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

# ANNUAL FINANCIAL REPORT

# AS AT 31 DECEMBER 2020

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# DIRECTORS' REPORT AS AT 31 DECEMBER 2020

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# 1 DIRECTORS' REPORT AS AT 31 DECEMBER 2020

17 March 2021

Dear Shareholders,

Because of the viral pandemic which started in the first few months of the year, 2020 was a year of grave consequences due to the human lives lost and the complete breakdown of the economic cycle. The global impact, on a system which had already started to slow down at the end of 2019 albeit still growing by 2.9%, was very significant, with a contraction of GDP of 3.5%.

The only large country still able to grow was China which, even though it had been affected by the virus before all others, during the year managed to recover, ending the year with a growth in GDP of 2.3%. The United States closed 2020 with a contraction in produced wealth of 3.5%, the worst result since the Great Depression. Russia experienced a similar contraction while estimates for India are of a drop of 8%, in line with that of the Eurozone (7.2%), which ranges from -5.4% in Germany, -9% in Italy and France and -11% in Spain. The fall in the Italian GDP comes after a zero growth 2019 and returns our country to the GDP levels at the end of last century.

Forecasts for 2021 remain positive although very conditional on the evolution of the pandemic in relation to the completion of the various vaccination campaigns under way. Global growth is forecast to exceed 5%, with the United States at 5.1%, China at 8%, India at 11%, the Eurozone at 4.2%, with Italy last with 3%. If these figures are confirmed, the world would be able to fully recover the wealth lost during the pandemic. This would be the case for China and the United States but not for Europe, in confirmation of the significant effect that the virus has had on the relationships of economic strengths at global level. In this scenario, the new year is also a test bench for the policies of the new American administration and for the start of Brexit in the United Kingdom, one of the countries most affected by the pandemic.

Monetary policies still remain very expansive on a global level, with the intention to finance significant national deficits in all the most advanced economies and finalised at offsetting the depressive effects of the virus. It is not clear how long these policies can last, especially without causing a return to inflation. From this point of view, the world is navigating uncharted territory and both the enormous quantity of negative yield bonds in the markets, very exposed to the rate risk, and the concurrent recovery of the prices of raw materials need to be carefully considered.

Specifically, raw materials recorded a crash in values at the end of 2019 and in the first quarter of 2020, on occasion of the first lockdown. Subsequently they recovered to end the year on values much higher than the previous year, in particular in the case of copper, aluminium and iron. This is a trend that doesn't seem to have stopped since the start of the current year.

What happened in 2020 has no comparison in the period since the War and the slow recovery in the current year is still marked by a high level of uncertainty. For enterprises, the ability to demonstrate continuous resilience relies on the organisation's ability to adapt (think of the acceleration in the digitalisation and smart working processes), in the management of "essential" supply lines such as those in food production, in product innovation, often in relation to enhanced environmental sensitivities, and in the geographical distribution of processes. These are factors that the LU-VE Group has strongly pursued in the last few years and which have proven to be fundamental in maintaining economic and financial ratios for the corporate well-being.

The situation in Italy, where the LU-VE Group employs more than 1,000 people, is cause for concern. Italy seems not to be able to overcome the decline that has characterised it, with a few exceptions, since the crisis of 2008. Being part of the Eurozone, both in monetary term and in relation to recovery plans implemented by the European Institutions, which for the first time envisage sharing part of the debt with the United States, have so far protected our country. It remains, however, a weak link in the continental balance, both on an economic and a political basis.

In a year heavily influenced by the effects of the pandemic at global level, for the first time in its history the LU-VE Group recorded a consolidated turnover of more than €400 million. Product sales alone recorded a slight growth (+0.8%) compared to the previous year, reaching a value of €392.5 million. In spite of the market turbulences linked to the "second wave" of COVID-19 infections, the figure relative to the order portfolio at the end of the year, equal to €77 million, also grew by 6.1% compared to the figure at the end of 2019. Both these figures confirm the resilience of the Group's business model and the validity of the Group's strategy, aimed at a progressive expansion of the field of application and of the international presence, with the objective of reducing dependency on individual market sectors or individual countries.

At the same consolidation perimeter - excluding the contribution of the "Al Air" acquisition (and therefore of the companies Air Hex Alonte S.r.l., Fincoil LU-VE Oy and «OOO» LU-VE Moscow) for the first quarter of 2020 - product sales in 2020 were €364.7 million, with a drop of 6.3% in net recovery compared to the data relative to the first half of the year (-11.3%), which had been more heavily affected by the lockdown measures, in particular in Italy and in India.

EBITDA reached a value of €45.2 million (11.5% of product sales), essentially in line with the figure for the previous year (€46.8 million, 12.0% of product sales, which discounts, as mentioned above, a quarter from the contribution deriving from "Al Air"). Net of non-recurring charges (€0.3 million contribution to hospitals linked to the COVID-19 emergency), the 2020 EBITDA would have been €45.5 million (€51.7 million as at 31 December 2019). For more details with regard to the adjusted EBITDA please refer to paragraph 1.7 – Alternative performance indicators below.

The net result is €10.7 million (€18.3 million in 2019), a decrease of 41.5%. The decrease is mainly due to the increase in amortisation and depreciation (€3.9 million), the increase in negative exchange differences (almost entirely unrealised) of €2.2 million and the negative impact of the fair value of derivatives hedging the rate risk stipulated on new loans in the year (€-1.0 million). Without the impact of non-recurring charges (contribution to hospitals for the pandemic), the result would have been €10.9 million. For further details on the adjusted net profit please refer to paragraph 1.7 – Alternative performance indicators below.

At Business Unite level, the turnover of the "Cooling Systems" SBU, which entirely includes the additional volumes of the "Al Air" acquisition, amounts to €193.9 million, up by 11.2% (-4.6% for the same consolidation perimeter, so taking into account of only eight months for "Al Air" in 2020) in spite of the fact that the spring lockdown measures penalised the Italian plants in Uboldo of the parent company LU-VE S.p.A. (still the largest SBU) and of the former "Al Air" in Alonte. This result is mainly due to the good growth recorded in two specific application segments such as refrigerated logistic centres and data centre air conditioning. In fact, both are application increasingly linked to latest generation "green" projects aimed at the optimisation of energy efficiency and realised with low environmental impact natural fluids. The "Industrial Cooling" segment recorded an increase of 14.5% mainly thanks to the integration of "Al Air", which contributed to strengthen the Group's presence in a market that unfortunately suffered a global contraction during the year, with the delay and postponement of several important projects.

On the other hand, the "Components" SBU, with a turnover of €198.7 million, experienced a drop of 7.6%, having been more heavily affected by the negative impacts of the pandemic. On the side of demand in a scenario of great uncertainty and general decline in orders, the "Horeca" (Hotel, restaurant and catering) and commercial refrigeration segments have certainly been among the most severely affected, even though the latter showed encouraging recovery signs starting from the second quarter. On the offer, or rather production capacity side, lockdown measures in the first half of the year severely impacted mainly the sites in India (almost two months in complete lockdown plus two months at capacity reduced to 50%) and in Italy, while in the autumn the plants in Poland and the Czech Republic were also affected by the adoption of more restrictive measures at local level, which led to absenteeism levels markedly higher than average, with the consequent reduction in plants' capacity and efficiency. If, on the one hand, the Group's geographical differentiation allowed to soften the impact of the pandemic on sales volumes of exchanges in the maximum emergency period in the spring, on the other it has contributed to further strengthen the Group's reputation with some primary importance customers who, fearing interruptions in their own production lines, appreciated and recognised the production (and logistic) flexibility and the support received in exceptional circumstances.

The breakdown of turnover by SBU is given below:

| **Revenue by SBU** *(in € thousand)* | **2020** | **%** | **2019** | **%** | **Change** | **% Change** |
|---|---|---|---|---|---|---|
| SBU COOLING SYSTEMS | 193,856 | 49.4% | 174,287 | 44.8% | 19,569 | 11.2% |
| SBU COMPONENTS | 198,693 | 50.6% | 215,031 | 55.2% | -16,339 | -7.6% |
| TOTAL NET TURNOVER BY SBU | 392,549 | 100% | 389,319 | 100% | 3,230 | 0.8% |

Of course, the main event of 2020 unfortunately was the spread of the pandemic linked to the COVID-19 virus. In addition to generating a shocking number of casualties and infections across the world, the virus created a climate of uncertainty and fear which led several governments to adopt increasingly stringent measures which heavily affected and slowed down the economy at global level. After the first two extremely positive months, once the pandemic was declared at global level in March by the World Health Organisation, the Group found itself facing a completely different scenario, which immediately imposed the adoption of severe control and prevention measures at all sites, often in advance and more stringent than those indicated by the regulations issued by the competent authorities.

In Italy the lockdown period started on 9 March, date on which smart working was quickly launched at all sites, even before this was required by subsequent decrees, for all the functions able to perform their activities in this way.

Production activities were suspended from 25 March and were subsequently restarted only partially to meet the demand of customers continuing to work in authorised sectors, with an estimated utilisation of 50% of production capacity.

From the start a dedicated Crisis Committee was established (which saw the participation of most of the Directors, of all members of the Board of Statutory Auditors and of the Chairman of the Supervisory Body) for managing the emergency in order to best protect the health of all employees and to solve specific issues as they arose, with the adoption of Group measures and protocols shared at global level also with trade union organisations. On 4 May "Phase 2" started, with the progressive increase in production capacity used and a gradual return to almost normal conditions towards the end of the first half of the year.

In Russia, after only six working days of lockdown, production restarted on 7 April as the refrigeration area was included in those strategic areas that should not be stopped.

On 24 March a 21-days lockdown was announced in India, applicable to the entire national territory, then subsequently extended until the end of May, with some concessions in favour of production activities mainly linked to exports. The subsidiary Spirotech Ltd. saw its production halted completely in April, with a very slow restart from June due to a very high absenteeism rate which was completely resolved only in September.

The new Chinese plant (in Tianmen, in the Hubei province, the main location of the outbreak in China), after the closure for an additional month after the planned closure for the Chinese New Year, has gradually recovered production from 13 March, with the adoption by the authorities of very stringent measures for the segregation and limitation of movements of employees.

In the United States, the start of the Coronavirus infection involved a drastic reduction in orders from some very important customers in the "Horeca" segment, while all of the Group's other foreign plants continued to operate even though with absenteeism levels much higher than average.

At the time of the highest level of emergency (between March and June), the Group's production capacity in lockdown was estimated at between 50% and 55% of the total. This situation was mitigated in part by the fact that some important customers had to temporarily suspend their activities, so allowing a delay in deliveries of orders in the portfolio. In this difficult scenario the Group demonstrated great flexibility, creativity and ability to react quickly, guaranteeing on the one continuity of supply and adequate service levels to customers, and on the other activating alternative supply sources, which have allowed to supply in an almost regular manner the various production lines and to guarantee the availability of protection and safety devices for the protection of all employees from the very first few days of the start of the pandemic.

In consequence of this, when the so-called second wave manifested itself in the autumn, the Group found itself well equipped and prepared to best manage the new prevention and segregation measures introduced in the various European countries (from Poland to Finland), recurring to best practices already successfully adopted previously and promoting the use of smart working based on the Group regulation issued at the end of July for all Italian companies. The operation of prevention and containment was very effective in all production sites and in the foreign commercial offices also if at local level, as previously mentioned, even though much higher absenteeism levels than normal were experienced.

Even in the presence of the pandemic, all of the Group's operation continued and the most significant events are outlined below.

In February 2020 the acquisition price of "Al Air" was redetermined, with a significant reduction of the value of €51 million, and the partial payment of €8.7 million was regularly paid in the following weeks. The residual debt of €0.8 million refers to the "former Alfa Laval business unit" of Sarole.

In accordance with the original plan, the SAP management system was successfully launched in the companies Fincoil LU-VE Oy in Finland and Air Hex in Alonte in Italy, respectively in May and October. In the first case, it was a brilliant operation, unique in its type, as realised entirely remotely because of the limitations on movement imposed by the spread of COVID-19.

In October the first product derived from the joint development based on a shared heat exchanger and ventilation platform was presented to the market; the plan envisages the release, starting from the first few months of 2021, of a series of new ranges based on the same sharing and combination of key components principles.

Following the spread of the pandemic and of the impossibility of movements, also within India, of people and a series of bureaucratic difficulties, the definitive purchase of the Indian plant and of the "former Alfa Laval business unit" of Sarole, near Pune, experienced a series of delays. This situation led to a renegotiation of the agreements in place and of the terms for the purchase of the plant and of the business unit, with the consequent payment of a deposit for the purchase of the business' production plant and of the business for € 0.8 million during the second half of 2020. Further difficulties created by the situation at the time also caused the interruption to the production activities for almost all of December. Only once the final transfer was completed (at the end of January 2021, with the consequent payment of the residual final contract price, net of €0.2 million linked to delays in some marginal counterparty requirements) it was possible to plan the integration activities for the new plant.

In May the migration of all of the Group's information processes to a cloud with a world leading operator was completed.

On 22 July the final agreements were signed with the authorities in Jacksonville in Texas and the works for the deforestation and preparation of land purchased in the previous weeks for the construction of a new plant were started. Works continued systematically and it is anticipated that the first part of the new building will be completed in the first quarter of 2021.

In India, however, the works for the expansion of the Spirotech Ltd. plant, which should have been completed by April, because of lockdown experienced a series of which have only allowed the connection of utilities in December.

Again in relation to the subsidiary Spirotech Ltd., on 25 May the transfer (at a value in line with that already recognised in the financial statements) to the parent company LU-VE S.p.A. was completed with the transcription in the corporate records of the residual 5% of the share capital of the same, which was held by Mr Srinivasan, Managing Director of the company, who will remain in office for another three years.

In August, in perfect alignment with the anticipated timetable, the first production line for large-sized liquid condenser and refrigerators was started in the Russian plant in Lipetsk, with the objective of acquire a further advantage on the market thanks to faster delivery times combined with a more advantageous landed cost for local customers.

Lastly, on 23 December, at the end of a series of tests with external certified laboratories, the Group secured the first new EUROVENT certification for CO2-operated evaporators, that is to say with the most used natural, zero environmental impact fluid used in latest generation green plants. It is an important and prestigious achievement which, once again, confirms the Group's excellence and competence in the study and development of innovative products with low environmental impact and high energy efficiency.

The transfer of the latest smaller size evaporator production line from the Italian headquarters to the new plant in Poland was also completed in December, with the integral reabsorption of the workforce dedicated to this line to other production lines in the plant at Uboldo. In consideration of the transfer, a procedure was launched, aimed at the stipulation of preventive binding agreements with APA (Polish Revenue Agency) to negotiate the quantification of values transferred (current estimate of €6.9 million).

During 2020 the constitution of a representative office in Ho Chi Min in Vietnam was finalised, for the promotion of the Group's sales in that country. The Group has also launched the process for the constitution of a new commercial company in South Korea (Seul), again with the objective of a more effective penetration into the local market.

Having assessed the non-strategic character of its presence in Australia with its own commercial office, in December the Group started the preliminary activities for the termination of business of the subsidiary LU-VE Contardo Pacific, prior to the in bonis winding-up of the company itself in the first half of 2021.

During the year the following new loans (for a total of €170.5 million) were also stipulated, without the benefit of any of the interventions indicated in the various decrees issued by the President of the Council of Ministers other than in the case of the €5.5 million loan issued by Deutsche Bank (guaranteed by the SME Guarantee Fund pursuant to Law no. 40 of 5 June 2020):

- in March an unsecured loan agreement was entered into with Intesa Sanpaolo for €25 million with a duration of 66 months (of which 12 in the grace period) repayable in quarterly instalments at constant capital;
- in April, an unsecured loan agreement was entered into with UBI Banca for €30 million with a duration of 36 months (of which 12 in the grace period) repayable in quarterly instalments at constant capital;
- in April, an unsecured loan agreement was entered into with Unicredito for €15 million with a duration of 24 month, with full repayment at the end of the term;
- in May, an unsecured loan agreement was entered into with BNL for €40 million with a duration of 60 months (of which 12 in the grace period) repayable in half-yearly instalments at constant capital;
- in June, an unsecure loan agreement was entered into with Cassa Depositi e Prestiti for €10 million with a duration of 18 months, with fully repayment at the end of the term (subsequently repaid in full in December);
- in June, an unsecured loan agreement was entered into with Banco BPM disbursed in two tranches, respective for €2.5 million and 12.5 million, both with a duration of 25 months (of which seven in the grace period) repayable in quarterly instalments at increasing capital;

- in November, an unsecured loan agreement was entered into with Unicredit for €20 million with a duration of 48 months (of which six in the grace period) repayable in half-yearly instalments at constant capital;
- in November, an unsecured loan agreement was entered into with Deutsche Bank for €5.5 million with a duration of 72 months (of which 12 in the grace period) repayable in quarterly instalments at increasing capital;
- in November, an unsecured loan agreement was entered into with Deutsche Bank for €10 million with a duration of 60 months repayable in quarterly instalments at constant capital.

All loans were stipulated at interest rates in line with the Group's average cost of the debt.

As reported above, during December a loan for €10 million disbursed in the year by Cassa Depositi e Prestiti was repaid early.

## 1.1 CONSOLIDATED NON-FINANCIAL STATEMENT

In compliance with the provisions of article 5, paragraph 3, letter b of Italian Legislative Decree 254/2016 ("Decree"), the Parent Company prepared the Consolidated non-financial statement relating to the year 2020 (hereinafter "Statement" or "DNF"). The Decree implements into Italian law Directive 2014/95/EU (Barnier Directive) adopted on 22 October 2014 by the European Parliament and by the Council of the European Union, aimed at improving the uniformity and comparability of non-financial information and help investors access non-financial information.

The scope of consolidation, in accordance with the Decree's requirements, include all the Group's Companies fully consolidated. With regard to the environmental data and the aspects linked to product safety, during the three-year reporting period only manufacturing companies were taken into account, excluding LUVEDIGITAL S.r.l., as the environmental impact of trading offices and of LUVEDIGITAL were not considered to be significant. Starting from this Statement, the environmental data of the companies AIR HEX ALONTE S.R.L. and FINCOIL LU-VE OY, acquired in 2019 and already included in the previous Statement in relation to aspects inherent to human resources, training and health and safety at work, have also been included in the reporting scope. The 2019 data also already included the company Zyklus Heat Transfer Inc. acquired in 2018.

The Statement was drafted in compliance with the fifth generation guidelines for sustainability reporting of the Global Reporting Initiative (GRI), the 2016 GRI Sustainability Reporting Standards and subsequent amendments (2018 and 2020), according to the Core option and in compliance with the required content and quality principles.

The Statement is published on the Group's website (www.luvegroup.com – "Investor Relations" section - Sustainability).

In accordance with the materiality principle of the GRI Standards, the Statement reports on the material information on topics - reported in the table below - that influence the Group's capacity to create value in the short, medium and long term, which reflect the significant impacts of the organisation and which are of interest for the Group's stakeholders.

| Topic | Description |
|---|---|
| Growth strategies | Promoting growth strategies aimed at commercial expansion at domestic and international level through the development of new geographical markets and an increase in shares in existing markets, within a context characterised by the reduction of labour in Industry 4.0 and delocalisation within a global economy. |
| Women, men and ideas | Safeguarding and strengthening the know-how of our people through professional growth paths which make it possible to provide customers with a competent and professional service, while motivating personnel and promoting talent. |
| People's well-being | Promoting the well-being of our people and offering them a workplace in which every individual can best express their potential, guaranteeing equal opportunities and investing in security and the creation of an inclusive environment which is capable of welcoming the many people who find themselves working side by side with their different cultures, ethnicities and religions. |
| Customer orientation | Making our customers excited about our excellent products and services, that meet their needs and the quality requirements defined at Group level, as well as supporting them throughout the product life cycle. |
| Cutting-edge solutions | Promoting sector technological progress by investing in research concerning solutions capable of minimising the environmental impact and the noise emissions of finished products, also in collaboration with highly qualified partners linked to the world of universities and research. |
| Corporate ethics | Managing relationships marked by transparency with all Group stakeholders, ensuring compliance with regulations in force in terms of combating active and passive corruption and guaranteeing institutional communications and honest, truthful promotions based on factual information. |
| Economic and financial sustainability | Guaranteeing Group's long-term economic results in the long term, through adequate accounting management and the capacity to meet the needs of the market and of current and future customers. |
| Reduction of environmental impact | Minimising the environmental impact of its production processes, enacting energy efficiency policies, reducing direct and indirect emissions, water consumption and the generation of waste. |
| Quality of life | Offering solutions capable of boosting food preservation and ensuring control over temperature, humidity and air purity levels in specific environments (clean rooms) to increase service quality and improve quality of life. |

In the context of the 2020 Non-Financial Statement, information is also provided with regard to the "A better, more evolved, balanced and responsible world" Vision, drafted by the Group during the year, in compliance with the 17 Sustainable Development Goals (SDGs) defined by the 2030 United Nations Agenda. The Vision's objective is to further focus the Group's activities in the actual impact areas: ensuring safe and correctly stored food through products for refrigeration, guaranteeing climatic well-being with air conditioning and energy efficiency system solutions for industrial processes and digital transformation.

## 1.2 CONSIDERATIONS ON THE SECURITY'S MARKET VALUE

During 2020 the LU-VE stock recorded a trend constantly higher than the FTSE Italy All-Share index (at an average weighted level of around 11 percentage points). After the first two months with values close to historical maximums (around €14.00), the share price dropped sharply due to the market turbulences caused by the COVID-19 spread, reaching a minimum level of €8.38, to then start a steady recovery which saw the value of the stock reach a historical maximum level (€14.90) at the start of December and then close the year again at around €14.00.

The main figures and share price trends are shown below:

Price at 1 January 2020: €12.80
Price at 31 December 2020: €13.95
Change in the year: +9.0%

Maximum Price: €14.90 (1 December 2020)
Minimum Price: €8.38 (18 March 2020)
Weighted Average Price: €12.60
Volume traded: 2,618,965 shares

Market capitalisation at 31 December 2020: €310.17 million

On 16 March 2021 (at the closure of the last trading day before the approval of the draft financial statements) the price was €15,35, corresponding to a capitalisation (to be calculated on the basis of 22.23 million shares) of €341.2 million, in any case higher than the net equity recognised in the Group's financial statements (€150.9 million).


## 1.3 SUBSIDIARIES AND ASSOCIATES

As at 31 December 2020, the Group comprises the following:

Industrial subsidiaries:

- SEST S.p.A. in Limana, Belluno (Italy), wholly-owned: manufactures and markets heat exchangers for refrigerated counters, display cabinets and for other applications;
- SEST-LUVE-POLSKA Sp.z.o.o. in Gliwice (Poland), 95% owned by SEST S.p.A.: manufactures and markets heat exchangers for refrigerated counters and display cabinets and other applications and air-cooled heat exchanges (evaporators and condensers);
- "OOO" SEST-LUVE in Lipetsk (Russia), 95% owned by SEST S.p.A.: manufactures and markets heat exchangers and air cooled equipment for the market comprising Russia and neighbouring countries;
- HEAT TRANSFER SYSTEM (HTS) s.r.o. in Novosedly (Czech Republic), wholly-owned: manufactures and markets heat exchangers for the air conditioning and refrigeration sectors and for special applications;
- TECNAIR LV S.p.A. in Uboldo, Varese (Italy), 79.9% owned: manufactures close control air conditioners and air super-filtration equipment for applications in surgery rooms, data centres and telephony;
- LUVE HEAT EXCHANGERS (Tianmen) Co, Ltd wholly-owned by the LU-VE group (62.62% by LU-VE HK and 37.38% by LU-VE S.p.A.): manufactures and markets air cooled products for China and neighbouring countries;
- LU-VE SWEDEN AB in Asarum (Sweden), wholly-owned: manufactures and markets air cooled products (mainly large condensers and dry coolers using the AIA brand) in the Scandinavian markets;
- THERMO GLASS DOOR S.p.A. in Travacò Siccomario, Pavia (Italy), wholly-owned by SEST S.p.A., manufactures and markets glass doors and frames for refrigerated counters and display cases;
- SPIROTECH HEAT EXCHANGERS PRIVATE LIMITED in New Delhi (India), wholly-owned: manufactures and markets heat exchangers (for domestic applications, refrigeration and air conditioning) and air-cooled equipment for the refrigeration section;

- ZYKLUS HEAT TRANSFER INC in Jacksonville (Texas - USA), wholly-owned: manufactures and markets heat exchangers, air-cooled equipment and components for the air conditioning and refrigeration sectors and for special applications for the US market;
- MANIFOLD S.r.l. in Uboldo, Varese (Italy), 99% owned: manufactures copper components (collectors and distributor units) for Group companies;
- LUVEDIGITAL S.r.l. in Uboldo, Varese (Italy), 50% owned: develops software and IT solutions dedicated to generating estimates and promoting Group products.
- Air Hex Alonte S.r.l. in Alonte, (Vicenza - Italy), wholly owned: manufactures air-cooled products mainly destined to the industrial processes refrigeration ("power gen") and to the industrial refrigeration markets;
- FINCOIL LU-VE Oy in Vantaa (Finland), wholly-owned: manufactures air-cooled products mainly destined to the industrial processes refrigeration ("power gen") and to the refrigeration markets.

Commercial subsidiaries:

- LU-VE France S.a.r.l. in Lyon (France), wholly-owned: company operating in the French and North American markets with direct sales activities and commercial and technical support services to distributors of air cooled equipment, heat exchangers and close control air conditioners;
- LU-VE Deutschland GmbH in Stuttgart (Germany), wholly-owned: sells air cooled equipment directly or through distributors throughout the German market;
- LU-VE Iberica s.l. in Madrid (Spain), 85% owned: sells air cooled equipment, heat exchangers and close control air conditioners directly or through distributors in the Iberian peninsula and the Central and South American markets;
- LU-VE Contardo Pacific pty. Ltd. in Thomastown (Australia), 75.5% owned: markets air cooled equipment in the Oceania market.
- LU-VE Asia Pacific Ltd. in Hong Kong, wholly-owned: sells air cooled equipment and heat exchangers directly in the Far East markets (excluding China). The company is no longer operative, but retains a 62.62% interest in LUVE TIEANMEN.
- LU-VE Austria GmbH in Vienna (Austria), wholly-owned: sells and carries out agency activities for air cooled equipment primarily in German language speaking countries.
- LU-VE Netherlands B.V. in Breda (The Netherlands), wholly-owned: direct sale of air-cooled equipment mainly destined to the industrial processes refrigeration ("power gen") and to the refrigeration markets.
- «OOO» LU-VE Moscow in Moscow (Russia), wholly-owned: sale of air-cooled equipment mainly destined to the industrial processes refrigeration ("power gen") and refrigeration markets;
- LU VE Middle East DMCC in Dubai (United Arab Emirates), wholly-owned: sale of air-cooled equipment for the refrigeration and air-conditioning markets.

# 1.4 REFERENCE MARKETS

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

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

The LU-VE Group's four main product categories feature distinctive technical and manufacturing characteristics.

## AIR COOLED HEAT EXCHANGERS

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

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

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

Revenues from sales of heat exchangers represented:

- in 2020: approx. 46% of the Group's consolidated revenues;
- in 2019: approx. 51% of the Group's consolidated revenues;

## AIR COOLED EQUIPMENT

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

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

Air cooled equipment may be installed, depending on the type, inside refrigerated rooms or outside in proximity of refrigerated and/or air conditioned rooms (usually on roofs or in dedicated "technical" rooms) or industrial processing or energy generation plants.

Revenues from sales of air cooled equipment represented:

- in 2020: approx. 44% of the Group's consolidated revenues;
- in 2019: approx. 40% of the Group's consolidated revenues;

## CLOSE CONTROL AND EXTERNAL AIR CONDITIONERS

The most modern air conditioning techniques within particularly delicate "technological" areas, such as latest generation very high energy efficiency data centres and operating theatres, require solutions which combine the installation of "indoor" close control air conditioners with "outdoor" ventilated equipment specifically designed to optimise energy consumption as the external temperature changes throughout the year.

The specific nature of these air conditioners is represented by the fact that they have to guarantee for 365 days a year, 24 hours a day, the strict control, with extremely limited tolerances, of temperature, humidity and air purity parameters, allowing remote monitoring of the main operating parameters as well as also signal any irregularities, malfunctions or alarms.

Revenues from sales of close control and external air conditioners represented around 6% of the Group's total revenues in 2020, essentially in line with the previous year.

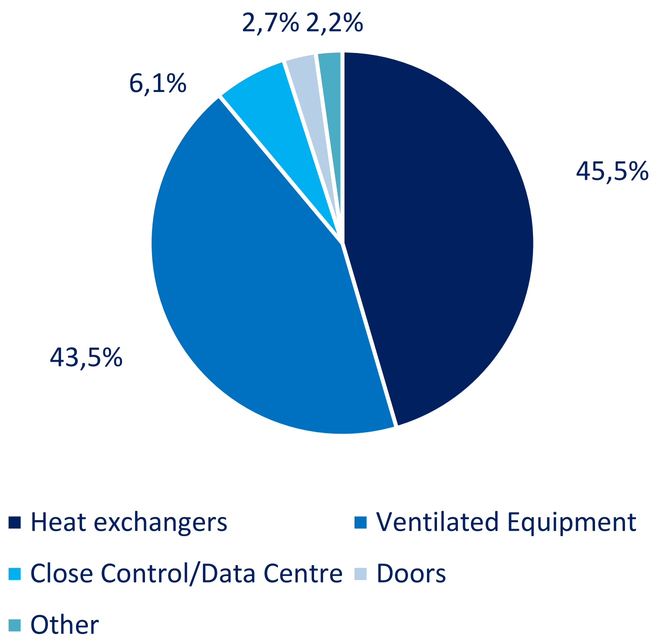
## SPECIAL GLASS DOORS FOR REFRIGERATED COUNTERS AND DISPLAY CABINETS

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

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

Revenues from sales of glass doors represented around 3% of the Group's total revenues in 2020, in line with 2019.

The chart below shows the breakdown of turnover by product type in 2020:




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

| PRODUCTS | €/000 2020 | % | €/000 2019 | % | Delta % |
|---|---|---|---|---|---|
| Heat exchangers | 182,511 | 45.5% | 199,429 | 50.9% | -8.5% |
| Air Cooled Equipment | 174,514 | 43.5% | 156,458 | 40.0% | +11.5% |
| Close Control/Data centre | 24,559 | 6.1% | 22,478 | 5.7% | +9.3% |
| Doors | 10,965 | 2.7% | 10,954 | 2.8% | +0.1% |
| TOTAL PRODUCTS | **392,549** | **97.8%** | **389,319** | **99.4%** | **+0.8%** |
| Other (*) | 8,908 | 2.2% | 2,262 | 0.6% | +293.8% |
| TOTAL | **401,457** | **100.0%** | **391,581** | **100.0%** | **+2.5%** |

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

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

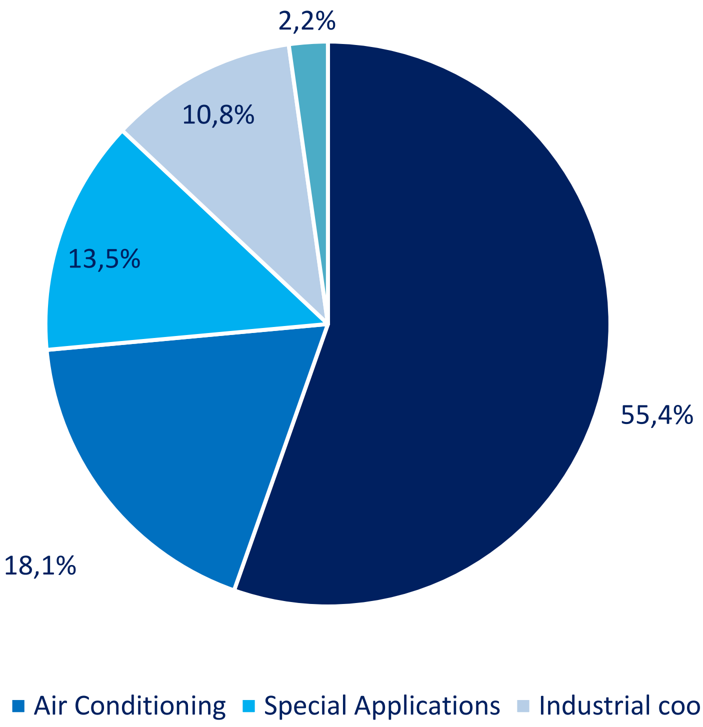
*(i)* the refrigeration sector, which includes activities relating to the supply chain for food products (the "**Refrigeration Sector**");

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

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

(iv) the "industrial cooling" sector, which includes mainly high power ventilated products used for the refrigeration of engines for the generation of power and general industrial processes (the "Industrial Cooling Segment").

The chart shows the breakdown of turnover by segment as at 31 December 2020:



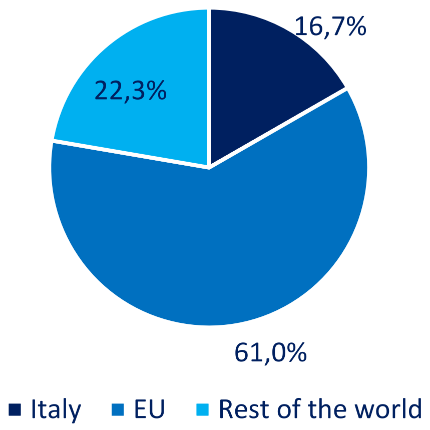

The table below shows turnover trends by application type in the two years subject to comparison:

| APPLICATIONS | €/000 2020 | % | €/000 2019 | % | Delta % |
|---|---|---|---|---|---|
| Refrigeration | 222,363 | 55.4% | 227,467 | 58.1% | -2.2% |
| Air Conditioning | 72,858 | 18.1% | 64,453 | 16.5% | +13.0% |
| Special Applications | 54,117 | 13.5% | 59,656 | 15.2% | -9.3% |
| Industrial cooling | 43,211 | 10.8% | 37,743 | 9.6% | +14.5% |
| **TOTAL APPLICATIONS** | **392,549** | **97.8%** | **389,319** | **99.4%** | **+0.8%** |
| Other (*) | 8,908 | 2.2% | 2,262 | 0.6% | +293.8% |
| **TOTAL** | **401,457** | **100.0%** | **391,581** | **100.0%** | **+2.5%** |

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

At geographical level, the European Union is the most important area for the Group with €304.9 million and a percentage of 77.7% of total sales. The export percentage was 83.3% with Russia, Poland, the Czech Republic in the top three places, while Italy dropped to 12.8% with sales of €65.4 million (-14.6% at parity of scope). Of the countries with the best results in 2020, France, Denmark, China and Sweden in particular achieved historical records of sales, mainly thanks to the acquisition of "green" projects. On the reverse side, the countries with the most marked drops, in addition to Italy, were the United States, Turkey, India, Spain and Germany, whose drop is, however, also linked to the transfer of productions to Eastern Europe on the part of some significant customers.

The chart below shows the geographical breakdown of turnover in 2020:




The Group's turnover does not depend to a significant extent on individual commercial or industrial contracts. At the end of 2020, sales revenues from the Group's top 10 customers together represent a percentage of turnover just over 31%, while the turnover generated by the main customer, represented by an international group served in several countries, represents 4.5%.

# 1.5 ECONOMIC AND FINANCIAL DATA

With reference to the income statement, please note that the companies part of "Al Air" have been consolidated since 1 May 2019.

