsche Bank	Range TPF	€/$ Exchange Rate	22/12/2016	27/03/2018	2,277	1,708	569	(48)
LU-VE S.P.A.	Banca Nazionale del Lavoro	OPTION	€/$ Exchange Rate	26/07/2016	27/12/2017	2,277	2,277	-	35
LU-VE S.P.A.	Barclays	FX Option	€/$ Exchange Rate	30/10/2015	28/12/2016	1,102	82	-	4
LU-VE S.P.A.	Barclays	FX Option	€/$ Exchange Rate	19/11/2015	28/12/2016	3,674	274	-	10
LU-VE S.P.A.	Barclays	FX Option	€/$ Exchange Rate	28/01/2016	28/04/2017	922	922	-	25
LU-VE S.P.A.	Barclays	FX Option	€/$ Exchange Rate	10/03/2016	31/05/2017	1,167	1,167	-	32
LU-VE S.P.A.	Barclays	FX Option	€/$ Exchange Rate	17/06/2016	22/12/2017	2,372	2,372	-	53
LU-VE S.P.A.	Barclays	FX Option	€/$ Exchange Rate	18/10/2016	22/12/2017	2,846	2,846	-	33
						16,638	**11,648**	**569**	**144**

10. OTHER CURRENT ASSETS

The details of this item are shown below:

(€/000)	**31/12/2016**	**31/12/2015**	**Change**
From employees	18	4	14
Advances to suppliers	673	305	368
Advances on lease instalments	-	420	(420)
Receivables for tax consolidation	274	851	(577)
Other receivables	432	244	188
Total	**1,397**	**1,824**	**(427)**

11. CASH AND CASH EQUIVALENTS

The item, equal to €24,627 thousand as at 31 December 2016 (€36,517 thousand as at 31 December 2015), represented the asset balances in current accounts. Part of the increase for the year derived from new loans taken out (also see Note 9). Cash as at 31 December 2016 amounted to €17 thousand (€9 thousand as at 31 December 2015).

12. SHAREHOLDERS' EQUITY

The share capital amounted to €62,496 thousand and was broken down into 19,803,206 ordinary shares and 50,000 special shares, all with no nominal value. The share capital, fully subscribed and paid up, increased during the year by €0.3 following the conversion of warrants.

In 2016, dividends of €3,876 thousand were paid out from the reserves and retained earnings.

In the course of 2016, requests were received for the exercise of 50 warrants. As a result, the Company issued 3 ordinary shares, for a total equivalent value of €0.30, in accordance with the methods laid out in the Warrant Regulation. Following these exercises, there were 7,469,153 warrants outstanding as at 31 December 2016.

When the profit for the year 2016 is allocated, the Restricted reserve for unrealised exchange gains will be increased in the amount of €1,334,240.88, referring to exchange gains arising from the process of measuring items in foreign currency at year-end exchange rates. It will not be possible to distribute this reserve until the gains are realised.

The table provided below shows the possibility of use of the different items of shareholders' equity and the summary of uses in the last three years (in thousands of Euro):

(€/000)				Summary of uses in the last three years	
Nature/description	**Amount**	**Possibility of use**	**Available portion**	**to cover losses**	**for other reasons**
Share capital	62,496	-	-	-	(900)
Profit reserves:	-	-	-	-	-
Legal reserve	2,004	B	-	-	-
Extraordinary reserve	15,303	A,B,C	15,303	-	(7,291)
Revaluation reserve	273	A,B,C	273	-	-
Share premium reserve	24,762	A,B,C	24,762	-	(12,126)
Unrealised exchange gains reserve	109	-	-	-	-
FTA Reserve	1,198	-	-	-	-
Reserve for treasury shares	(992)	-	-	-	-
Post-employment benefits discounting reserve	(59)	-	-	-	-
Total	**105,094**	**-**	**40,338**	**-**	**(20,317)**
Non-distributable portion	64,756	-	-	-	-
Residual distributable portion	40,338	-	-	-	-

Key:
A: for capital increases
B: to cover losses
C: for distribution to shareholders

As at 31 December 2016, the Company held 99,300 treasury shares (0.5% of the share capital), recognised in the financial statements as an adjustment of shareholders' equity for a total value of roughly €992 thousand (for further details, see the Directors' Report).

13. LOANS

(€/000)	31/12/2016		31/12/2015	
	Current	**Non-current**	**Current**	**Non-current**
Medium/long-term bank loans	35,959	95,011	13,879	77,612
Total	**35,959**	**95,011**	**13,879**	**77,612**

As at 31 December 2016, bank loans amounted to €130,970 thousand.
The breakdown of this item, the evolution with respect to the previous year and the characteristics of the bank loans held by the Group are provided below (thousands of Euro):