The reclassified Income Statement and Balance Sheet are provided below:

| Reclassified Income Statement *(in thousands of Euro)* | 31/12/2020 | % Revenues | 31/12/2019 | % Revenues | % Change 2020 vs. 2019 |
|---|---|---|---|---|---|
| Revenues and operating income | 401,457 | 100.0% | 391,584 | 100.0% | 2.5% |
| | | | | | |
| Purchases of materials | (201,197) | 50.1% | (204,035) | 52.1% | |
| Changes in inventories | (2,431) | 0.6% | 489 | -0.1% | |
| Costs for services | (52,201) | 13.0% | (54,255) | 13.9% | |
| Personnel costs | (91,684) | 22.8% | (83,361) | 21.3% | |
| Other operating costs | (8,742) | 2.2% | (3,660) | 0.9% | |
| **Total operating costs** | **(356,255)** | **88.7%** | **(344,822)** | **88.1%** | **3.3%** |
| EBITDA | 45,202 | 11.3% | 46,762 | 11.9% | -3.3% |
| | | | | | |
| Change in fair value of derivatives | (1,269) | 0.3% | (597) | 0.2% | |
| Depreciation and amortisation | (28,298) | 7.0% | (*) (24,355) | 6.2% | |
| Losses on non-current assets | (177) | 0.0% | 164 | 0.0% | |
| EBIT | 15,458 | 3.9% | (*) 21,974 | 5.6% | -29.7% |
| | | | | | |
| Net financial expense | (3,558) | 0.9% | (1,324) | 0.3% | |
| EBT | 11,900 | 3.0% | (*) 20,650 | 5.3% | -42.4% |
| | | | | | |
| Income taxes for the year | (1,201) | 0.3% | (*) (2,357) | 0.6% | |
| Net profit for the period | 10,699 | 2.7% | (*) 18,293 | 4.7% | -41.5% |
| Profit attributable to non-controlling interests | 821 | | 779 | | |
| Profit attributable to the group | 9,878 | 2.5% | (*) 17,514 | 4.5% | -43.6% |

(*) Values restated pursuant to IFRS 3, to retrospectively take into account the effects of the measurement at fair value of the assets and liabilities of "El Air" at the acquisition date, previously considered provisional.

"Revenues and operating income" rose by 2.5% (+ €9.9 million), +6.4% at constant exchange rates. Within the same scope of consolidation, there would have been a decrease of 4.6% almost totally due to the reduction in volumes.

Total operating costs rose from €344.8 million (88.1% as a percentage of revenues) to €356.3 million (88.7% as a percentage of revenues). The total increase of 3.3% (€11.5 million) was substantially caused by the following factors:

- consumption of materials remained essentially unchanged (€203.6 million) with the incidence on revenues going from 52.0% to 50.7% essentially thanks to the reduction in the average costs of the main raw materials;

- the decrease in costs for services of €2.1 million is mainly linked to the savings linked to the almost total cancellation of exhibitions and publicity expenses (€0.7 million), the reduction in travel expenses (€1.8 million) and general expenses and consultancies (€1.4 million) net of the increase in other services, including telephone, transports and maintenance (€1.8 million). Costs for services include €0.3 million of non-recurring costs linked to a contribution paid by the Group to hospitals in support of the emergency linked to the COVID-19 pandemic;

- the increase of personnel costs for €8.3 million is linked for €6.7 million to the change in the consolidation perimeter and for the rest to the increase in the wage structure and dynamics net of the savings linked to the use of flexibility instruments following the pandemic. The percentage of personnel costs compared to revenues dropped from 21.3% to 22.8%.

“EBITDA” amounted to €45.2 million (11.3% of revenues) compared to €46.8 million (11.9% of revenues) in 2019. Net of the impact of non-recurring costs, EBITDA would have been €45.5 million (11.3% of sales). The 2019 adjusted EBITDA was €51.7 million. The change with respect to the adjusted EBITDA of the previous financial year (€-6.2 million, -12%) is generated by the decreased linked to the impact of the pandemic for €3.5 million for the Italian companies, for €2.1 million for Spirotech and for €1.4 million for the other Group companies net of the effects deriving from the application of IFRS16 to “Al Air” for €0.9 million.

Amortisation and depreciation show an increase of €3.9 million, linked to the change in the scope of consolidation for €1.5 million and to the application of IFRS16 for €1.0 million.

“EBIT” amounted to €15.5 million (3.9% of revenues) compared to €22.0 million (5.6% of revenues) in 2019. Net of non-recurring costs (adjusted EBIT), it would have been €15.8 million (3.9% of revenues).

The balance of financial income and charges is negative for €3.6 million (negative for €1.3 million in 2019) mainly due to unrealised exchange differences (rouble and HK dollar).

“EBT” was equal to €11.9 million (3.0% of revenues) against a value of €20.7 million in 2019 (5.3% of revenues). The 2020 EBT normalised for non-recurring costs would have been €12.2 million (3.0% of revenues).

The “Net profit for the year” was €10.7 million (2.7% of revenues) compared to €18.3 million (4.7% of revenues) in 2019. The decrease is mainly due to the increase in amortisations (€3.9 million), to the increase in negative exchange rates (almost all unrealised) for €2.2 million and the negative impact of the fair value of derivatives hedging the rate risk stipulated on new loans for the year and the net effect of transfers of non-current assets (€1.0 million). The net profit for 2020 after non-recurring costs would have been €10.9 million (2.7% of revenues).

| Reclassified Consolidated Balance Sheet *(in thousands of Euro)* | 31/12/2020 | % of net invested capital | 31/12/2019 | % of net invested capital | Change 2020 vs. 2019 |
|---|---|---|---|---|---|
| Net intangible assets | 94,727 | | (*) 98,005 | | |
| Net property, plant and equipment | 158,707 | | 163,269 | | |
| Deferred tax assets | 7,903 | | 6,603 | | |
| Other non-current assets | 215 | | 219 | | |
| **Non-current assets (A)** | **261,552** | **101.5%** | **(*) 268,096** | **100.6%** | **(6,544)** |
| Inventories | 56,647 | | 61,812 | | (5,165) |
| Trade receivables | 59,763 | | 61,728 | | (1,965) |
| Other receivables and current assets | 13,878 | | 16,513 | | (2,635) |
| **Current assets (B)** | **130,288** | | **140,053** | | **(9,765)** |
| Trade payables | 80,630 | | 86,231 | | (5,601) |
| Other payables and current liabilities | 28,446 | | 27,783 | | 663 |
| **Current liabilities (C)** | **109,076** | | **114,014** | | **(4,938)** |
| **Net working capital (D=B-C)** | **21,212** | **8.2%** | **(*) 26,039** | **9.8%** | **(4,827)** |
| Provisions for employee benefits | 5,573 | | 5,491 | | 82 |
| Deferred tax liabilities | 14,537 | | (*) 17,954 | | (3,417) |
| Provisions for risks and charges | 4,941 | | 4,231 | | 710 |
| **Medium/long-term liabilities (E)** | **25,051** | **9.7%** | **(*) 27,676** | **10.4%** | **(2,625)** |
| Net Invested Capital (A+D-E) | 257,713 | 100.0% | (*) 266,459 | 100.0% | (8,746) |
| Shareholders' equity attributable to the group | 146,931 | | (*) 155,526 | | (8,595) |
| Non-controlling interests | 3,993 | | 3,422 | | 571 |
| **Total Consolidated Shareholders' Equity** | **150,924** | **58.6%** | **(*) 158,948** | **59.7%** | **(8,024)** |
| Medium- Long Term Net Financial Position | 239,837 | | 155,499 | | 84,338 |
| Medium- Term Net Financial Position | (133,048) | | (*) (47,988) | | (85,060) |
| **Total Net Financial Position** | **106,789** | **41.4%** | **(*) 107,511** | **40.3%** | **(722)** |
| Own funds and net financial debt | 257,713 | 100.0% | (*) 266,459 | 100.0% | (8,746) |

(*) Values restated pursuant to IFRS 3, to retrospectively take into account the effects of the measurement at fair value of the assets and liabilities of "El Air" at the acquisition date, previously considered provisional.

The decrease in the item Non-current assets (of €6.5 million) is essentially linked to the investments in the financial year (around €29.0 million) net of the relative amortisations (€28.3 million) and the exchange differences (€7.9 million). Among the investments for the year, €12.9 million are to be considered "not ordinary" (as they mainly refer to the goodwill of the SAP management system in the plants of Vantaa and Alonte, to the property investments in India and in the United States and to technical software).

The Group's operating working capital (equal to the sum of inventories and trade receivables net of trade payables) as at 31 December 2020 amounted to €35.8 million, equal to 8.9% of sales (it was € 37.3 million as at 31 December 2019, 9.5% of sales).

Consolidated shareholders' equity amounted to €150.9 million compared to €158.9 million as at 31 December 2019. The decrease (of €8.0 million) is essentially due to the profit for the year (€10.7 million) adjusted for the distribution of dividends for a total of €6.5 million, the purchase of treasury shares for €0.3 million and the negative effect of the conversion reserve (€11.5 million).

The net financial position was negative by €106.8 million (€107.5 million as at 31 December 2019), with a decrease of €0.7 million, primarily due for €28.9 million to investments and for €6.5 million to the distribution of dividends, net of approximately €34 million in positive flows from operations. In 2020 the cash flow from operations adjusted by non-recurring items totalled €20.4 million. The debt is all medium and long-term, and liquidity as at 31 December 2020 totalled around €223 million.

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

The reclassified Income Statement and Balance Sheet are provided below:

| LU-VE S.p.A. Reclassified Income Statement (in thousands of Euro) | 2020 | % Revenues | 2019 | % Revenues | Change % 2020 vs. 2019 |
|---|---|---|---|---|---|
| **Revenues and operating income** | **93,085** | **100%** | **89,695** | **100%** | **3.8%** |
| Purchases of materials | (43,231) | 46.4% | (48,893) | 54.5% | |
| Changes in inventories | (2,408) | 2.6% | 4,482 | -5.0% | |
| Costs for services | (19,408) | 20.8% | (20,377) | 22.7% | |
| Personnel costs | (17,321) | 18.6% | (17,809) | 19.9% | |
| Other operating costs | (2,847) | 3.1% | (1,526) | 1.7% | |
| **Total operating costs** | **(85,215)** | **91.5%** | **(84,123)** | **93.8%** | **1.3%** |
| **EBITDA** | **7,870** | **8.5%** | **5,572** | **6.2%** | **41.2%** |
| Change in fair value of derivatives | (963) | 1.0% | (693) | 0.8% | |
| Depreciation and amortisation | (8,189) | 8.8% | (6,893) | 7.7% | |
| Losses on non-current assets | 501 | -0.5% | (63) | 0.1% | |
| **EBIT** | **(781)** | **-0.8%** | **(2,077)** | **-2.3%** | **-62.4%** |
| Net financial income and expense | 6,345 | -6.8% | 8,107 | -9.0% | |
| **EBT** | **5,564** | **6.0%** | **6,030** | **6.7%** | **-7.7%** |
| Income taxes for the year | 1,593 | -1.7% | 473 | -0.5% | |
| **Net profit for the period** | **7,157** | **7.7%** | **6,503** | **7.3%** | **10.1%** |

As at 31 December 2020, product sales were lower than in 2019 by 4%, mainly due to the decrease in sales volumes due to the lockdown period. On the other hand, "Operating revenues and income" recorded an increase of 3.8% thanks to the recognition of the transfer to the Polish subsidiary of the manufacturing and sale of commercial evaporators (€6.9 million).

Total operating costs rose from €84.1 million (93.8% of revenues) to €85.2 million (91.5% of revenues). The overall increase is 1.3% (€1.1 million) and is mainly referable to:

- an increase in the consumption of materials with a total impact of €1.2 million. The incidence on the product turnover (excluding the effects of the above mentioned transaction for the transfer of the Polish subsidiary) went up from 49.5% to 53.0% mainly due to the production and sales mix;
- a reduction in costs for services for €1.0 million (with an incidence on turnover down from 22.7% to 22.5%) mainly attributable to travel and exhibition participation expenses;
- a reduction in personnel costs for €0.5 million, with an incidence on the product turnover going up from 19.9% to 20.1%;
- an increase of €1.3 million in other operating costs, attributable to the greater impact of allocations to provisions.

"EBITDA" for 2020 amounted to €7.9 million (8.5% of revenues), compared to €5.6 million (6.2% of revenues) in 2019.

"EBIT" is negative for €0.8 million (-0.8% of revenues), up compared to €-2.1 million (-2.3% of revenues) in 2019.

The balance of financial income and charges for the year ending 31 December 2020 is positive for €6.3 million, compared to €8.1 million for 2019. The difference (negative for €1.8 million) essentially derives from the increase in dividends received from subsidiaries for €2.5 million net of increased financial charges (€0.5 million), the mainly unrealised negative exchange rates (€0.8 million) and the recognition of the write-down of the equity investment in Zyklus (€3.0 million).

The "EBT" in the year ending as of 31 December 2020 was equal to €5.6 million (6.0% of revenues) against a value of €6.0 million as at 31 December 2019 (6.7% of revenues).

The "Net profit for the year" for 2020 was €7.2 million (7.7% of revenues) compared to €6.5 million (7.3% of revenues) for the year 2019.

| LU-VE S.p.A. Reclassified Balance Sheet *(in thousands of Euro)* | 31/12/2020 | % of net invested capital | 31/12/2019 | % of net invested capital | Change 2020 vs. 2019 |
|---|---|---|---|---|---|
| Net intangible assets | 23,278 | | 22,672 | | |
| Net property, plant and equipment | 39,329 | | 41,320 | | |
| Deferred tax assets | 4,114 | | 3,545 | | |
| Equity investments | 153,175 | | (*) 152,089 | | |
| Other non-current assets | 5,136 | | 4 | | |
| **Non-current assets (A)** | **225,032** | **97.7%** | **(*) 219,630** | **102.8%** | **5,402** |
| | | | | | |
| Inventories | 10,196 | | 12,605 | | (2,409) |
| Trade receivables | 31,010 | | 26,902 | | 4,108 |
| Other receivables and current assets | 6,085 | | 4,150 | | 1,935 |
| **Current assets (B)** | **47,291** | | **43,657** | | **3,634** |
| | | | | | |
| Trade payables | 25,677 | | 31,291 | | (5,614) |
| Other payables and current liabilities | 8,945 | | 8,596 | | 349 |
| **Current liabilities (C)** | **34,622** | | **39,887** | | **(5,265)** |
| | | | | | |
| **Net working capital (D=B-C)** | **12,669** | **5.5%** | **3,770** | **1.8%** | **8,899** |
| | | | | | |
| Provisions for employee benefits | 849 | | 884 | | (35) |
| Deferred tax liabilities | 5,300 | | 7,682 | | (2,382) |
| Provisions for risks and charges | 1,271 | | 1,271 | | - |
| **Medium/long-term liabilities (E)** | **7,420** | **3.2%** | **9,837** | **4.6%** | **(2,417)** |
| | | | | | |
| Net Invested Capital (A+D-E) | 230,281 | 100.0% | (*) 213,563 | 100.0% | 16,718 |
| | | | | | |
| Share capital | 62,704 | | 62,704 | | - |
| Reserves and retained earnings | 37,924 | | 37,711 | | 213 |
| Profit for the year | 7,157 | | 6,503 | | 654 |
| Total shareholders' equity | **107,785** | **46.8%** | **106,918** | **50.1%** | **867** |
| | | | | | |
| Medium- Long Term Net Financial Position | 205,245 | | 113,280 | | 91,965 |
| Medium- Term Net Financial Position | (82,749) | | (*) (6,635) | | (76,114) |
| Total Net Financial Position | **122,496** | **53.2%** | **(*) 106,645** | **49.9%** | **15,851** |
| | | | | | |
| Own funds and net financial debt | 230,281 | 100.0% | (*) 213,563 | 100.0% | 16,718 |

(*) Values restated pursuant to IFRS 3, to retrospectively take into account the effects of the measurement at fair value of the assets and liabilities of "El Air" at the acquisition date, previously considered provisional.

The increase in non-current assets (€5.4 million) is essentially attributable to the recognition of the long-term payable from the Polish subsidiary relative to the already commented transfer of some production activities, to the acquisition of a minority interest in Spirotech Ltd., partially offset by the write-down of the equity investment in the subsidiary Zyklus.

Working capital (equal to the sum of inventories and trade receivables net of trade payables) increased by €7.3 million (going from 9.2% to 16.6% of sales).

Shareholders' equity amounted to €107.8 million compared to €106.9 million as at 31 December 2019. The increase (of €0.9 million) was mainly due to the profit for the year (€7.2 million) net of the distribution of dividends for €6.0 million and of the purchase of treasury shares for €0.3 million.

The net financial position is negative for €122.5 million (negative for €106.6 million as at 31 December 2019) with a worsening of €15.9 million primarily linked to the investments (approximately €7 million), the payment of dividends (€6.0 million) and the deterioration of the working capital. The debt is all medium and long-term, and liquidity as at 31 December 2020 totalled around €177 million.

# 1.7 ALTERNATIVE PERFORMANCE INDICATORS

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

| Monetary amounts in thousands of Euro | 2020 | 2019 |
|---|---|---|
| Average days in inventory (1) | 51 | 57 |
| Inventory turnover ratio (2) | 7.09 | 6.34 |
| Receivables turnover ratio (3) | 6.72 | 6.34 |
| Average days sales outstanding (4) | 54 | 57 |
| Payables turnover ratio (5) | 3.28 | 3.03 |
| Average days payable outstanding (6) | 110 | 119 |
| Net Invested Capital | 257,713 | (*) 266,459 |
| EBITDA | 45,202 | 46,762 |
| Adjusted EBITDA (7) | 45,502 | 51,662 |
| EBITDA/Financial expense | 13.27 | 14.59 |
| Adjusted EBIT (8) | 15,758 | (*) 26,874 |
| Adjusted EBT (9) | 12,200 | (*) 25,550 |
| Adjusted net profit for the year (10) | 10,899 | (*) 22,693 |
| Basic earnings per share (11) | 0.45 | (*) 0.79 |
| Diluted earnings per share (12) | 0.45 | (*) 0.79 |
| Dividends per share (13) | 0.27 | 0.25 |
| Net financial debt | (106,789) | (*) (107,511) |
| Net financial debt/EBITDA | 2.36 | (*) 2.30 |
| Debt ratio (14) | 0.71 | (*) 0.68 |
| Operating working capital (15) | 35,780 | 37,309 |
| Net working capital (16) | 21,212 | 26,039 |
| The cash flow from operations adjusted for non-recurring items (17) | 20,400 | 37,900 |
| Goodwill and Other Intangible assets/Total assets | 0.15 | (*) 0.18 |
| Goodwill and Other Intangible assets/Shareholders' equity | 0.63 | (*) 0.62 |

(*) Values restated pursuant to IFRS 3, to retrospectively take into account the effects of the measurement at fair value of the assets and liabilities of "El Air" at the acquisition date, previously considered provisional.

Note:

The methods for calculating the indicators noted above are:

(1) Inventories/Revenues and other operating income*360;
(2) Revenues and other operating income/Inventories;
(3) Revenues/Trade receivables;
(4) Trade receivables/Revenues*360;
(5) Trade-related operating costs/Trade payables. Trade-related operating costs include purchases of materials and changes in inventories, costs for services and other costs and charges. The item does not include personnel costs;

(6) Trade payables/Trade-related operating costs*360;
(7) EBITDA adjusted for non-recurring costs:

| | 2020 | 2019 |
|---|---|---|
| EBITDA | 45,202 | 46,762 |
| Expenses for business combinations | - | 2,400 |
| Reversal of fair value of inventory step-up in income statement | - | 1,800 |
| Charges for transfers/start of Poland and China production plants | - | 700 |
| COVID-19 hospital contribution | 300 | - |
| **Adjusted EBITDA** | **45,502** | **51,662** |

(8) EBIT adjusted for non-recurring charges (adjusted EBITDA "base" - see previous table);
(9) EBT adjusted for non-recurring charges (adjusted EBITDA "base" - see previous table)
(10) Net profit for the year adjusted for non-recurring costs (adjusted EBITDA "base" - see previous table - net of taxes of €0.1 million in 2020 and €0.5 million in 2019);
(11) Profit (loss) for the period/Weighted average number of ordinary shares;
(12) Profit (loss) for the period/(Weighted average number of ordinary shares + potential number of additional ordinary shares);
(13) Nominal value of the dividend per share approved in each year.
(14) Net financial debt/Shareholders' equity.
(15) Total of inventories and trade receivables net of trade payables;
(16) Current assets net of current liabilities
(17) Cash flow from operations adjusted for non-recurring items:.

| Values in €/million | 2020 | 2019 |
|---|---|---|
| Change in Net financial position | 0.7 | -43.6 |
| Non-ordinary investments | 12.9 | 12.0 |
| Dividends paid | 6.5 | 5.5 |
| Purchase/sale of Treasury Shares | 0.3 | -1.7 |
| Change in the consolidation perimeter | 0.4 | 48.0 |
| Non-recurring charges | 0.3 | 0.7 |
| IFRS 16 | -0.7 | 17.0 |
| **Cash flow from operations adjusted for non-recurring items** | **20.4** | **37.9** |

## 1.8 INDUSTRIAL COMPANIES

The data below reflect for individual companies the values reported in the reporting packages prepared for the purposes of consolidation.

Revenues for SEST S.p.A. amounted to €31.2 million (€35.9 million in 2019). Net profit, deriving for around €10 million from dividends from subsidiaries SEST-LUVE-Polska Sp.z.o.o. and "OOO" SEST LUVE, and penalised by around €3 million by the write-down of the equity investment in the Thermo

Glass Door S.p.A. subsidiary, came to €8 million (€7.3 million in 2019) after depreciation and amortisation of €2.1 million and taxes of €0.5 million.

Sest LU-VE Polska S.p.zoo reached a turnover of €75.9 million, an increase of around 18% compared to the previous year. Net profit came to €10 million (€10.9 million in 2019) after depreciation and amortisation of €3.2 million and taxes of €1.2 million.

"OOO" Sest LU-VE recorded a turnover of €23.5 million (€22.6 million in 2019). Net profit came to approximately €4.0 million (positive for €4.2 million in 2019) after depreciation and amortisation of €1.0 million and taxes of €0.7 million.

HTS S.r.o. achieved a turnover of €37.2 million, in line with the previous year. Net profit came to €2 million (€2.2 million in 2019) after depreciation and amortisation of €2 million and taxes of €0.5 million.

LU-VE Sweden AB recorded a turnover of €15.8 million (€11.8 million in 2019, an increase of approximately 34%), with a profit of €1 million (€0.2 million in 2019) after depreciation and amortisation of €0.4 million and taxes of €73 thousand.

LU-VE Tianmen LTD recorded a turnover of €7.5 million (€8 million in 2019), with a net loss of €0.2 million (loss of €0.3 million in 2019) after depreciation and amortisation of €0.4 million and taxes of €37 thousand.

Tecnair LV S.p.A. recorded a turnover of €13 million (€11.9 million in 2019), with a net profit of €0.6 million (€0.4 million in 2019), after depreciation and amortisation of €0.6 million and taxes of €0.1 million.

Thermo Glass Door S.p.A. achieved a turnover of €11.1 million (a slight decrease of 5% compared to 2019) and a net loss of €1.1 million (loss of €1.2 million in 2019) after depreciation and amortisation of €1.1 million and a positive tax effect of €0.1 million.

Manifold S.r.l. recorded a turnover of €1.2 million (€1.4 million in 2019), with a net profit of €14 thousand after depreciation, amortisation and taxes for a total of €6 thousand.

Spirotech Heat Exchangers Private Limited recorded total revenues of €32.8 million (€42.1 million in 2019), with a net profit of €4.3 million (€5.5 million in 2019) after depreciation and amortisation of €1 million and taxes of €1.4 million.

Zyklus Heat Transfer Inc. recorded a turnover of €9.3 million (€12.9 million in 2019), with a net loss of €2.3 million, after depreciation and amortisation of €0.8 million.

Air Hex Alonte S.r.l. recorded a turnover of €50.8 million (€43.4 million in 2019), with a net profit of €2.7 million (€3.8 million in 2019), after depreciation and amortisation of €1.7 million and taxes of €0.3 million.

Fincoil LU-VE OY achieved a turnover of €43.3 million (€25.1 million in 2019), with a net profit of €53 thousand (€1.2 million the previous year), after amortisation and depreciation of €1.6 million and taxes of €31 thousand.

# 1.9 SALES COMPANIES

The situation of each company is summarised below:

LU-VE France S.a.r.l. recorded a turnover of €16.4 million (+21% on 2019), with a net profit of €0.3 million after depreciation and amortisation and taxes of €0.2 million.

LU-VE Deutschland GmbH recorded a turnover of €1.4 million (€1.7 million in 2019), with a net loss of €0.4 million, after depreciation, amortisation and taxes of €0.1 million.

LU-VE Iberica SL recorded a turnover of €8.8 million (€11.3 million in 2019), with a net loss of €33 thousand after depreciation, amortisation and taxes of €39 thousand.

LU-VE Contardo Pacific pty. Ltd. recorded turnover of €1.3 million (€1.6 million in 2019), with a net loss of €1 million after depreciation and amortisation of €0.1 million.

LU-VE Asia Pacific Ltd. closed the year with a net loss of €1 million.

LUVEDIGITAL S.r.l. recorded a turnover of €0.5 million, with a net profit of approximately €4 thousand after depreciation and amortisation and taxes of approximately €6 thousand.

LU-VE Austria GmbH recorded a turnover of €0.4 million (in line with the previous year), with a net profit of €40 thousand, after depreciation, amortisation and taxes of €16 thousand.

LU-VE Netherlands B.V. recorded a turnover of €1.3 million, with a net loss of €0.4 million, after amortisation, depreciation and taxes of €4 thousand.

LU-VE Middle East DMCC recorded a turnover of €0.5 million, with a net loss of €52 thousand, after depreciation, amortisation and taxes of €43 thousand.

"OOO" LU-VE Moscow recorded a turnover of €5.6 million, with a net loss of €0.6 million, after depreciation, amortisation of €83 thousand and a positive tax effect of €127 thousand.

# 1.10 INVESTMENTS

Group investments in 2020 amounted to €28.9 million (€90.2 million in 2019, of which € 21.8 million relative to the impact of the first application of IFRS16 and €38.7 million relative to the impact of "Al Air") against amortisation and depreciation of €28.3 million. The investments by company are summarised below:

| In thousands of Euro | INVESTMENTS | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Category | LU-VE | SEST | SEST LUVE POLSKA | "OOO" SEST LUVE | HTS | SPIROTECH | TGD | ZYKLUS | ALONTE | FINCOIL | OTHER | Total |
| Land and buildings | 226 | 73 | 260 | 147 | 16 | - | - | - | 16 | - | - | **738** |
| Plant and equipment | 1,120 | 776 | 573 | 455 | 62 | 416 | 81 | - | 1,686 | 38 | 29 | **5,236** |
| Rights of use | 296 | 261 | 1,206 | - | - | 8 | 11 | 6 | 1,042 | 62 | 1,287 | **4,179** |
| Other | 5,513 | 222 | 1,374 | 279 | 121 | 151 | 449 | 22 | 738 | 426 | 548 | **9,843** |
| Work in progress | 142 | 41 | 1,723 | 251 | 612 | 2,400 | 4 | 3,616 | 27 | 0 | 40 | **8,856** |
| TOTAL | **7,297** | **1,373** | **5,136** | **1,132** | **811** | **2,975** | **545** | **3,644** | **3,509** | **526** | **1,904** | **28,852** |

The capex programme continued for the expansion and streamlining of certain production sites and for the strengthening of installed production capacity. The main investments for the year regarded:

- the expansion of the existing production capacity (for €1.2 million) and the purchase of management and technical software for improved operations at Group level (€4.7 million) by the parent company LU-VE S.p.A.;
- the expansion of the manufacturing site and the enhancement of the existing production capacity by the Polish subsidiary;
- the expansion of the manufacturing site and the enhancement of the existing production capacity (for €5.1 million) by the Indian subsidiary;
- the expansion of the production site (for €3.6 million) by the US subsidiary;
- the expansion of existing production capacity (for €3,3 million) by the Italian subsidiary Air Hex Alonte S.r.l.;
- the Group has also incurred development costs for €1.8 million.

# 1.11 PERSONNEL

The year 2020 was characterised and significantly impacted by the health emergency due to the COVID-19 virus.

After an extremely positive start to the year both in terms of economic results and in terms of recruitment, from the end of February it became necessary to implement all the possible health measures for the containment of the risk and the safeguard of the health of employees. For this reason a number of internal circulars, procedures and instructions were executed in order to guide behaviour towards maximum attention to prevention. The response from everybody was admirable and this allowed the maximum containment of cases of infections, also ensuring the continuity of working activities.

An important instrument in the prevention of diffusion of the pandemic was the massive use of smart working. Thanks to the IT means made available by the IT Systems department to support smart working, it was possible to safeguard health and at the same time ensure the continuation of activities. At the same time, a smart working Regulation was drafted, defining in detail who can access this work mode, and using which procedures.

During the year a significant reduction in secondments was recorded, which did not in any case prevent maintaining strong relationships with stakeholders, in particular customers and suppliers on the one hand, and several plants and colleagues throughout the Group on the other.

In spite of what has been detailed above, the growth of the LU-VE Group personnel continued throughout the year, with a further significant increase in resources, in particular in India and in Poland.

The total number of employees, as at 31 December 2020, was 3,520 units (including temporary workers), broken down as follows:

- 2,636 blue-collar workers
- 850 white-collar workers and middle managers
- 34 executives

with an increase of 351 units compared to the previous year.

The total of temporary workers was 797 units.

Personnel search and selection continued, at a significant pace, in the various plants in particular in the areas of research and development, trading and operations.

From the start of 2021 a collaboration with partners specialised in online recruitment has been active, in order to improve the timeliness of the inclusion of new resources and increase the quality of candidates.

A targeted employer-branding activity has been implemented from the start of 2021, with the objective of attracting interesting profiles, introduce the Group in an appropriate manner and enhance what happens in the various plants to improve employees' loyalty, increasing their sense of being part of the Group.

The skill assessment module, which allows to understand and enhance the value of both personal and professional skills of all employees, was activated within the HR SAP SF platform during 2020. To implement this operational process, the organisations within the various plants have been harmonised thanks to the support of the Group's functional managers. The analysis phase has allowed to clearly identify the tasks and responsibilities of all functions.

The HR SAP SF management system, which allows the immediate access to personnel information and an improved and more timely processing of reports and data, is operative in all the Group's companies.

Training programmes, in spite of the limitation to personal attendance due to the pandemic, have continued, mainly for issues relating to safety and the environment, managerial development, and technical, commercial and linguistic updating.

Thanks to online training procedures, it was then possible to respect the most important opportunities for the continuous development of skills and employees' awareness.

## 1.12 OCCUPATIONAL HEALTH AND SAFETY

The year 2020 was a very particular and difficult year for all industrial groups and for the working world in general. The COVID-19 pandemic did in fact influence and determine trends in trading and modified the life habits of the global population.

Of course, it also modified many work habits and procedures of all workers.

From the first few days of March 2020, when it became certain that there was a need to take steps to respect the regulations issued in order to safeguard the population from the possible contagion on the one hand, and on the other in order to protect production activities as far as possible, the LU-VE Group also set out to review its work strategy.

Therefore, various versions of the Protocol shared by the Emergency Management were issued, in line with the evolution of the pandemic situation and of the various decrees issued.

The management of the emergency, as already specified, was assigned to the Crisis Committee, still active with weekly meetings (but which took place twice a week in the initial phase). It was composed of plant managers, central senior and control figures (including the Chief Executive Officers, most of the members of the Board of Directors, all the members of the Board of Statutory Auditors and the Chairman of the Supervisory Body) and of on-site HSE functions, and it established the rules for access control and for the management of personnel within each site.
First of all, distancing regulations were established in the various areas, for each site, defining the maximum number of people who could occupy each room, so reducing the number of people and excluding from use those areas without primary air exchanges, which were therefore not suitable to guarantee a minimum personal safety.
Through a detailed site-by-site analysis and using the most advanced and precautionary definition criteria of "useful space per person", a new workstation layout was established, reducing the possibility of access to the essential minimum, thanks to the use of smart working for most of the administration staff, but also on a rotation basis for many operating technician staff.
The reorganisation of each plant, with a protocol for cleaning, sanitisation and behaviour, drastically reduced the opportunities for close contact with colleagues, significantly contributing to the reduction of opportunities for contagion within the company.
Furthermore, the drastic reduction of secondments between the various Group plants further limited opportunities for contact and therefore for contagion.
The prompt adoption of all these measures allowed to reduce to a minimum the need to close departments and activities in the various plants for reasons linked to contagion. The reduction of production activities, in fact, was mostly due to issues linked with reduced orders rather than contagion problems.

In spite of the issues inherent to the management of the pandemic, during 2020 the Group continued activities inherent to the definition of One Company which, also in relation to aspects of health and safety at work and in the environment, gives both an impulse and drive to the promotion of a single strategy and a single way to manage the main linked aspects, always from a point of view of continuous improvement.
Thanks to the activity focused on the Group's integration and homogenisation of processes linked to health, safety and environment (HSE) issues, during 2020 it has been possible to:

- continue with the diffusion and application in Italian sites of a single methodology for the assessment of risks, which has also been integrated into the "Risolvo" information system, with application first in the Italian plants, but with the intention of making it accessible also to the other plants, in and out of the European Community;
- start an inter-plant Audit plan which allows a more rapid diffusion of best HSE management practices, increasing at the same time the ability to identify risks by the site HSE staff. Because of the pandemic, on site activities were postponed to 2021. During the financial year, the availability of Italian HSE groups has been checked for the implementation of this plan and the preparation of a specific audit procedure has been started, which allows the easy exchange of information and a homogenisation of the assessment of audit observations;
- carry out at the plant of the subsidiary Thermo Glass Door S.r.l. in Travacò Siccomario (Pavia - Italy) actions for the integration of HSE issues, both with regard to the risk assessment using the "Group" methodology and launching a specific action plan.

In Air Hex Alonte the take-over process continued throughout 2020 of the management of equipment, machinery and structures deriving from the acquisition of "Al Air". This plant too moved to risk assessment using the "Group" methodology and the latest relative documents have been acquired, for example, with regard to the seismic risk assessment. With regard to the equipment, one of the punching machine in the "sheet metal section" was soundproofed, as it was particularly bothersome to the entire section because of its central location and the size of the pieces worked. Following the testing of the soundproofing cover, another risk assessment was also carried out for the assessment of risk to noise exposure, not only for the section but for the entire plant, which will be completed in the first quarter of 2021. Lastly, a new acoustic impact assessment was also carried out with respect to the outside of the plan, which identified a very low acoustic impact, systematically within the area zone limits.

During the year activities were also launched with regard to the plant of the subsidiary HTS in the Czech Republic in order to improve the accident indices, carrying out an HSE audit which lead to the drafting of an improvement plan (Action Plan) whose primary objective is that of significantly reduce work accident frequency and severity indices compared to 2020. This Action Plan will be subsequently used as an example for the promotion of similar plans in the other Group's plants in and out of Europe.

With regard to all plants, the application of normal actions indicated by every safety plan continued, that is the health checks on all personnel in compliance with the applicable regulations, the maintenance and control of machinery, equipment and work systems and work training required by all applicable regulations.

The following table summarises the data relative to accidents in the last two financial years, which show declining figures, in particular with regard to the severity index:

| | 2020 | 2019 |
|---|---|---|
| **Frequency index**<br>(no. of accident/hours worked)*1,000,000 | 8.51 | 8.58 |
| **Severity index**<br>((no. days of absence/hours worked)*1,000,000)) | 219.18 | 335.25 |

All Environment, Energy and Health and Safety certifications already obtained have been retained and ISO 45001 certifications have been achieved to replace the previous OHSAS 18001 certifications.

With respect to accidents, in the course of 2020 the following was observed for the Group:

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

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

- No damages were caused to the environment for which the Group companies were declared at fault;

For more information, please refer to the "In Safety" and "Respect for the environment" chapters of the 2020 consolidated non-financial statement.

## 1.13 SUSTAINABILITY, A CONSTANT COMMITMENT IN TIME

From its very foundation, the LU-VE Group has represented the principle that companies are, first of all, women, men and ideas. People with long experiences, young people with creativity and enthusiasm, very high academic level specialists, joined by the passion for their work, by a humble approach and by the vision of a better world, advanced and responsible, with the objective of contributing to increase people's quality of life: ensuring safe food, correctly stored through products for refrigeration, climatic well-being with air conditioning equipment and energy efficiency of solutions for industrial processes and digital transformation.

The creation of value shared with its stakeholders, attention to the environment and technological innovation of products and processes have always been the drivers for a LU-VE Group's development that is sustainable and durable over time.

Environment and technological innovation have always been the best combination for continuous improvement. In 2000, the LU-VE Group was the first in Europe to obtain the then new Eurovent "Certify All" certification, for all ranges of condensers, dry coolers and aero evaporators, which guarantees, through tests carried out in independent laboratories, the certainty of the information on the products' technical performance. In 2016 Eurovent officially certified that all LU-VE Group heat exchangers for refrigeration have never recorded a single negative test for the 2013-2015 three year period. At the end of 2020, the Group was one of the very first to obtain the Eurovent certification (LU-VE Exchangers and AIA LU-VE brands) for CO2 aero evaporators: thermic capacity, sound level and energy consumption. The Group has been a pioneer in this field through research projects carried out with international institutes and universities which have produced technological innovations applied to the products sold. The Group has been able to reduce the refrigerating fluid used thanks to innovative technologies (Minichannel and Armonia) (68% less propane and ammonia), a 95% reduction in the consumption of water and the reduction in energy consumption of up to 60% thanks to the Emeritus project). The adoption of natural refrigerants inside heat exchangers produced in line with the Kigali amendment to the Montreal Protocol, which aims to reduce the greenhouse gas effect caused by F-Gas refrigerants.

The management of environmental and health and safety aspects is defined in some of the Group's plants through management models compliant with the ISO 14001, ISO 45001/OHSAS 18001 and ISO 50001 international standards.

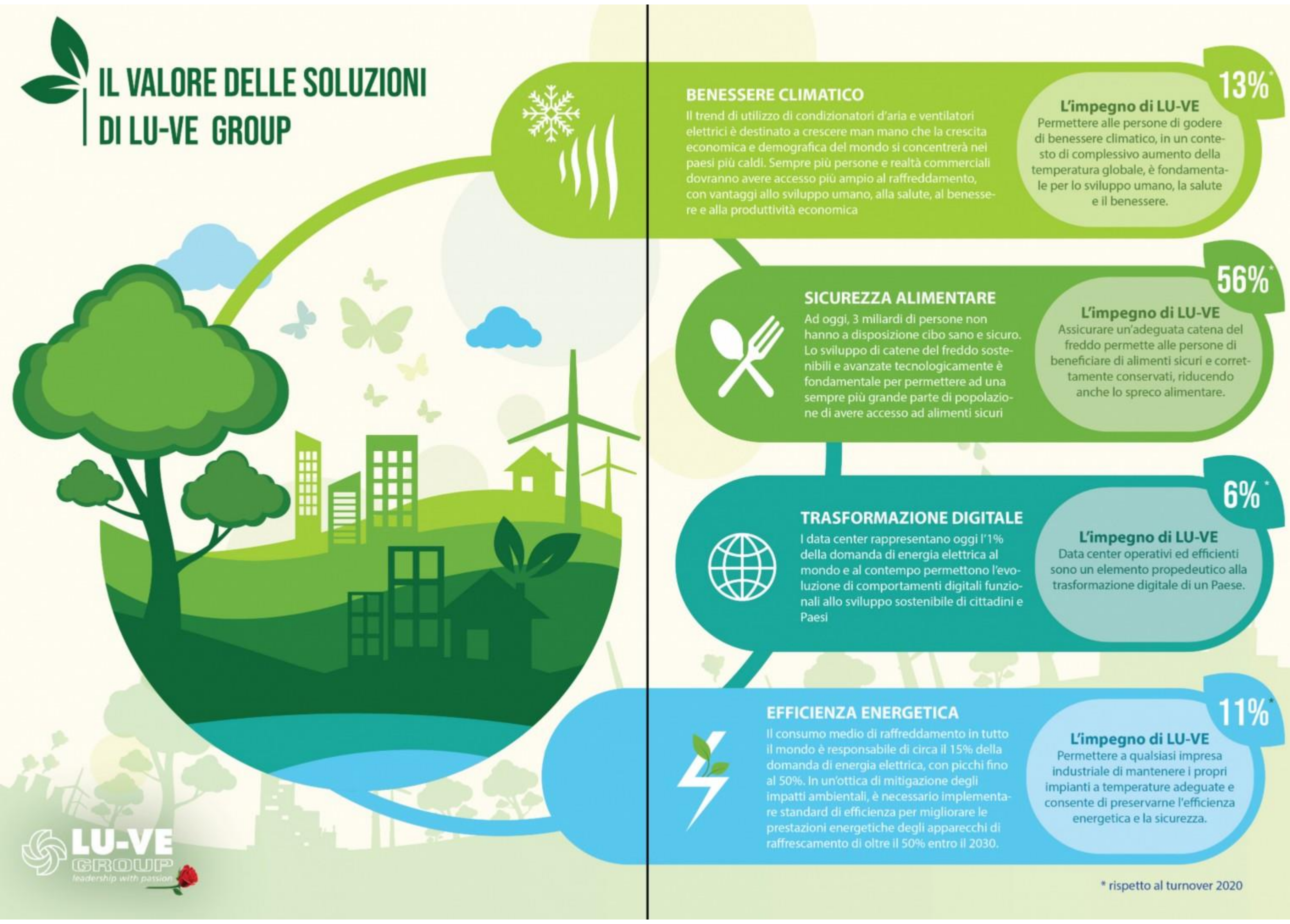
Being one of the top companies in which people love to work acknowledges the importance that people have within the LU-VE Group, which has always been committed to create an inclusive and merit-based environment, attentive to others and respectful of diversity, equal opportunities and human rights in all of its plants.

The LU-VE Group has always paid much attention to the training issues such as the professional and personal growth path of its employees, in particular in the last few years, when the group has grown rapidly and the need of training paths has become an essential requirement to reach the objectives for growth and for building the Make One Company.

Much attention has always been paid also to the company's corporate governance, oriented towards management ethics and transparency, diversity policies in the composition of the Board of Directors, the presence of sustainability plans and objectives linked to the board's remuneration, as well as control procedures, policies and more generally behaviour of senior management and the company in terms of ethics and compliance.

In 2020, the LU-VE Group started an integration path for the issues relative to sustainability in the development strategy. The objective is to obtain a renewed concept of corporate social responsibility, with a decisive role in the reporting to stakeholders, in the indication of the intersections between the company's objectives and the community's priorities.

The LU-VE Vision, "A better world, evolved, balanced and responsible", was reviewed in accordance with the 17 Sustainable Development Goals (SDGs) defined by the United Nations' 2030 Agenda. The Vision's objective is to further focus the Group's activities in the actual impact areas: ensuring safe and correctly stored food through products for refrigeration, guaranteeing climatic well-being with air conditioning and energy efficiency system solutions for industrial processes and digital transformation.




The projects and programs development path for the achievement of defined objectives cannot be independent of a participative organisational model which focuses on the issues of sustainability; for this reason the LU-VE's Board of Directors has mandated the Group's COO to be the reference point for sustainability issues and has also assigned the competence for the supervision of processes and activities relating to sustainability to the Control and Risk Committee; furthermore, LU-VE's Sustainability Report is defined in compliance with the GRI Standards and is subject to a limited audit by the independent auditing company.

LU-VE is also working on the issue of taxonomy, a classification system that defines the eco-compatible activities that positively contribute to the achievement of the environmental and climatic objectives identified by the EU. This declaration will become mandatory at the start of 2022 in relation to the 2021 tax year, even though some of the classification criteria have yet to be clarified. LU-VE's turnover already derives to a large extent (50.6% in 2020) from products using natural refrigerants and therefore with a reduced impact on LU-VE Global warming Power and essentially aligned with the environmental objectives of Climate Change.

The Group is assessing the risks and opportunities correlated to the climate change and aims to fix scientific objectives for the reduction of greenhouse gases in line with the Paris Agreement. In particular, the investigation scope will take into consideration Scope 1 and 2 (direct and indirect emissions linked to the energy generated by the organisation) and Scope 3 (indirect emission generated by the value chain) emissions.

Therefore, the consequences in terms of investments, costs and other impacts on cash flows have not yet been considered in the process for the preparation of the financial statements for the 2020 financial year.

# 2 OBSERVATIONS ON THE FINANCIAL PROFILE AND ON BUSINESS CONTINUITY

The Group's consolidated financial statements and the Parent Company's financial statements as at 31 December 2020 have been prepared on the basis of business continuity pursuant to paragraph 25 and 26 of the IAS 1 international accounting standard, as the Directors have verified the non-existence of indicators of a financial, management or any other nature that might indicate critical issues relating to the ability of the Group and of the Parent Company of meeting its commitments in the foreseeable future.

At 31 December 2020, the Group and the Parent Company had a solid and balanced financial structure with a Net financial debt/Shareholders' equity ratio (Debt ratio) of 0.71 and 1.13 respectively and a positive short-term net financial position of €133.0 million and €82.7 million, respectively. Therefore the repayment of medium- and long-term debt expiring during 2021 is guaranteed by current liquidity. In addition, there are no substantial restrictions on the freeing up of invested liquidity, equal to €70.3 million, which therefore, if required, may be used to meet any payment commitments.

It is also reported that the assessment of compliance with asset and economic requirements (covenants) on a consolidated basis, required on the financial debt of LU-VE, as at 31 December 2020 did not highlight any critical issues. Furthermore, it is highlighted that the estimates of the 2021 Budget, which contemplate the estimated effects of the pandemic in line with those at the end of the 2020 financial year, lead to the expectation that no critical issues with regard to these requirements will arise also for next year.

In spite of the current high degree of uncertainty in the world scenario, an assessment has been carried out of the possible impacts of the spread of the pandemic and it is considered to be reasonable that it will not compromise the company's continuity.

## 2.1 MAIN RISKS AND UNCERTAINTIES

### RISKS RELATED TO TRENDS IN RAW MATERIAL PRICES

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

The fluctuation in the availability and price of the above-mentioned materials could be significant, depending on a number of factors, including the economic cycle of the reference markets, supply conditions and other factors that are out of the control of the Group and are difficult to predict (such as: problems, also related to the pandemic, 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, the possible introduction of tariffs and the impacts of climate change on extractive activities). With reference to the energy transition, in particular, additional quantities of copper and aluminium will be necessary, which will however require reduced energy intensity extraction techniques.

To manage these risks, the Group constantly monitors the availability of raw materials in the market as well as the relative price trends (also taking into consideration USD currency fluctuations with respect to the euro), in order to promptly identify any shortfalls in the availability of raw materials and take suitable actions to guarantee the required production autonomy, and also to keep its production activities competitive with regard to this aspect as well. Analyses are constantly carried out to identify alternatives to strategic suppliers to reduce the relative dependence on them and also of geographical diversification activities both with the aim to reduce purchase costs with comparable quality and to avoid excessive geographical dependence on some areas in the world. In particular, with regard to the main purchased raw material – copper – the Group has dealt for several years, for the most part in terms of volumes, with the same suppliers, selected and periodically assessed on the basis of trading reliability criteria and with whom a relationship based on reciprocal trust has been built. Furthermore, when it deems this necessary in relation to expected trends, the Group enters into contracts to hedge the risk of fluctuations in the price of raw materials.

Lastly, please note that oil price volatility impacts (aside from raw material prices) investments made at global level in the Power Gen market, making it difficult to predict trends in this market segment, especially in view of the energy transition, which could limit its operations in time.

## RISKS RELATED TO NET FINANCIAL DEBT

In relation to certain loan agreements, the Group is committed to respecting specific financial parameters (covenants). In addition, a significant portion of the Group's loan agreements include cross-default - cross acceleration clauses, negative pledge clauses and pari passu clauses. In the future, if the above-mentioned financial covenants or other commitments laid out in existing loan agreements are not respected, the Group could be required to repay the relative debt early.

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

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

The financial instruments, the Group invests its available liquidity in, are primarily represented by capitalisation policies.

Please note that the capitalisation policies provide for a guarantee on the capital and the capitalisation of returns (which in this manner also become guaranteed) every twelve months as well as several penalties in the case of early redemption, of an amount not overall significant (with expiry mainly in 2021 and in a very limited manner in 2022).

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

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

It cannot be excluded that in the future, also because of the pandemic, the value that will be obtained from disinvestment from the financial instruments themselves may be lower than the fair value recognised in the Financial Statements, thus generating a deterioration of net financial debt. Against the recognition of recurring costs in the Income Statement, deriving from financial expenses on existing loans, returns on investments in cash and cash equivalents are uncertain and are characterised by high volatility, also on the negative side. However, the Group selects its investments by privileging low risk ones and makes them with leading banking institutions. In addition, a careful liquidity management policy and the existence of short-term credit lines mitigate the risk of having to proceed with the sudden and unforeseen freeing up of liquidity.

## RISKS RELATED TO EXCHANGE RATE FLUCTUATIONS

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

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

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

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

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

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

At centralised level, in order to protect the income statement and the balance sheet items from such fluctuations and reduce the risk arising from changes in exchange rates, the group considers the subscription of derivative financial instruments with the intent of hedging the underlying risks. However, from a merely accounting perspective, although such instruments substantially hedge the risks mentioned, they do not meet all the requirements as laid out under IFRS 9 (formerly IAS 39) and cannot be defined as hedge accounting; therefore, the Group has decided to consider these instruments as for trading and not hedges and as a result such instruments were measured at fair value with changes reported on the income statement.

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

## RISKS INHERENT TO THE GROWTH STRATEGY THROUGH EXTERNAL LINES

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

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

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

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

## LIQUIDITY RISK

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

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

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

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

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

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

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

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

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

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

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

## RISKS RELATED TO THE CONCENTRATION OF SALES

Although there is no Group customer which alone represents more than 4.5% of consolidated turnover and the top 10 customers together represent 31.1% of consolidated turnover, the segment of refrigerated counter manufacturers (in which the Group supplies all of the most important European players and which represent 18.6% of its turnover in the year 2020), that of the "domestic appliances" (in which the Group supplies all the most important European brands with a turnover (4.4% of its turnover) are characterised by strong commercial leadership by some large customers.

As a result, if the supply to one of the Group's customers in the above-mentioned segments is discontinued, the Group companies that operate in that sector could have difficulty recovering the lost turnover with other customers with a negative impact in terms of their Income Statement results and/or the equity and/or financial situation.

The Group regularly takes measures to diversify the risk linked to the concentration of sales, by regularly conducting business surveys aimed at always seeking out new customers and new application fields both in Italy and abroad.

## RISKS RELATED TO POSSIBLE PROCUREMENT DIFFICULTIES AND RELATIONS WITH SUPPLIERS

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

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

## RISKS RELATED TO ENVIRONMENTAL MATTERS

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

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

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

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

## RISKS RELATED TO THE CONSEQUENCES OF ANY INTERRUPTIONS OF BUSINESS OPERATIONS

The Group operates with a production process associated with fixed costs connected with the operations of its facilities. Therefore, the Group is exposed to the risk resulting from the interruption of production activities in one or more of its facilities, following events such as, simply 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, pandemics (as in the case of local lockdown provisions during 2020 linked to the COVID-19 emergency), significant interruptions in the supply of raw materials or energy, or lastly disasters caused by humans such as accidents, fires and acts of terrorism. More specifically, an interruption in production activities could entail a partial lack of absorption of fixed production costs and/or render the Group temporarily unable to promptly meet the demands of its customers.

Although the Group companies have taken out loss of profit and all risk insurance policies against damages from fire and natural disasters (but not against indirect damages caused by force majeure), the limits and excesses of which are deemed consistent in consideration of the possible damages that could take place, any significant interruption in activities at its industrial facilities, due to the events mentioned above and other events outside the Group's control and not included in insurance policies, could have negative effects on the activities and on the Income Statement, equity and/or financial situation, the economic results and on prospects.

## RISKS RELATED TO PRODUCT QUALITY AND LIABILITY

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

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

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

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

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

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

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

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

## RISKS RELATED TO INTEREST RATE TRENDS

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

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

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

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

## RISKS RELATED TO CREDIT

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

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

The historically low levels of losses on receivables recognised are proof of the good results achieved also in the presence of the impact of the pandemic.

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

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

More specifically, the Group:

(i) has a strong bent towards exports, with turnover earned predominantly outside the Italian market (in the years ending 31 December 2020, 2019 and 2018, Group revenues from sales made abroad represented 83,3%, 80.7% and 78.7% of total sales, respectively);

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

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

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

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

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

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

## RISKS RELATED TO GENERAL ECONOMIC CONDITIONS

The economic performance and financial position of the Group, which operates at international level in various countries, are influenced by various factors which reflect macroeconomic trends, including consumption trends, the cost of raw materials, interest rate fluctuations and those of the currency markets.

As already reported in the first part of this document, because of the viral pandemic which started in the first few months of the year, 2020 was a year of grave consequences due to the human lives lost and the complete breakdown of the economic cycle. The global impact, on a system which had already started to slow down at the end of 2019 albeit still growing by 2.9%, was very significant, with a contraction of GDP of 3.5%. The only large country still able to grow was China which, even though it had been affected by the virus before all others, during the year managed to recover, ending the year with a growth in GDP of 2.3%. The United States closed the financial year with a contraction in produced wealth of 3.5%, the worst result since the Great Depression. Russia experienced a similar contraction while estimates for India are of a drop of 8%, in line with that of the Eurozone (7.2%), which ranges from -5.4% in Germany, -9% in Italy and France and -11% in Spain. The fall in the Italian GDP comes after a zero growth 2019 and returns our country to the GDP levels at the end of last century.

Forecasts for 2021 remain positive although very conditional on the evolution of the pandemic in relation to the completion of the various vaccination campaigns under way. Global growth is forecast to exceed 5%, with the United States at 5.1%, China at 8%, India at 11%, the Eurozone at 4.2%, with Italy last with 3%. If these figures are confirmed, the world would be able to fully recover the wealth lost during the pandemic. This would be the case for China and the United States but not for Europe, in confirmation of the significant effect that the virus has had on the relationships of economic strengths at global level. In this scenario, the new year is also a test bench for the policies of the new American administration and for the start of Brexit in the United Kingdom, one of the countries most affected by the pandemic.

Monetary policies still remain very expansive on a global level, with the intention to finance significant national deficits finalised at offsetting the depressive effects of the virus. It is not clear how long these policies can last, especially without causing a return to inflation. Raw materials recorded a crash in values at the end of 2019 and in the first quarter of 2020, on occasion of the first lockdown. Subsequently they recovered to end the year on values much higher than the previous financial year, in particular in the case of copper, aluminium and iron. This is a trend that doesn't seem to have stopped since the start of the current year.

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

## CYBER RISKS

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

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

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

## RISKS LINKED TO THE COVID-19 HEALTH EMERGENCY

The pandemic linked to the spread of COVID-19, also if subject to containment measures, could continue to determine significant consequences from a health, social and economic point of view all over the world (with very different impacts from country to country). The main risks refer to the deterioration of the global macro-economic scenario, the deterioration of the credit profile of customers and countries and the slowdown of trading activities due to the reduction in demand, the negative impacts on supply chains, on sale prices and raw material purchasing prices and on the availability and price of financial resources.

From the start, the Group established a dedicated “Crisis committee” to best manage the emergency and protect the health of all employees as far as possible. *Smart working* was very quickly activated for all functions able to carry out their activities in this way, still quite widely used, and the use of instruments granted to make the cost of work more flexible (social shock absorbers). Great attention was paid to monitoring customers' and suppliers' situation to best manage production capacity and delivery times to the market (promptly addressing critical issues linked to the supply and the circulation of goods). Flexibility, both in terms of production and logistics, was significantly increased allowing the transfer of productions from plants in lockdown areas to still active ones, so guaranteeing continuity of supply to strategic customers.

Taking into account the uncertainty of the times, the Group is not able to determine precisely the impacts deriving from the pandemic in subsequent years. Because of COVID-19, the macro-economic scenario is difficult to predict and visibility is limited. Therefore, it is very complicated to define reliable forecasts on the trend of commercial, economic and financial results. The potential effects on the budget of future years cannot be precisely determined at present and will be constantly monitored by the management.

It is necessary, however, to report how the consolidated final data as at 31 December 2020 indicate that, with respect to the sensitivity analyses carried out on compliance with the 2020-23 business plan approved by the Board of Directors on 6 April 2020, which, it is recalled, indicated the initial forecasts with respect to the effects that the pandemic might have been reflected in an expected reduction in revenues of 20% for 2020 and of 5% for 2021, hypothesising a substantial stability in estimated fixed costs and in the investments planned for those financial years, the same did not present effects greater than those estimated for the 2020 financial year, both in terms of economic results and in terms of financial projections (the latter with particular reference to the issues of revenues from customers and bank loans). The Business Plan for the 2021-2024 period approved on 24 February 2021, reports for the current financial year, which envisages the pandemic effects estimated in line with those at the end of the 2020 financial year, growth expectations such as to bring the LU-VE Group at least to the levels of the final results in the 2019 financial year.

In this context, the Group will in any case be constantly committed in improving its strategic position in all the markets in which it operates. At this stage it will be vital to manage the contingent situation in the short term, while, however, never letting this distract us from our focus on medium and long term objectives to grow volumes and profitability.

## 2.2 DEVELOPMENT ACTIVITIES

In the course of 2020, the Group carried out intense development activities, as usual, to offer the market increasingly advanced products with a lower environmental impact (a key distinctive element of its competitive strategy), broken down over in several different projects, some of which are carried out in partnership with prestigious European universities.

Part of these projects are still under way and for their development, the Group incurred Research and Development costs of €1.8 million during the year (including €1.6 million capitalised under Intangible assets with the consent of the Board of Statutory Auditors).

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

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

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

## 2.4 PERFORMANCE IN THE OPENING MONTHS OF 2021: significant events and business outlook

The consolidated turnover of products for only the first two months of 2021 shows a value of €63.2 million with a reduction of 6.1% compared to the same period in the previous year which had recorded a record start to the year before the explosion of the pandemic. The order portfolio amounts to €88.8 million with an increase of 5.3% compared to February 2020.

In spite of the uncertain situation linked to the persistence of the pandemic and the slowness (at least at European level) of the vaccination process, the demand remains generally active with the obvious exception of the “Horeca” sector, strongly penalised by the lockdown measures. However, a constant disruption caused by the pandemic has been determined by the frequent delays in projects, orders and deliveries of finished products due to the difficulty of access to worksites or to the strengthening of prevention measures adopted by individual countries.

A further area of attention is linked to the area of purchases and of the supply chain. In fact, fears linked to the availability of some materials, in particular sheet metal and electronic components were added to the increase in prices in all the main raw materials, both because of the explosion in rental and transport costs compounded by potential risks of interruption in supplies on the part of suppliers in area particularly at risk. The Group Purchasing Direction closely and timely monitors the critical issues linked to the possible supply difficulties of suppliers (both in Italy and abroad) as well as the difficulties linked to the circulation of goods are very closely and promptly monitored. Thanks to a widespread geographical presence and a careful scouting policy, alternative supply sources have been activated which have to date allowed to regularly supply production.

In January 2021 the transfer of the former Alfa Laval production site and of the entire business unit was completed, with the signature and execution of the final agreements by the subsidiary Spirotech, with the payment at the same time of the residual contractually defined price (only €0.2 million linked to delays linked to some marginal fulfilments by the counterparty).

As the macro-economic scenario remains characterised by a strong uncertainty with regard to the time necessary to overcome the pandemic at global level, it is rather difficult to make accurate forecasts on the trends in orders and in the commercial, economic and financial results, against the budget of a challenging financial year but based at present on the development of a hypothesis of a faster speed to exit the crisis linked to the pandemic.

in February 2021 an unsecure loan agreement was entered into with Cassa Depositi e Prestiti for €30 million with a duration of 18 months, with fully repayment at the end of the term.

In March 2021 the constitution process of the subsidiary LU-VE Korea LLC was concluded.

The so-called Transparency directive (directive 2004/109/EC) provides the obligation to publish the entire set of documents composing the annual financial report (financial statements for the year, consolidated financial statements, report on operations, declaration of conformity by the chief executive officer and of the financial reporting officer), prepared by listed companies, in a single communication electronic format. In implementation of this provision, delegated Regulation of the European Commission 2018/815/ (so called ESEF Regulation) imposed the obligation to prepare the above mentioned annual financial report in the XHTML format, marking some information of the consolidated financial statements with the XBRL online specifications. This new form of electronic publication should have been mandatorily applied starting from the annual financial reports starting from 1 January 2020 or after (see art. 4, paragraph 7 of the Transparency directive). For issuers with a financial year corresponding with the solar year, the issuer should have published the annual financial report in the new format starting from that relative to the financial year 1 January 2020/31 December 2020.

In consideration of the difficulties affecting the business community due to the crisis deriving from the COVID-19 pandemic, the European Parliament and the European Council approved, in mid-February 2021, an amendment of the Transparency directive, which allows member states to postpone by a year the obligation to publish financial reports using the above mentioned European single electronic format. At national level, Law no. 21 of 26 February 2021 published in the Official Gazette on 1 March 2021, in order to use the above mentioned prorogation, provides for the dispositions of the ESEF Regulation to be applied to financial report relative to financial years starting from 1 January 2021. Therefore, financial reports relative to the financial year closing as at 31 December 2020 don't need to be published in accordance to the provisions of the ESEF Regulation, other than on a voluntary basis. Therefore, LU-VE availed itself of the above prorogation.

## 2.5 MANAGEMENT AND COORDINATION ACTIVITIES

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

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

## 2.6 RELATED PARTY TRANSACTIONS

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

## 2.7 TREASURY SHARES

Pursuant to law, please recall that as at 31 December 2020, the Group held 28,027 treasury shares, equal to 0.1261% of the share capital, which was acquired at an average price of €10.2827 based on the authorisation resolutions approved by the Shareholders' Meeting on 29 April 2019. In application of international accounting standards, these instruments are recognised as a deduction from the shareholders' equity attributable to the Group.

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

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

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

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

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

## 2.10 DECLARATION OF THE MANAGER IN CHARGE OF FINANCIAL REPORTING

The Manager in charge of financial reporting, Mr Eligio Macchi, declares, pursuant to art. 154-bis, paragraph 2 of the Consolidated Law on Finance, that the accounting disclosure contained in this Directors' Report as at 31 December 2020 corresponds to the results of the accounting documents, books and entries.

## 2.11 SECONDARY OFFICES

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

## 2.12 PROPOSED RESOLUTIONS TO THE SHAREHOLDERS' MEETING

Dear Shareholders,

We propose:

to approve the financial statements of LU-VE S.p.A. at 31 December 2020, which show a net profit of €7,156,632.93 (seven million one hundred and fifty-six thousand and six hundred thirty-two/93) as well as the Directors' Report on Operations;

and, after this approval

*1)* to allocate a part of the profit for the year of €7,156,632.93 (seven millions one hundred and fifty-six thousand and six hundred and thirty-two/93) to the legal reserve for the amount of €357,831.65 (three hundred and fifty-seven thousand eight hundred and thirty-one/65);

*2)* to distribute an ordinary dividend of €0.27 on each outstanding ordinary share (net of any treasury shares in portfolio);

*3)* to allocate the residual portion of profit for the year to an extraordinary reserve;

*4)* to establish that the payment will take place, for each share with the right to payment, on 5 May 2021, with date of detachment of the coupon no. 6 on 3 May 2021, in accordance with the Italian Stock Exchange calendar, with record date on 4 May 2021".

On behalf of the Board of Directors

Chief Executive Officer
Matteo Liberali

# 2.13 CORPORATE BODIES AND COMPANY INFORMATION

## BOARD OF DIRECTORS

| | |
|---|---|
| Chairman | Iginio Liberali |
| Vice Chairman | Pierluigi Faggioli |
| Directors | Matteo Liberali |
| | Michele Faggioli |
| | Raffaella Cagliano |
| | Guido Crespi |
| | Anna Gervasoni |
| | Fabio Liberali |
| | Laura Oliva |
| | Stefano Paleari |
| | Roberta Pierantoni |
| | Marco Vitale |

## BOARD OF STATUTORY AUDITORS

| | |
|---|---|
| Chairman | Simone Cavalli |
| Standing Auditors | Stefano Beltrame |
| | Paola Mignani |
| Alternate auditors | Laura Acquadro |
| | Patrizia Paleologo Oriundi |

## AUDITING FIRM

Deloitte & Touche S.p.A.

## REGISTERED OFFICE AND COMPANY INFORMATION

LU-VE S.p.A.

Via Vittorio Veneto no. 11, Varese

I - 21100 Varese (VA) Italy

Tel: +39 02 96716270

Share capital €62,704,488.80 fully paid in

Tax Code and VAT no.: 01570130128

# CONSOLIDATED FINANCIAL STATEMENTS AND EXPLANATORY NOTES AS AT 31 DECEMBER 2020

# CONTENTS

# 1 FINANCIAL STATEMENTS

## 1.1 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| **Consolidated Statement of Financial Position** *(in thousands of Euro)* | **Notes** | **31/12/2020** | **31/12/2019** | |
|---|---|---|---|---|
| ASSETS | | | | |
| Goodwill | 3.1 | 54,963 | 56,199 | (*) |
| Other intangible assets | 3.1 | 39,764 | 41,806 | (*) |
| Property, plant and equipment | 3.2 | 119,827 | 124,038 | |
| Rights of use | 3.2 | 17,624 | 18,338 | |
| Other property, plant and equipment | 3.2 | 21,256 | 20,893 | |
| Deferred tax assets | 3.19 | 7,903 | 6,603 | |
| Equity investments | 3.3 | 8 | 8 | |
| Other non-current assets | 3.4 | 207 | 211 | |
| Non-current assets | | 261,552 | 268,096 | (*) |
| Inventories | 3.5 | 56,647 | 61,812 | |
| Trade receivables | 3.6 | 59,763 | 61,728 | |
| Due from the tax authorities for current taxes | 3.7 | 10,259 | 13,916 | |
| Current financial assets | 3.8 | 70,258 | 59,047 | |
| Other current assets | 3.9 | 3,619 | 2,597 | |
| Cash and cash equivalents | 3.10 | 152,679 | 81,851 | |
| Current assets | | 353,225 | 280,951 | |
| Assets held for sale | | - | - | |
| Assets held for sale | | - | - | |
| TOTAL ASSETS | | 614,777 | 549,047 | (*) |

(*) restated values compared with 31 December 2019 pursuant to IFRS 3, to take retrospective account of the effects resulting from the definitive valuation of the fair value of the "Al Air" trademarks and of customer list at the date of acquisition (values previously considered provisional, see note no. 2.1 "Introduction - Al Air acquisition").

| **Consolidated Statement of Financial Position** *(in thousands of Euro)* | **Notes** | **31/12/2020** | **31/12/2019** | |
|---|---|---|---|---|
| LIABILITIES AND SHAREHOLDERS’ EQUITY | | | | |
| Share capital | 3.11 | 62,704 | 62,704 | |
| Reserves and retained earnings | 3.11 | 74,349 | 75,308 | |
| Profit for the year | 3.11 | 9,878 | 17,514 | (*) |
| **Total shareholders’ equity of the Group** | | **146,931** | **155,526** | **(*)** |
| Shareholders’ equity attributable to non-controlling interests | | 3,993 | 3,422 | |
| **SHAREHOLDERS’ EQUITY** | | **150,924** | **158,948** | **(*)** |
| Loans | 3.12 | 228,104 | 137,801 | |
| Provisions | 3.13 | 4,941 | 4,231 | |
| Employee benefits | 3.14 | 5,573 | 5,491 | |
| Deferred tax liabilities | 3.19 | 14,537 | 17,954 | (*) |
| Other financial liabilities | 3.2 - 3.15 | 11,733 | 17,698 | |
| **Non-current liabilities** | | **264,888** | **183,175** | **(*)** |
| Trade payables | 3.16 | 80,630 | 86,231 | |
| Loans | 3.12 | 81,766 | 77,671 | |
| Provisions | 3.13 | - | - | |
| Tax payables | 3.17 | 3,919 | 4,691 | |
| Other financial liabilities | 3.2 - 3.15 - 3.8 | 8,123 | 15,239 | (*) |
| Other current liabilities | 3.18 | 24,527 | 23,092 | |
| **Current liabilities** | | **198,965** | **206,924** | **(*)** |
| Liabilities held for sale | | - | - | |
| **Liabilities held for sale** | | - | - | |
| **TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY** | | **614,777** | **549,047** | **(*)** |

(*) restated values compared with 31 December 2019 pursuant to IFRS 3, to take retrospective account of the effects resulting from the definitive valuation of the fair value of the "Al Air" trademarks and of customer list at the date of acquisition (values previously considered provisional, see note no. 2.1 "Introduction - Al Air acquisition").

# 1.2 CONSOLIDATED INCOME STATEMENT

| **Reclassified Consolidated Income Statement** *(in thousands of Euro)* | **Notes** | **31/12/2020** | **31/12/2019** | |
|---|---|---|---|---|
| REVENUES AND OPERATING INCOME | | | | |
| Revenues | 4.1 | 400,028 | 390,356 | |
| Other revenues | 4.2 | 1,429 | 1,228 | |
| Total revenues and operating income | | 401,457 | 391,584 | |
| OPERATING COSTS | | | | |
| Purchases of materials | 4.3 | (201,197) | (204,035) | |
| Changes in inventories | 3.5 | (2,431) | 489 | |
| Costs for services | 4.4 | (52,201) | (54,255) | |
| Personnel costs | 4.5 | (91,684) | (83,361) | |
| Net write-downs of financial assets | 4.6 | (5,094) | (873) | |
| Other operating costs | 4.7 | (3,648) | (2,787) | |
| Total operating costs | | (356,255) | (344,822) | |
| Net change in fair value of derivatives | 3.8-3.15 | (1,269) | (597) | |
| Depreciation and amortisation | 3.1 - 3.2 | (28,298) | (24,355) | (*) |
| Capital gains on the sale of non-current assets | 3.1 - 3.2 | 122 | 366 | |
| Write-downs on non-current assets | 3.1 - 3.2 | (299) | (202) | |
| EBIT | | 15,458 | 21,974 | (*) |
| Financial income | 4.8 | 2,232 | 2,062 | |
| Financial expenses | 4.9 | (3,406) | (3,206) | |
| Exchanges gains (losses) | 4.10 | (2,384) | (180) | |
| Gains (Losses) from equity investments | 4.11 | - | - | |
| EBT | | 11,900 | 20,650 | (*) |
| Income taxes | 4.12 | (1,201) | (2,357) | (*) |
| NET PROFIT | | 10,699 | 18,293 | (*) |
| Attributable to non-controlling interests | 3.11 | (821) | (779) | |
| GROUP NET PROFIT | | 9,878 | 17,514 | (*) |

(*) restated values compared with 31 December 2019 pursuant to IFRS 3, to take retrospective account of the effects resulting from the definitive valuation of the fair value of the "Al Air" trademarks and of customer list at the date of acquisition (values previously considered provisional, see note no. 2.1 "Introduction - Al Air acquisition").