DEBTOR COMPANY	COUNTERPARTY	LOAN TYPE	TAKEN OUT	MATURITY	RATE APPLIED	ORIGINAL AMOUNT	31/12/2016		31/12/2015	
							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 + 0.85%	1,185	286	119	405	117
LU-VE	Mediocredito Italiano S.p.A.	Mortgage Loan	26/07/2011	15/06/2016	6M Euribor + 0.80% (on €2500K EIB funding) - 1.90% (on €2500K BANK funding)	5,000	-	-	556	556
LU-VE	Cassa di Risparmio di Parma e Piacenza S.p.A.	Unsecured loan	04/12/2014	31/12/2019	3M Euribor + 0.60%	8,000	6,853	2,134	7,915	1,045
LU-VE	CREDITO EMILIANO	Unsecured loan	22/03/2013	30/03/2017	3M Euribor + 3.20%	3,000	-	-	-	-
LU-VE	Unione di Banche Italiane Società cooperativa per azioni	Mortgage Loan	18/07/2013	15/03/2020	6M Euribor + 0.95% (as of 03/2017 ==>0.90)	5,000	2,857	714	3,571	714
LU-VE	Deutsche Bank S.p.A.	Unsecured loan	05/11/2013	31/12/2018	3M Euribor + 2.80%	2,000	-	-	-	-
LU-VE	Banca Popolare di Bergamo S.p.A.	Unsecured loan	28/11/2014	28/11/2019	3M Euribor + 0.8%	5,000	3,040	1,000	4,023	980
LU-VE	Banca Nazionale del Lavoro S.p.A.	Unsecured loan	09/06/2015	09/06/2020	6M Euribor + 0.55% (PRICING GRID FROM 01/2017)	20,000	15,476	4,364	19,907	4,361
LU-VE	Banca Popolare di Bergamo S.p.A.	Unsecured loan	29/06/2015	29/06/2020	3M Euribor + 0.80%	6,000	4,210	1,195	5,394	1,182
LU-VE	UniCredit S.p.A.	Unsecured loan	17/09/2015	31/12/2020	6M Euribor + 0.60%	10,000	10,000	2,500	10,000	-
LU-VE	Banca Popolare di Milano	Mortgage Loan	25/09/2015	31/12/2021	3M Euribor + Spread from pricing grid LR >=1.5 = 1.05%; LR 1.5-0.5 = 0.95%; LR <0.5 = 0.85%	30,000	24,846	4,946	29,720	4,924
LU-VE	Mediocredito Italiano S.p.A.	Unsecured loan	29/10/2015	30/09/2020	6M Euribor + 0.65%	10,000	10,000	2,500	10,000	-
LU-VE	Banca Popolare di Sondrio Società Cooperativa per Azioni	Unsecured loan	24/06/2016	31/10/2017	Average of 3M Euribor prev. quarter + 0.05% + 0.20% spread ==> minimum 0.20%	5,000	4,001	4,001	-	-
LU-VE	Banca Nazionale del Lavoro S.p.A.	Unsecured loan	20/09/2016	20/09/2020	3M Euribor floor 0% + 0.45%	30,000	29,889	8,000	-	-
LU-VE	Banca Popolare di Bergamo S.p.A.	Unsecured loan	30/09/2016	30/09/2021	3M Euribor + 0.40%	10,000	9,505	1,986	-	-
LU-VE	Banca Popolare di Sondrio Società Cooperativa per Azioni	Unsecured loan	15/12/2016	31/01/2020	Average of 3M Euribor prev. quarter + 0.30% spread ==> minimum 0.30%	10,000	10,000	2,492	-	-
LU-VE	Banca Popolare di Milano	Mortgage Loan	15/04/2014	31/12/2019	3M Euribor + 3.05% (pricing grid LR>=2=3.35%; LR 2-1.75=3.2%; LR 1.75-1.25=3.05%; LR 1.25-1=2.8%; LR 1-0.75=2.55%; LR<0.75=2.3%)	15,400	-	-	-	-
LU-VE	Banca Popolare di Milano	Mortgage Loan	23/10/2008	30/09/2016	3M Euribor + 1.50% (pricing grid LR>=3=2%; LR 3-2.5=1.85%; LR 2.5-2.2=1.7%; LR 2.2-1.5=1.5%; LR <1.5=1.4%)	12,800	-	-	-	-
LU-VE	GE Capital Interbanca S.p.A.	Mortgage Loan	16/10/2013	16/10/2020	6M Euribor + 2.85%	7,000	-	-	-	-
						Total	**130,963**	**35,951**	**91,491**	**13,879**

In relation to certain loan agreements, LU-VE committed to respecting specific financial parameters (covenants). For the loans still outstanding as at 31 December 2016, the details of loans that require financial covenants to be met are provided below (in thousands of Euro):

DEBTOR COMPANY	COUNTERPARTY	LOAN TYPE	TAKEN OUT	MATURITY	RATE APPLIED	FINANCIAL COVENANTS	ORIGINAL AMOUNT
LU-VE	Cassa di Risparmio di Parma e Piacenza S.p.A.	Unsecured loan	04/12/2014	31/12/2019	3M Euribor + 0.60%	NFP/EBITDA <= 2.36 Dec14; <=3.25 Jun15;<= 1.80 Dec15; <=2.85 Jun16;<= 1.65 Dec16; <=2.75 Jun17;<= 1.50 Dec17; <=2.50 Jun18;<= 1.50 Dec18; <=2.50 Jun19; NFP/SE <=1.0 Dec14;<=0.85 Dec15;<=0.75 Dec16;<=0.75 Dec17;<=0.65 Dec18	8,000
LU-VE	Banca Popolare di Bergamo S.p.A.	Unsecured loan	28/11/2014	28/11/2019	3M Euribor + 0.8%	NFP/EBITDA <=3; NFP/SE <=1.5; EBITDA/net financial expense <= 4	5,000
LU-VE	Banca Nazionale del Lavoro S.p.A.	Unsecured loan	09/06/2015	09/06/2020	6M Euribor + 0.55% (PRICING GRID FROM 01/2017)	NFP/EBITDA <= 2.5; NFP/SE <= 1.5	20,000
LU-VE	Banca Popolare di Bergamo S.p.A.	Unsecured loan	29/06/2015	29/06/2020	3M Euribor + 0.80%	NFP/EBITDA <=3; NFP/SE <=1.5; EBITDA/net financial expense <= 4	6,000
LU-VE	Banca Popolare di Milano	Mortgage Loan	25/09/2015	31/12/2021	3M Euribor + Spread from pricing grid LR >=1.5 = 1.05%; LR 1.5-0.5 = 0.95%; LR <0.5 = 0.85%	NFP/EBITDA at 30/06 <= 3; NFP/EBITDA at 31/12 <= 2.5	30,000
LU-VE	Mediocredito Italiano S.p.A.	Unsecured loan	29/10/2015	30/09/2020	6M Euribor + 0.65%	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 floor 0% + 0.45%	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 + 0.40%	NFP/EBITDA <=3; NFP/SE <=1.5; EBITDA/net financial expense <= 5	10,000

Note:
NFP: net financial position;
SE: shareholders' equity;
DSCR: debt service coverage ratio
LR: leverage ratio (NFP/Ebitda)
GR: gearing ratio (NFP/SE)

The following changes took place in loans in 2016:
- unsecured medium/long-term loan for a total of €5,000 thousand taken out from Banca Popolare di Sondrio Società Cooperativa per Azioni, maturing on 31 October 2017, with repayment in quarterly increasing instalments and an interest rate equal to the three-month Euribor plus a spread. The loan did not require the issue of guarantees and is not subject to compliance with financial covenants;
- unsecured medium/long-term loan for a total of €30,000 thousand taken out from Banca Nazionale del Lavoro S.p.A., maturing on 20 September 2020, with repayment in equal quarterly instalments and an interest rate equal to the three-month Euribor plus a spread. The loan did not require the issue of guarantees and is not subject to compliance with financial covenants;
- unsecured medium/long-term loan for a total of €10,000 thousand taken out from Banca Popolare di Bergamo S.p.A., maturing on 30 September 2021, with repayment in increasing quarterly instalments and an interest rate equal to the three-month Euribor plus a spread. The loan did not require the issue of guarantees and is not subject to compliance with financial covenants;
- unsecured medium/long-term loan for a total of €10,000 thousand taken out from Banca Popolare di Sondrio Società Cooperativa per Azioni, maturing on 31 January 2020, with repayment in quarterly increasing instalments and an interest rate equal to the average of the three-month Euribor plus a spread. The loan did not require the issue of guarantees and is not subject to compliance with financial covenants;
- repayment of the Mediocredito Italiano S.p.A. loan for €556 thousand taken out on 26 July 2011 and maturing on 15 June 2016.