# 1.3 EARNINGS PER SHARE AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## Earnings per share

| **Earnings per share** *(in Euro)* | **Notes** | **31/12/2020** | **31/12/2019** | |
|---|---|---|---|---|
| EARNINGS PER SHARE | 4.13 | | | |
| Basic | | 0.45 | 0.79 | (*) |
| Diluted | | 0.45 | 0.79 | (*) |

(*) restated values compared with 31 December 2019 pursuant to IFRS 3, to take retrospective account of the effects resulting from the definitive valuation of the fair value of the "Al Air" trademarks and of customer list at the date of acquisition (values previously considered provisional, see note no. 2.1 "Introduction - Al Air acquisition").

## Consolidated statement of comprehensive income

| **Consolidated statement of comprehensive income** *(in thousands of Euro)* | **Notes** | **31/12/2020** | **31/12/2019** | |
|---|---|---|---|---|
| GROUP NET PROFIT | | 10,699 | 18,293 | (*) |
| *Components that will not subsequently be reclassified to the Income Statement* | | | | |
| Actuarial valuation of post-employment benefits | 3.14 | (101) | (371) | |
| Tax effect | | 27 | 89 | |
| | | **(74)** | **(282)** | |
| *Components that will subsequently be reclassified to the Income Statement:* | | | | |
| Exchange differences from translation of Financial Statements in foreign currency | 1.4 | (11,463) | (1,632) | |
| TOTAL COMPREHENSIVE INCOME | | **(838)** | **16,379** | **(*)** |
| of which: | | | | |
| Attributable to non-controlling interests | 3.11 | (821) | (779) | |
| ATTRIBUTABLE TO THE GROUP | | **(1,659)** | **15,600** | **(*)** |

(*) restated values compared with 31 December 2019 pursuant to IFRS 3, to take retrospective account of the effects resulting from the definitive valuation of the fair value of the "Al Air" trademarks and of customer list at the date of acquisition (values previously considered provisional, see note no. 2.1 "Introduction - Al Air acquisition").

# 1.4 CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS’ EQUITY

| **Consolidated Statement of changes in shareholders’ equity** *(in thousands of Euro)* | **Share capital** | **Share premium reserve** | **Legal reserve** | **Treasury shares** | **Translation reserve** | **Post-employment benefits discounting reserve** | **Other reserves** | **Profit for the period** | **Total shareholders’ equity of the Group** | **Shareholders’ equity attributable to non-controlling interests** | **Total shareholders’ equity** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| BALANCE AS AT 01/01/19 | 62,704 | 24,762 | 2,717 | (1,618) | (3,079) | (250) | 41,573 | 15,407 | 142,216 | 3,170 | 145,386 |
| Allocation of profit 2018 | | | | | | | | | | | |
| *Dividends paid* | - | - | - | - | - | - | (5,519) | - | (5,519) | (425) | (5,944) |
| *Retained* | - | - | 155 | - | - | - | 15,252 | (15,407) | - | - | - |
| Increases (decreases) | - | - | - | 1,618 | - | - | 45 | - | 1,663 | - | 1,663 |
| Reversal of deferred taxes on costs relative to capital transactions | - | - | - | - | - | - | (61) | - | (61) | - | (61) |
| Other | - | - | - | - | - | - | 1,627 | - | 1,627 | (102) | 1,525 |
| Statement of comprehensive income as at 31/12/2019 | - | - | - | - | (1,632) | (282) | - | 17,514 (*) | 15,600 (*) | 779 | 16,379 |
| BALANCE AS AT 31/12/2019 | 62,704 | 24,762 | 2,872 | 0 | (4,711) | (532) | 52,917 | 17,514 (*) | 155,526 (*) | 3,422 | 158,948 |
| Allocation of profit 2019 | | | | | | | | | | | |
| *Dividends paid* | - | - | - | - | - | - | (5,996) | - | (5,996) | (525) | (6,521) |
| *Retained* | - | - | 325 | - | - | - | 17,189 | (17,514) | - | - | - |
| Purchase of treasury shares | - | - | - | (288) | - | - | - | - | (288) | - | (288) |
| Other (**) | - | - | - | - | - | - | - | (652) | (652) | 275 | (377) |
| Statement of comprehensive income as at 31/12/2020 | - | - | - | - | (11,463) | (74) | - | 9,878 | (1,659) | 821 | (838) |
| BALANCE AS AT 31/12/2020 | 62,704 | 24,762 | 3,197 | (288) | (16,174) | (606) | 64,110 | 9,226 | 146,931 | 3,993 | 150,924 |

(*) values restated compared to 31 December 2019 pursuant to IFRS 3, so as to take into account retrospectively the effects deriving from the definitive valuation of the "Al Air" trademarks and customer list at the date of acquisition (values previously considered provisional, see note 2.1 "Introduction - Al Air Acquisition").

(**) The change in the item "Others" refer to the restatement of the portion of equity pertaining to minority interests of the company LU-VE Pacific pty (see note 2.1 "Introduction - Liquidation of LU-VE Pacific pty") in the Group shareholders' equity for € 652 thousand, partially offset by the change in the translation reserve pertaining to minority interests of the subsidiaries SESTLUVE-Polska Sp.z.o.o. and "OOO" SEST-LU-VE for an amount of €377 thousand.

# 1.5 STATEMENT OF CASH FLOWS

| | Consolidated Statement of Cash Flows *(in thousands of Euro)* | Notes | 31.12.20 | 31.12.19 | |
|---|---|---|---|---|---|
| A. | **Cash and cash equivalents at the beginning of the period** | | **81,851** | **85,905** | |
| | Profit for the period | | 10,699 | 17,514 | (*) |
| | Adjustments for: | | | | |
| | - Depreciation and amortisation | 3.1 - 3.2 | 28,298 | 24,355 | (*) |
| | - Realised (gains)/losses | | 177 | (164) | |
| | - Net financial expenses | 4.8 - 4.9 | 2,578 | 2,800 | |
| | - Income taxes | 4.12 | 1,201 | 2,357 | (*) |
| | - Changes in fair value | | (135) | (1,059) | |
| | Changes in post-employment benefits | | (55) | (22) | |
| | Changes in provisions | 3.13 | 710 | 250 | |
| | *Changes in trade receivables* | | 1,965 | (1,615) | |
| | *Changes in inventories* | | 5,165 | (955) | |
| | *Changes in trade payables* | | (5,601) | 20,341 | |
| | **Changes in net working capital** | | **1,529** | **17,771** | |
| | Changes in other receivables and payables, deferred taxes | | 4,875 | (5,302) | |
| | Tax payment | | (6,744) | (4,543) | |
| | Paid net financial expenses | | (2,765) | (2,591) | |
| B. | **Cash flows generated by operating activities** | | **40,368** | **51,366** | **(*)** |
| | Investments in non-current assets: | | | | |
| | - intangible assets | 3.1 | (6,979) | (5,459) | |
| | - property, plant and equipment | 3.2 | (18,027) | (23,480) | |
| | - financial assets | | - | - | |
| | Net acquisition price *business combination* | 2.1 | (8,700) | (29,689) | |
| C. | **Cash flows generated by investing activities** | | **(33,706)** | **(58,628)** | |
| | Repayment of loans | 3.12 | (103,341) | (82,257) | |
| | New loans | | 197,923 | 95,500 | |
| | Changes in other financial liabilities | 3.15 | (4,827) | (7,109) | |
| | Changes in short-term financial assets | 3.8 | (9,920) | 355 | |
| | Sale/(Purchase) of treasury shares | 3.11 | (288) | 1,618 | |
| | Contributions/repayments of own capital | | - | - | |
| | Payment of dividends | 4.14 | (6,521) | (5,944) | |
| | Other changes | | (4,085) | (413) | |
| D. | **Cash flows generated by financing activities** | | **68,941** | **1,750** | |
| | Exchange differences | | (11,842) | (1,533) | |
| | Other non-monetary changes | | 7,067 | 2,991 | |
| E. | **Other changes** | | **(4,775)** | **1,458** | |
| F. | **Net cash flows in the period (B+C+D+E)** | | **70,828** | **(4,054)** | **(*)** |
| | **Cash and cash equivalents at the end of the period (A+F)** | | **152,679** | **81,851** | |
| | Current financial debt | | 19,631 | 33,863 | (*) |
| | Non-current financial debt | | 239,837 | 155,499 | |
| | **Net financial debt (Note 3.20)** | **=3.20** | **106,789** | **107,511** | **(*)** |

(*) restated values compared with 31 December 2019 pursuant to IFRS 3, to take retrospective account of the effects resulting from the definitive valuation of the fair value of the "Al Air" trademarks and of customer list at the date of acquisition (values previously considered provisional, see note no. 2.1 "Introduction - Al Air acquisition").

# 2 EXPLANATORY NOTES

## 2.1 INTRODUCTION

### Acquisition of “Al Air”

On 30 April 2019, the LU-VE Group acquired 100% of the equity of “Al Air” (consisting of the companies Air Hex Alonte S.r.l., Fincoil LU-VE OY and a business unit in Sarole - India), part of the air heat exchanger division (“Air Division”) of the Alfa Laval Group, as reported in the note “Introduction” of the consolidated financial statements and relative explanatory notes as at 31 December 2019.

With reference to the acquisition made, please note that the Group availed itself of the option provided by IFRS 3, which allows the definitive allocation of the acquisition price to the assets, liabilities and intangible assets not recognised in the financial statements of “Al Air”, within the limit of their fair value, within 12 months from the date of acquisition: as at 31 December 2019 this allocation was defined to be provisional, revealing a “provisional” goodwill of approximately €10.6 million.

The allocation process was finally definitively concluded in the first part of the current financial year and the items affected by this process have been summarised below:

- Assets object of definitive allocation already as at 31 December 2019:
    - Inventory, whose fair value is higher than its book value by €1,765 thousand, generating deferred tax liabilities of €483 thousand.
    - Plant and machinery, whose fair value is higher than its book value by €4,333 thousand, generating deferred tax liabilities of €1,107 thousand.
- Assets with provisional allocation as at 31 December 2019 and object of the definitive allocation in the current 2020 financial year:
    - The trademarks, whose fair value is €12,830 thousand, generating deferred tax liabilities of €3,200 thousand (following the definitive allocation, the fair value was increased by €1,965 thousand and the deferred tax liabilities of €1,235 thousand compared to the provisional allocation as at 31 December 2019);
    - The customer list, whose fair value is greater than the book value for €8,143 thousand, generating deferred tax liabilities of €1,629 thousand (following the definitive allocation, the fair value was increased by €196 thousand and the deferred tax liabilities by €39 thousand compared to the provisional allocation as at 31 December 2019);
    - Lastly, €308 thousand were recognised for price adjustment, again referred to the acquisition of “Al Air”.

Following what is reported above, the provisional allocation to goodwill of €10.6 million as at 31 December 2019 become definitive for €10.0 million.

As laid out in IFRS 3, the comparative financial statement data as at 31 December 2019 was restated so as to retrospectively take into account the effects resulting from the definitive Purchase Price Allocation ("PPA") process. The changes are reported below:

| **Consolidated Statement of Financial Position** *(in thousands of Euro)* | **Notes** | **PUBLISHED 31/12/2019** | **Definitive recognition at fair value** | **Restatement 31/12/2019** |
|---|---|---|---|---|
| ASSETS | | | | |
| Goodwill | 3.1 | 56,780 | (581) | 56,199 |
| Other intangible assets | 3.1 | 39,790 | 2,016 | 41,806 |
| Property, plant and equipment | 3.2 | 124,038 | | 124,038 |
| Rights of use | 3.2 | 18,338 | | 18,338 |
| Other property, plant and equipment | 3.2 | 20,893 | | 20,893 |
| Deferred tax assets | 3.19 | 6,603 | | 6,603 |
| Equity investments | 3.3 | 8 | | 8 |
| Other non-current assets | 3.4 | 211 | | 211 |
| Non-current assets | | 266,661 | 1,435 | 268,096 |
| Inventories | 3.5 | 61,812 | | 61,812 |
| Trade receivables | 3.6 | 61,728 | | 61,728 |
| Due from the tax authorities for current taxes | 3.7 | 13,916 | | 13,916 |
| Current financial assets | 3.8 | 59,047 | | 59,047 |
| Other current assets | 3.9 | 2,597 | | 2,597 |
| Cash and cash equivalents | 3.10 | 81,851 | | 81,851 |
| Current assets | | 280,951 | - | 280,951 |
| Assets held for sale | | - | - | - |
| Assets held for sale | | - | - | - |
| TOTAL ASSETS | | 547,612 | 1,435 | 549,047 |

| **Consolidated Statement of Financial Position** *(in thousands of Euro)* | **Notes** | **PUBLISHED 31/12/2019** | **Definitive recognition at fair value** | **Restatement 31/12/2019** |
|---|---|---|---|---|
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| Share capital | 3.11 | 62,704 | | 62,704 |
| Reserves and retained earnings | | 75,308 | | 75,308 |
| Profit for the year | | 17,573 | (59) | 17,514 |
| Total shareholders' equity of the Group | | 155,585 | (59) | 155,526 |
| Shareholders' equity attributable to non-controlling interests | | 3,422 | | 3,422 |
| SHAREHOLDERS' EQUITY | | 159,007 | (59) | 158,948 |
| Loans | 3.12 | 137,801 | | 137,801 |
| Provisions | 3.13 | 4,231 | | 4,231 |
| Employee benefits | 3.14 | 5,491 | | 5,491 |
| Deferred tax liabilities | 3.19 | 16,768 | 1,186 | 17,954 |
| Other financial liabilities | 3.15 | 17,698 | | 17,698 |
| Non-current liabilities | | 181,989 | 1,186 | 183,175 |
| Trade payables | 3.16 | 86,231 | | 86,231 |
| Loans | 3.12 | 77,671 | | 77,671 |
| Provisions | 3.13 | - | - | - |
| Tax payables | 3.17 | 4,691 | | 4,691 |
| Other financial liabilities | 3.15 | 14,931 | 308 | 15,239 |
| Other current liabilities | 3.18 | 23,092 | | 23,092 |
| Current liabilities | | 206,616 | 308 | 206,924 |
| Liabilities held for sale | | - | - | - |
| Liabilities held for sale | | - | - | - |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 547,612 | 1,435 | 549,047 |

The data of the comparative consolidated Income Statement for the 2019 financial year was also restated, in order to reflect the greater amortisation and depreciation deriving from the definitive valuation of the fair value of trademarks and of the customer list, as well as of the relative tax effect.

| **Consolidated Statement of Financial Position** *(in thousands of Euro)* | **Notes** | **PUBLISHED 31/12/2019** | **Definitive recognition at fair value** | **Restatement 31/12/2019** |
|---|---|---|---|---|
| Revenues | 4.1 | 390,356 | | 390,356 |
| Other revenues | 4.2 | 1,228 | | 1,228 |
| **Total revenues and operating income** | | **391,584** | | **391,584** |
| OPERATING COSTS | | | | |
| Purchases of materials | 4.3 | (204,035) | | (204,035) |
| Changes in inventories | 3.5 | 489 | | 489 |
| Costs for services | 4.4 | (54,255) | | (54,255) |
| Personnel costs | 4.5 | (83,361) | | (83,361) |
| Net write-downs of financial assets | 4.6 | (873) | | (873) |
| Other operating costs | 4.7 | (2,787) | | (2,787) |
| **Total operating costs** | | **(344,822)** | | **(344,822)** |
| Net change in fair value of derivatives | | (597) | | (597) |
| Depreciation and amortisation | 3.1 - 3.2 | (24,211) | (144) | (24,355) |
| Capital gains on the sale of non-current assets | | 366 | | 366 |
| Write-downs on non-current assets | | (202) | | (202) |
| **EBIT** | | **22,118** | **(144)** | **21,974** |
| Financial income | 4.8 | 2,062 | | 2,062 |
| Financial expenses | 4.9 | (3,206) | | (3,206) |
| Exchange gains and losses | 4.10 | (180) | | (180) |
| Gains and losses from equity investments | 4.11 | - | | - |
| **EBT** | | **20,794** | **(144)** | **20,650** |
| Income taxes | 4.12 | (2,442) | 85 | (2,357) |
| **NET PROFIT** | | **18,352** | **(59)** | **18,293** |
| Attributable to non-controlling interests | | (779) | | (779) |
| **GROUP NET PROFIT** | | **17,573** | **(59)** | **17,514** |

Again with reference to the “Al Air” acquisition, the following are reported:

- In February 2020 the relative purchase price (originally quantified at €67.1 million) was restated, with a significant reduction to a value of €51 million, and the partial payment of €8.7 million was regularly paid in the following weeks. The residual payable of €0.8 million recognised as at 31 December 2020 refers to the business in Sarole;

- Following the spread of the pandemic and of the impossibility of movements, also within India, of people and a series of bureaucratic difficulties, the definitive purchase of the Indian plant and of the "former Alfa Laval business unit" of Sarole, near Pune, experienced a series of delays. This situation led to a renegotiation of the agreements in place and of the terms for the purchase of the plant and of the business unit, with the consequent payment of a deposit for the purchase of the business' production plant and of the business for a total of € 0.8 million during the second half of 2020. In January 2021 the definitive transfer was completed, with the payment at the same time of the residual contractually defined price (only €0.2 million linked to delays linked to some marginal fulfilments by the counterparty).

## Exercise of the option on the remaining residual 5% interest in Spirotech Ltd

During the current financial year Spirotech Ltd's minority shareholder exercised the put option (put option in favour of the minority shareholder and call option in favour of the LU-VE Group) on the remaining 5% of the interest held in Spirotech Ltd, in accordance with contractual provisions.

The exercise of the option involved a disbursement from the Parent Company LU-VE S.p.A. of €4,085 thousand (already recognised under the item "Other non-current liabilities" in the financial statements of the previous financial year, therefore recording a gain of €1 thousand in the financial year). This transaction allowed the Parent Company to hold 100% interest in Spirotech Ltd. Please note that the Group had already defined its accounting policy to reduce the equity of minority interests in case of financial liabilities deriving from put options granted to minority shareholders of subsidiaries.

## Liquidation of LU-VE Pacific pty

We note that during the first half of 2021 the liquidation process of the trading company LU-VE Pacific pty, initiated in 2020, will be completed. LU-VE S.p.A. holds an interest of 75.5% in the company and, as the Group does not deem it probable that the minority shareholders will cover the shareholders' equity of €652 thousand pertaining to them as at 31 December 2019 and the loss of €235 thousand for the year 2020 pertaining to them, these amounts have been restated in the Group's shareholders' equity and in the Group's result for the year as at 31 December 2020.

## Tax realignment of some "assets" pursuant to art. 110 of Italian Decree Law 104/2020

Art. 110, paragraph 8) of Italian Decree Law 104/2020 (converted into Law 126/2020), provides the possibility to realign the differences between the book value and the tax value of tangible and intangible assets in the financial statements as at 31 December 2020 against the payment of a 3% substitute tax. On the basis of this decree, LU-VE S.p.A. opted for the realignment of book values referred to trademarks and buildings deriving from the deficit relative to the reverse merger in 2008 between LU-VE S.p.A. and the company Europarts S.r.l. In the light of a further amendment to the Budget Law, which added paragraph 8-bis to Art. 110 of the above decree, the possibility was extended of obtaining the tax recognition of greater values recognised in the financial statements also in relation of intangible assets without juridical protection. The Parent Company availed itself of the option, applying the regulation also to the amount of goodwill, again arisen from the above mentioned merger transaction.

The net book value of the tax alignment of trademarks, buildings and goodwill of the Parent Company LU-VE S.p.A. amounts to approximately €21.1 million, respectively €2 million referred to trademarks, €4.5 million referred to buildings and €14.6 million referred to the goodwill, and at the date of the financial statements it is not considered that the corresponding values destined to a non-available shareholders' equity reserve will be redeemed by paying an additional substitute tax on 10% of the balance of reserves.

The impact on the 2020 consolidated financial statements is positive for approximately €1.8 million in relation to the release of deferred tax liabilities on the greater book values of trademarks and buildings (respectively for €0.6 million and €1.2 million), partially offset by approximately €0.6 million for the recognition of the 3% substitute tax on the entire amount realigned in the tax section (of which approximately €0.5 million relative to the realignment of the goodwill and trademarks values).

### Advanced Price Agreement (hereinafter "APA") for the transfer of the production line from the parent company LU-VE S.p.A. to SEST-LUVE-Polska SP.z.o.o.

In December the transfer was also completed of from the Parent Company LU-VE S.p.A. to the new plan in Poland owned by the subsidiary SEST-LUVE Polska Sp.z.o.o. of the last smaller size evaporator production line, with the integral reabsorption of the workforce to other production lines in the plant at Uboldo. In consideration of the transfer, a procedure was launched, aimed at the stipulation of preventive binding agreements with the Italian and Polish Revenue Agencies (APA -Polish Revenue Agency) to negotiate the quantification of values transferred with respect to the customer list and know-how of the production line transferred (current estimate of €6.9 million) .

The transaction is of an entirely "infra-group" nature and therefore there are no impacts in the consolidated financial statements closed as at 31 December 2020 if not in reference to taxes, which reflects the difference between deferred tax assets of approximately €1.2 million in the Polish company against €1.8 million in current taxes of LU-VE S.p.A, deriving from the above described transfer.

# 2.2 ACCOUNTING STANDARDS

## Declaration of compliance and accounting policies

The consolidated Financial Statements for 2020 of the LU-VE group have been prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Union at that date. IFRS refers to all International Financial Reporting Standards and International Accounting Standards and all interpretations of the International Financial Reporting Interpretations Committee (IFRIC), previously called the Standing Interpretations Committee (SIC), endorsed by the European Union and contained in the relative EU Regulations.

The consolidated Financial Statements have been prepared in Euro, which is the functional currency of the Parent Company LU-VE S.p.A. and the subsidiaries in which the Group primarily carries on business, with amounts rounded to thousands, and are compared with the consolidated Financial Statements for the previous year, prepared with the same criteria. The figures in the Explanatory Notes are shown in thousands of Euro. The financial statements consist of the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Shareholders' Equity, the Statement of Cash Flows and these Explanatory Notes.

The Financial Statements have been drawn up on the basis of the historical cost principle, except for the fair value evaluation of some financial instruments, pursuant to IFRS 9 and IFRS 13, as described below. Furthermore, the financial statements have been prepared on the basis of business continuity pursuant to paragraphs 25 and 26 of the IAS 1 international accounting standard, as the Directors have verified the non-existence of indicators of a financial, management or any other nature that might indicate critical issues relating to the ability of the Group of meeting its commitments in the foreseeable future. The risks and uncertainties related to the business are described in the sections dedicated to the Director’s Report.

In particular, with reference to this last assumption, as at 31 December 2020, the LU-VE Group has a solid and balanced financial structure with a Net financial debt/Shareholders’ equity ratio (Debt ratio) of 0.71 and a positive short-term net financial position of €133.0 million. Therefore the repayment of medium/long-term debt expiring during 2021 is guaranteed by current liquidity. In addition, there are no substantial restrictions on the freeing up of invested liquidity, equal to €70.3 million, which therefore, if required, may be used to meet any payment commitments.

It is also reported that the assessment of compliance with asset and economic requirements (covenants) on a consolidated basis, required on the financial debt of LU-VE, as at 31 December 2020 did not highlight any critical issues. Furthermore, it is highlighted that the estimates of the 2021 Budget, which contemplate the estimated effects of the pandemic in line with those at the end of the 2020 financial year, lead to the expectation that no critical issues with regard to these requirements will arise also for the year 2021. As outlined in the Director’s Report, and on the basis of what is reported above, the Directors consider that the possible impacts on the LU-VE Group due to the current health emergency may not reasonably compromise the business continuity.

In light of what is laid out above, the consolidated Financial Statements of the LU-VE Group as at 31 December 2020 were prepared on the basis of the going concern assumption, pursuant to paragraphs 25 and 26 of IAS 1.

The Consolidated Financial Statements as at 31 December 2020 were approved by the Board of Directors of the parent company LU-VE S.p.A. on 17 March 2021.

*COVID-19 health emergency*

As reported in the "Single Management Report" to which reference is made, the macro-economic scenario is difficult to predict and visibility is limited, due to COVID-19. Therefore, it is very complicated to define reliable forecasts on the trend of commercial, economic and financial results. The potential effects on the budget of future years cannot be precisely determined at present and will be constantly monitored by the management.

It is necessary, however, to report how the Group consolidated final data as at 31 December 2020 are in line with the sensitivity analyses carried out on compliance with the 2020-23 business plan approved by the Board of Directors on 6 April 2020, which, it is recalled, indicated the initial forecasts with respect to the effects that the pandemic might have been reflected in an expected reduction in revenues of 20% for 2020 and of 5% for 2021, hypothesising a substantial stability in estimated fixed costs and in the investments planned for those financial years are in line, both in terms of economic results and in terms of financial projections (the latter with particular reference to the issues of revenues from customers and bank loans). The Business Plan for the 2021-2024 period approved on 24 February 2021, which envisages the pandemic effects estimated in line with those at the end of the 2020 financial year, contemplates growth expectations for the 2021 financial year such as to bring the LU-VE Group to the levels of the final results in the 2019 financial year.

In addition, in line with the directives of the "European common enforcement priorities for 2020 annual financial reports" Public Statement, issued by ESMA on 28 October 2020 and of Consob Alert Notice no. 1/21 of 16 February 2021, the subsequent paragraphs provide specific considerations on the areas of the financial statements potentially impacted by COVID-19. In particular, for the purposes of the consolidated financial statements of the LU-VE Group as at 31 December 2020, specific topic areas were identified with reference to the individual IFRSs, summarised below:

- going concern (IAS 1), pursuant to the paragraph "Observations on the Financial profile and on the going concern assumption" in the Single Report on Operations and to the previous paragraph "Declaration of compliance and accounting policies" of this document;

- financial instruments (IFRS 9), in note no. 3.6 "Trading receivables";

- assets value impairment (IAS 36), in note no. 3.1 "Goodwill and other Intangible assets";

- notes no. 4.5 "Personnel costs", no. 4.4 "Services" and no. 4/7 "Other operational costs" report specific information on the "benefits" and costs incurred following the emergency state linked to the COVID-19 pandemic;

- exemption of the payment of the 2019 IRAP adjustment and of the 2020 IRAP account for the Italian companies of the LU-VE Group, in note 4.12 "Income taxes";

- subscription of a loan of € 5,500 thousand covered by a guarantee of 90% of its value by the SME Central Guarantee Fund, pursuant to Law no. 40 of 5 June 2020;

- moratoria granted by some credit institutions with regard to capital repayments, in note 3.12 “Loans”;

Lastly, the management of liquidity risk is described in note 4.16 “Information on financial risks”.

## Financial Statements

The Group has adopted the following Financial Statements:

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

The use of these statements provides the most meaningful view of the LU-VE group’s result and financial position.

## Consolidation area

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

| Company name | Registered office | % investment | Currency | Share capital |
|---|---|---|---|---|
| **Direct subsidiaries:** | | | | |
| SEST S.p.A. | Limana (BL) | 100.00% | EUR | 1,000,000 |
| Tecnair LV S.p.A. | Uboldo (VA) | 79.90% | EUR | 200,000 |
| Heat Transfer Systems s.r.o. (HTS) | Novosedly (Czech Rep.) | 100.00% | CZK | 133,300,000 |
| LU-VE Sweden AB | Asarum (Sweden) | 100.00% | SEK | 50,000 |
| LU-VE France S.a.r.l. | Lyon (France) | 100.00% | EUR | 84,150 |
| LU-VE Pacific Pty Ltd | Thomastown (Australia) | 75.50% | AUD | 200,000 |
| LU-VE Deutschland GmbH | Stuttgart (Germany) | 100.00% | EUR | 230,000 |
| LU-VE Iberica S.L. | Madrid (Spain) | 85.00% | EUR | 180,063 |
| LU-VE Asia Pacific Limited | Wan Chai (Hong Kong) | 100.00% | HKD | 10,000 |
| LuveDigital S.r.l. | Uboldo (VA) | 50.00% | EUR | 10,000 |
| MANIFOLD S.r.l. | Uboldo (VA) | 99.00% | EUR | 10,000 |
| SPIROTECH Ltd | New Delhi (India) | 100.00% | INR | 25,729,600 |
| LU-VE AUSTRIA GmbH | Vienna (Austria) | 100.00% | EUR | 17,500 |
| Zyklus Heat Transfer Inc. | Jacksonville (USA, Texas) | 100.00% | USD | 1,000 |
| Air Hex Alonte S.r.l. | Uboldo (VA) | 100.00% | EUR | 2,010,000 |
| Fincoil LU-VE OY | Vantaa (Finland) | 100.00% | EUR | 1,190,000 |
| LU-VE Netherlands B.V. | Breda (Netherlands) | 100.00% | EUR | 10,000 |
| «OOO» LU-VE Moscow | Moscow (Russia) | 100.00% | RUB | 100,000 |
| LU VE MIDDLE EAST DMCC | Dubai (UAE) | 100.00% | AED | 50,000 |
| **Indirect subsidiaries:** | | | | |
| SEST-LUVE-Polska SP.z.o.o. (95% owned by SEST S.p.A.) | Gliwice (Poland) | 95.00% | PLN | 16,000,000 |
| «OOO» SEST LU-VE (95% owned by SEST S.p.A.) | Lipetsk (Russia) | 95.00% | RUB | 136,000,000 |
| LU-VE HEAT EXCHANGERS (Tianmen) Co, Ltd (62.62% owned by LU-VE Asia Pacific Limited and 37.38% owned by LU-VE SpA) | Tianmen (China) | 100.00% | CNY | 61,025,411 |
| Thermo Glass Door S.p.A. (100% owned by SEST S.p.A.) | Travacò Siccomario (PV) | 100.00% | EUR | 100,000 |

Pursuant to IFRS 10, the companies with regard to which the Parent Company simultaneously has the following three elements are considered to be subsidiaries: (a) power over the investee; (b) exposure, or rights, to variable returns deriving from its involvement with the investee; (c) the ability to use its power to affect the extent of such variable returns. The subsidiaries are consolidated from when control begins until the date on which it ends.

Profits or losses and all the components of the statement of comprehensive income are attributable to the Group and to minority interests. The overall revenue from subsidiaries is attributed to the Group and to minority interests, even if this leads to a negative balance for minority interests, with the exception of the Shareholders' Equity and of the loss for the year pertaining to minority interests of the trading company LU-VE Pacific pty, which have been reclassified respectively in the Shareholders' Equity and in the result for the year pertaining to the Group, as already described in the introduction.

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

The change in the consolidation area during 2020 compared to the previous financial year is as follows:

- during 2020 the Parent Company acquired the remaining 5% of the equity held in Spirotech Ltd, following the exercise of the put option by the minority shareholder, as described in the introduction. After the transaction, the Parent Company holds 100% of the equity in Spirotech Ltd.;

## Consolidation criteria

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

The following criteria have been adopted for the consolidation:

a) The assets and liabilities, income and expenses in the Financial Statements subject to line-by-line consolidation are included in the Group's Financial Statements, irrespective of the extent of the equity investment. The carrying amount of equity investments has also been eliminated against the shareholders' equity attributable to the investee companies;

b) Payable/receivable and cost/revenue items between the consolidated companies and profit/loss from intra-group transactions are eliminated. Likewise, dividends and write-downs on equity investments recognised in the annual Financial Statements are eliminated;

c) If there are non-controlling shareholders, the portion of shareholders' equity and the net profit (loss) of the year attributable to them are highlighted in separate items of the consolidated balance sheet and income statement, with the exception of what has already been described in the introduction with reference to the LU-VE Pacific pty trading company;

d) final stocks, for products acquired from Group companies, are adjusted by the intra-group margins they contain, as they have not yet been realised with respect to third parties.

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

## Translation into Euro of Income Statements and Balance Sheets drafted in foreign currency

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

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

Translation exchange differences resulting from the comparison between the opening shareholders' equity translated at current exchange rates and the same converted at final exchange rates, as well as the difference between the economic result expressed at average exchange rates and that expressed at current exchange rates, are recognised in the shareholders' equity item "Translation reserve".

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

| Currency | Exchange as at 31/12/20 | Average exchange rate 2020 | Exchange as at 31/12/19 | Average exchange rate 2019 |
|---|---|---|---|---|
| AUD | 1.58960 | 1.65490 | 1.5995 | 1.6109 |
| PLN | 4.5597 | 4.4430 | 4.2568 | 4.2976 |
| CZK | 26.24200 | 26.45500 | 25.4080 | 25.6700 |
| RUB | 91.46710 | 82.72480 | 69.9563 | 72.4553 |
| SEK | 10.0343 | 10.4848 | 10.4468 | 10.5891 |
| HKD | 9.5142 | 8.8587 | 8.7473 | 8.7715 |
| CNY | 8.0225 | 7.8747 | 7.8205 | 7.7355 |
| INR | 89.6605 | 84.6392 | 80.1870 | 78.8361 |
| USD | 1.2271 | 1.1422 | 1.1234 | 1.1195 |
| AED | 4.5065 | 4.1947 | 4.1257 | 4.1113 |

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

| **SE RECONCILIATION STATEMENT** *(in thousands of Euro)* | **2020** Net profit for the period | **2020** Shareholders' Equity | **2019** Net profit for the period | **2019** Shareholders' Equity | |
|---|---|---|---|---|---|
| Amounts from LU-VE S.p.A. Financial Statements | 7,157 | 107,785 | 6,503 | 106,919 | |
| | | | | | |
| Difference between carrying amount of consolidated equity investments and pro rata value of shareholders' equity and profit (loss) of consolidated subsidiaries | 8,425 | 46,469 | 11,197 | 50,080 | (*) |
| | | | | | |
| Elimination of unrealised intra-group profits | (5,735) | (6,707) | (122) | (798) | |
| | | | | | |
| Other | 31 | (616) | (64) | (675) | |
| | | | | | |
| **Profit and shareholders' equity attributable to the Group** | **9,878** | **146,931** | **17,514** | **155,526** | **(*)** |

(*) restated values compared with 31 December 2019 pursuant to IFRS 3, to take retrospective account of the effects resulting from the definitive valuation of the fair value of the "Al Air" trademarks and of customer list at the date of acquisition (values previously considered provisional, see note no. 2.1 "Introduction - Al Air acquisition").

## Measurement criteria

The accounting standards and measurement criteria adopted to prepare the consolidated Financial Statements as at 31 December 2020, which did not change compared to the previous year, are described below:

### INTANGIBLE ASSETS

### Goodwill and business combinations

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

Goodwill is determined as the difference between the sum of the considerations paid to the business combination, of the value of shareholders' equity relating to minority interests and the fair value of any equity investment held by the acquired company compared to the fair value of net acquired assets and liabilities assumed at the date of acquisition. If the value of net acquired assets and liabilities assumed at the date of acquisition exceeds the sum of considerations paid, of the

value of shareholders' equity relating to minority interests and the fair value of any equity investment held by the acquired company, this excess is immediately recorded in the Income Statement as income deriving from a concluded transaction.
The portion of the shareholders' equity of minority interests at the date of the acquisition can be measured at fair value or as the pro-quota of the fair value of the net assets recognised for the acquired company. The choice of the measurement method is made by transaction.

With respect to acquisitions prior to the date of adoption of IFRS (1 January 2014), the LU-VE group exercised the right set forth in IFRS 1 not to apply IFRS 3 relating to business combinations to the acquisitions that took place before the transition date. As a result, the goodwill resulting from acquisitions that took place in the past was not restated and was recognised at the value determined on the basis of the previous accounting standards, net of amortisation accounted for as at 31 December 2013 and any impairment losses.

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

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

## Other intangible assets

*Trademarks*

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

The LU-VE group has identified, among others, the item Trademarks as Primary Income Generating Asset ("PIGA") in the purchase price allocation exercise of "Al Air". As described in the introduction, this allocation is definitive from 31 December 2020; the relative amortisation has been estimated by the Directors at 10 years.

*Development costs*

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

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

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

*Other intangible assets*

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

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

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

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

*Customer List (“Customer relationship”)*

The LU-VE Group identified the Customer Relationship as the Primary Income Generating Asset (“PIGA”) from the purchase price allocation of the US company Zyklus (in 2018) and the Indian company Spirotech (concluded in 2016/17).

In addition to what indicated above, as reported in the introduction, the Customer Relationship has been identified in a definitive manner following the exercise of the purchase price allocation of "Al Air" (concluded in 2019/2020).

The Customer Relationship with the US company is amortised over 20 years, the one with the Indian company is amortised over 23 years, while the useful life of the "Al Air" customer list is 10 years.

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

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

## PROPERTY, PLANT AND EQUIPMENT

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

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

| Asset | Years |
|---|---|
| Buildings | 33 |
| Light constructions | 10 |

| | |
|---|---|
| Plant and equipment | 6 – 10 |
| Industrial and commercial equipment | 3 – 10 |
| Other assets | 4 - 8 |

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

If there are indicators of impairment, property, plant and equipment are tested for impairment. The testing process is described in the “Impairment of assets” section. Any possible impairments may be subject to subsequent reversals should the causes that induced the Group to impair such assets no longer apply; value reversals will be made to the limit of the value the asset would have had if the impairment had not taken place.

For further information on the purchase price allocation process relative to the fair value of fixed property, plant and equipment acquired through the acquisition transaction of "Al Air", please refer to the what has been reported in the consolidated financial statements for the year 2019.

Land is not depreciated.

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

## Lease contracts and rights of use

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

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

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

On the other hand, for lease agreements the initial financial liability is recognised at the actual value of future payments at the time of effect of the contract. As most rental contracts stipulated by the Group are not at an implicit interest rate, the discounting rate to be applied to future payments of rentals has been determined as the risk-free rate of each country in which the contracts were stipulated, with due dates commensurate to the duration of the specific rental contract, increased by the credit spread specific to the Group subsidiary that has signed the agreement.

Lease payments included in the value of the lease financial Liability include:

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

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

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

In the current financial year, the Group has recognised some amendments to some lease agreements relative to buildings following the COVID-19 pandemic. The impact of these amendments is not considered to be significant.

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

The incentives linked to the lease (for example free leasing periods) are recognised as part of the initial value of the right of use and of the lease liability throughout the contractual period.

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

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

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

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

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

## Impairment of assets

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

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

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

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

## FINANCIAL INSTRUMENTS

*Derivative financial instruments*

Derivative financial instruments are subscribed primarily for hedging, in order to reduce the risk of fluctuating exchange rates, interest rates and raw material costs. In line with IFRS 9, derivative financial instruments are accounted for using hedge accounting methods only when:

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

All derivative financial instruments are measured at fair value, as established by IFRS 9.

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

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

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

## INVENTORIES

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

## TRADE RECEIVABLES AND OTHER RECEIVABLES

The receivables are initially recognised at fair value.

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

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

## ASSIGNMENT OF RECEIVABLES

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

## LOANS

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

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

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

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

## PROVISIONS

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

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

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

## EMPLOYEE BENEFITS

*Short-term benefits*

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

*Post-employment benefits*

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

For employees of Italian companies with more than 50 employees, only employee severance indemnities accrued up to 31 December 2006 continue to be classified as “defined-benefit plans”, while those accruing subsequent to that date are classified as a “defined-contribution plan”, as all obligations of the company are met when it makes the periodic contribution to third-party entities. Therefore, discounted amounts are no longer recognised in the Income Statement. Instead, outlays made to the various types of pension plans selected by employees or to the separate INPS treasury fund, calculated based on art. 2120 of the Italian Civil Code, are recognised under personnel costs.

For employees of Italian companies with less than 50 employees (Tecnair and Manifold) employee severance indemnities accrued as at 31 December 2020 take the form of a defined benefit plan. The Group's obligation in relation to defined benefit plans and the annual cost recognised in the Income Statement is determined on the basis of actuarial valuations using the projected unit credit method.

## TRADE PAYABLES AND OTHER PAYABLES

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

## CRITERIA FOR THE TRANSLATION OF ITEMS IN FOREIGN CURRENCY

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

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

## REVENUE RECOGNITION

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

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

## COST RECOGNITION

Costs and expenses are recognised in the Financial Statements on an accrual basis.

## FINANCIAL INCOME

Financial income includes interest income on invested funds and income from financial instruments. Interest income is allocated to the Income Statement when it accrues, using the effective yield method.

## FINANCIAL EXPENSES

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

## INCOME TAXES FOR THE YEAR

Income taxes include all taxes calculated on the Group’s taxable income. Income taxes are recognised in the Income Statement, with the exception of those relating to items directly charged or credited to shareholders' equity, in which case the tax effect is recognised directly under shareholders' equity. Other taxes not correlated with income, such as taxes and fees on property, are classified as operating expenses. Deferred tax liabilities are recognised based on the full liability method. They are calculated on all temporary differences emerging between the taxable amount of an asset or liability and the carrying amount in the consolidated Financial Statements, with the exception of goodwill, which is not tax deductible and those differences from investments in subsidiaries which are not expected to be offset in the foreseeable future. Deferred tax assets on tax losses and unused tax credits that may be carried forward are recognised to the extent to which is it likely that future taxable income will be available against which they may be recovered. Current and deferred tax assets and liabilities are offset when the income taxes are levied by the same tax authority and when there is a legal right to offset. Deferred tax assets and liabilities are calculated using the tax rates expected to be applicable in the years in which the temporary differences will be realised or extinguished. The temporary differences in taxable incomes do not give rise to deferred liabilities for equity investments in subsidiaries, associates and joint ventures when the Group is able to control the timing of cancellation of the temporary differences in taxable income and it is probably that these differences will not be cancelled in the foreseeable future.

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

## DIVIDENDS

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

## EXCHANGE GAINS AND LOSSES

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

At the end of the financial year the overall amount of gains and losses not realised on exchange rates is redetermined. When the overall net profit on exchange rates is higher than the amount of the equity reserve, the latter is integrated. If, however, a loss is recognised or a net profit lower than the reserve, respectively the entire reserve or the excess is reclassified in a freely distributable reserve in the preparation of the financial statements.

## TREASURY SHARES

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

## EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the Group’s share of profit or loss by the weighted average of ordinary shares outstanding during the year. The diluted profit per share coincides with the basic profit per share as there are no options in circulation which may potentially lead to the issue of new parent company's shares.

## TAX CONSOLIDATION CONTRACT

National Tax Consolidation applies (pursuant to art. 117 et seq. of Italian Presidential Decree 917/86 – TUIR (Consolidation Act on Income Taxes)), and its scope includes, in addition to the consolidating company LU-VE S.p.A., five other Italian subsidiaries: SEST S.p.A. (for the 2019-2021 financial years) and Thermo Glass Door S.p.A. (TDG), Manifold S.r.l., Air Hex Alonte S.r.l. and Tecnair LV S.p.A., the last three for the 2020-2022 financial years.

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

## USE OF ESTIMATES

The preparation of the Financial Statements and the relative notes in application of IFRS requires the management to make use of estimates and assumptions that impact the values of the assets and liabilities in the Financial Statements and the disclosure relating to contingent assets and liabilities as at the reporting date. Actual results may differ from those estimates.

In the preparation of the consolidated financial statements, the following significant judgement was defined during the process of application of the Group's accounting standards.

*Tax realignment*

The Group's directors decided to avail themselves of the realignment between the book values in their financial statements, prepared on the basis of international accounting standards, and tax values, pursuant to art. 110, paragraphs 8) and 8)-bis of Italian Decree Law no. 104/2020, for the following assets, whose recognition value is in line with the balances reported in the current consolidated financial statements: trademarks and buildings (respectively €2 million and €4.5 million), in addition to goodwill, which is not present in the consolidated financial statements (for €14.6 million). This has involved a benefit in the income statement for the release of deferred tax liabilities relative to the trademark and the building for approximately €1.8 million (of which €0.6 million relative to trademarks and €1.5 million relative to buildings) and the cost of the substitute tax for approximately €0.6 million, of which €0.5 million relative to intangible assets (with reference to the realignment of goodwill, the directors determined their accounting policy not to proceed with the immediate recognition in the income statement of the future tax benefit linked to the redemption. In spite of the fact that the tax effect of this benefit will apply from the financial year in which the substitute tax will be paid (therefore 2021), this decision represents the Directors' choice to apply alternative methods to the liquidation of taxes already in force as at 31 December 2020 and, therefore, comes fully within the Directors' control.
Even though at present the Tax Authority expresses some uncertainties on the possibility of amending the conditions to make use of the tax realignment of only intangible assets, please note that the net impact on the income statement of the 2020 financial year for the realignment of only intangible assets is equal to an income of approximately €50 thousand.
The directors consider it to be difficult to predict the distribution of non-available reserves deriving from the realignments described above in the near future and therefore have not recognised any effect of the deferred taxes on the same.

The estimates that have had a significant impact on the amounts recognised in the financial statements are indicated below.

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

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

The procedure for determining the impairment losses on goodwill, intangible assets and property, plant and equipment described in the accounting standard "Impairment of assets" implies - in estimating the value in use - the use of assumptions regarding: i) the forecast of expected cash flows from the cash generating units ("CGUs") identified, making reference to the 2021-2024 Business Plan, approved by the Board of Directors on 24 February 2021, ii) the determination of an appropriate discounting rate (WACC) and iii) a long-period growth rate (g-rate). These assumptions are based on the Management's expectations of focusing on new geographical markets deemed most attractive in terms of size, stability, growth and profit margins, strengthening, expanding and specialising existing production capacity, to expand production capacity in markets where the Group is less present and in markets where the cold chain is rapidly expanding, continuously improving the performance of existing products and developing innovative products, in particular with the use of natural refrigerating liquids, so being able to erode the market share of smaller competitors that are less able to commit to the required investments. These assumptions clearly take into account the impacts deriving from the COVID-19 pandemic, where the Group estimates to return to the pre-COVID results of the 2019 financial year during the 2021 financial year.

In addition to what is stated above, the Group is assessing the risks and opportunities correlated to the climate change and aims to fix scientific objectives for the reduction of greenhouse gases in line with the Paris Agreement. In particular, the investigation scope will take into consideration Scope 1 and 2 (direct and indirect emissions linked to the energy generated by the organisation) and Scope 3 (indirect emission generated by the value chain) emissions. Therefore, the consequences in terms of investments, costs and other impacts on cash flows have not yet been considered in the process for the preparation of the 2021-24 Business Plan (as were the benefits anticipated from the development of products with greater sustainability).

As required by IAS 36, as the above-mentioned CGUs include goodwill, the Group's Management performed an impairment test to determine whether the carrying amounts relating to the assets of the individual CGUs are recognised in the financial statements as at 31 December 2020 at a value no higher than their recoverable amount. In particular, the Group has recognised goodwill totalling €55 million in the consolidated Financial Statements as at 31 December 2020. This goodwill has been attributed to two cash generating units ("CGUs"): "Components" and "Cooling Systems", to which the intangible assets with a finite useful life and property, plant and equipment have also been allocated. On the other hand, the restriction on production imposed by the pandemic during 2020 in the various countries in which the Group operates (as better described in the Single Report on Operations) do not constitute a trigger event for the performance of the test at production site level, when the economic performance of the Group (and of the individual entities) have resulted in line with the conservative Business Plan approved by the Parent Company's Board of Directors on 6 April 2020.

*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 and prospective collection trends.

In the current uncertain context, the Management has estimated the impacts of the pandemic on the possible deterioration of customers' creditworthiness and on their ability to meet their obligations using exclusively forward looking information, so proceeding to make further allocations to the doubtful debt provision during the year.

*Income taxes and deferred tax assets*

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

The taxable results deriving from the 2021-2024 plans of individual Group companies (and in particular those of the Parent Company and of SEST-LUVE POLSKA, which as at 31 December 2020 concentrate a large part of the same), subsequently included in the LU-VE Group's 2021-2024 Business Plan, used for the impairment test for the explicit period, and through the extrapolation of these, the taxable income expected for the following years were taken into account in the verification recognition and recoverability of deferred tax assets recognised in the financial statements as at 31 December 2020. The effects deriving from the temporary differences on which deferred tax liabilities were recognised were also used in the verification of recognition. However, the future trend of these factors, including the evolution of the difficult global health, economic and financial environment, requires circumstances to be constantly monitored by the Group Management.

## 2.3 NEW ACCOUNTING STANDARDS

### IFRS ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLIED AS AT 1 JANUARY 2020

The following IFRS accounting standards, amendments and interpretations have been applied by the Group for the first time as of 1 January 2020:

- On 31 October 2018, the IASB published "Definition of Material (Amendments to IAS 1 and IAS 8)". The document introduced an amendment to the definition of "relevant" in IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors. This amendment has the objective of making the definition of "relevant" more specific and introduced the concept of "obscured information" alongside the concepts of omitted or incorrect information already present in the two standards subject to amendment. The amendment clarifies that information is "obscured" when it has been described in such a way as to produce for primary readers of Financial Statements an effect similar to that which would have been produced had such information been omitted or incorrect.
  The introduction of the new amendment had no effects on the Group's consolidated financial statements.

- On 29 March 2018, IASB published an amendment "References to the Conceptual Framework in IFRS Standards". The amendment is effective for financial years starting on 1 January 2020 or later, but early application is allowed. The Conceptual Framework defines the fundamental concepts for financial information and guides the Council in the development of IFRS standards. The documents helps to guarantee that the Standard are conceptually coherent and that similar transactions are treated in the same way, so as to provide useful information to investors, lenders and other creditors. The Conceptual Framework supports companies in the development of accounting standards when no IFRS standard is applicable to a particular transaction and, more generally, helps the interested parties in understanding and interpret the Standards.
  The introduction of the new amendment had no effects on the Group's consolidated financial statements.

- On 26 September 2019, IASB published the "Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform". The same amends IFRS 9 - Financial Instruments and IAS 39 - Financial Instruments: Recognition and Measurement as well as IFRS 7 - Financial Instruments: Disclosures. In particular, the amendment changes some of the requirements for the application of hedge accounting, including temporary derogations to the same, in order to mitigate the effect of the impact deriving from the uncertainty of the IBOR reform on future cash flows in the period prior to its completion. The amendment also requires companies to provide further information in financial

statements with regard to their hedging transactions which are directly affected by the uncertainties generated by the review and to which the above mentioned derogations apply
The introduction of the new amendment had no effects on the Group's consolidated financial statements.

- On 22 October 2018, IASB published "Definition of Material (Amendments to IFRS 3)". The document provides some clarifications on the definition of business for the correct application of the IFRS 3 standard. In particular, the amendment clarifies that while a business normally produces an output, the presence of an output is not strictly necessary to identify a business in the presence of an integrated set of activities/processes and goods. However, to satisfy the definition of business, an integrated set of activities/processes and goods must include, as a minimum, an input and a substantial process that together significantly contribute to the capacity to create an output. To that end, the IASB replaced the term "ability to create an output" with "ability to contribute to creating outputs" to clarify that a business can exist even without the presence of all inputs and processes necessary to create an output.
  The amendment also introduced an optional test ("concentration test") which allows to exclude the presence of a business if the corresponding price is essentially referable to a single asset or group of assets. The amendments are applied to all business combinations and acquisitions of activities after 1 January 2020, but early application is permitted.
  The introduction of the new amendment had no effects on the Group's consolidated financial statements.

- On 28 May 2020 IASB published an amendment called "COVID-19 Related Rent Concessions (Amendment to IFRS 16"). The document allows lessors the option to recognise the reductions in rentals linked to COVID-19 without having to value, through the analyses of agreements, if the lease modification of IFRS 16 definition has been respected. Therefore, lessors applying this option can recognise the effects of the reduction of the rental fees directly to the income statement at the date of effect of the reduction.
  The introduction of the new amendment had no effects on the Group's consolidated financial statements.

## IFRS ACCOUNTING STANDARDS AND AMENDMENTS AND IFRIC INTERPRETATIONS ENDORSED BY THE EUROPEAN UNION, FOR WHICH APPLICATION IS NOT YET REQUIRED AND NOT ADOPTED EARLY BY THE GROUP AS AT 31 DECEMBER 2020

- On 28 May 2020 IASB published an amendment called "Extension of the Temporary Exemption from Applying IFRS 9 (Amendment to IFRS 4)". The amendments allow to extend the temporary exemption from applying IFRS 9 until 1 January 2023 for insurance. These amendments will come into effect on 1 January 2021.
  The directors do not expect the adoption of this standard to have a significant effect in the Group's consolidated financial statements.

- On 27 August 2020 IASB published, in the light of the reform on interbank interest rates such as IBOR, the document "Interest Rate Benchmark Reform - Phase 2", which includes amendments to the following standards:
  - IFRS 9 Financial Instruments;
  - IAS 39 Financial Instruments: Recognition and Measurement;
  - IFRS 7 Financial Instruments: Disclosures;
  - IFRS 4 Insurance Contracts;
  - IFRS 16 Leases.

  All the amendments will come into effect on 1 January 2021.
  The directors do not expect the adoption of this standard to have a significant effect in the Group's consolidated financial statements.

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

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

- On 18 May 2017 IASB published standard IFRS 17 – Insurance Contracts, which is destined to replace standard IFRS 4 – Insurance Contracts. The objective of the new standard is that of guaranteeing that entities provide pertinent information that faithfully represent the rights and obligations deriving from insurance contracts issued. The new standard measures an insurance contract on the basis of a General Model or a simplified version thereof, called Premium Allocation Approach ("PAA").

  The entity must apply the new standard to insurance contracts issued, including reassurance contracts issued, reinsurance contracts held and also to investment contracts with a discretionary participation feature (DPF). The standard applies as of 1 January 2023, but early application is permitted, only for entities that apply IFRS 9 - Financial Instruments and

IFRS 15 - Revenue from Contracts with Customers. The Directors do not expect the adoption of these amendments to have a significant effect on the financial statements for the year.

- On 23 January 2020 IASB published an amendment called "Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current". The document has the objective of clarifying how to classify debts and other short or long-term liabilities. The amendments apply as at 1 January 2023, but early application is permitted. The directors do not expect the adoption of this amendment to have a significant effect on the Group's consolidated Financial Statements.

- On 14 May 2020 IASB published the following amendments:
    - Amendments to IFRS 3 Business Combinations: the amendments have the purpose of updating the IFRS 3 reference to the Conceptual Framework in the revised version, without this involving amendments to the provisions of the IFRS 3 standard.
    - Amendments to IAS 16 Property, Plant and Equipment: the amendments have the purpose of not allowing to deduct from the cost of property, plant and equipment the amount received from the sale of goods produced in the testing stage of the same assets. These sale revenues and the relative costs will then be recognised in the income statement.
    - Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: the amendment clarifies that all costs directly referable to a contract must be taken into account in the estimate of the possible cost of that contract. In consequence, the evaluation of the possible cost of a contract includes not only incremental costs (such as, for example, the cost of materials directly used in processing) but also the costs that the company cannot avoid because it has stipulated the contract (such as, for example, the portion of personnel cost and the depreciation of machinery used to fulfil the contract).
    - Annual Improvements 2018-2020: the amendments have been made to IFRS 1 First-time Adoption of International Financial Reporting Standards, to IFRS 9 Financial Instruments, to IAS 41 Agriculture and to the Illustrative Examples of IFRS 16 Leases.

  All the amendments will come into effect on 1 January 2022.
  The directors do not expect the adoption of this standard to have a significant effect in the Group's consolidated financial statements.

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

## 3.1 GOODWILL AND OTHER INTANGIBLE ASSETS

| **Goodwill and other intangible assets** *(in thousands of Euro)* | **Goodwill** | | **Other intangible assets** | | **Total** | |
|---|---|---|---|---|---|---|
| *Historical* | | | | | | |
| **As at 1 January 2019** | **60,623** | | **52,470** | | **113,093** | |
| Increases | 10,026 | (*) | 26,128 | (*) | 36,154 | (*) |
| Decreases | - | | (304) | | (304) | |
| Reclassifications | - | | - | | - | |
| Exchange differences | (1,535) | | 56 | | (1,479) | |
| **As at 31 December 2019** | **69,114** | **(*)** | **78,350** | **(*)** | **147,464** | **(*)** |
| Increases | - | | 6,979 | | 6,979 | |
| Decreases | - | | (605) | | (605) | |
| Reclassifications | - | | - | | - | |
| Exchange differences | (1,236) | | (245) | | (1,481) | |
| **As at 31 December 2020** | **67,878** | | **84,479** | | **152,357** | |
| *Provision* | | | | | | |
| **As at 1 January 2019** | **12,915** | | **30,008** | | **42,923** | |
| Increases | - | | 6,604 | (*) | 6,604 | (*) |
| Decreases | - | | (105) | | (105) | |
| Reclassifications | - | | - | | - | |
| Exchange differences | - | | 37 | | 37 | |
| **As at 31 December 2019** | **12,915** | | **36,544** | **(*)** | **49,459** | **(*)** |
| Increases | - | | 8,479 | | 8,479 | |
| Decreases | - | | (180) | | (180) | |
| Reclassifications | - | | - | | - | |
| Exchange differences | - | | (128) | | (128) | |
| **As at 31 December 2020** | **12,915** | | **44,715** | | **57,630** | |
| *Net carrying amount* | | | | | | |
| **As at 31 December 2019** | **56,199** | **(*)** | **41,806** | **(*)** | **98,005** | **(*)** |
| **As at 31 December 2020** | **54,963** | | **39,764** | | **94,727** | |

(*) restated values compared with 31 December 2019 pursuant to IFRS 3, to take retrospective account of the effects resulting from the definitive valuation of the fair value of the "Al Air" trademarks and of customer list at the date of acquisition (values previously considered provisional, see note no. 2.1 "Introduction - Al Air acquisition").

*Goodwill*

The decrease in the item "Goodwill" for €1,236 thousand is attributable to the adjustment to the exchange rate delta on goodwill generated in previous financial years by the acquisitions of the Indian company Spirotech Ltd and of the US company Zyklus Heat Transfer Inc..

With reference to the acquisition of "Al Air", please note that the Group availed itself of the option provided by IFRS 3, which allows the definitive allocation of the acquisition price to the assets, liabilities and intangible assets not recognised in the financial statements of the acquired division, within the limit of their fair value, within 12 months from the date of acquisition: as at 31 December 2019 this allocation was defined to be provisional, revealing a "provisional" goodwill of approximately €10.6 million. Following the conclusion of the allocation process, the allocation became definitive for €10.0 million. For further details, please refer to note no. 2.1 "Introduction - Acquisition of Al Air".

Pursuant to IAS 36, goodwill is not subject to amortisation, but rather impairment testing on at least yearly basis or more frequently if specific circumstances take place that could require an immediate valuation of possible impairments (impairment test).

The Group tested the recoverability of the carrying amount of Net Invested Capital (NIC) as at 31 December 2020. Among other things, the NIC includes the value of goodwill. For the purpose of impairment testing, the value of goodwill was allocated to the two cash-generating units (CGUs) identified ("Components" and "Cooling Systems") in line with the operating segments identified in accordance with IFRS 8. Management has not identified other lower level cash generating units with largely independent cash flows to be considered in the allocation of the goodwill.

In particular, the Group has recognised goodwill totalling €55 million in the consolidated Financial Statements as at 31 December 2020, attributed to the "Components CGU" for €27.5 million (reduced by €1.2 million due to the adjustment of the above mentioned exchange rate delta) and the "Cooling Systems CGU" for €27.5 million (reduced by €0.5 million due to what is indicated in the note in the Introduction), to which intangible assets with a finite useful life amounting to €39.7 million, rights of use for €17.6 million and property, plant and equipment of €141.1 million were also allocated.

In determining the recoverable value of these CGUs, identified in the value of use as the sum of the discounted cash flows generated in the future and on a straight line of the CIN (Discounted Cash Flow Unlevered method), Management made reference to the Group 2021-2024 Business Plan approved by the Parent Company's Board of Directors on 24 February 2021. This included the assumptions of the Management's expectations of focusing on new geographical markets deemed most attractive in terms of size, stability, growth and profit margins, strengthening, expanding and specialising existing production capacity, to increase production capacity where the Group is less present and in markets where the cold chain is rapidly expanding, continuously improving the performance of existing products and developing innovative products, in particular with the use of natural refrigerating liquids, so being able to erode the market share of smaller competitors that are less able to commit to the required investments.

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

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

- sector financial structure: 12.01% (third party capital) and 87.99% (own capital) for both the CGUs, taking into account the average of a panel of comparable companies;
- sector relevered beta: 1.040 for the “Components CGU” and 1.042 for the “Cooling System CGU”;
- risk free rate: 3,23% for the “Components CGU” and 2.68% for the “Cooling Systems CGU” - determined considering the average yield of government bonds with a 10-year maturity in the countries where each CGU operates;
- risk premium: 5.17% (attributable to countries with an AAA rating – source Prof. A. Damodaran, January 2021) for both CGUs;

  cost of debt: 2.48% and determined considering the 10-year rate IRS of 1.23% increased by a spread of 1.25% ;

The recoverable amount also includes the terminal value of income flows, which was calculated with the “perpetual cash flow” method considering a growth rate (g rate) of 2.01% and 1.74% respectively for the “Components CGU” and for the “Cooling Systems CGU”. In the terminal value, an operating cash flow equal to the last year of the plan (2024), 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. A weighted tax rate was also considered in relation to the countries in which the two CGUs operate.

In more detail, in order to determine the recoverable amount of Net Invested Capital, cash flows were discounted using a discounting rate (WACC) which takes into account the specific risks of the asset and which reflects current market assessments of the cost of money. Two different WACCs were calculated, equivalent to 7.80% for the Components CGU and 7.33% for the Cooling Systems CGU.

From the impairment test carried out, approved by the Parent Company's Board of Directors on 17 March 2021, no losses emerged based on the testing carried out, as the value in use was found to be higher than the carrying amount.

As required by IAS 36 and by the impairment test guidelines drafted by the O.I.V., the group has carried out a sensitivity analysis in relation to the recoverable cost of the above mentioned CGUs, analysing the effect of the variation of the discounting rate used to discount future cash flows (WACC) and the g-rate, maintaining the main plan assumptions unchanged.

A further sensitivity analysis has been carried out, analysing the effect of the discounting rate used to discount future cash flows (WACC) and amortisation/depreciation of the Terminal Value, again maintaining the main other plan assumption unchanged.

These sensitivity analyses did not highlight any critical issues, conforming the results in terms of the test.

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

- increasing the WACC of the Terminal value (maintaining all other plan assumptions unchanged) of approximately +6.97% for the Components CGU and approximately +4.31% for the Cooling Systems CGU;

- lowering of the EBITDA in the Plan's explicit period and in Terminal Value (maintaining all other plan assumptions unchanged) of -38.0% for the Components CGU and -27.7% for the Cooling Systems CGU;

- Break even g-rate: non-significant reduction of the TV g-rate. Even by using a nil value for both CGUs, the Cover would not be zero.

As already mentioned earlier, the Group 2021-2024 Business Plan reports that the estimated effects of the pandemic for 2021 are expected to be in line with those at the end of the 2020 financial year, reasonably confirming for 2021 the pre-COVID final results for the 2019 financial year.

*Other intangible assets*

The item “Other intangible assets” rose by €2,042 thousand compared to the previous year.

| **Detail of other intangible assets** *(in thousands of Euro)* | **Trade receivables** | | **Trademarks** | | **Development costs** | **Development costs in progress** | **Software** | **Other** | **Total** | |
|---|---|---|---|---|---|---|---|---|---|---|
| *Historical* | | | | | | | | | | |
| **As at 1 January 2019** | **12,437** | | **11,077** | | **12,623** | **2,639** | **13,362** | **332** | **52,470** | |
| Increases | 8,143 | (*) | 12,830 | (*) | 1,291 | 1,324 | 1,947 | 593 | 26,128 | (*) |
| Decreases | - | | - | | (192) | (106) | (6) | - | (304) | |
| Reclassifications | - | | - | | 2,262 | (2,262) | 136 | (136) | - | |
| Exchange differences | - | | (4) | | (3) | - | 63 | - | 56 | |
| **As at 31 December 2019** | **20,580** | **(*)** | **23,903** | **(*)** | **15,981** | **1,595** | **15,502** | **789** | **78,350** | **(*)** |
| Increases | - | | - | | 253 | 1,582 | 5,089 | 55 | 6,979 | |
| Decreases | - | | - | | (264) | (161) | (165) | (15) | (605) | |
| Reclassifications | - | | - | | 894 | (894) | 578 | (578) | - | |
| Exchange differences | (30) | | 10 | | (16) | - | (196) | (13) | (245) | |
| **As at 31 December 2020** | **20,550** | | **23,913** | | **16,848** | **2,122** | **20,808** | **238** | **84,479** | |
| *Provision* | | | | | | | | | | |
| **As at 1 January 2019** | **1,006** | | **7,616** | | **10,611** | **-** | **10,659** | **116** | **30,008** | |
| Increases | 1,102 | (*) | 1,592 | (*) | 1,702 | - | 2,208 | - | 6,604 | (*) |
| Decreases | - | | - | | (96) | - | (9) | - | (105) | |
| Reclassifications | - | | - | | - | - | - | - | - | |
| Exchange differences | - | | (2) | | (3) | - | 42 | - | 37 | |
| **As at 31 December 2019** | **2,108** | **(*)** | **9,206** | **(*)** | **12,214** | **-** | **12,900** | **116** | **36,544** | **(*)** |
| Increases | 1,374 | | 2,020 | | 1,722 | - | 3,363 | - | 8,479 | |
| Decreases | - | | - | | - | - | (165) | (15) | (180) | |
| Reclassifications | - | | - | | - | - | - | - | - | |
| Exchange differences | - | | 9 | | 8 | - | (145) | - | (128) | |
| **As at 31 December 2020** | **3,482** | **(*)** | **11,235** | | **13,944** | **-** | **15,953** | **101** | **44,715** | |
| *Net carrying amount* | | | | | | | | | | |
| **As at 31 December 2019** | **18,472** | **(*)** | **14,697** | **(*)** | **3,767** | **1,595** | **2,602** | **673** | **41,806** | **(*)** |
| **As at 31 December 2020** | **17,068** | | **12,678** | | **2,904** | **2,122** | **4,855** | **137** | **39,764** | |

(*) restated values compared with 31 December 2019 pursuant to IFRS 3, to take retrospective account of the effects resulting from the definitive valuation of the fair value of the "Al Air" trademarks and of customer list at the date of acquisition (values previously considered provisional, see note no. 2.1 "Introduction - Al Air acquisition").

*Customer list*

The change in the financial year with reference to the customer List (which includes the results of the definition of the PPA process of "Al Air", as reported in the previous note "Introduction") makes exclusive reference to the amortisation for the year.

*Trademarks*

The change of this item (which includes the results of the definition of the PPA process of "Al Air", as reported in the previous note "Introduction") makes exclusive reference to the amortisation for the year.

*Development costs and development costs in progress*

During the 2020 financial year, the Group incurred capitalizable Development costs for €1,835 thousand (of which €253 thousand in use and €1,582 thousand for current projects), referred to the development of new products subject to the prior authorisation of the Board of Statutory Auditors. During the financial year, several projects were completed which have led to a reclassification of the relative costs recognised in the item "Development costs in progress" for €894 thousand.

*Software*

Software increased by €5,089 thousand following the main projects developed in 2020 which related to the PLM (Product Lifecycle Management) project for €1,182 thousand, the goodwill of the SAP management system in the companies Air Hex Alonte S.r.l. and Fincoil LU-VE OY for €1,121 thousand and other management software for improved operations at Group level (configurations, licences, developmental, etc.) for €2,786 thousand.

*Other intangible assets*

Other intangible assets increased by €55 thousand: these increases refer to software in the process of being completed.

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

# 3.2 PROPERTY, PLANT AND EQUIPMENT

| Other property, plant and equipment *(in thousands of Euro)* | Property | Plant and equipment | Rights of use | Other property, plant and equipment | Property, plant and equipment in progress | Total |
|---|---|---|---|---|---|---|
| *Historical* | | | | | | |
| As at 1 January 2019 | 98,588 | 123,793 | - | 30,187 | 6,213 | 265,723 |
| Alfa LAVAL contribution | 44 | 7,522 | 12,893 | 866 | 176 | 21,501 |
| Increases | 834 | 8,987 | 8,873 | 2,900 | 12,573 | 34,167 |
| Decreases | - | (3,094) | - | (493) | (375) | (3,962) |
| Reclassifications | 473 | 4,559 | 300 | 362 | (5,694) | - |
| Exchange differences | 1,134 | 1,292 | (27) | 99 | 92 | 2,590 |
| As at 31 December 2019 | 101,073 | 143,059 | 22,039 | 33,921 | 12,985 | 320,019 |
| | | | | | | |
| Increases | 738 | 5,236 | 4,179 | 2,919 | 8,801 | 21,873 |
| Decreases | (5) | (1,224) | (1,273) | (708) | (53) | (3,263) |
| Reclassifications | 174 | 7,773 | - | 527 | (8,474) | - |
| Exchange differences | (3,967) | (5,188) | (263) | (531) | (778) | (10,727) |
| As at 31 December 2020 | 98,013 | 149,656 | 24,682 | 36,128 | 12,481 | 327,902 |
| *Provision* | | | | | | |
| As at 1 January 2019 | 22,385 | 87,188 | - | 24,147 | - | 140,662 |
| Increases | 2,441 | 9,493 | 3,547 | 2,270 | - | 17,751 |
| Decreases | - | (2,451) | 158 | (468) | - | (2,761) |
| Reclassifications | - | - | - | - | - | - |
| Exchange difference | 249 | 791 | - | 58 | - | 1,098 |
| As at 31 December 2019 | 25,075 | 95,021 | 3,705 | 26,007 | - | 156,750 |
| Increases | 2,425 | 10,437 | 4,578 | 2,367 | - | 19,807 |
| Decreases | (4) | (1,179) | (1,176) | (701) | - | (3,060) |
| Reclassifications | - | - | - | - | - | - |
| Exchange differences | (836) | (3,097) | (49) | (320) | - | (4,302) |
| As at 31 December 2020 | 26,660 | 101,182 | 7,058 | 27,353 | - | 169,195 |
| *Net carrying amount* | | | | | | |
| As at 31 December 2019 | 75,998 | 48,038 | 18,334 | 7,914 | 12,985 | 163,269 |
| As at 31 December 2020 | 71,353 | 48,474 | 17,624 | 8,775 | 12,481 | 158,707 |

(*) The positive change in the column "Right of use" mainly refers to the portions of amortisation in previous years of the surface rights of the company Spirotech Ltd following the reclassification under fixed assets following the application of IFRS 16 from 1 January 2019.

As at 31 December 2020, the historical cost of property, plant and equipment was reduced by €7,883 thousand, mainly due to significant impact of the exchange rate delta (with particular reference to the Zloty, the Rouble and the Rupee) on the historical cost of €10,727 thousand.