During the year, repayments amounted to €15,520 thousand.

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

All outstanding bank loans were denominated in Euro, and were floating rate and pegged to the Euribor. Note 33 below provides the information on financial risks required by IFRS 7.

As at 31 December 2016, the Company provided industrial properties and the attached land as collateral for payables recognised in the financial statements in the amount of €55,714 thousand. These are mortgages to guarantee medium-term loans taken out from different credit institutions for a total original amount of €35,000 thousand, currently amounting to €27,857 thousand.

14. PROVISIONS

(€/000)	31/12/2015	Provisions	Uses	Release of excess portion	31/12/2016
Provision for agents' leaving indemnities	25	-	-	-	25
Product warranty provision	942	-	(16)	-	926
Total	**967**	**-**	**(16)**	**-**	**951**

The provision for agents' leaving indemnities covers amounts to be paid out to agents in the event of termination of the agency relationship.
The product warranty provision relates to 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. The effect was not incorporated in the financial statements as it was deemed negligible.

15. EMPLOYEE BENEFITS

Employee benefits amounted to €992 thousand, a net increase of €12 thousand compared to 31 December 2015. The entire amount of this item referred to the provision for post-employment benefits, which includes substantially the post-employment benefits accrued by personnel employed as at 31 December, net of advances paid out to employees.
In accordance with what is established by domestic regulations, the amount due to each employee accrues based on services rendered and is disbursed when the employee leaves the company. The amount due upon termination of the employment relationship is calculated on the basis of its duration and the taxable wages of each employee. The liability is revalued each year on the basis of the official cost of living index and legal interest.
The relative regulations were supplemented by Italian Legislative Decree no. 252/2005 and Law no. 296/2006 (2007 Financial Act), which established that for companies with at least 50 employees the amounts accrued starting in 2007 would be allocated to the INPS Treasury Fund or to supplementary pension plans, at the choice of the employee, and would therefore become "Defined contribution plans".
In application of IAS 19, the provision for post-employment benefits is recalculated using the actuarial valuation methodology with the support of an external expert, and adjusted in relation to the occurrence of events which require its updating.
The date of the last actuarial valuation was 31 December 2016.
The breakdown and changes in the item as at 31 December 2016 are shown below:

(€/000)	31/12/2016	31/12/2015
Liabilities as at 1 January	**980**	**1,098**
Provisions	-	-
Financial expense	16	16
Payments made	(156)	(73)
Transfers in/out	125	-
Actuarial (gains)/losses	27	(61)
Liabilities as at 31 December	**992**	**980**

The provision for post-employment benefits changed primarily based on uses for the year to provide advances and/or payments to former personnel.
The equity adjustment for actuarial gains and losses includes an actuarial loss of €27 thousand, calculated as follows:

- Actuarial loss deriving from the change in the main actuarial assumptions used as at 31 December 2016 with respect to the previous valuation as at 31 December 2015: €48 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: €21 thousand.

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

The amounts recognised in the income statement are included in "Personnel costs" (Note 26).

The main financial and demographic assumptions used at the date of the last reference valuation of 31 December 2016 are shown below:

FINANCIAL ASSUMPTIONS	31/12/2016	31/12/2015
Discount rate	1.31%	2.03%
Inflation	1.50%	1.50%
Wage increase rate	1%	1%
Salary increase rate	2.50%	2.50%

DEMOGRAPHIC ASSUMPTIONS	31/12/2016	31/12/2015
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 requirements

16. OTHER FINANCIAL LIABILITIES

The details of this item are shown below:

(€/000) M/L term financial liabilities

	31/12/2016	31/12/2015	Change
Lease payables	12	64	(52)
Total	**12**	**64**	**(52)**

(€/000) Short-term financial liabilities	31/12/2016	31/12/2015	Change
Cash pooling	33,652	36,099	(2,447)
Fair value of derivatives	653	1,102	(449)
Lease payables	51	50	1
Total	**34,356**	**37,251**	**(2,895)**

Cash pooling represented payable balances for the Company relating to the Group's centralised treasury. The Fair value of derivative instruments represents the negative fair value of derivatives on lending rates and on currencies as at 31 December 2016.

17. TRADE PAYABLES

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

(€/000) Country	31/12/2016	31/12/2015	Change
Italy	17,974	19,400	(1,426)
EU Countries	2,146	2,924	(778)
Other countries	626	449	177
Total	**20,746**	**22,773**	**(2,027)**

The average payment terms have not changed since the previous year. As at 31 December 2016, there were no past-due payables of significant amounts or payables maturing in more than 5 years.

18. TAX PAYABLES

(€/000)	31/12/2016	31/12/2015	Change
Tax withholdings	624	524	100
Total	**624**	**524**	**100**

19. DEFERRED TAX ASSETS AND LIABILITIES

The details of this item are shown below:

(€/000)	31/12/2016	31/12/2015
Deferred tax assets	1,453	1,829
Deferred tax liabilities	(8,953)	(9,498)
Net position	**(7,500)**	**(7,669)**

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.

(€/000)	TAX LOSSES	DEPREC. /AMORT. AND LEASING	FAIR VALUE OF DERIVA TIVE INSTRU	MERGER GROSS UP	ACTUAR IAL VALUAT ION OF POST- EMPLOY	PROVISI ONS AND VALUE ADJUST MENTS	OTHER DIFFERE NCES	TOTAL

			MENTS		MENT BENEFIT S			
31/12/2014	**-**	**7,158**	**(284)**	**4,372**	**(24)**	**(633)**	**(418)**	**10,171**
In income statement	21	(665)	14	(1,409)	(1)	86	847	(1,107)
In shareholders' equity	(164)	(281)	-	-	17	-	(967)	(1,395)
Other	-	-	-	-	-	-	-	-
31/12/2015	**(143)**	**6,212**	**(270)**	**2,963**	**(8)**	**(547)**	**(538)**	**7,669**
In income statement	154	(344)	250	(424)	(2)	(272)	780	142
In shareholders' equity	-	-	-	-	(7)	-	70	63
Reclassification	-	(4,452)	-	4,927	-	-	(475)	-
Other	(11)	-	(27)	-	-	-	(336)	(374)
31/12/2016	**-**	**1,416**	**(47)**	**7,466**	**(18)**	**(819)**	**(499)**	**7,500**

As at 31 December 2016, deferred tax assets referred to:
- the fair value of derivative instruments on exchange rates and interest rates, subscribed by the Company;
- the deferred tax impact of the actuarial valuation of post-employment benefits following the application of IAS 19;
- tax differences on increases in the provisions;
- other tax differences, regarding net temporary recoveries such as unpaid remuneration, exchange differences and other.