The increase of €21,873 thousand mainly referred to:

- investments finalised at the expansion of existing production capacity (for €2 million) for the Group by the Parent Company LU-VE S.p.A.;
- the expansion of the manufacturing site and the enhancement of the existing production capacity (for €4.6 million) by the company SEST-LUVE Polska Sp.z.o.o.;
- the expansion of the manufacturing site and the enhancement of the existing production capacity (for €3 million) by the company Spirotech Heat Exchangers Ltd.;
- the expansion of the manufacturing site and the enhancement of the existing production capacity (for €3.6 million) by the company Zyklus Heat Transfer Inc.;
- the expansion of existing production capacity (for €3,3 million) by the Italian company Air Hex Alonte S.r.l.;
- the expansion of existing production capacity (for €1,1 million) by the company Air "OOO" SEST-LUVE;
- the expansion of existing production capacity (for €1.3 million) by the subsidiary Sest S.p.A.;
- the increase in the item Rights of use for €4,179 thousand, mainly linked to the subscription of new lease agreements for property by the subsidiary Air Hex Alonte S.r.l. and for long-term hire of industrial equipment by the subsidiary SEST LUVE POLSKA Sp.z.o.o..

For more details on the investments for the year, please refer to the Single Report on Operations.

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

## 3.3 EQUITY INVESTMENTS

The Group holds the following equity investments:

| **Equity investments** *(in thousands of Euro)* | **31/12/2020** | **31/12/2019** | **Change** |
|---|---|---|---|
| Industria e Università S.r.l. | 8 | 8 | - |
| Total | 8 | 8 | - |

## 3.4 OTHER NON-CURRENT ASSETS

The item in question was broken down as follows as at 31 December 2020:

| **Other non-current assets** *(in thousands of Euro)* | **31/12/2020** | **31/12/2019** | **Change** |
|---|---|---|---|
| Other non-current assets | 207 | 211 | (4) |
| Total | 207 | 211 | (4) |

“Other non-current assets” amounted to €207 thousand and included deposits paid for supply of services.

# 3.5 INVENTORIES

The item in question was broken down as follows as at 31 December 2020:

| **Inventories** *(in thousands of Euro)* | **31/12/2020** | **31/12/2019** | **Change** |
|---|---|---|---|
| Raw materials and consumables | 42,005 | 41,339 | 666 |
| Property, plant and equipment in progress and semi-finished products | 5,030 | 4,481 | 549 |
| Finished products and goods for resale | 16,560 | 20,375 | (3,815) |
| Provision for inventory losses | (6,948) | (4,383) | (2,565) |
| **Total** | **56,647** | **61,812** | **(5,165)** |

The decrease of €5,165 thousand compared to the previous financial year is mainly due to the following:

- for €2,600 thousand to the general reduction of inventory stock in the various companies of the Group, and in particular to that referred to finished products compared to the previous year;
- for €2,565 thousand to the increase in the provision for inventory losses.

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

The increase in provision for inventory losses for €2,565 thousand is broken down as follows:

- increase of €2,894 thousand for greater provisions;
- decrease of €217 thousand for use of the Provision;
- decrease of €112 thousand for negative exchange rate delta.

No releases were made for redundancies during the financial year.

## 3.6 TRADE RECEIVABLES

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

| **Trade Receivables** *(in thousands of Euro)* | **31/12/2020** | **31/12/2019** | **Change** |
|---|---|---|---|
| Trade receivables | 70,070 | 67,338 | 2,732 |
| Provision for bad debts | (10,307) | (5,610) | (4,697) |
| **Total** | **59,763** | **61,728** | **(1,965)** |

The decrease in trade receivables amounting to €1,965 thousand was due to:

- an increase of €2,732 thousand attributable to the general increase in receivables by the various companies of the Group;
- a decrease of €4,697 thousand attributable to the net increase in the bad debt provision, which breaks down as follows:
  - increase of €5,094 thousand for greater provisions;
  - decrease of €253 thousand for use of the Provision;
  - decrease of €144 thousand for positive exchange differences.

No releases were made for redundancies during the financial year.

In addition, in December 2020 receivables of roughly €19,029 thousand were transferred to Factoring companies, compared to approximately €21,304 thousand in the same month in the previous year. These factoring transfers were all without recourse. Factored receivables as a percentage of revenue came to 4.7% in 2020 and 5.5% in 2019.

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

Trade receivables include contract assets (invoices to be issued relative to services already performed by the Group) for an amount of €132 thousand and a reduction in trade receivables for variable compensations (mainly credit notes to be issued for bonuses granted to customers) for €1,279 thousand.

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

| **Breakdown of trade receivables by geographical area** *(in thousands of Euro)* | **31/12/2020** | **31/12/2019** | **Change** |
|---|---|---|---|
| Italy | 15,694 | 11,077 | 4,617 |
| EU Countries | 37,594 | 38,823 | (1,229) |
| Non-EU Countries | 16,782 | 17,438 | (656) |
| Bad debt provision | (10,307) | (5,610) | (4,697) |
| **Total** | **59,763** | **61,728** | **(1,965)** |

The ageing of trade receivables is shown below:

| **Breakdown of trade receivables by maturity** *(in thousands of Euro* | **31/12/2020** | **31/12/2019** | **Change** |
|---|---|---|---|
| Current receivables (not past due) | 55,933 | 53,283 | 2,650 |
| Past due up to 30 days | 4,563 | 6,187 | (1,624) |
| Past due from 30 to 60 days | 2,084 | 1,996 | 88 |
| Past due from 60 to 90 days | 1,867 | 568 | 1,299 |
| Past due for more than 90 days | 5,623 | 5,304 | 319 |
| **Total** | **70,070** | **67,338** | **2,732** |

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

As at 31 December 2020, the estimate of the expected losses included the potential forward-looking impacts of the pandemic on the possible deterioration of customers' creditworthiness, of the countries in which operate and on their ability to meet their obligations.  With reference to these latter considerations, we report how the effects on receivables deriving from the COVID-19 health crisis as at 31 December 2020 have not involve significant delays in customers' payments with respect to the dates originally contractually scheduled with customers: management deemed it reasonable, in any case, on the basis of the forward-looking impacts of the pandemic, to increase their expectations of future losses and proceed to a further allocation in the year to reflect this risk in the financial statements.

Furthermore, it is reported how the average payment terms were not subject to significant changes compared to the previous year.

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

| **31/12/2020** *(in thousands of Euro)* | **Not past due** | **<30** | **31 - 60** | **61 - 90** | **>90** | **Total** |
|---|---|---|---|---|---|---|
| Expected default rate | 6.06% | 6.73% | 12.0% | 57.5% | 93.5% | |
| Estimate of gross accounting value at the time of default | 55,899 | 4,563 | 2,084 | 1,867 | 5,657 | 70,070 |
| Expected losses throughout the life of the credit | 3,387 | 307 | 251 | 1,073 | 5,289 | 10,307 |

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

## 3.7 TAX RECEIVABLES FOR CURRENT TAXES

This item was broken down as follows:

| **Due from the tax authorities for current taxes** *(in thousands of Euro)* | **31/12/2020** | **31/12/2019** | **Change** |
|---|---|---|---|
| Tax receivables for VAT | 8,986 | 12,292 | (3,306) |
| Tax receivables for payments on account of direct taxes | 1,141 | 1,556 | (415) |
| Others | 132 | 68 | 64 |
| **Total** | **10,259** | **13,916** | **(3,657)** |

Tax receivables decreased by €3,657 thousand. This decrease is mainly due to a more careful management of VAT in companies acquired from the Alfa Laval group in 2019.

Tax receivables for payments on account of current taxes payable within the subsequent year refer to the excess of taxes prepaid for the year 2020 with respect to the effective tax burden.

## 3.8 CURRENT FINANCIAL ASSETS

Current financial assets included in this item are part of the "FVTPL" category indicated by IFRS9. These are financial instruments, whose contractual financial flows are not constituted solely by payment of capital and interest on the amount of capital to be repaid, and are held by the Company in the context of a pro tempore strategy whose objective, at equal risk, is the optimisation of the net cost of debt. This item was broken down as follows:

| **Current financial assets** *(in thousands of Euro)* | **31/12/2020** | **31/12/2019** | **Change** |
|---|---|---|---|
| Capitalisation policies | 69,958 | 58,632 | 11,326 |
| Other securities | 300 | 303 | (3) |
| Fair value derivative instruments | - | 112 | (112) |
| **Total** | **70,258** | **59,047** | **11,211** |

The item “Capitalisation policies” includes the following financial instruments:

- Capitalisation policies issued by Aviva Vita S.p.A. and subscribed by the Parent Company LU-VE S.p.A. for a nominal value of €49,856, recognised at fair value for a value of €54,003 thousand (as at 31 December 2019 the nominal value was of €39,936 thousand, while the fair value was €43,087 thousand) and are the type of policies which allow, after the payment of a lump-sum premium, for an annual capital revaluation based on the return obtained from management (almost exclusively invested in government securities and very highly rated bonds). During the financial year further Branch I capitalisation policies were subscribed to supplement those already subscribed in 2016, for €10,000 thousand, net of purchasing commission of €80 thousand (the latter recognised in the income statement in the item “Financial charges”). This entry constitute the numerary change of the 2020 financial year reported in the cash flow statement. The fair value measurement at the end of the financial year entailed the recognition of a positive change of €996 thousand, recognised under the item “Financial income”.

- Capitalisation policies issued by BNP Paribas Cardif Vita Compagnia di assicurazione e Riassicurazione S.p.A. and subscribed by the Parent Company LU-VE S.p.A. in the previous financial year, for a nominal amount of €15,000 thousand, measured at fair value for a value of €15,955 thousand (as at 31 December 2019 the fair value was €15,544 thousand); during the financial year no new capitalisation policies were subscribed. The fair value measurement at the reporting date entailed the recognition of a positive amount of €411 thousand, recognised under the item “Financial income”.

Please note that the capitalisation policies provide for a guarantee on the capital and the capitalisation of returns (which in this manner also become guaranteed) every twelve months as well as some penalties in the case of early redemption, of amounts not overall significant (mainly with expiry in 2021 and 2022).

Other securities refer to investments, made in 2017 with Unicredit for around 300 thousand which involved the recognition as at 31 December 2020 of a negative fair value change of €3 thousand, recognised under the item “Financial charges”.

Profits and losses from disinvestment are recognised in the Income Statement under the items “Financial income” or “Financial charges”, like the fair value increases and decreases.

As at 31 December 2020 the options on currencies held by the Group represent a positive fair value of €213 thousand, while derivative financial instruments on IRS represent a negative fair value of 2,730 thousand.

The summary relating to outstanding derivative financial instruments as at 31 December 2020 broken down by type and classified under the item "Other financial liabilities" is provided below:

| **Derivative financial instruments as at 31/12/2020** *(in thousands of Euro)* | | **31/12/2020** | | **31/12/2019** | | **31/12/2020** | **31/12/2019** |
|---|---|---|---|---|---|---|---|
| **TYPE** | **ORIGINAL NOTIONAL** | **NOT. Short** | **NOT. M/L** | **NOT. Short** | **NOT. M/L** | **FAIR VALUE** | **FAIR VALUE** |
| IRS on loans | 286,078 | 48,493 | 182,410 | 41,841 | 127,902 | (2,730) | (1,788) |
| Currency options | 6,500 | 5,877 | - | 6,000 | - | (213) | 112 |
| Commodity Swaps | - | - | - | - | - | - | - |
| **Total** | **292,578** | **54,370** | **182,410** | **47,841** | **127,902** | **(2,943)** | **(1,676)** |
| **Total Notional** | | **236,780** | | **175,743** | | | |

IRS on loans (in thousands of Euro)

| DEBTOR COMPANY | COUNTERPARTY | TAKEN OUT | MATURITY | ORIGINAL NOTIONAL | 31/12/2020 | | 31/12/2020 |
|---|---|---|---|---|---|---|---|
| | | | | | NOT. Short | NOT. M/L | FAIR VALUE |
| LU-VE S.P.A. | Deutsche Bank | 27/03/2017 | 23/03/2021 | 5,500 | 344 | - | (1) |
| LU-VE S.P.A. | Intesa San Paolo | 21/06/2017 | 28/02/2022 | 22,059 | 5882 | 1,471 | (32) |
| LU-VE S.P.A. | Unicredit S.p.A. | 30/01/2018 | 31/03/2023 | 18,750 | 3,750 | 5,625 | 1 |
| LU-VE S.P.A. | Intesa San Paolo | 28/11/2018 | 28/06/2024 | 12,500 | 2,500 | 6,250 | (147) |
| LU-VE S.P.A. | Intesa San Paolo | 28/11/2018 | 28/06/2024 | 12,500 | 2500 | 6,250 | (147) |
| LU-VE S.P.A. | Banca Nazionale del Lavoro S.p.A. | 20/12/2018 | 24/09/2024 | 10,000 | 2,000 | 6,000 | (128) |
| LU-VE S.P.A. | Banca Nazionale del Lavoro S.p.A. | 20/12/2018 | 20/12/2023 | 10,000 | 1,111 | 6,667 | (145) |
| LU-VE S.P.A. | Unicredit S.p.A. | 20/09/2018 | 30/06/2024 | 12,000 | 2,400 | 6,000 | (190) |
| LU-VE S.P.A. | Unicredit S.p.A. | 30/09/2019 | 30/09/2023 | 15,000 | 2,000 | 13,000 | (410) |
| LU-VE S.P.A. | Banca Popolare di Milano | 25/01/2019 | 30/09/2024 | 25,000 | 5,000 | 16,250 | (229) |
| LU-VE S.P.A. | Unicredit S.p.A. | 12/07/2019 | 30/06/2024 | 9,600 | 2,400 | 6,000 | (122) |
| LU-VE S.P.A. | Unione di Banche Italiane S.p.A. | 30/07/2020 | 30/07/2026 | 21,569 | 5,232 | 16,337 | (251) |
| LU-VE S.P.A. | Intesa San Paolo | 20/05/2020 | 30/09/2025 | 12,500 | 2,083 | 10,417 | (85) |
| LU-VE S.P.A. | Unicredit S.p.A. | 15/04/2020 | 30/04/2022 | 15,000 | 0 | 15,000 | (88) |
| LU-VE S.P.A. | Banca Nazionale del Lavoro S.p.A. | 28/05/2020 | 28/05/2025 | 40,000 | 5,000 | 35,000 | (384) |
| LU-VE S.P.A. | Unicredit S.p.A. | 30/11/2020 | 30/11/2024 | 20,000 | 2,857 | 17,143 | (151) |
| LU-VE S.P.A. | Deutsche Bank | 30/10/2020 | 30/10/2026 | 5,500 | 0 | 5,500 | (69) |
| LU-VE S.P.A. | Deutsche Bank | 30/10/2020 | 30/10/2025 | 10,000 | 2,000 | 8,000 | (96) |
| SEST S.p.A. | Unicredit S.p.A. | 02/10/2015 | 30.06.2024 | 5,100 | 600 | 1,500 | (49) |
| SEST LUVE POLSKA SP. Z O.O. | Bank BGZ BNP Paribas Spolka Akcyjna | 22/07/2015 | 08/11/2021 | 3,500 | 834 | - | (7) |
| | | | **Total** | **286,078** | **48,326** | **182,577** | **(2,730)** |

Currency options (in thousands of Euro)

| DEBTOR COMPANY | COUNTERPARTY | TYPE | HEDGED ELEMENT | TAKEN OUT | MATURITY | NOT. ORIG. | 31/12/2020 NOT. Short | 31/12/2020 NOT. M/L | 31/12/2020 FAIR VALUE |
|---|---|---|---|---|---|---|---|---|---|
| SEST LUVE POLSKA SP. Z O.O. | Bank BGZ BNP Paribas S.A. | FX Option | €/PLN Exchange Rate | 28/01/2020 | 05/01/2021 | 500 | 478 | - | (29) |
| SEST LUVE POLSKA SP. Z O.O. | Bank BGZ BNP Paribas S.A. | FX Option | €/PLN Exchange Rate | 07/02/2020 | 05/02/2021 | 500 | 477 | - | (29) |
| SEST LUVE POLSKA SP. Z O.O. | Bank BGZ BNP Paribas S.A. | FX Option | €/PLN Exchange Rate | 02/03/2020 | 02/03/2021 | 500 | 290 | - | (14) |
| SEST LUVE POLSKA SP. Z O.O. | Bank BGZ BNP Paribas S.A. | FX Option | €/PLN Exchange Rate | 02/03/2020 | 02/03/2021 | 500 | 193 | - | (9) |
| SEST LUVE POLSKA SP. Z O.O. | Bank BGZ BNP Paribas S.A. | FX Option | €/PLN Exchange Rate | 15/04/2020 | 07/04/2021 | 500 | 500 | - | (7) |
| SEST LUVE POLSKA SP. Z O.O. | Bank BGZ BNP Paribas S.A. | FX Option | €/PLN Exchange Rate | 07/05/2020 | 07/05/2021 | 500 | 502 | - | (5) |
| SEST LUVE POLSKA SP. Z O.O. | Bank BGZ BNP Paribas S.A. | FX Option | €/PLN Exchange Rate | 18/06/2020 | 07/06/2021 | 500 | 492 | - | (15) |
| SEST LUVE POLSKA SP. Z O.O. | Bank BGZ BNP Paribas S.A. | FX Option | €/PLN Exchange Rate | 02/07/2020 | 02/07/2021 | 500 | 492 | - | (15) |
| SEST LUVE POLSKA SP. Z O.O. | Bank BGZ BNP Paribas S.A. | FX Option | €/PLN Exchange Rate | 31/08/2020 | 05/08/2021 | 500 | 485 | - | (23) |
| SEST LUVE POLSKA SP. Z O.O. | Bank BGZ BNP Paribas S.A. | FX Option | €/PLN Exchange Rate | 03/09/2020 | 03/09/2021 | 500 | 488 | - | (21) |
| SEST LUVE POLSKA SP. Z O.O. | Bank BGZ BNP Paribas S.A. | FX Option | €/PLN Exchange Rate | 05/10/2020 | 01/10/2021 | 500 | 496 | - | (12) |
| SEST LUVE POLSKA SP. Z O.O. | Bank BGZ BNP Paribas S.A. | FX Option | €/PLN Exchange Rate | 19/11/2020 | 05/11/2021 | 500 | 493 | - | (16) |
| SEST LUVE POLSKA SP. Z O.O. | Bank BGZ BNP Paribas S.A. | FX Option | €/PLN Exchange Rate | 18/12/2020 | 06/12/2021 | 500 | 491 | - | (18) |
| | | | | | **Total** | **6,500** | **5,877** | - | **(213)** |

# 3.9 OTHER CURRENT ASSETS

The details of this item are shown below:

| **Other current assets** *(in thousands of Euro)* | **31/12/2020** | **31/12/2019** | **Change** |
|---|---|---|---|
| From employees | 36 | 88 | (52) |
| Advances and other receivables | 3,583 | 2,509 | 1,074 |
| **Total** | **3,619** | **2,597** | **1,022** |

The increase of €1,022 thousand is mainly due to “Advances to suppliers” for IT services.

# 3.10 CASH AND CASH EQUIVALENTS

The details of this item are shown below:

| **Cash and cash equivalents** *(in thousands of Euro)* | **31/12/2020** | **31/12/2019** | **Change** |
|---|---|---|---|
| Cash and cash equivalents | 152,679 | 81,851 | 70,828 |
| **Total** | **152,679** | **81,851** | **70,828** |

The increase of €70,828 thousand is mainly due to the optimal management of working capital and new loans taken out during the financial year. For further information, please refer to paragraph 1.5 – "Consolidated Cash Flow Statement".

Liquid availabilities are mainly concentrated in Italy for an amount of €115,826 thousand. The Group has no restrictions/constraints on the use of these amounts.

The following table reports the breakdown of liquid availability by geographical area: liquid availability in non-EU countries mainly refer to current account balances of accounts in Indian rupees (for a value of approximately €8.1 million), in Russian roubles (€7.3 million), Chinese yuan (€4.1 million), US dollar (€2.9 million) and Euro €1.0 million). The liquid availabilities in EU countries include current account balances in foreign currency, mainly Polish zloty and Swedish krona, for an amount of €5.1 million and €1.3 million respectively.

| **Cash and cash equivalents by geographical areas** *(in thousands of Euro)* | **31/12/2020** | **31/12/2019** | **Change** |
|---|---|---|---|
| Italy | 115,826 | 46,470 | 69,356 |
| EU Countries | 12,820 | 19,868 | (7,048) |
| Non-EU Countries | 24,033 | 15,513 | 8,520 |
| **Total** | **152,679** | **81,851** | **70,828** |

## 3.11 SHAREHOLDERS' EQUITY

The share capital of the Parent Company LU-VE S.p.A. amounted to €62,704 thousand (€62,704 thousand as at 31 December 2019).
In 2020, dividends of €5,996 thousand were distributed by the Parent Company LU-VE S.p.A. from the reserves and retained earnings.

As at 31 December 2020 the Parent Company holds 28,027 treasury shares (0.13% of the share capital), purchased during the financial year and recognised in the consolidated financial statements to adjust the shareholders' equity for a total value of approximately €288 thousand. No treasury shares were sold during the financial year.

Shareholders' equity attributable to non-controlling interests amounted to €3,993 thousand (€3,422 thousand as at 31 December 2019). The profit attributable to non-controlling interests totalled €821 thousand (€779 thousand in 2019). The decrease in minority interests was influenced by the distribution of dividends for €525 thousand by the companies SEST LU-VE POLSKA Sp.z.o.o.

and "OOO" Sest LU-VE, the negative effects of conversion into Euro of the shareholders' equity of minority interests for €377 thousand, offset by the reclassification of portions of minority interests in LU-VE Pacific pty in the Group's shareholders' equity for €652 thousand, as already described in note no. 2.1 “Introduction - Liquidation of LU-VE Pacific pty”.

Please note that, following the decision of the Directors of the parent company LU-VE S.p.A. to benefit from the “tax realignment” regulation (pursuant to art. 110 of Italian Decree Law 104/2020), the same will propose to the Shareholders' Meeting, at the time of approval of the 2020 financial statements of LU-VE S.p.A., to bind a part relative to an already existing available reserve for an amount of €20,482 thousand, corresponding to the values of aligned goodwill, trademarks and buildings (€21,116 thousand) net of the relative substitute tax (€633 thousand).

## 3.12 LOANS

This item was broken down as follows:

| **Loans** *(in thousands of Euro)* | **31/12/2020** | | **31/12/2019** | |
|---|---|---|---|---|
| | **Current** | **Non-current** | **Current** | **Non-current** |
| Loans | 72,266 | 228,104 | 75,628 | 137,801 |
| Advances on export flows in Euro | 9,500 | - | 2,000 | - |
| Advances on invoices subject to clearance | - | - | 43 | - |
| Total | 81,766 | 228,104 | 77,671 | 137,801 |

As at 31 December 2020, bank loans amounted to €300,370 thousand.
The breakdown of this item, recognised according to the amortised cost, the evolution with respect to the previous year and the characteristics of the bank loans held by the Group are provided below (thousands of Euro):

| **Bank loans** *(in thousands of Euro)* | | | | | | | **AMORTISED COST 31/12/2020** | | **31/12/2019** | |
|---|---|---|---|---|---|---|---|---|---|---|
| **DEBTOR COMPANY** | **COUNTERPARTY** | **LOAN TYPE** | **TAKEN OUT** | **MATURITY** | **RATE APPLIED** | **ORIGINAL AMOUNT** | **RESIDUAL AMOUNT** | **OF WHICH CURRENT** | **RESIDUAL AMOUNT** | **OF WHICH CURRENT** |
| LU-VE | Banca Nazionale del Lavoro S.p.A. | Unsecured loan | 09/06/2015 | 09/06/2020 | 6M Euribor + Spread | 20,000 | - | - | 2,220 | 2,220 |
| LU-VE | UniCredit S.p.A. | Unsecured loan | 17/09/2015 | 31/12/2020 | 6M Euribor + Spread | 10,000 | - | - | 2,500 | 2,500 |
| LU-VE | Mediocredito Italiano S.p.A. | Unsecured loan | 29/10/2015 | 30/09/2020 | 6M Euribor + Spread | 10,000 | - | - | 2,501 | 2,501 |
| LU-VE | Banca Nazionale del Lavoro S.p.A. | Unsecured loan | 20/09/2016 | 20/09/2020 | 3M Euribor floor 0% + Spread | 30,000 | 2,000 | 2,000 | 6,000 | 6,000 |
| LU-VE | Banca Popolare di Bergamo S.p.A. | Unsecured loan | 30/09/2016 | 30/09/2021 | 3M Euribor + Spread | 10,000 | 1,512 | 1,512 | 3,519 | 2,007 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| LU-VE | Banca Popolare di Sondrio Società Cooperativa per Azioni | Unsecured loan | 15/12/2016 | 31/01/2020 | Average prev quart 3M Euribor + Spread | 10,000 | - | - | 837 | 837 |
| LU-VE | Deutsche Bank S.p.A. | Unsecured loan | 23/03/2017 | 28/11/2020 | 3M Euribor + Spread | 1,500 | - | - | 400 | 400 |
| LU-VE | Deutsche Bank S.p.A. | Unsecured loan | 23/03/2017 | 23/03/2021 | 3M Euribor + Spread | 5,500 | 344 | 344 | 1,718 | 1,374 |
| LU-VE | Mediocredito Italiano S.p.A. | Unsecured loan | 31/03/2017 | 28/02/2022 | 3M Euribor + Spread | 25,000 | 7,354 | 5,884 | 13,242 | 5,879 |
| LU-VE | UniCredit S.p.A. | Unsecured loan | 20/04/2017 | 31/12/2020 | Fixed | 10,000 | - | - | 2,856 | 2,856 |
| LU-VE | Unione di Banche Italiane Società cooperativa per azioni | Unsecured loan | 20/12/2017 | 20/12/2020 | 3M Euribor + Spread | 20,000 | - | - | 19,999 | 19,999 |

| **Bank loans** *(in thousands of Euro)* | | | | | | | AMORTISED COST | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | 31/12/2020 | | 31/12/2019 | |
| DEBTOR COMPANY | COUNTERPARTY | LOAN TYPE | TAKEN OUT | MATURITY | RATE APPLIED | ORIGINAL AMOUNT | RESIDUAL AMOUNT | OF WHICH CURRENT | RESIDUAL AMOUNT | OF WHICH CURRENT |
| LU-VE | Unicredit S.p.A. | Unsecured loan | 30/01/2018 | 31/03/2023 | 6M Euribor + Spread | 25,000 | 12,508 | 5,002 | 17,500 | 4,993 |
| LU-VE | Unicredit S.p.A. | Unsecured loan | 20/09/2018 | 30/06/2024 | 6M Euribor + Spread | 12,000 | 8,398 | 2,397 | 10,797 | 2,395 |
| LU-VE | Unicredit S.p.A. | Unsecured loan | 20/09/2018 | 30/09/2023 | 6M Euribor + Spread | 15,000 | 15,044 | 2,005 | 15,033 | 147 |
| LU-VE | Mediocredito Italiano S.p.A. | Unsecured loan | 28/11/2018 | 30/06/2024 | 6M Euribor + Spread | 12,500 | 8,744 | 2,495 | 11,239 | 2,492 |
| LU-VE | Mediocredito Italiano S.p.A. | Unsecured loan | 28/11/2018 | 30/06/2024 | 6M Euribor + Spread | 12,500 | 8,744 | 2,495 | 11,239 | 2,492 |
| LU-VE | Banca Nazionale del Lavoro S.p.A. | Unsecured loan | 20/12/2018 | 24/09/2024 | 6M Euribor + Spread | 10,000 | 8,024 | 2,006 | 10,026 | 1,976 |
| LU-VE | Banca Nazionale del Lavoro S.p.A. | Unsecured loan | 20/12/2018 | 20/12/2023 | 6M Euribor + Spread | 10,000 | 8,336 | 1,109 | 8,876 | 1,104 |
| LU-VE | Banca Popolare di Milano | Unsecured loan | 16/06/2019 | 28/06/2024 | 3M 360 days Euribor + Spread | 10,000 | 6,993 | 1,963 | 8,972 | 1,948 |
| LU-VE | Banca Popolare di Milano | Unsecured loan | 25/01/2019 | 31/03/2025 | 3M 360 days Euribor + Spread | 30,000 | 21,214 | 4,985 | 26,195 | 4,982 |
| LU-VE | Unicredit S.p.A. | Unsecured loan | 12/07/2019 | 30/06/2024 | 6M 360 days Euribor + Spread | 12,000 | 8,395 | 2,396 | 10,793 | 2,394 |
| LU-VE | Unione di Banche Italiane Società cooperativa per azioni | Unsecured loan | 26/07/2019 | 30/07/2026 | 6M 360 days Euribor + Spread | 25,000 | 21,613 | 3,461 | 25,030 | 3,412 |
| LU-VE | Intesa San Paolo S.p.A. | Unsecured loan | 23/03/2020 | 23/09/2025 | 3M 360 days Euribor + Spread | 25,000 | 24,986 | 4,155 | - | - |
| LU-VE | Unione di Banche Italiane Società cooperativa per azioni | Unsecured loan | 15/04/2020 | 15/04/2023 | 3M 360 days Euribor + Spread | 30,000 | 29,986 | 7,451 | - | - |
| LU-VE | Unicredit S.p.A. | Unsecured loan | 15/04/2020 | 30/04/2022 | 6M 360 days Euribor + Spread | 15,000 | 14,981 | 6 | - | - |
| LU-VE | Banca Nazionale del Lavoro S.p.A. | Unsecured loan | 28/05/2020 | 28/05/2025 | 6M 360 days Euribor + 1.22% Spread (grid) | 40,000 | 39,897 | 4,943 | - | - |
| LU-VE | Cassa Depositi e Prestiti | Unsecured loan | 18/06/2020 | 17/12/2021 | 1.07% Fixed | 10,000 | - | - | - | - |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| LU-VE | Banca Popolare di Milano | Unsecured loan | 25/06/2020 | 30/06/2022 | 3M 360 days Euribor + 1% Spread | 12,500 | 12,475 | 8,301 | - | - |
| LU-VE | Banca Popolare di Milano | Unsecured loan | 25/06/2020 | 30/06/2022 | 3M 360 days Euribor + 1% Spread | 2,500 | 2,495 | 1,660 | - | - |
| LU-VE | UniCredit S.p.A. | Unsecured loan | 04/11/2020 | 30/11/2024 | 6M 360 days Euribor + 0.78% Spread | 20,000 | 20,000 | 2,854 | - | - |
| LU-VE | Deutsche Bank S.p.A. | Unsecured loan | 11/11/2020 | 11/11/2026 | 3M 360 base Euribor + 1.10% spread | 5,500 | 5,495 | 5 | - | - |
| LU-VE | Deutsche Bank S.p.A. | Unsecured loan | 11/11/2020 | 11/11/2025 | 3M 360 base + 1.20% spread | 10,000 | 9,986 | 1,991 | - | - |
| SEST LU-VE POLSKA SP. Z O.O. | BNP Paribas bank Polska SA | EIB Mortgage Loan | 08/11/2011 | 08/11/2021 | 3M Euribor + Spread | 5,000 | 846 | 846 | 1,500 | 666 |
| LU-VE FRANCE S.A R.L. | BNP PARIBAS S.A. | Mortgage Loan | 08/11/2011 | 03/11/2026 | Fixed | 798 | - | - | 437 | 54 |
| | | | | | | Total | **300,370** | **72,266** | **213,429** | **75,628** |

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 2020, in compliance to the CONSOB communication of 28 July 2006, the details of loans that require financial covenants to be met on a consolidated basis are provided below (in thousands of Euro):

| COMPANY | COUNTERPARTY | LOAN TYPE | TAKEN OUT | MATURITY | RATE | FINANCIAL COVENANTS | ORIGINAL AMOUNT |
|---|---|---|---|---|---|---|---|
| LU-VE | Banca Nazionale del Lavoro S.p.A. | Unsecured loan | 09/06/2015 | 09/12/2020 | 6M Euribor + Spread | PFN/EBITDA <= 3; PFN/PN <= 1.25 | 20,000 |
| LU-VE | Mediocredito Italiano S.p.A. | Unsecured loan | 29/10/2015 | 30/09/2020 | 6M Euribor + Spread | NFP/EBITDA <= 3; NFP/SE <1 | 10,000 |
| LU-VE | Banca Nazionale del Lavoro S.p.A. | Unsecured loan | 20/09/2016 | 21/03/2021 | 3M Euribor + Spread | NFP/EBITDA <= 3; NFP/SE <= 1.25 | 30,000 |
| LU-VE | Banca Popolare di Bergamo S.p.A. | Unsecured loan | 30/09/2016 | 30/09/2021 | 3M Euribor + Spread | NFP/EBITDA <= 3; NFP/NF <= 1.5 | 10,000 |
| LU-VE | Deutsche Bank S.p.A. | Unsecured loan | 23/03/2017 | 28/11/2020 | 3M Euribor + Spread | NFP/EBITDA <= 3 | 1,500 |
| LU-VE | Deutsche Bank S.p.A. | Unsecured loan | 23/03/2017 | 23/03/2021 | 3M Euribor + Spread | NFP/EBITDA <= 3 | 5,500 |
| LU-VE | Mediocredito Italiano S.p.A. | Unsecured loan | 31/03/2017 | 28/02/2022 | 3M Euribor + Spread | NFP/EBITDA <= 3; NFP/SE <1 | 25,000 |
| LU-VE | Unicredit S.p.A. | Unsecured loan | 20/04/2017 | 31/12/2020 | Fixed Rate | NFP/EBITDA <=3.5; NFP/OWN FUNDS <=1 | 10,000 |
| LU-VE | Unicredit S.p.A. | Unsecured loan | 30/01/2018 | 31/03/2023 | 6M Euribor + Spread | NFP/EBITDA <=3.5; NFP/OWN FUNDS <=1 | 25,000 |
| LU-VE | Unicredit S.p.A. | Unsecured loan | 20/09/2018 | 30/06/2024 | 6M Euribor + Spread | NFP/EBITDA <=3; NFP/OWN FUNDS <=1 | 12,000 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| LU-VE | Unicredit S.p.A. | Unsecured loan | 20/09/2018 | 30/09/2023 | 6M Euribor + Spread | NFP/EBITDA <=3; NFP/OWN FUNDS <=1 | 15,000 |
| LU-VE | Mediocredito Italiano S.p.A. | Unsecured loan | 28/11/2018 | 30/06/2024 | 6M Euribor + Spread | NFP/EBITDA < 3; NFP/SE <=1 | 12,500 |
| LU-VE | Mediocredito Italiano S.p.A. | Unsecured loan | 28/11/2018 | 30/06/2024 | 6M Euribor + Spread | NFP/EBITDA < 3; NFP/SE <=1 | 12,500 |
| LU-VE | Banca Nazionale del Lavoro S.p.A. | Unsecured loan | 20/12/2018 | 24/09/2024 | 6M Euribor + Spread | NFP/EBITDA <= 3; NFP/SE <= 1.25 | 10,000 |
| LU-VE | Banca Nazionale del Lavoro S.p.A. | Unsecured loan | 20/12/2018 | 20/06/2024 | 6M Euribor + Spread | NFP/EBITDA <= 3; NFP/SE <= 1.25 | 10,000 |
| LU-VE | Banca Popolare di Milano | Unsecured loan | 25/01/2019 | 31/03/2025 | 3M Euribor floor 0% + Spread | NFP/EBITDA <= 3; NFP/SE <= 1.25 | 30,000 |
| LU-VE | Unicredit S.p.A. | Unsecured loan | 12/07/2019 | 30/06/2024 | 6M Euribor + Spread | NFP/EBITDA <=3; NFP/OWN FUNDS <=1 | 12,000 |
| LU-VE | Unione di Banche Italiane Società cooperativa per azioni | Unsecured loan | 26/07/2019 | 30/07/2026 | 6M Euribor + Spread | NFP/EBITDA <= 3.5; NFP/SE <= 1.5 | 25,000 |
| LU-VE | Intesa San Paolo | Unsecured loan | 23/03/2020 | 23/09/2025 | 3M 360 days Euribor + 1.05% Spread | NFP/EBITDA <= 3; NFP/SE <1 | 25,000 |
| LU-VE | Unione di Banche Italiane Società cooperativa per azioni | Unsecured loan | 15/04/2020 | 15/04/2023 | 3M 360 days Euribor + Spread | NFP/EBITDA <= 3.5; NFP/SE <= 1.5 | 30,000 |
| LU-VE | Unicredit S.p.A. | Unsecured loan | 15/04/2020 | 30/04/2022 | 6M 360 days Euribor + Spread | NFP/EBITDA <=3; NFP/OWN FUNDS <=1 | 15,000 |
| LU-VE | Banca Nazionale del Lavoro S.p.A. | Unsecured loan | 28/05/2020 | 28/05/2025 | 6M 360 days Euribor + Spread | NFP/EBITDA <= 3; NFP/SE <= 1.25 | 40,000 |
| LU-VE S.p.A. | Unicredit S.p.A. | Unsecured loan | 04/11/2020 | 30/11/2024 | 6M 360 days Euribor + Spread | NFP/EBITDA <=3; NFP/OWN FUNDS <=1 | 20,000 |
| LU-VE S.p.A. | Deutsche Bank | Unsecured loan | 11/11/2020 | 11/11/2026 | 3M Euribor + Spread | NFP/EBITDA </=N 3.2 NFP/EQUITY </=1,15 | 5,500 |
| LU-VE S.p.A. | Deutsche Bank | Unsecured loan | 11/11/2020 | 11/11/2025 | 3M Euribor + Spread | NFP/EBITDA </=N 3.2 NFP/EQUITY </=1,15 | 10,000 |
| SEST LU-VE POLSKA SP. Z O.O. | BNP Paribas bank Polska SA | EIB Mortgage Loan | 08/11/2011 | 08/11/2021 | 3M Euribor + Spread | NFP/EBITDA <=2.5, SE/TOTAL ASSETS >= 40%, DSCR >= 1.2 | 5,000 |