As at 31 December 2016, deferred tax liabilities referred to:
- tax differences on depreciation, amortisation and leasing, regarding primarily the application of IAS 17, with respect to Italian GAAP;
- the recognition of taxes on the 2008 merger deficit allocated to trademarks, buildings, land, plant and equipment.

21. OTHER CURRENT LIABILITIES

The details of this item are shown below:

(€/000)	31/12/2016	31/12/2015	Change
To personnel	2,846	1,691	1,155
To social security institutions	1,234	1,147	87
To Directors and statutory auditors	1,044	687	357
Other current payables	31	158	(127)
Total	**5,155**	**3,683**	**1,472**

In the beginning of 2017, payables to personnel and social security institutions were paid in accordance with the relative due dates.

20. NET FINANCIAL POSITION

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

(€/000)		31/12/2016	31/12/2015	Change
A.	Cash (Note 11)	17	9	8
B.	Current account asset balances (Note 11)	24,610	36,508	(11,898)
C.	Current financial assets (Note 9)	80,256	71,375	8,881
D.	**Liquidity (A+B+C)**	**104,883**	**107,892**	**(3,009)**
E.	Current bank payables (Note 13)	-	-	-
F.	Current portion of loans (Note 13)	35,959	13,879	22,080
G.	Other current financial liabilities (Note 16)	34,356	37,251	(2,895)
H.	**Current financial debt (E+F+G)**	**70,315**	**51,130**	**19,185**
I.	**Net current financial debt (H-D)**	**(34,568)**	**(56,762)**	**22,194**
J.	Other non-current financial assets (Note 4)	(14,552)	(13,452)	(1,100)
K.	Non-current bank payables (Note 13)	95,011	77,612	17,399
L.	Other non-current financial liabilities (Note 15)	12	64	(52)
M.	**Non-current net financial debt (J+K+L)**	**80,471**	**64,224**	**16,247**
N.	**Net financial debt (I+M)**	**45,903**	**7,462**	**38,441**

The statement of cash flows shows changes in liquidity (letter D. of this statement).

Comment on the main items of the income statement

22. REVENUES

In 2016, revenues from sales amounted to €71,229 thousand, an increase of 6% compared to the previous year (€67,220 thousand as at 31 December 2015).

Revenues by product family

PRODUCTS	€ /000	%	€ /000	%	Delta	Delta %
	2016		2015			
Air Cooled Equipment	58,941	82.75%	55,128	82.01%	3,813	6.92%
Heat exchangers	12,288	17.25%	12,092	17.99%	196	1.62%
TOTAL	**71,229**	**100.00%**	**67,220**	**100.00%**	**4,009**	**5.96%**

Revenues by geographical area

GEOGRAPHICAL AREA	€ /000	%	€ /000	%	Delta	Delta %
	2016		2015			
Italy	21,944	30.81%	18,512	27.54%	3,432	18.54%
France	8,614	12.09%	7,095	10.56%	1,519	21.41%
Spain	4,269	5.99%	4,488	6.68%	-219	-4.89%
Germany	4,883	6.86%	4,149	6.17%	734	17.69%
Russian Fed.	3,233	4.54%	3,907	5.81%	-674	-17.25%
Poland	2,110	2.96%	3,084	4.59%	-974	-31.58%
United Kingdom	2,649	3.72%	2,765	4.11%	-116	-4.20%
Austria	2,898	4.07%	2,716	4.04%	182	6.71%
Hong Kong	-	0.00%	2,209	3.29%	-2,209	-100.00%
Czech Rep.	2,224	3.12%	2,192	3.26%	32	1.48%
Sweden	2,617	3.67%	2,121	3.16%	496	23.38%
Australia	-	0.00%	1,358	2.02%	-1,358	-100.00%
The Netherlands	1,423	2.00%	1,240	1.84%	183	14.79%
Ukraine	996	1.40%	1,211	1.80%	-215	-17.74%
Norway	1,350	1.90%	1,027	1.53%	323	31.41%
Other countries	12,019	16.87%	9,147	13.61%	2,872	31.40%
TOTAL	**71,229**	**100%**	**67,220**	**100%**	**4,009**	**5.96%**

In 2016, sales in the air conditioning sector decreased by around €1,600 thousand compared to 2015, while sales in the refrigeration sector (which accounted for more than 60% of the total) saw growth of 8% compared to 2015. Sales to the Group's sales companies grew significantly (+13%) while the power generation segment remained in line with the previous year.

23. OTHER INCOME

The details of this item are shown below:

(€/000)	2016	2015	Change
Royalty income	4	116	(112)
Rent income	62	313	(251)
Other income	45	-	45
Total	**111**	**429**	**(318)**

24. PURCHASES OF MATERIALS

In 2016, the cost for the acquisition of materials rose from €32,685 thousand to €33,388 thousand (increase of €703 thousand, equal to around 2.15%). The increase was largely due to the increase in sales volumes.

25. SERVICES

(€/000)	2016	2015	Change
Expenses for energy, telephone and telex	1,319	1,240	79
General and advisory expenses	5,260	5,414	(154)
Advertising and promotional expenses	549	199	350
Transport expenses	1,434	1,246	188
Maintenance expenses	1,272	1,077	195
External processing	2,292	2,435	(143)
Commissions	363	275	88
Remuneration to the corporate bodies	1,409	804	605
Other costs for services	1,358	932	426
Costs for use of third-party assets	535	545	(10)
Total	**15,791**	**14,166**	**1,625**

The increase in advertising and promotional expenses was due to the fact that the two main sector trade fairs are held in even-numbered years.
The decline in costs for external processing was caused by the merger with Metalluve S.r.l., which allowed for the insourcing of production activities.
The increase in remuneration to other corporate bodies was primarily linked to the rise in directors' fees.
Other costs for services rose due to the increase in costs for inventory management services and due to personnel training courses.

Details on the fees paid to the corporate bodies are provided below:

(€/000)	2016	2015	Change
Directors' fees	1,321	742	579
Board of Statutory Auditors fees	88	62	26
Total	**1,409**	**804**	**605**

Auditing consideration disclosure

Pursuant to article 149-duodecies of the Consob issuer regulations, a summary table of the consideration paid for the auditing provided by the company Deloitte & Touche S.p.A., which was engaged to audit the financial statements of the Company as well as the consolidated financial statements, is provided below. In 2016, no services aside from auditing were provided:

Type of Services	Service provider	Recipient	Fees (€/000)
Auditing	Deloitte & Touche	LU-VE S.p.A.	100

The item "auditing" includes consideration for the periodic audits required under art. 155, paragraph 1 letter a) of the Consolidated Law. This amount is not inclusive of expenses and VAT.
The table below shows the consideration for the auditing provided by Deloitte & Touche S.p.A. and by the Deloitte network to the subsidiaries of LU-VE S.p.A.:

Type of Services	Service provider	Recipient	Fees (€/000)
Auditing	Deloitte & Touche	Italian subsidiaries	70
	Deloitte Network	Foreign subsidiaries	173

26. PERSONNEL COSTS

(€/000)	2016	2015	Change
Wages and salaries	10,937	9,466	1,471
Social security costs	3,497	3,124	373
Post-employment benefits	723	592	131
Other personnel costs	5	372	(367)
Total	**15,162**	**13,554**	**1,608**

The average number of LU-VE S.p.A. employees was 362 in 2016.
As at 31 December 2016, the number of Company employees came to 365 (240 blue-collar, 116 white-collar and middle managers, 9 executives), against 311 in 2015 (194 blue-collar, 110 white-collar and middle managers, 7 executives).
The average number of temporary workers was 24 in 2016. As at 31 December 2016, the number of temporary workers came to 20, against 7 in 2015.

27. OTHER OPERATING COSTS

(€/000)	2016	2015	Change
Losses and write-downs on trade receivables	1,261	143	1,118
Non-income taxes	304	317	(13)
Other operating costs	230	70	160
Total	**1,795**	**530**	**1,265**

Write-downs on trade receivables rose mainly due to the provision recognised on receivables due from LU-VE Pacific pty Ltd, Note 3.
Non-income taxes included mainly taxes on owned property.

28. FINANCIAL INCOME

(€/000)	2016	2015	Change
Dividends from consolidated companies	6,000	4,990	1,010
Interest income	520	537	(17)
Other income	1,898	199	1,699
Total	**8,418**	**5,726**	**2,692**

Dividends distributed amounted to €4,500 thousand from SEST S.p.A. and €1,500 thousand from HTS s.r.o. The item "Other income" mainly includes the returns on investments of liquidity (see Note 9).

29. FINANCIAL EXPENSE

(€/000)	2016	2015	Change
Interest expense to banks	630	1,677	(1,047)
Interest expense to other lenders	421	865	(444)
Other financial expense	1,730	1,328	402
Total	**2,781**	**3,870**	**(1,089)**

"Interest expense to banks" decreased due to the reduction in interest rates compared to 2015.
"Other financial expense" includes expense deriving from the measurement at fair value of investments of liquidity (see Note 9).

30. EXCHANGE GAINS AND LOSSES

In 2016, LU-VE S.p.A. realised net exchange gains of €1,229 thousand (net gains of €101 thousand in 2015). Exchange gains include roughly €1,100 thousand primarily arising following the appreciation of the Euro against the Indian Rupee, the accounting currency of the LU-VE INDIA CCD.

31. INCOME TAXES

(€/000)	2016	2015	Change
Current income taxes	756	227	529
Deferred income taxes	142	(1,107)	1,249
Previous years	(475)	(100)	(375)
Total	**423**	**(980)**	**1,403**

In 2016, taxes relating to previous years referred primarily to tax refunds obtained during the year in response to requests submitted in previous years and not accounted for as their recoverability was uncertain.

The reconciliation between the tax charge recognised in the financial statements and the theoretical tax charge, determined on the basis of theoretical tax rates in force in Italy, is shown below (in thousands of Euro):

RECONCILIATION OF IRES THEORETICAL TAX CHARGE			
Pre-tax profit (loss)	**7,666**	**27.50%**	**2,108**
+ Non-deductible amortisation and depreciation	81	0.29%	22
+ Costs for motor vehicles, telephony and food service	162	0.58%	44
+ Non-deductible local taxes	190	0.68%	52
+ Other permanent upward adjustments	51	0.18%	14
- Non-taxable dividends	(5,700)	-20.45%	(1,568)
- Support for economic growth (ACE)	0	0.00%	0
- Deductible IRAP	(26)	-0.09%	(7)
- Other permanent downward adjustments	(86)	-0.31%	(24)
Actual tax charge	**2,338**	**8.39%**	**641**
+ Temporary upward adjustments	4,687	16.81%	1,289
- Temporary downward adjustments	(5,219)	-18.72%	(1,435)
Current tax charge	**1,806**	**6.48%**	**495**

RECONCILIATION OF IRAP THEORETICAL TAX CHARGE			
Difference between values and costs of production	**7,666**	**3.90%**	**299**
+ Non-deductible amortisation and depreciation	73	0.04%	3
+ Non-deductible local taxes	238	0.12%	9
+ Non-deductible labour costs	2,752	1.40%	107
+ Bad debt provision	1,261	0.64%	49
+ Other permanent upward adjustments	0	0.00%	0
- Permanent downward adjustments	(6,864)	-3.49%	(268)
Actual tax charge	5,126	2.61%	199
+ Temporary upward adjustments	2,198	1.12%	86
- Temporary downward adjustments	**(679)**	**-0.35%**	**(26)**
Current tax charge	6,645	3.38%	259

Theoretical taxes were determined by applying the IRES tax rate in force, equal to 27.50%, to the pre-tax profit.

As at 31 December 2016, there were no tax disputes.

32. DIVIDENDS

In June 2016, dividends of €3,876 thousand were distributed.
With respect to the year under way, the Directors proposed the payment of a €0.22 dividend per share. This dividend is subject to the approval of the shareholders at the annual meeting called for the approval of the separate financial statements and therefore it was not included under liabilities in these financial statements.
The proposed dividend will be payable on 20 April 2017 (ex-dividend date 18 April and record date 19 April).

33. INFORMATION ON FINANCIAL RISKS

Categories of financial instruments

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

(€/000)	**31/12/2016**	**31/12/2015**
Financial assets		
Amortised cost		
Cash and cash equivalents	24,627	36,517
Trade receivables	29,970	27,368
Current financial assets	80,256	71,375
Non-current financial assets		
- LU-VE India CCD	33,872	-
- Intercompany loans	14,552	13,452
Fair Value		
Trading derivatives	144	157
Financial liabilities		
Amortised cost		
Loans	164,685	127,704
Trade payables	20,746	22,773
Fair Value		
Trading derivatives	653	1,102

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

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

Credit risk management

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

Exchange rate risk management

Due to its ordinary operations, the Company is exposed to the risk of fluctuations in the exchange rates of currencies other than the reporting currency in which commercial and financial transactions are expressed. In terms of acquisitions, the main currency to which the company is exposed is USD (currency to which the cost of the main raw materials is linked): indeed, raw materials in the reference

markets are quoted in USD and the cost is converted into euros by applying the USD/Euro exchange rate for the day to the price in dollars; thus, exchange rate risk is borne by the buyer.
Financially, the main currency to which the Company is exposed is the INR, the accounting currency of the CCD described previously in the introduction to these Notes.