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

The changes in loans during the financial year are shown below:

| **Financing: changes for the year** *(in thousands of Euro)* | **Opening balance** | **New loans** | **Repayments** | **Amortised cost effect** | **Exchange delta** | **Closing balance** |
|---|---|---|---|---|---|---|
| Loans | 213,430 | 170,500 | (83,376) | (190) | 6 | 300,370 |
| Advances on bank invoices | 2,000 | 27,423 | (19,923) | - | - | 9,500 |
| Advances on export flows in Euro | 42 | - | (42) | - | - | - |
| **Total** | **215,472** | **197,923** | **(103,341)** | **(190)** | **6** | **309,870** |

The following changes took place in loans in 2020:

- subscription of a *"positive loan"* for €40,000 thousand with B.N.L. S.p.A. with expiry on 28 May 2025. The BNL positive loan provides conditions that are further improved for the company when it reaches specific sustainability objectives. The loan has constant half-yearly instalments, with 6-months Euribor interest rate plus a progressively decreasing spread on the basis of achieved sustainability objectives. The loan is subject to compliance with financial covenants;

- unsecured medium-term loan for a total of €30,000 thousand entered into with Union Banche Italiane S.c.p.A., a French system of amortisation and an interest rate equal to 3-months Euribor plus a spread. The loan is subject to compliance with financial covenants;

- unsecured medium-term loan for a total of €25,000 thousand entered into with Intesa Sanpaolo S.p.A., maturing on 23 September 2025, with repayment in equal quarterly instalments and an interest rate equal to the 3-month Euribor plus a spread. The loan is subject to compliance with financial covenants;

- unsecured medium-term bullet loan for a total of €15,000 thousand with Unicredit S.p.A.. The loan matures on 30 April 2022 and has interest rate equal to 6-months Euribor plus a spread. The loan is subject to compliance with financial covenants;

- unsecured short-term bullet loan for €10,000 thousand with Cassa Depositi e Prestiti with maturity on 17 December 2021. This is a fixed-rate loan and it is not subject to compliance with financial covenants (repaid early in December 2020);

- unsecured medium-term loan for a total of €12,500 thousand entered into with BPM S.p.A., maturing on 30 June 2022, with French style amortisation plan with quarterly instalments and an interest rate equal to the 3-month Euribor plus a spread. The loan is not subject to compliance with financial covenants;

- unsecured medium-term loan for a total of €2,500 thousand entered into with BPM S.p.A., maturing on 30 June 2022, with French style amortisation plan with quarterly instalments and an interest rate equal to the 3-month Euribor plus a spread. The loan is not subject to compliance with financial covenants;

- unsecured medium-term loan for a total of €20,000 thousand with Unicredit S.p.A.. The loan matures on 30 November 2024 and has interest rate equal to 6-months Euribor plus a spread. The loan is subject to compliance with financial covenants;

- unsecured medium-term loan for a total of €5,500 thousand taken out from Deutsche Bank S.p.A., maturing on 11 November 2026, with an interest rate equal to the 3-month Euribor plus a spread. The loan is subject to compliance with financial covenants;

- unsecured medium-term loan for a total of €10,000 thousand with Deutsche Bank, S.p.A. maturing on 11 November 2025, with an interest rate equal to the 3-month Euribor plus a spread. The loan is subject to compliance with financial covenants;

- Early repayment of the UBI Banca loan for €20,000 thousand taken out on 13 December 2017 and maturing 13 December 2020.

- Early repayment of the Cassa Depositi e Prestiti loan for €10,000 thousand taken out on 18 June 2020 and maturing 17 December 2021.

- Early repayment of the loan of the subsidiary LU-VE France from BNL for €433 thousand, taken out on 9 November 2011 and maturing on 3 November 2026.

In addition to the early repayment of the UBI Banca loan for the amount of €20,000 thousand, the early repayment of the Cassa Depositi e Prestiti loan for €10,000 thousand, and the BNL mortgage subscribed by LU-VE France for €443 thousand, repayments of the current instalments of the loans for the year amount to €52,933 thousand, in addition to the €19,923 thousand (taken out during the financial year for €27,423 thousand) relative to the early repayments on export flows in Euro and reimbursements of bank advances on invoices subject to collection for €42 thousand, for a reimbursement total of €103,341 thousand.

We note that the following guarantees operate on the loans subscribed with Deutsche Bank in the current financial year:

- with reference to the loan of €5,500 thousand maturing on 11 November 2026, a 90% guarantee granted by the SME Central Guarantee Fund pursuant to Law no. 40 of 5 June 2020, in order to support small and medium companies whose business has been affected by the COVID-19 emergency;

- with reference to the loan of €10,000 thousand maturing on 11 November 2025, a payment guarantee issued by SACE S.p.A. for the benefit of the bank to cover 50% of the due amount of capital and interest to be paid by LU-VE S.p.A.. The SACE guarantee is to be intended as public support intervention for the development of the production activities benefiting from the counter-guarantee of the Italian government in the context of the application of Italian Legislative Decree no 123 of 31 March 1998, “Dispositions for the rationalisation of public support interventions to enterprises”, pursuant to article 4, paragraph 4, letter c) of Law no. 59 of 15 March 1997.

During the financial year the Company also benefited from a voluntary moratorium on some loans which has led to a delay to 2021 of capital repayments for €2,000 thousand, initially scheduled for the current year.

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

All outstanding bank loans were denominated in Euro, and were mainly floating rate and pegged to the Euribor. Note 4.16 below provides the information relating to financial risks.

## 3.13 PROVISIONS

The details of this item are shown below:

| **Change in provisions** *(in thousands of Euro)* | **31/12/2019** | **Prov./incr** | **Uses** | **Release of excess portion** | **Other changes** | **Exchange delta** | **31/12/2020** |
|---|---|---|---|---|---|---|---|
| Provision for agents' leaving indemnities | 352 | 3 | (212) | (114) | - | - | 29 |
| Product warranty provision | 3,247 | 1,230 | (101) | (60) | - | (33) | 4,283 |
| Other provisions for risks and charges | 632 | - | - | - | - | (3) | 629 |
| **Total** | **4,231** | **1,233** | **(313)** | **(174)** | **-** | **(36)** | **4,941** |

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 decrease of €326 thousand refers to the closure of a relationship with an agent by Fincoil LU-VE OY, with a payment of €212 thousand and release of the excess of €114 thousand.

The product warranty provision covers the risk of returns or charges from customers for non-conform products already sold. The provision was adjusted at year-end on the basis of analyses conducted and past experience. The increase of €1,230 thousand is broken down into the various production companies of the Group and is based on the best estimates made by the same.

The other provisions for risks and charges did not change.

Provisions, which represent the estimated future outflows calculated partly based on historical experience, were subject to actuarial valuation as at 31 December 2020. As the effect was deemed negligible, it was not incorporated in the Group's consolidated Financial Statements as at 31 December 2020.

## 3.14 EMPLOYEE BENEFITS

Employee benefits amounted to €5,573 thousand, a net increase of €82 thousand compared to 31 December 2019. The entire amount referred to the provision for employee severance benefits.

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

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

It is noted that, following the amendments to the "Provision for employee severance benefits" introduced by Italian Law no. 296 of 27 December 2006, and subsequent Decrees and Regulations issued in the first few months of 2007, for companies with at least 50 employees (LU-VE S.p.A., SEST S.p.A., etc.), the amounts accrued from 1 January 2007 are destined, by choice of employees, either to the INPS Treasury Fund or to forms of complementary social security, with the nature of "defined benefits plans". Furthermore, these amounts are not subject to actuarial valuation and are no longer allocated to the "Provision for employee severance benefits". The "Provision for employee severance benefits" accrued as at 31 December 2006 remains a "defined benefits plan" with the consequent need to carry out the actuarial calculations, which will however no longer take into account the component relating to future salary increases. For companies with fewer than 50 employees (Tecnair LV S.r.l. and Manifold S.r.l.), in accordance with IAS 19 the fund as at 31 December 2020 is recognised entirely as "Defined benefits plan" and is therefore subject to actuarial valuation.

The breakdown and changes in the item as at 31 December 2020 are shown below:

| **Employee benefits** *(in thousands of Euro)* | **31/12/2020** | **31/12/2019** |
|---|---|---|
| **Liabilities as at 1 January** | 5,491 | 5,264 |
| Provisions | 233 | 219 |
| Financial expenses | 36 | 56 |
| Payments made | (288) | (302) |
| Actuarial (gains)/losses | 101 | 254 |
| **Liabilities at the end of the year** | **5,573** | **5,491** |

The net equity adjustment for actuarial gains and losses includes a net actuarial loss of €101 thousand, calculated as follows:

- Actuarial loss deriving from the change in the main actuarial assumptions used as at 31 December 2020 compared to the previous evaluation and from effect of the variation that the collective object of the valuation suffered between one valuation and the other: €18 thousand;
- The actuarial loss deriving from the effect of the variation that the financial hypotheses have suffered between one valuation and the other: €83 thousand.

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

The main financial and demographic assumptions used at the date of the last reference valuation of 31 December 2020 are shown below:

| Financial assumptions | 31/12/2020 % | 31/12/2019 % |
|---|---|---|
| Discount rate (IBOXX EUR Corporate AA 10+ Index) | 0.34 | 0.77 |
| Inflation | 0.80 | 1.20 |
| Salary increase rate | 1 - 2.5 | 1 - 2.5 |
| Post-employment benefits increase | 2.10 | 2.40 |

| Demographic assumptions | 31/12/2020 | 31/12/2019 |
|---|---|---|
| Mortality rate | State General Accountancy Table RG48 | State General Accountancy Table RG48 |
| Disability | INPS Tables | INPS Tables |
| Personnel turnover | 1,3%-5,5% | 1,3%-5,5% |
| Advances | 0,5%-5% | 0,5%-5% |
| Retirement age | 100% upon satisfaction of general compulsory insurance requirements | 100% upon satisfaction of general compulsory insurance requirements |

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

| **Sensitivity of provision for employee severance benefits as at 31/12/2020** *(in thousands of Euro)* | 0.25% | -0.25% |
|---|---|---|
| Discounting rate | (135) | 141 |

## 3.15 OTHER FINANCIAL LIABILITIES

The item “Other financial liabilities” referred primarily to financial payables linked to the IFRS 16, to residual financial payables for the acquisition transaction of “Al Air” and the recognition of the negative fair value of derivatives. The details of this item are shown below:

| **Other non-current financial liabilities** *(in thousands of Euro)* | 31/12/2020 | 31/12/2019 | Change |
|---|---|---|---|
| IFRS 16 Financial payables | 11,733 | 13,214 | (1,481) |
| Other financial liabilities | - | 4,484 | (4,484) |
| **Total** | **11,733** | **17,698** | **(5,965)** |

The item "IFRS16 Financial payables" includes all the long-term financial payables with regard to the lease agreements referred to in the application of the IFRS 16 accounting standard.

The change in other non-current financial liabilities is respectively due to the following factors:

- €4,086 thousand in relation to the cash outlay by the Parent Company for the purchase of the remaining 5% equity in Spirotech Heat Exchangers Ltd., as reported in the note "Introduction";

- €398 thousand in relation to the contractual release of the earn-out payable, relative to the purchase of the US company Zyklus, recognised in the 2018 financial year, for which the requirements for the relative payment to the counterparty were not met.

| **Other current financial liabilities** *(in thousands of Euro)* | **31/12/2020** | **31/12/2019** | | **Change** | |
|---|---|---|---|---|---|
| Fair value of derivatives | 2,943 | 1,788 | | 1,155 | |
| IFRS 16 Financial payables | 4,380 | 3,643 | | 737 | |
| Other financial liabilities | 800 | 9,808 | (*) | (9,008) | (*) |
| **Total** | **8,123** | **15,239** | **(*)** | **(7,116)** | **(*)** |

(*) restated values compared with 31 December 2019 pursuant to IFRS 3, to take retrospective account of the effects resulting from the definitive valuation of the fair value of the "Al Air" trademarks and of customer list at the date of acquisition (values previously considered provisional, see note no. 2.1 "Introduction - Al Air acquisition").

The item "fair value of derivatives" represents the fair value as at 31 December 2020 of financial derivatives contracts subscribed by the Group companies. For further information, please refer to Note 3.8. – "Current financial assets".

The item "IFRS16 Financial payables" includes all the short-term financial payables of lease agreements referred to in the IFRS 16 accounting standard.

In the item "other current financial liabilities", the change of €9,008 thousand refers to the final payment of the payable for the acquisition of "Al Air" by virtue of the definitive agreement reached with the counterparty (Alfa Laval Group) in February last year. The residual amount of €800 thousand still outstanding as at 31 December 2020 refers to the payable for the acquisition of the "business" of "Al Air" referred to the Sarole production site, paid to Alfa Laval in January 2021.

## 3.16 TRADE PAYABLES

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

| **Trade Payables** *(in thousands of Euro)* | **31/12/2020** | **31/12/2019** | **Change** |
|---|---|---|---|
| Italy | 44,946 | 52,884 | (7,938) |
| EU Countries | 16,796 | 17,600 | (804) |
| Non-EU Countries | 18,888 | 15,747 | 3,141 |

| | | | |
|---|---|---|---|
| Total | 80,630 | 86,231 | (5,601) |

The average payment terms have not changed since the previous year. As at 31 December 2020, there were no past-due payables of significant amounts, and the Group has received no payment orders for past-due payables.

Contract liabilities (advances received from customers before rendering any service) for an amount of €4,836 thousand are recognised under trade payables.

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

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

The Group does not have any reverse factoring and/or supplier financing transactions with its suppliers.

## 3.17 TAX PAYABLES

The details of this item are shown below:

| **Tax payables** *(in thousands of Euro)* | 31/12/2020 | 31/12/2019 | Change |
|---|---|---|---|
| Tax payables for income taxes | 1,029 | 1,963 | (934) |
| Tax withholdings | 1,566 | 1,794 | (228) |
| Other tax payables | 1,324 | 934 | 390 |
| **Total** | **3,919** | **4,691** | **(772)** |

The decrease of €772 thousand is mainly linked to the economic performance of the Group companies.

## 3.18 OTHER CURRENT LIABILITIES

The details of this item are shown below:

| **Other current liabilities** *(in thousands of Euro)* | 31/12/2020 | 31/12/2019 | Change |
|---|---|---|---|
| To personnel | 13,857 | 12,264 | 1,593 |
| To social security institutions | 5,872 | 5,954 | (82) |
| To Directors and Statutory Auditors | 1,634 | 1,967 | (333) |
| Other current payables | 3,164 | 2,907 | 257 |
| **Total** | **24,527** | **23,092** | **1,435** |

The increase of €1,593 thousand of payables to personnel is mainly linked to the differentiated timing of the payment of variable remuneration with respect to the previous financial year.

In the beginning of 2021, payables to personnel and social security institutions were paid in accordance with the relative due dates.

The item "Other current payables" includes €641 thousand as payables for investments (€975 thousand in 2019).

## 3.19 DEFERRED TAX ASSETS AND LIABILITIES

The details of this item are shown below:

| **Deferred tax assets and liabilities** *(in thousands of Euro)* | **31/12/2020** | **31/12/2019** | | **Change** | |
|---|---|---|---|---|---|
| Deferred tax assets | 7,903 | 6,603 | | 1,300 | |
| Deferred tax liabilities | (14,537) | (17,954) | (*) | 3,417 | (*) |
| **Net position** | **(6,634)** | **(11,351)** | **(*)** | **4,717** | **(*)** |

(*) restated values compared with 31 December 2019 pursuant to IFRS 3, to take retrospective account of the effects resulting from the definitive valuation of the fair value of the "Al Air" trademarks and of customer list at the date of acquisition (values previously considered provisional, see note no. 2.1 "Introduction - Al Air acquisition").

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

| **Deferred tax liabilities and assets: changes in the year** *(in thousands of Euro)* | **TAX LOSSES** | **DEPRECIATION/ AMORTISATION** | **Fair value of derivative instruments** | **MERGERS/ACQUISITIONS GROSS UP** | | **ACTUARIAL VALUATION OF POST-EMPLOYMENT BENEFITS** | **PROVISIONS AND VALUE ADJUSTMENTS** | **OTHER DIFFERENCES** | **TOTAL** | |
|---|---|---|---|---|---|---|---|---|---|---|
| 01.01.2019 | (479) | 2,986 | (24) | 10,264 | | (75) | (1,968) | (2,253) | 8,451 | |
| To Income Statement | 287 | (23) | 7 | (1,698) | (*) | (9) | (147) | (1,303) | (2,886) | (*) |
| To shareholders' equity | - | - | - | - | | (89) | - | 61 | (28) | |
| Currency translation differences | - | 7 | - | - | | - | (2) | (70) | (65) | |
| "Al Air" contribution | - | - | - | 6,417 | (*) | - | (538) | - | 5,879 | (*) |
| 31.12.2019 | (192) | 2,970 | (17) | 14,983 | (*) | (173) | (2,655) | (3,565) | 11,351 | (*) |
| To Income Statement | 73 | (290) | 5 | (3,154) | | 7 | (1,215) | (271) | (4,845) | |
| To shareholders' equity | - | - | - | - | | (27) | - | - | (27) | |
| Currency translation differences | - | (96) | - | - | | - | 54 | 199 | 157 | |
| 31.12.2020 | (119) | 2,584 | (12) | 11,829 | - | (193) | (3,816) | (3,637) | 6,636 | |

(*) restated values compared with 31 December 2019 pursuant to IFRS 3, to take retrospective account of the effects resulting from the definitive valuation of the fair value of the "Al Air" trademarks and of customer list at the date of acquisition (values previously considered provisional, see note no. 2.1 "Introduction - Al Air acquisition").

As at 31 December 2020, 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 LU-VE S.p.A. and two subsidiaries;

- the deferred tax impact of the actuarial valuation of the post-employment benefits of Italian companies following the application of IAS 19;

- tax differences on increases in the provisions of Group companies;

- other tax differences, regarding net temporary recoveries such as unpaid remuneration, exchange differences and the sale of the line in Poland as reported in the note “introduction”.

As at 31 December 2020, deferred tax liabilities referred to:

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

- to the allocation of taxes to the 2008 merger deficit allocated to trademarks, buildings, land and the tax effect deriving from the allocation of capital gains with respect to the book values for the acquisition of Spirotech (2016), Zyklus (2018) and, of the Air division (2019). Please note that following the tax realignment (see the note "introduction") , all the deferred taxes set aside on the 2008 merger deficit allocated to trademarks and buildings (approximately €1.8 million).

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

As reported in the previous note 2.2 “Use of estimates”, the taxable results deriving from the 2021-2024 plans of the individual Group companies used for the impairment test for the explicit period, and through the extrapolation of these, the taxable income expected for the following years were taken into account in the verification recognition and recoverability of deferred tax assets recognised in the financial statements as at 31 December 2020. The effects deriving from the temporary differences on which deferred tax liabilities were recognised were also used in the verification of recognition.

# 3.20 NET FINANCIAL POSITION

In accordance with the requirements of the Consob Communication of 28 July 2006, please note that

the Group's financial position is shown below:

| **Net financial position** *(in thousands of Euro)* | **31/12/2020** | **31/12/2019** | | **Change** | |
|---|---|---|---|---|---|
| A. Cash (Note 3.10) | 50 | 40 | | 10 | |
| B. Unrestricted current account asset balances (Note 3.10) | 152,629 | 81,811 | | 70,818 | |
| C. Current financial assets (Note 3.8) | 70,258 | 59,047 | | 11,211 | |
| **D. Liquidity (A+B+C)** | **222,937** | **140,898** | | **82,039** | |
| E. Current bank payables (Note 3.12) | - | 43 | | (43) | |
| F. Current portion of non-current debt (Note 3.12) | 81,766 | 77,628 | | 4,138 | |
| G. Other current financial liabilities (Note 3.15) | 8,123 | 15,239 | (*) | (7,116) | (*) |
| **H. Current financial debt (E+F+G)** | **89,889** | **92,910** | **(*)** | **(3,021)** | **(*)** |
| **I. Net current financial debt (H-D)** | **(133,048)** | **(47,988)** | **(*)** | **(85,060)** | **(*)** |
| J. Non-current bank payables (Note 3.12) | 228,104 | 137,801 | | 90,303 | |
| K. Other non-current financial liabilities (Note 3.15) | 11,733 | 17,698 | | (5,965) | |
| **L. Non-current financial debt (J+K+L)** | **239,837** | **155,499** | | **84,338** | |
| **M. Net financial debt (I+L)** | **106,789** | **107,511** | **(*)** | **(722)** | **(*)** |

(*) restated values compared with 31 December 2019 pursuant to IFRS 3, to take retrospective account of the effects resulting from the price variation of €308 thousand of "Al Air" at the date of acquisition (values previously considered provisional, see note no. 2.1 "Introduction - Al Air acquisition").

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

# 4 COMMENT ON THE MAIN ITEMS OF THE CONSOLIDATED INCOME STATEMENT

## 4.1 REVENUES

In 2020, revenues from sales amounted to €400,028 thousand, an increase of 2% compared to the previous year (€390,356 thousand in 2019).

*Revenues by product family*

| **Revenue by product** *(in € thousand)* | **2020** | **%** | **2019** | **%** | **Change** | **% Change** |
|---|---|---|---|---|---|---|
| Heat exchangers | 182,511 | 46% | 199,429 | 51% | (16,918) | -8% |
| Air Cooled Equipment | 174,514 | 44% | 156,458 | 40% | 18,056 | 12% |
| Doors | 10,965 | 3% | 22,478 | 6% | (11,513) | -51% |
| Close Control | 24,559 | 6% | 10,954 | 3% | 13,605 | 124% |
| ***Sub-total*** | **392,549** | **98%** | **389,319** | **100%** | **3,230** | **1%** |
| Other | 7,479 | 2% | 1,037 | 0% | 6,442 | 621% |
| TOTAL | **400,028** | **100%** | **390,356** | **100%** | **9,672** | **2%** |

*Revenues by geographical area:*

| **Revenues by geographical area** *(in thousands of Euro):* | **2020** | **%** | **2019** | **%** | **Change** | **% Change** |
|---|---|---|---|---|---|---|
| Italy | 65,400 | 16% | 74,983 | 19% | (9,583) | (13%) |
| Poland | 26,745 | 7% | 27,858 | 7% | (1,113) | (4%) |
| Russia | 29,274 | 7% | 27,635 | 7% | 1,639 | 6% |
| Germany | 22,933 | 6% | 25,577 | 7% | (2,644) | (10%) |
| Czech Republic | 25,948 | 6% | 24,452 | 6% | 1,496 | 6% |
| France | 25,933 | 6% | 19,621 | 5% | 6,312 | 32% |
| Sweden | 17,466 | 4% | 15,714 | 4% | 1,752 | 11% |
| Austria | 15,776 | 4% | 15,589 | 4% | 187 | 1% |
| Finland | 24,320 | 6% | 18,977 | 5% | 5,343 | 28% |
| Denmark | 14,097 | 4% | 7,376 | 2% | 6,721 | 91% |
| The Netherlands | 13,487 | 3% | 11,154 | 3% | 2,333 | 21% |
| Other countries | 118,649 | 30% | 121,420 | 31% | (2,771) | (2%) |
| TOTAL | **400,028** | **100%** | **390,356** | **100%** | **9,672** | **2%** |

Please refer to the Directors' Report for detailed comments on trends in the reference markets during the 2020 and to an analysis of revenue "within the same scope".

The value of compensation for transactions with unfulfilled (or not fully fulfilled by the Group and therefore not included in the revenue for the 2020 financial year) performance obligations at the end of the year amounts to €1,644 thousand. The Directors estimate that they will be recognised as revenue in following half-year period.

## 4.2 OTHER REVENUES

| **Other Revenue** *(in thousands of Euro)* | **2020** | **2019** | **Change** |
|---|---|---|---|
| Other income | 1,429 | 1,228 | 201 |
| Total | 1,429 | 1,228 | 201 |

"Other revenues" refers to €1,102 thousand for export incentives of the subsidiary Spirotech and to €327 thousand for other Group Companies' revenues.

## 4.3 PURCHASES OF MATERIALS

| **Purchases of materials** *(in thousands of Euro)* | **2020** | **2019** | **Change** |
|---|---|---|---|
| Raw materials and purchased components | 193,631 | 196,432 | (2,801) |
| Consumables | 7,566 | 7,603 | (37) |
| Total | 201,197 | 204,035 | (2,838) |

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

# 4.4 COSTS FOR SERVICES

| **Costs for services** *(in thousands of Euro)* | **2020** | **2019** | **Change** |
|---|---|---|---|
| Expenses for energy, telephone and telex | 6,028 | 5,677 | 351 |
| General expenses and consultancies | 14,378 | 17,664 | (3,286) |
| Advertising and promotional expenses | 471 | 1,188 | (717) |
| Transport expenses | 11,001 | 10,780 | 221 |
| Maintenance expenses | 4,277 | 3,967 | 310 |
| External processing | 4,182 | 3,722 | 460 |
| Commissions | 999 | 622 | 377 |
| Remuneration to the corporate bodies | 3,342 | 3,386 | (44) |
| Other costs for services | 6,323 | 6,321 | 2 |
| Costs for use of third-party assets | 1,200 | 928 | 272 |
| **Total** | **52,201** | **54,255** | **(2,054)** |

The decrease in costs for services of €2,054 thousand is mainly linked to the savings linked to the almost total cancellation of exhibitions and publicity expenses (€717 thousand), the reduction in travel expenses following the restrictions imposed by various governments in order to counteract the spread of the pandemic (approximately €1,800 thousand) and consultancies expenses (approximately €1,400 thousand) net of the increase in other services, including telephone, transports, maintenance, etc. (approximately €1,863 thousand).

Furthermore, during the financial year approximately €700 thousand were spent on materials and sanitation of environments to fight the COVID-19 pandemic. As indicated before, contributions for approximately €100 thousand mainly for the PPE sanitation credit (Art. 125 of Italian Decree Law 34-2020) were received for these expenses in the various Italian companies.

## Auditing consideration disclosure

Pursuant to article 149-duodecies of the Consob issuer regulations, a summary table of the consideration paid for the auditing provided by the company Deloitte & Touche S.p.A., which was engaged to audit the Group's consolidated Financial Statements, is provided below.

| Type of Services | Service provider | Recipient | Remunerations *(in thousands of Euro)* |
|---|---|---|---|
| Auditing | Deloitte & Touche S.p.A. | Parent Company | 135 |
| | | Italian subsidiaries | 118 |
| | Deloitte & Touche Network S.p.A. | Foreign subsidiaries | 175 |
| Limited examination of the Consolidated Non-financial Statement | Deloitte & Touche S.p.A. | Parent Company | 30 |
| Other Services | Deloitte & Touche S.p.A. | Parent Company | 9 |
| | | Italian subsidiaries | 3 |
| | Deloitte & Touche Network S.p.A. | Parent Company | 23 |
| | | Foreign subsidiaries | 3 |
| | | **Total** | **496** |

# 4.5 PERSONNEL COSTS

| **Personnel costs** *(in thousands of Euro)* | **2020** | **2019** | **Change** |
|---|---|---|---|
| Wages and salaries | 70,739 | 64,262 | 6,477 |
| Social security costs | 18,457 | 16,909 | 1,548 |
| Post-employment benefits | 2,264 | 2,038 | 226 |
| Other personnel costs | 224 | 152 | 72 |
| **Total** | **91,684** | **83,361** | **8,323** |

The increase in the item "Salaries and wages" is mainly due to the fact that in 2019 the "Al Air" companies were only part of the Group for only 8 months in 2019 compared to the 12 months in 2020.

The average number of Group employees in 2020 was 3,307.

As at 31 December 2020, the number of Group employees was to 3,520 (2,636 blue-collar workers, 850 white-collar workers and middle managers, 34 executives), against 3,169 units in 2019 (2,328 blue-collar workers, 805 white-collar workers and middle managers, 36 executives).

As at 31 December 2020, the number of temporary workers was 797 (557 in 2019).

In addition, during the 2020 financial year, some of the Italian companies made use of the Cassa Integrazione Guadagni Ordinaria (ordinary earnings supplement fund) for the COVID-19 emergency, as provided for by the National Decree Law of 18 March 2020, for the personnel of the sites of LU-VE S.p.A., SEST S.p.A., Tecnair LV S.p.A., Manifold S.r.l. and Air Hex Alonte S.r.l.. The overall benefit in the 2020 financial year relative to these extraordinary measures amounted to a total of approximately €1,170 thousand. The companies abroad received various types of contributions on personnel costs for approximately €450 thousand.

## 4.6 NET WRITE-DOWNS OF FINANCIAL ASSETS

| **Write-downs** *(in thousands of Euro)* | **2020** | **2019** | **Change** |
|---|---|---|---|
| Provisions for write-down of trade receivables | 5,094 | 873 | 4,221 |
| Total | 5,094 | 873 | 4,221 |

The item write-down includes the allocations made during 2020 in accordance with the application of the IFRS9 standard, reflecting the estimate of the potential forward-looking impacts of the pandemic on the possible deterioration of customers' creditworthiness, of the countries in which operate and on their ability to meet their obligations.

For further details, please refer to Note “3.6 - Trade receivables”.

## 4.7 OTHER OPERATING COSTS

| **Other operating costs** *(in thousands of Euro)* | **2020** | **2019** | **Change** |
|---|---|---|---|
| Non-income taxes | 557 | 553 | 4 |
| Provisions for risks | 1,041 | 470 | 571 |
| Other operating costs | 2,050 | 1,764 | 286 |
| Total | 3,648 | 2,787 | 861 |

Non-income taxes included mainly taxes on owned property.

The item “other operating costs” include approximately €300 thousand of voluntary contributions made by the Group to support the four hospitals in Lombardy and Veneto engaged in the fight against COVID-19.

## 4.8 FINANCIAL INCOME

| **Financial income** *(in thousands of Euro)* | **2020** | **2019** | **Change** |
|---|---|---|---|
| Interest income | 359 | 209 | 150 |
| Other financial income | 1,873 | 1,853 | 20 |
| **Total** | **2,232** | **2,062** | **170** |

The item “Other income” includes:

- €1,403 thousand, relative to the change in fair value of the capitalisation policies (please refer to Note “3.8 - Current financial assets”);
- €397 thousand, relative to the effect of the release of the contractually required earn-out payable, and no longer due as at 31 December 2020, in relation to the acquisition of the US company Zyklus, in the 2018 financial year (please refer to Note “3.15 - Other financial liabilities”);
- €66 thousand, relative to the increase in fair value of the option on exchange rates (Note “3.8 - Current financial assets”);
- €7 thousand, relative to other financial income.

## 4.9 FINANCIAL EXPENSES

| **Financial expenses** *(in thousands of Euro)* | **2020** | **2019** | **Change** |
|---|---|---|---|
| Interest expense to banks | 1,967 | 1,440 | 527 |
| Other financial expenses | 1,439 | 1,766 | (327) |
| **Total** | **3,406** | **3,206** | **200** |

Details of other financial expenses are as follows:

- €836 thousand refers to realised losses on derivative financial instruments (please refer to Note "3.8 - Current financial assets");
- €370 thousand, of which €190 thousand attributable to the effect of the application of the amortised cost on Group loans (please refer to Note “3.12 – Loans”), and 180 to discounting interests in application of the IFRS 16 standard;
- €80 thousand refer to commissions for the subscription of new AVIVA capitalisation policies for €9,920 thousand (please refer to Note "3.8 - Current financial assets");
- €72 thousand refer to reductions in fair value of currency options;
- €81 thousand refer to other financial expenses.

## 4.10 EXCHANGE GAINS AND LOSSES

In 2020, the Group realised net exchange losses of approximately €2,384 thousand (net losses of €180 thousand in 2019), mainly due to the impact on the HK dollars and the Russian Rouble). The realised loss on exchanges amounted to €130 thousand, while the unrealised loss on exchanges amounts to €2,254 thousand.

## 4.11 GAINS AND LOSSES FROM EQUITY INVESTMENTS

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

## 4.12 INCOME TAXES

| **Income taxes** *(in thousands of Euro)* | **2020** | **2019** | **Change** |
|---|---|---|---|
| Current taxes | 6,032 | 5,401 | 631 |
| Deferred tax assets and liabilities | (4,845) | (2,886) | (1,959) |
| Adjustment previous year | 2014 | (158) | 172 |
| **Total** | **1,201** | **2,357** | **(1,156)** |

The increase in current taxes of €631 thousands was mainly due to the following:

- to the effect of the inter-company sale of the evaporator production line which generated approximately €1,395 thousand in greater current taxes for the part of the current financial year (against approximately €1,000 thousand of higher deferred tax assets as reported in the note "introduction");
- to the recognition of approximately €633 for the substitute tax due for the purposes of tax alignment of some tangible and intangible assets of LU-VE S.p.A. as reported in the note "introduction";
- a lower tax burden of €1,197 thousand of taxes in the various companies of the Group compared to the previous year;
- to €200 thousand for the first IRAP payment not paid by some Italian companies of the Group in relation to the Decree Law (Decree "Relaunch") issued following the COVID-19 pandemic.

The item adjustment for the previous year includes:

- €395 thousand of greater taxes attributable to higher taxes due to the inter-company sale of the evaporator production line relating to the previous financial year (against approximately €270 thousand for higher deferred tax assets as reported in the note "Introduction");
- €200 thousand relative to the reversal of the 2019 IRAP balance relating to some Italian companies of the Group, no longer due following the extraordinary measures again relating to Decree Law 34/20 (Decree "Relaunch"), issued following the COVID-19 pandemic;
- €181 thousand for other minor positive contingencies of previous years.