Sensitivity analysis
With reference to financial assets and liabilities in foreign currency as at 31 December 2016, a theoretical and immediate revaluation of the euro by 10% compared to other currencies would have entailed a loss of €3,538 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 2016, a theoretical increase in interest rates by 100 basis points with respect to the exact interest rates in force at the same date, with all other variables remaining the same, would have entailed an increase in financial expense equal to €2,588 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 2016 the company has unused short-term credit lines totalling roughly €40 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 2016 is provided below by maturity:

As at 31 December 2016 **(€/000)**	**Carrying amount**	**Contractual cash flows**	**Within 1 year**	**From 1 to 5 years**	**More than 5 years**
Bank loans	130,970	132,723	36,694	96,029	-
Advances on invoices	-	-	-	-	-
Finance lease	63	64	52	12	-
Financial Liabilities	**131,033**	**132,787**	**36,746**	**96,041**	**-**
Trade payables	20,746	20,746	20,746	-	-
Total	**151,779**	**153,533**	**57,492**	**96,041**	**-**

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

Fair value hierarchy

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

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

The table below shows the assets and liabilities measured at fair value as at 31 December 2016, by fair value hierarchy level.

(€/000)	***Level 1***	***Level 2***	***Level 3***	***Total***
Other financial assets	-	144	-	144
Other financial liabilities	-	653	-	653
Total liabilities	**-**	**509**	**-**	**509**

34. RELATED PARTY TRANSACTIONS

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

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

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

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

Balance sheet and income statement items relating to transactions between the Parent Company and related parties as a percentage of the total are shown below.

Intercompany	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	496	31	-	-	1,196	25	-	-
SEST SPA	591	45	-	532	203	4	-	33
SEST-LUVE-POLSKA	214	67	-	33,120	200	137	-	388
TGD	217	110	4,264	-	112	110	108	-
OOO SEST LUVE	480	-	-	-	920	-	-	-
HTS SRO	5,254	147	2,420	-	1,384	174	64	-
LUVE FRANCE	68	108	-	-	5,811	198	-	-
LUVE DEUTSCHLAND	593	23	-	-	1,946	230	-	-
LUVE IBERICA	3,007	50	1,556	-	4,211	17	5	-
LUVE PACIFIC	3,172	133	-	-	607	-	-	-
LUVE CHANGSHU	1,758	13	-	-	202	4	-	-
LUVE ASIA PACIFIC HK	1,066	166	6,575	-	7	25	223	-
LUVE SWEDEN AB	4,970	93	5,823	-	2,568	73	44	-
MANIFOLD SRL	263	-	-	-	30	435	-	-
LUVE INDIA	20	39	33,872	-	-	41	-	-
LUVE DIGITAL SRL	-	58	-	-	-	-	-	-
SPIROTECH LTD	-	-	-	-	-	-	-	-
TOTAL	**22,169**	**1,083**	**54,510**	**33,652**	**19,397**	**1,473**	**444**	**421**

Third-Party Companies	Trade receivables	Trade payables	Financial receivables	Financial payables	Trade revenues	Trade costs	Financial revenues	Financial costs
MGPE (*)	-	-	-	-	-	281	-	-
FINAMI SRL	-	31	-	-	-	12	-	-
VITALE-NOVELLO & CO SRL	-	12	-	-	-	40	-	-
TOTAL	-	**43**	-	-	-	**333**	-	-

(*) Trade costs referring to MGPE were accounted for in the equity investment in the amount of €268 thousand.

35. SHARE-BASED PAYMENTS

As at 31 December 2016, there were no share-based incentive plans in favour of Company Directors or employees.

36. COMMITMENTS

As at 31 December 2016, there were sureties in favour of banks that granted credit lines to our subsidiaries totalling €1,769 thousand (€3,859 thousand as at 31 December 2015). There were also sureties in favour of banks that granted guarantees to certain customers of the Company (performance bond) totalling €489 thousand (€359 thousand as at 31 December 2015).
As at 31 December 2016, third-party goods worth a total of €1,155 thousand were held temporarily in the Company warehouses (€1,483 thousand as at 31 December 2015).

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

Company name	Registered office	% stake	Share capital	Shareholders' equity as at 31/12/2016		Profit (loss) for the year 2016		Cost of the equity investment	
Direct subsidiaries:									
SEST S.p.A.	Limana (BL)	100.00%	EUR 1,000,000	EUR	24,710,596	EUR	1,794,114	EUR	44,894,885
Tecnair LV S.p.A.	Uboldo (VA)	79.90%	EUR 200,000	EUR	2,539,220	EUR	9,705	EUR	1,043,108
Heat Transfer Systems s.r.o. (HTS)	Novosedly (Czech Rep.)	100.00%	CZK 133,300,000	EUR	12,088,809	EUR	1,824,313	EUR	9,538,657
LU-VE Sweden AB	Asarum (Sweden)	100.00%	SEK 50,000	EUR	-2,633,485	EUR	837,843	EUR	390,448
LU-VE France S.a.r.l.	Lyon (France)	86.06%	EUR 84,150	EUR	1,261,433	EUR	117,440	EUR	889,541
LU-VE Pacific pty Ltd	Thomastown (Australia)	75.50%	AUD 200,000	EUR	-1,855,507	EUR	-469,634	EUR	1
LU-VE Deutschland GmbH	Stuttgart (Germany)	100.00%	EUR 230,000	EUR	-71,894	EUR	-303,919	EUR	173,001
LU-VE Iberica S.l.	Madrid (Spain)	85.00%	EUR 180,063.23	EUR	-709,798	EUR	322,786	EUR	145,285
LU-VE Asia Pacific Limited	Wan Chai (Hong Kong)	100.00%	HKD 10,000	EUR	-1,769,978	EUR	-627,474	EUR	13,175
LU-VE INDIA CORPORATION PRIVATE LTD	New Delhi (India)	99.98%	INR 100,000	EUR	-21,347	EUR	-20,609	EUR	1,565,910
LuveDigital S.r.l.	Uboldo (VA)	50.00%	EUR 10,000	EUR	10,690	EUR	690	EUR	5,000
MANIFOLD S.r.l.	Uboldo (VA)	99%	EUR 10,000	EUR	16,318	EUR	6,318	EUR	9,900
Indirect subsidiaries:									
SEST-LUVE-Polska SP.z.o.o. (95% owned by SEST S.p.A.)	Gliwice (Poland)	95.00%	PLN 16,000,000	EUR	42,142,981	EUR	10,489,947	EUR	4,134,121
« OOO » SEST LUVE (95% owned by SEST S.p.A.)	Lipetsk (Russia)	95.00%	RUB 136,000,000	EUR	8,365,652	EUR	3,816,435	EUR	3,770,723
LU-VE HEAT EXCHANGERS Ltd (wholly-owned by LU-VE Asia Pacific Limited)	Changshu (China)	100.00%	CNY 38,211,761	EUR	2,404,434	EUR	-516,499	HKD	46,402,165
Thermo Glass Door S.p.A.	Travacò Siccomario (PV)	85.00%	EUR 150,000	EUR	155,131	EUR	5,131	EUR	7,032,600
Spirotech Ltd 95% owned by Lu-VE India	New Delhi (India)	95.00%	INR 25,448,050	EUR	16,157,256	EUR	375,873	INR	2,397,133,835

38. GENERAL INFORMATION ABOUT THE PARENT COMPANY

Registered office:		Via Vittorio Veneto, 11 21100 Varese	
Contact information:	Tel:	+39 02 - 96716.1	
	Fax:	+39 02 - 96780560	
	E-mail:	info@luve.it	
	Website:	www.luve.it	
Tax information:	VARESE Economic and Administrative Index		191975
	Tax Code	01570130128	
	VAT no.	01570130128	

Report of the Board of Statutory Auditors to the Shareholders' Meeting of LU-VE S.p.A.

pursuant to art. 2429, paragraph 2 of the Italian Civil Code

Dear Shareholders,

In this report, the Board of Statutory Auditors of LU-VE S.p.A. ("LUVE" or "the Company" or "the Parent Company") reports on the supervisory activity carried out in the course of 2016, as well as with regard to the relative outcomes.

This report, prepared pursuant to and in accordance with art. 2429 of the Italian Civil Code, is broken down into the following sections:

1. Supervisory activity regarding compliance with the law and the articles of association, as well as respect for the principles of proper management;
2. Supervisory activity regarding related party transactions;
3. Supervisory activity on the organisational structure and on the administrative/accounting system;
4. Proposals regarding the separate financial statements and the consolidated financial statements of the Group as at 31 December 2016;
5. Conclusions.

1. Supervisory activity regarding compliance with the law and the articles of association, as well as respect for the principles of proper management

In the year ending on 31 December 2016, the Board of Statutory Auditors carried out the supervisory activity required by law, inspired by the rules of conduct of the Board of Statutory Auditors recommended by the National Board of Accountants and Accounting Experts.

With respect to the activity carried out throughout 2016, the Board of Statutory Auditors reports the following:

a) it held five board meetings in which all members in office participated;
b) it held meetings with representatives of the Company, with representatives of Deloitte & Touche S.p.A. (the "Auditing Firm") and with the Supervisory Body, in the presence of the Administration and Finance Director, meetings in which information was reciprocally exchanged for the performance of their respective duties;
c) during meetings with the corresponding Bodies of the subsidiaries, with which the Board of Statutory Auditors had a close relationship, no significant information emerged that would require reporting herein;

d) it requested and obtained documents and information deemed relevant from the executive directors and the managers of other company functions, when deemed necessary.

During LUVE Board of Directors meeting, the Board of Statutory Auditors was informed by the directors on general business performance, its foreseeable outlooks and the transactions with the greatest impact on the profit and loss, cash flows and financial position carried out by the Company or by its subsidiaries in the course of 2016.

The Board of Statutory Auditors participated in Board of Directors meetings and the Shareholders' Meeting during which, with respect to the transactions approved and on the basis of the information obtained, violations of the law and the articles of association were not identified, nor were transactions that were clearly imprudent, risky, in potential conflict of interests or such so as to compromise the integrity of the company's assets.

During the supervisory activity carried out, as well as in the course of meetings and contact made with the managers of the Auditing Firm, the Board of Statutory Auditors acknowledges that no evidence was found of events that were objectionable or worth reporting.

The Board of Statutory Auditors also received the technical information it requested regarding the accounting standards applied, as well as the criteria for accounting for the most significant events impacting profit and loss, cash flows and the financial position. The separate and consolidated financial statements for 2016 of the LUVE 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. For purposes of the comparison, the separate and consolidated financial statements for 2015 were prepared in accordance with the same standards.

The Board of Statutory Auditors also discloses that:

- it did not have to intervene due to omissions of the management body pursuant to art. 2406 of the Italian Civil Code; - no complaints pursuant to art. 2408 of the Italian Civil Code were received; - no complaints pursuant to art. 2409, paragraph 7 of the Italian Civil Code were made.

2. Supervisory activity regarding related party transactions

The Company exercises management and coordination activities for its subsidiaries. The transactions between Luve S.p.A. and the group companies are in the interests of the company and are governed by arm's length conditions, taking into account the quality and specific nature of the services provided.

Adequate disclosure of these transactions is provided in the documents accompanying the consolidated and separate financial statements.

The Company's transactions pursuant to art. 2391-bis of the Italian Civil Code were approved in compliance with regulations in force, the internal procedure for the assessment and approval of related party transactions established in compliance with the provisions of art. 13 of the AIM Regulations and the Provisions on Transactions with Related Parties issued by Borsa Italiana and with the principles established by article 10 of Consob Resolution 17221/2010, and adequate and prompt disclosure was provided to the public when required.

3. Supervisory activity on the adequacy of the organisational structure and the administrative/accounting system

The Board of Statutory Auditors supervised to ensure that the organisational structure was adequate with respect to the size and structure of the company and the objectives pursued, as well as suitable to allow for compliance with regulations in force.

No particular criticalities arose. We found that the Company adjusted its organisational structure, in order to meet requirements set forth for the announced listing in the MTA market. In particular, the Company adopted an organisational model compliant with the provisions laid out in Italian Legislative Decree 231/2001, appointing a joint Supervisory Body. In this regard, the Board of Statutory Auditors acknowledges the annual report of the Supervisory Body delivered during the Board of Directors meeting on 10 March 2017.

The Board of Statutory Auditors supervised the adequacy of the administrative/accounting system and its reliability to provide a fair view of operations, by: a) obtaining information from the managers of the respective company functions; b) examining company documents; c) checking the results of the work carried out by the Auditing Firm; d) engaging in relations with the control bodies of the subsidiaries.

The administrative/accounting system as a whole is complete, integrated, including in terms of IT procedures, and consistent with the size and organisational structure of the Company and the Group.

The main risk factors to which the Company and the Group are exposed, along with the measures adopted to deal with them, are adequately classified and described in the Notes and in the Directors' Report.

4. Proposals regarding the separate financial statements and the consolidated financial statements of the Group as at 31 December 2016

The draft separate and consolidated financial statements, the cash flow statement, the relative Notes and the Directors' Report were delivered to us by legal deadlines and were prepared in accordance with International Financial Reporting Standards (IFRS).

We have examined the draft separate and consolidated financial statements as at 31 December 2016, with respect to which we report the following.

The Parent Company's separate financial statements, closed as at 31 December 2016, show a net profit of €7.2 million, compared to a net profit of €4.9 million as at 31 December 2015; the consolidated financial statements, closed as at 31 December 2016, show a consolidated net profit of €15.8 million compared to a consolidated net profit of €9.1 million as at 31 December 2015, net of non-controlling interests.

As at 31 December 2016, the consolidated financial position had a negative net financial position of €30.2 million compared to a positive net financial position of €4.2 million as at 31 December 2015, while the Parent Company closed the financial statements as at 31 December 2016 with a negative net financial position of €45.9 million compared to a negative net financial position of €7.5 million as at 31 December 2015. As described in detail in the Directors' Report, the consolidated and Parent Company net financial positions worsened essentially due to the acquisition of the Indian company Spirotech completed in the month of October 2016.

The consolidated shareholders' equity as at 31 December 2016 totalled €134.4 million compared to €125.8 million as at 31 December 2015, inclusive of non-controlling interests. The Parent Company's separate financial statements show a shareholders' equity as at 31 December 2016 of €112.3 million, compared to €109.9 million in the separate financial statements as at 31 December 2015.

Based on the elements noted above, considering the more general situation of the Company and the Group, as well as the directors' forecasts, the Board of Statutory Auditors has not identified events or circumstances that may give rise to doubts with respect to the going concern assumption.

The separate and consolidated financial statements correspond to the events and information that the Board of Statutory Auditors gained knowledge of during the exercise of its supervisory duties and its control and inspection powers.

As we are not responsible for the audit, we supervised the general layout of the financial statements and their general compliance with the law as regards their formation and structure, and no particular information and/or news that need to be highlighted in this report and/or reported to the shareholders came to light.

We checked for the observance of legal standards inherent in the preparation of the Directors' Report, and in that regard we have no particular observations to make.

Pursuant to article 2426, paragraph numbers 5 and 6 of the Italian Civil Code, having acknowledged the results of the impairment testing conducted by the company and examined by the auditing firm with no qualifications, we expressed our consent to the capitalisation of development costs and the maintenance in the balance sheet assets of the goodwill values allocated to the two Cash Generating Units identified by the directors, “Original Equipment Manufacturer” and “Air-Cooled Equipment”, respectively.

Insofar as we are aware, in preparing the financial statements the directors applied no exemptions to legal standards pursuant to article 2423, paragraph 4 of the Italian Civil Code..

In its reports issued on 13 March 2017, the Auditing Firm provided unqualified opinions with no emphasis of matter paragraphs on the separate and consolidated financial statements as at 31 December 2016. In addition, in the same reports, it provided its unqualified opinion with no emphasis of matter paragraph on the consistency of the Directors' Report.

5. Conclusions

On the basis of the activities carried out during the year, the Board of Statutory Auditors finds no reason to object to the approval of the separate financial statements as at 31 December 2016 and the resolution proposals put forward by the Board of Directors, with reference to the allocation of the profit as well as the distribution of the dividend, as the financial statements include sufficient available reserves to cover capitalised development costs.
Milan, 21 March 2017

Carla Ceppi - Chairman

Stefano Beltrame - Standing Auditor

Ivano Pelassa - Standing Auditor

REPORT OF THE INDEPENDENT AUDITING FIRM
PURSUANT TO ART. 14 OF ITALIAN LEGISLATIVE DECREE NO. 39 OF 27 JANUARY 2010

To the Shareholders of
Lu-Ve S.p.A.

Report on the separate financial statements

We have audited the separate financial statements of Lu-Ve S.p.A., consisting of the statement of financial position as at 31 December 2016, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows for the year ending on that date, a summary of the significant accounting standards and the other notes.

Directors' responsibility for the separate financial statements

The Directors are responsible for the preparation of separate financial statements that provide a true and fair view in compliance with the International Financial Reporting Standards adopted by the European Union.

Responsibility of the auditing firm

It is our responsibility to provide an opinion on the separate financial statements on the basis of the audit. We conducted our audit in compliance with the international audit standards (ISA Italy) developed in accordance with art. 11 of Italian Legislative Decree 39/10. These standards require compliance with ethics principles, as well as the planning and execution of the audit in order to obtain reasonable certainty that there are no material errors in the separate financial statements.

The audit entails carrying out procedures meant to obtain proof to support the amounts and information contained in the separate financial statements. The procedures chosen depend on the professional judgement of the auditor, including an assessment of the risks of material errors in the separate financial statements due to fraud or unintentional conduct or events. In conducting those risk assessments, the auditor considers the internal control to check that the company's separate financial statements provide a true and fair view in order to define appropriate audit procedures for the circumstances, and not to express an opinion on the effectiveness of the company's internal control. The audit also includes an assessment of the appropriateness of the accounting standards adopted and the reasonability of the accounting estimates developed by the Directors, as well as an assessment of the presentation of the separate financial statements overall.

We believe that we have acquired sufficient and appropriate proof on which to base our opinion.

Opinion

In our opinion, the separate financial statements provide a true and fair view of the statement of financial position of Lu-Ve S.p.A. as at 31 December 2016, the economic result and the cash flows for the year ending on that date in compliance with the International Financial Reporting Standards adopted by the European Union.

Report on other legal and regulatory provisions

Opinion on the consistency of the directors’ report with the separate financial statements

We have carried out the procedures set forth in auditing standard (SA Italy) no. 720B in order to express, as required by legal standards, an opinion on the consistency of the directors’ report, for which Lu-Ve S.p.A.’s Directors are responsible, with the separate financial statements of Lu-Ve S.p.A. as at 31 December 2016. In our opinion, the directors’ report is consistent with the separate financial statements of LU-VE S.p.A. as at 31 December 2016.

DELOITTE & TOUCHE S.p.A.

Andrea Restelli
Partner

Milan, 13 March 2017