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

| **Income taxes** *(in thousands of Euro)* | **31/12/2020** | **31/12/2019** | |
|---|---|---|---|
| Theoretical income taxes | 2,856 | 4,956 | (*) |
| Tax effect of permanent differences | 3,176 | 445 | (*) |
| **Income taxes recognised in the Financial Statements** | **6,032** | **5,401** | |
| *Broken down as follows:* | | | |
| IRES Italian subsidiaries | 1,528 | 395 | |
| *Of which IRES Parent Company:* | 131 | (321) | |
| IRAP | 358 | 508 | |
| Substitute tax for tax realignment | 633 | - | |
| Taxes foreign companies | 3,513 | 4,498 | |
| **Total** | **6,032** | **5,401** | |

(*) restated values compared with 31 December 2019 pursuant to IFRS 3, to take retrospective account of the effects resulting from the definitive valuation of the fair value of the "Al Air" trademarks and of customer list at the date of acquisition (values previously considered provisional, see note no. 2.1 "Introduction - Al Air acquisition").

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

As at 31 December 2020 there were no significant tax disputes.

## 4.13 EARNINGS PER SHARE

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

| **Basic and diluted profit calculation** *(in thousands of Euro)* | **2020** | **2019** | |
|---|---|---|---|
| EARNINGS *(in thousands of Euro)* | | | |
| Net profit for the period | 9,878 | 17,514 | (*) |
| NUMBER OF SHARES | | | |
| Average weighted number of ordinary shares for the calculation of basic earnings per share | 22,103,028 | 22,103,028 | |
| Dilution effect deriving from potential ordinary shares | - | - | |
| Average weighted number of ordinary shares for the calculation of diluted earnings per share | 22,103,028 | 22,103,028 | |

| EARNINGS PER SHARE *(in Euros)* | **2020** | **2019** | |
|---|---|---|---|
| Basic earnings per share | 0.45 | 0.79 | (*) |
| Diluted earnings per share | 0.45 | 0.79 | (*) |

(*) restated values compared with 31 December 2019 pursuant to IFRS 3, to take retrospective account of the effects resulting from the definitive valuation of the fair value of the "Al Air" trademarks and of customer list at the date of acquisition (values previously considered provisional, see note no. 2.1 "Introduction - Al Air acquisition").

## 4.14 DIVIDENDS

In May 2020, dividends totalling €5,996 thousand were distributed, corresponding to the distribution of a gross dividend of €0.27 (zero/27) for each of the 22,206,341 shares outstanding, net of treasury shares.

With respect to the year 2020, the Directors proposed the payment of a €0,27 dividend per share. This dividend is subject to the approval of the shareholders at the annual meeting called for the approval of the Financial Statements of the Parent Company and therefore it was not included under liabilities in these Financial Statements.

Any proposed dividend will be payable as at 5 May 2021 (coupon no. 6 ex-dividend date 3 May 2021 and record date 4 May 2021).

In addition, €525 thousands was paid to minority shareholders of subsidiaries for a total of €6,521 thousands for the year.

## 4.15 SEGMENT REPORTING

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

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

- Cooling Systems SBU (includes the "Al Air"), which includes air cooled equipment and close control air conditioners;
- Components SBU, which includes heat exchangers and special glass doors for refrigerated counters and display cabinets.

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

| **Revenue by SBU** *(in thousands of Euro)* | **2020** | **%** | **2019** | **%** | **Change** | **% Change** |
|---|---|---|---|---|---|---|
| Air Cooled Equipment | 174,514 | 44.5% | 156,458 | 40.2% | 18,056 | 12% |
| Close Control | 24,559 | 6.3% | 10,954 | 2.8% | 13,605 | 124% |
| SBU COOLING SYSTEMS | 199,073 | 50.7% | 167,412 | 43.0% | 31,661 | 19% |
| Heat exchangers | 182,511 | 46.5% | 199,429 | 51.2% | (16,918) | -8% |
| Doors | 10,965 | 2.8% | 22,478 | 5.8% | (11,513) | -51% |
| SBU COMPONENTS | 193,476 | 49.3% | 221,907 | 57.0% | (28,431) | -13% |
| TOTAL PRODUCT TURNOVER | 392,549 | 100% | 389,319 | 100% | 3,230 | 1% |

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

Information is provided below by SBU as at 31 December 2020 and 31 December 2019:

| **Segment** *(in thousands of Euros)* | **2020** | | | | **2019** | | | |
|---|---|---|---|---|---|---|---|---|
| | **Components** | **Cooling System** | **Unallocated costs** | **Total** | **Components** | **Cooling System** | **Unallocated costs** | **Total** |
| REVENUE | 193,476 | 199,073 | - | **392,549** | 214,886 | 174,431 | - | **389,317** |
| EBITDA | 27,218 | 17,984 | - | **45,202** | 30,182 | 16,577 | - | **46,759** |

# 4.16 INFORMATION ON FINANCIAL RISKS

IFRS 7 requires companies to provide supplemental information in their Financial Statements that enable users to evaluate:

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

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

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

The coordination and monitoring of the main financial risks are centralised in the Head Office. The Group carefully and specifically monitors each of the above-mentioned financial risks, intervening with the aim of minimising them promptly, including by using hedging derivatives.

One of the LU-VE Group's policies is to protect its exposure to fluctuations in prices, exchange rates and interest rates using derivative financial instruments. This hedging may be achieved using forward contracts, options and interest rate swaps.

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

## Categories of financial instruments

The following tables group information relative to:

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

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

- Level 1 valuations are those derived from quoted (unmodified) prices on active markets for identical assets or liabilities;

- Level 2 valuations are those derived from inputs other than the prices referred to at Level 1 which are observable by assets and liabilities, both directly (e.g. prices) or indirectly (e.g. derived from prices); and
- Level 3 valuations are those derived from the application of valuation techniques which include inputs by assets or liabilities that are not based on observable market data (non-observable inputs).

| **Assets and Liabilities valued at fair value as at 31/12/2020** *(in thousands of Euro)* | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **Other financial assets** | | | | |
| Current financial assets | - | 70,258 | - | 70,258 |
| **Other financial liabilities:** | | | | |
| Derivatives | - | 2,943 | - | 2,943 |
| **Total** | **-** | **67,315** | **-** | **67,315** |

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

More specifically, the fair value of option contracts on foreign currencies, interest rate swaps is calculated discounting future cash flows on the basis of forward exchange rates, forward contractual rates, discounted at the date of the financial statements (level 2 fair value).

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

The categories of financial instruments are reported below:

| **Financial instruments by IFRS 9 categories** *(in thousands of Euro)* | **31/12/2020** | **31/12/2019** | |
|---|---|---|---|
| **Financial assets** | | | |
| *Amortised cost* | | | |
| Cash and cash equivalents | 152,679 | 85,905 | |
| Trade receivables | 59,763 | 50,854 | |
| Non-current financial assets | - | - | |
| *Fair Value* | - | - | |
| Trading derivatives | - | - | |
| Current financial assets | 70,258 | 57,634 | |
| **Financial liabilities** | | | |
| *Amortised cost* | | | |
| Loans | 309,870 | 201,858 | |
| Trade payables | 80,630 | 57,800 | |
| IFRS 16 Financial payables | 16,113 | 16,858 | |
| *Fair Value* | - | - | |
| Trading derivatives | 2,943 | 1,788 | |
| Payable for *put option* 5% Spirotech | - | 4,087 | |
| Payment for the acquisition of the "Al Air" division | 800 | 9,808 | (*) |

## Credit risk management

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

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

The Group 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

The historically low levels of losses on receivables recognised are proof of the good results achieved also in the presence of the impact of the pandemic.

The Parent Company LU-VE S.p.A. is also exposed to the credit risk of issuers of financial instruments.

## Exchange rate risk management

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

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

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

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

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

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

At centralised level, in order to protect the income statement and the balance sheet items from such fluctuations and reduce the risk arising from changes in exchange rates, the group considers the subscription of derivative financial instruments with the intent of hedging the underlying risks. However, from a merely accounting perspective, although such instruments substantially hedge the risks mentioned, they do not meet all the requirements as laid out under IFRS 9 and cannot be defined as hedge accounting; therefore, the Group has decided to consider these instruments as for trading and not hedges and as a result such instruments were measured at fair value with changes reported on the income statement.

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

*Sensitivity analysis*

With reference to financial assets and liabilities in foreign currency as at 31 December 2020, a theoretical and immediate revaluation of the euro of 10% compared to other currencies would have entailed a further loss on exchanges of €1,780 thousand to be recognised in the consolidated comprehensive income statement as at 31 December 2020.

## Interest rate risk management

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

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

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

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

*Sensitivity analysis*

With reference to the floating rate financial assets and liabilities as at 31 December 2020, 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 expenses equal to €2,751 thousand to be recognised in the Group's comprehensive income statement as at 31 December 2020, and equal to 6,163 thousand on the entire residual contractual duration, without taking into account transactions with derivative instruments which were considered for trading.

## Raw material price risk management

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

The fluctuation in the availability and price of the above-mentioned materials could be significant, depending on a number of factors, including the economic cycle of the reference markets, supply conditions and other factors that are out of the control of the Group and are difficult to predict (such as: problems regarding the extraction or transformation capacity of individual suppliers which could hinder or delay the delivery of the raw materials ordered; operational and/or industrial decisions made by individual suppliers which entail an interruption of the mining or processing of the raw materials and the consequential greater difficulty in immediately finding said raw materials in the reference market; significant delays in the transport and delivery of these raw materials to Group companies, the possible introduction of tariffs and the impacts of climate change on extractive activities). With reference to the energy transition, in particular, additional quantities of copper and aluminium will be necessary, which will however require reduced energy intensity extraction techniques.

To manage these risks, the Group constantly monitors the availability of raw materials in the market as well as the relative price trends (also taking into consideration USD currency fluctuations with respect to the euro), in order to promptly identify any shortfalls in the availability of raw materials and take suitable actions to guarantee the required production autonomy, and also to keep its production activities competitive with regard to this aspect as well. Analyses are constantly carried out to identify alternatives to strategic suppliers to reduce the relative dependence on them and also of geographical diversification activities both with the aim to reduce purchase costs with comparable quality and to avoid excessive geographical dependence on some areas in the world. In particular, with regard to the main purchased raw material – copper – the Group has dealt for several years, for the most part in terms of volumes, with the same suppliers, selected and periodically assessed on the basis of trading reliability criteria and with whom a relationship based on reciprocal trust has been built. Furthermore, when it deems this necessary in relation to expected trends, the Group enters into contracts to hedge the risk of fluctuations in the price of raw materials.

Lastly, please note that oil price volatility impacts (aside from raw material prices) investments made at global level in the Power Gen market, making it difficult to predict trends in this market segment, especially in view of the energy transition, which could limit its operations in time.

## 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 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).

In addition, as at 31 December 2020 the Group has unused short-term credit lines totalling roughly €36 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 2020 is provided below by maturity:

| **Analysis of financial liabilities as at 31 December 2020** *(in thousands of Euro)* | **Carrying amount** | **Contractual cash flows** | **Within 1 year** | **From 1 to 5 years** | **More than 5 years** |
|---|---|---|---|---|---|
| Bank loans | 300,370 | 300,547 | 72,437 | 223,283 | 4,827 |
| Advances on export flows in Euro | 9,500 | 9,500 | 9,500 | - | - |
| IFRS 16* Financial payables | 16,113 | 16,113 | 4,380 | 10,476 | 1,257 |
| **Financial Liabilities** | **325,983** | **326,160** | **86,317** | **233,759** | **6,084** |
| Trade payables | 80,630 | 80,630 | 80,630 | - | - |
| Total | 406,613 | 406,790 | 166,947 | 233,759 | 6,084 |

* "IFRS 16 Financial Payables" include the discounting of repayments of portions of capital

The various maturity ranges are based on the period between the reporting date and the contractual maturity of the obligations. The values specified in the table correspond to non-discounted 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.

As previously reported, the Group obtained new loans in 2020 finalised at the management of a potential further risk linked to the pandemic for €170.5 million and has access to unused credit lines for €36.5 million.

## Capital risk management

The Group manages its own capital in order to ensure its business continuity, maximising at the same time return for shareholders, through the optimisation of the debt to equity ratio.

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

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

## Related party transactions

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

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

The table below shows the economic and financial transactions carried out by Group Companies with related parties in 2020:

| **Related Companies** *(in thousands of Euro)* | **Trade receivables** | **Trade payables** | **Financial receivables** | **Financial payables** | **Trade revenues** | **Trade costs** | **Financial revenues** | **Financial costs** |
|---|---|---|---|---|---|---|---|---|
| MGPE SRL | - | - | - | - | - | (6) | - | - |
| VITALE ZANE & CO SRL | - | - | - | - | - | (40) | - | - |
| Finami SRL | 55 | - | - | - | - | (90) | - | - |
| ARCA SAS DI CERANA MANUELA & C. | - | (8) | - | - | - | (14) | - | - |
| Mauro Cerana | - | (8) | - | - | - | (21) | - | - |
| Marco Aurelio Tanci | - | (3) | - | - | - | (12) | - | - |
| **Total** | **55** | **(19)** | **-** | **-** | **-** | **(183)** | **-** | **-** |

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. In 2020 the counterparties signed a contractual amendment which reduced the payment of the rental contract, only for 2020, to an amount of €90 thousand. The assets underlying these contracts, in the context of the consolidated financial statements, were considered to be Rights of use in accordance with IFRS 16;
- since July 2015, LU-VE has had a strategic advisory agreement in place with the company MGPE S.r.l., in which Michele Garulli (LU-VE director until April 2020) holds an equity investment. The office remuneration includes a fixed annual compensation of €6 thousand;
- the company Vitale Zane & CO S.r.l., in which a close family member of a LU-VE S.p.A. director holds an equity investment, provide strategic advisory services to LU-VE S.p.A. for annual compensation of €40 thousand.

- ARCA SAS DI CERANA MANUELA & C., Mauro Cerana and Marco Aurelio Tanci, carry out the role of auditors in FINAMI and, at the same time, carry out accounting consultancy activities for some of the Italian companies (LU-VE S.p.A., TECNAIR, Manifold and LU-VE Digital).

# 4.17 DIRECTORS' AND STATUTORY AUDITORS' FEES

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

| Name and surname | Office | Period of office | End of office | Fixed remuneration (in Euros) | Remuneration for taking part in committees (in Euros) | Variable non-equity remuneration (in Euros) Bonuses and other incentives | Non-monetary benefits (in Euros) | Other remuneration (in Euros) | Total (in Euros) |
|---|---|---|---|---|---|---|---|---|---|
| **Iginio Liberali** | **Executive chairman** | 01/01/2020-31/12/2020 | Approval of 2022 Financial Statements | | | | | | |
| (I) Remunerations in the company that prepares Financial Statements | | | | 234,544 (1)(2) | - | 216,326 | - | - | 450,870 |
| **(II) Total** | | | | **234,544** | | **216,326** | | | **450,870** |
| | | | | | | | | | |
| **Pierluigi Faggioli** | **Vice Chairman** | 01/01/2020-31/12/2020 | Approval of 2022 Financial Statements | | | | | | |
| (I) Remunerations in the company that prepares Financial Statements | | | | 195,344 (1)(3) | - | 219,843 | 3,080 | - | 418,268 |
| **(II) Total** | | | | **195,344** | **-** | **219,843** | **3,080** | | **418,268** |
| | | | | | | | | | |
| **Matteo Liberali** | **CEO** | 01/01/2020-31/12/2020 | Approval of 2022 Financial Statements | | | | | | |
| (I) Remunerations in the company that prepares Financial Statements | | | | 399,344 (1)(4) | - | 351,849 (5) | 6,212 | - | 757,405 |
| **(II) Total** | | | | **399,344** | **-** | **351,849** | **6,212** | | **757,405** |
| | | | | | | | | | |
| **Michele Faggioli** | **COO** | 01/01/2020-31/12/2020 | Approval of 2022 Financial Statements | | | | | | |
| (I) Remunerations in the company that prepares Financial Statements | | | | 379,344 (1)(6) | - | 357,360 (5) | 9,271 | | 745,976 |
| **(II) Total** | | | | **379,344** | **-** | **357,360** | **9,271** | | **745,976** |
| | | | | | | | | | |
| **Raffaella Cagliano** | **Director** | 30/04/2020-31/12/2020 | Approval of 2022 Financial Statements | | | | | | |
| (I) Remunerations in the company that prepares Financial Statements | | | | 13,443 (1) | - | | | | 13,443 |
| | | | | **13,443** | **-** | **-** | **-** | | **13,443** |
| | | | | | | | | | |
| **Giovanni Cavallini** | **Director** | 01/01/2020-29/04/2020 | 29/04/2020 | | | | | | |
| (I) Remunerations in the company that prepares Financial Statements | | | | 5,902 (1) | - | - | - | | 5,902 |
| **(II) Total** | | | | **5,902** | **-** | **-** | **-** | | **5,902** |
| | | | | | | | | | |
| **Guido Crespi** | **Director** | 30/04/2020-31/12/2020 | Approval of 2022 Financial Statements | | | | | | |
| (I) Remunerations in the company that prepares Financial Statements | | | | 13,443 (1) | | | | | 13,443 |
| **(II) Total** | | | | **13,443** | **-** | **-** | **-** | | **13,443** |
| | | | | | | | | | |
| **Michele Garulli** | **Director** | 01/01/2020-29/04/2020 | 29/04/2020 | | | | | | |
| (I) Remunerations in the company that prepares Financial Statements | | | | 5,902 (1) | 1,639 (7) | - | - | 7,213 (8) | 14,754 |
| **(II) Total** | | | | **5,902** | **1,639** | **-** | **-** | **7,213** | **14,754** |
| | | | | | | | | | |
| **Anna** | **Director** | 01/01/2020- | Approval of | | | | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Gervasoni** | | 31/12/2020 | 2022 Financial Statements | | | | | | |
| (I) Remunerations in the company that prepares Financial Statements | | | | 19,344 | 11,344 (7) | - | - | | 30,689 |
| **(II) Total** | | | | **19,344** | **11,344** | **-** | **-** | | **30,689** |
| | | | | | | | | | |
| **Laura Oliva** | **Director** | 01/01/2020-31/12/2020 | Approval of 2022 Financial Statements | | | | | | |
| (I) Remunerations in the company that prepares Financial Statements | | | | 19,344 (1) | 4,033 (7) | - | - | | 23,377 |
| **(II) Total** | | | | **19,344** | **4,033** | **-** | **-** | | **23,377** |
| | | | | | | | | | |
| **Fabio Liberali** | **Director** | 01/01/2020-31/12/2020 | Approval of 2022 Financial Statements | | | | | | |
| (I) Remunerations in the company that prepares Financial Statements | | | | 19,344 (1) | - | - | 5,052 | 101,697 (9) | 126,093 |
| **(II) Total** | | | | **19,344** | **-** | **-** | **5,052** | **101,697** | **126,093** |
| | | | | | | | | | |
| **Stefano Paleari** | **Director** | 01/01/2020-31/12/2020 | Approval of 2022 Financial Statements | | | | | | |
| (I) Remunerations in the company that prepares Financial Statements | | | | 19,344 (1) | 15,344 (10) | - | - | | 34,689 |
| **(II) Total** | | | | **19,344** | **15,344** | **-** | **-** | | **34,689** |
| | | | | | | | | | |
| **Roberta Pierantoni** | **Director** | 01/01/2020-31/12/2020 | Approval of 2022 Financial Statements | | | | | | |
| (I) Remunerations in the company that prepares Financial Statements | | | | 19,344 (1) | 5,672 (7) | - | - | | 25,016 |
| **(II) Total** | | | | **19,344** | **5,672** | **-** | **-** | | **25,016** |
| | | | | | | | | | |
| **Marco Vitale** | **Director** | 01/01/2020-31/12/2020 | Approval of 2022 Financial Statements | | | | | | |
| (I) Remunerations in the company that prepares Financial Statements | | | | 19,344 (1) | - | - | - | | 19,344 |
| **(II) Total** | | | | **19,344** | **-** | **-** | **-** | | **19,344** |
| | | | | | | | | | |
| **Paola Mignani** | **Chairman - Board of Statutory Auditors** | 01/01/2020-29/04/2020 | 29/04/2020 | | | | | | |
| | **Standing Auditor** | 30/04/2020-31/12/2020 | Approval of 2022 Financial Statements | | | | | | |
| (I) Remunerations in the company that prepares Financial Statements | | | | 34,918 (11) | - | - | - | | 34,918 |
| **(II) Total** | | | | **34,918** | **-** | **-** | **-** | | **34,918** |
| | | | | | | | | | |
| **Simone Cavalli** | **Chairman - Board of Statutory Auditors** | 30/04/2020-31/12/2020 | Approval of 2022 Financial Statements | | | | | | |
| (I) Remunerations in the company that prepares Financial Statements | | | | 30,246 (11) | | - | - | | 30,246 |
| **(II) Total** | | | | **30,246** | **-** | **-** | **-** | | **30,246** |
| | | | | | | | | | |
| **Stefano Beltrame** | **Standing Auditor** | 01/01/2020-31/12/2020 | Approval of 2022 Financial Statements | | | | | | |
| (I) Remunerations in the company that prepares Financial Statements | | | | 30,000 (11) | - | - | - | | 30,000 |
| **(II) Total** | | | | **30,000** | **-** | **-** | **-** | | **30,000** |
| | | | | | | | | | |
| **Ivano Pelassa** | **Standing Auditor** | 01/01/2020-31/12/2020 | Approval of 2022 Financial Statements | | | | | | |
| (I) Remunerations in the company that prepares Financial Statements | | | | 9,836 (11) | - | - | - | | 9,836 |
| **(II) Total** | | | | **9,836** | **-** | **-** | **-** | | **9,836** |

(1) The Board of Directors resolved to assign to each member of the Board an annual gross compensation of €20,000.00 pro rata temporis. As the fixed annual remuneration resolved by the Board on 12 April 2017 was €18,000.00 pro rata temporis, the compensation accrued by the directors which remained in office for the entire 2020 financial year is equal to €19,344.26 (and in detail €5,901.64 as director for the 1/1/2020 - 29/04/2020 period, and €13,442.62 as director for the 30/4/2020 -31/12/2020 period);
(2) of which €19,344.26 for the position of director, and €215,200.00 for the position of Chairman of the Board of Directors;
(3) of which €19,344.26 for the position of director, and €176,000.00 for the position of Vice-Chairman of the Board of Directors;
(4) of which €19,344.26 for the position of director, and €380,000.00 for the position of CEO;
(5) of which €83,639.61 as variable and medium/long term Component (LTI 2020 -2021) accrued for 2020;
(6) of which €19,344.26 for the position of director, and €360,000.00 for the position of COO;
(7) the Board of Directors resolved to assign each member of the Remuneration and Appointment Committee and of the Control and Risk Committee a fixed annual compensation of €6,000.00 gross pro rata temporis. Until 29 April 2020 the compensation was of €5,000.00 gross. For the year 2020, the compensation accrued by each member of the committees in office for the entire 2020 financial year was €5,672.13 gross (and in detail, €1,639.34 for the 1/1/2020 -29/4/2020 period, and €4,032.79 for the 30/04/2020 - 31/12/2020 period);
(8) compensation accrued for the position of Investor Relator in relation to which a fixed annual compensation was established of €22,000.00 gross. The position of director Michele Garulli terminated with the Shareholders' Meeting of 29 April 2020. For this, for the year 2020, in relation to the position of Investor Relator, he accrued (01/01/2020 - 29/04/2020 period) €7,213.11 gross.
(9) as annual gross remuneration accrued in relation to the employment with LU-VE SPA.
(10) the Board of Directors resolved to assign to the Chairman of the Remuneration and Appointment Committee and the Chairman of the Control and Risk Committee an annual gross compensation of €8,000.00 pro rata temporis. Until 29 April 2020, the compensation was €7,000.00 gross for each office to be paid pro rata temporis. For the year 2020, the compensation accrued by the Chairmen of both committees was €7,672.13 for each office (in detail, €2,295.08 for the 1/1/2020 -29/4/2020 period, and €5,377.05 for the 30/4/2020 - 31/12/2020 period);
(11) the Board of Statutory Auditors was renewed in 2020. The Shareholders' Meeting of 29 April 2020 confirmed, pro rata temporis, an annual compensation of €45,000.00 gross for the Chairman and of €30,000 gross for each of the two statutory auditors;

## 4.18 SHARE-BASED PAYMENTS

As at 31 December 2020, there were no share-based incentive plans in favour of Group Directors or employees.

## 4.19 COMMITMENTS AND GUARANTEES

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

| **Commitments** *(in thousands of Euro)* | **31/12/2020** | **31/12/2019** | **Change** |
|---|---|---|---|
| Mortgages | 1,667 | 3,866 | (2,199) |
| Sureties | 1,721 | 2810 | (1,089) |
| **Total** | **3,388** | **6,676** | **(3,288)** |

Mortgages refer to guarantees granted by Group companies to obtain medium/long-term bank loans. As at 31 December 2020, the details of the loans for which a mortgage was granted on properties owned by the Group were:

| **Debtor Company** *(in thousands of Euro)* | **Counterparty** | **Loan type** | **Taken out** | **Maturity** | **Guarantees** | **Original amount of loan** |
|---|---|---|---|---|---|---|
| SEST LU-VE POLSKA SP. Z O.O. | BNP Paribas bank Polska SA | EIB Mortgage Loan | 08/11/2011 | 08/11/2021 | Mortgage | 5,000 |

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

| **Sureties as at 31 December 2019** *(in thousands of Euro)* | **2020** | **2019** | **Change** |
|---|---|---|---|
| Sureties to banks with respect to customers of our subsidiaries | 322 | 1,438 | (1,116) |

| | | | |
|---|---|---|---|
| Sureties to banks with respect to customers | 1,174 | 1,147 | 27 |
| Insurance sureties | 225 | 225 | - |
| **Total** | **1,721** | **2,810** | **(1,089)** |

Sureties to banks on customers of our subsidiaries refer to sureties issued in guarantee of customers of "Al Air".

# 5 CONSOLIDATION AREA AND SIGNIFICANT EQUITY INVESTMENTS

## 5.1 COMPANIES CONSOLIDATED LINE-BY-LINE

| Company name | Registered office | % owned | Currency | Share capital | Shareholders' equity as at 31/12/2020 | Result as at 31/12/2020 |
|---|---|---|---|---|---|---|
| *Direct subsidiaries:* | | | | | | |
| SEST S.p.A. | Limana (BL) | 100.00 | EUR | 1,000,000 | 23,694,493 | 7,954,960 |
| Tecnair LV S.p.A. | Uboldo (VA) | 79.90 | EUR | 200,000 | 3,922,460 | 627,159 |
| Heat Transfer Systems s.r.o. (HTS) | Novosedly (Czech Rep.) | 100.00 | CZK | 133,300,000 | 350,169,544 | 53,307,627 |
| LU-VE Sweden AB | Asarum (Sweden) | 100.00 | SEK | 50,000 | (27,203,630) | 10,175,932 |
| LU-VE France S.a.r.l. | Lyon (France) | 100.00 | EUR | 84,150 | 1,785,515 | 267,716 |
| LU-VE Pacific Pty Ltd | Thomastown (Australia) | 75.50 | AUD | 200,000 | (5,847,861) | (1,585,075) |
| LU-VE Deutschland GmbH | Stuttgart (Germany) | 100.00 | EUR | 230,000 | (924,613) | (392,004) |
| LU-VE Iberica S.L. | Madrid (Spain) | 85.00 | EUR | 180,063 | (432,399) | (32,830) |
| LU-VE Asia Pacific Limited | Wan Chai (Hong Kong) | 100.00 | HKD | 10,000 | (35,344,418) | (8,496,753) |
| LuveDigital S.r.l. | Uboldo (VA) | 50.00 | EUR | 10,000 | 32,772 | 3,812 |
| MANIFOLD S.r.l. | Uboldo (VA) | 99.00 | EUR | 10,000 | 49,373 | 14,022 |
| Spirotech Ltd | New Delhi (India) | 100.00 | INR | 25,729,600 | 2,693,292,464 | 363,754,479 |
| LU-VE AUSTRIA GmbH | Vienna (Austria) | 100.00 | EUR | 17,500 | 98,068 | 39,639 |
| Zyklus Heat Transfer Inc | Jacksonville (USA, Texas) | 100.00 | USD | 1,000 | (1,051,835) | (2,655,695) |
| Air Hex Alonte S.r.l. | Uboldo (VA) | 100.0 | EUR | 2,010,000 | 12,897,273 | 2,743,893 |
| Fincoil LU-VE OY | Vantaa (Finland) | 100.0 | EUR | 1,190,000 | 5,204,569 | 52,964 |
| LU-VE Netherlands B.V. | Breda (Netherlands) | 100.0 | EUR | 10,000 | (477,303) | (420,129) |
| «OOO» LU-VE Moscow | Moscow (Russia) | 100.0 | RUB | 100,000 | (60,425,077) | (52,380,963) |
| LU VE Middle East DMCC | Dubai (UAE) | 100.0 | AED | 50,000 | (6,008) | (219,270) |
| *Indirect subsidiaries:* | | | | | | |
| SEST-LUVE-Polska SP.z.o.o. (95% owned by SEST S.p.A.) | Gliwice (Poland) | 95.00 | PLN | 16,000,000 | 249,093,412 | 44,634,128 |
| «OOO» SEST LU-VE (95% owned by SEST S.p.A.) | Lipetsk (Russia) | 95.00 | RUB | 136,000,000 | 1,011,284,522 | 329,880,114 |
| LU-VE HEAT EXCHANGERS (Tianmen) Co, Ltd (62.62% owned by LU-VE Asia Pacific Limited and 37.38% by LU-VE S.p.A) | Tianmen (China) | 100.00 | CNY | 61,025,411 | 31,451,054 | (1,456,217) |
| Thermo Glass Door S.p.A. (100% owned by SEST S.p.A.) | Travacò Siccomario (PV) | 100.00 | EUR | 100,000 | 466,684 | (1,056,700) |

# 6 SIGNIFICANT NON-RECURRING TRANSACTIONS

During 2020, no significant non-recurring transactions were carried out.

# 7 TRANSACTIONS DERIVING FROM ATYPICAL AND/OR UNUSUAL TRANSACTIONS

Pursuant to Consob communication of 28 July 2006, please note that in 2020 the Group did not carry out atypical and/or unusual transactions, i.e., transactions which in terms of their significance, the nature of the counterparties, the subject of the transaction, the pricing methods and the timing of occurrence may give rise to doubts with regard to the accuracy of the information in the Financial Statements, conflicts of interests, the safeguarding of the company assets or the protection of non-controlling shareholders.

# 8 EVENTS SUBSEQUENT TO 31 DECEMBER 2020

The first half of 2021 show very comforting signals. The consolidated turnover of products for only the first two months of 2021 shows a value of €63.2 million with a reduction of 6.1% compared to the same period in the previous year which had recorded a record start to the year before the explosion of the pandemic. The order portfolio amounts to €88.8 million with an increase of 5.3% compared to February 2020.

In spite of the uncertain situation linked to the persistence of the pandemic and the slowness (at least at European level) of the vaccination process, the demand remains generally active with the obvious exception of the “Horeca” sector, strongly penalised by the lockdown measures. However, a constant disruption caused by the pandemic has been determined by the frequent delays in projects, orders and deliveries of finished products due to the difficulty of access to worksites or to the strengthening of prevention measures adopted by individual countries.

A further area of attention is linked to the area of purchases and of the supply chain. In fact, fears linked to the availability of some materials, in particular sheet metal and electronic components were added to the increase in prices in all the main raw materials, both because of the explosion in rental and transport costs compounded by potential risks of interruption in supplies on the part of suppliers in area particularly at risk. The Group Purchasing Direction closely and timely monitors the critical issues linked to the possible supply difficulties of suppliers (both in Italy and abroad) as well as the difficulties linked to the circulation of goods are very closely and promptly monitored. Thanks to a widespread geographical presence and a careful scouting policy, alternative supply sources have been activated which have to date allowed to regularly supply production.

In January 2021 the transfer of the former Alfa Laval production site and of the entire business unit was completed, with the signature and execution of the final agreements by the subsidiary Spirotech, with the payment at the same time of the residual contractually defined price (only €0.2 million linked to delays linked to some marginal fulfilments by the counterparty).

As the macro-economic scenario remains characterised by a strong uncertainty with regard to the time necessary to overcome the pandemic at global level, it is rather difficult to make accurate forecasts on the trends in orders and in the commercial, economic and financial results, against the budget of a challenging financial year but based at present on the development of a hypothesis of a faster speed to exit the crisis linked to the pandemic.

in June, an unsecure loan agreement was entered into with Cassa Depositi e Prestiti for €30 million with a duration of 18 months, with fully repayment at the end of the term (subsequently repaid in full in December);

In March 2021 the constitution process of the subsidiary LU-VE Korea LLC was concluded.

The so-called Transparency directive (directive 2004/109/EC) provides the obligation to publish the entire set of documents composing the annual financial report (financial statements for the year, consolidated financial statements, report on operations, declaration of conformity by the chief executive officer and of the financial reporting officer), prepared by listed companies, in a single communication electronic format. In implementation of this provision, delegated Regulation of the European Commission 2018/815 (so called ESEF Regulation) imposed the obligation to prepare the above mentioned annual financial report in the XHTML format, marking some information of the consolidated financial statements with the XBRL online specifications. This new form of electronic publication should have been mandatorily applied starting from the annual financial reports starting from 1 January 2020 or after (see art. 4, paragraph 7 of the Transparency directive). For issuers with a financial year corresponding with the solar year, the issuer should have published the annual financial report in the new format starting from that relative to the financial year 1 January 2020/31 December 2020.

In consideration of the difficulties affecting the business community due to the crisis deriving from the COVID-19 pandemic, the European Parliament and the European Council approved, in mid-February 2021, an amendment of the Transparency directive, which allows member states to postpone by a year the obligation to publish financial reports using the above mentioned European single electronic format. At national level, Law no. 21 of 26 February 2021 published in the Official Gazette on 1 March 2021, in order to use the above mentioned prorogation, provides for the dispositions of the ESEF Regulation to be applied to financial report relative to financial years starting from 1 January 2021. Therefore, financial reports relative to the financial year closing as at 31 December 2020 don't need to be published in accordance to the provisions of the ESEF Regulation, other than on a voluntary basis. Therefore, LU-VE avail itself of the above prorogation.

CEO

Matteo Liberali

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

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

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

of the administrative and accounting procedures for the formation of the consolidated financial statements in the period 1 January - 31 December 2020.

It is also certified that the consolidated financial statements as at 31 December 2020:

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

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

1 April 2021

| | |
|---|---|
| Matteo Liberali | Eligio Macchi |
| CEO | Manager in charge |
| | of financial reporting |

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

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

## REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

### Opinion

We have audited the consolidated financial statements of the LU-VE Group (the "Group"), which comprise the statement of financial position as at 31 December 2020, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows for the year than ended and the explanatory notes, which also include a summary of the most significant accounting policies applied.

In our opinion, the consolidated financial statements give a true and fair view of the statement of financial position of the Group as at 31 December 2020, of its financial performance and its cash flows for the year than ended on that date in compliance with the International Financial Reporting Standards as adopted by the European Union as well as the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

### Basis for opinion

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

## Key aspects of the audit

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

| *Impairment testing on goodwill, intangible assets and property, plant and equipment* | |
|---|---|
| Description of the key audit matter | The Group has recognised goodwill totalling €55 million in the consolidated financial statements as at 31 December 2020 (8.9% of consolidated assets). This goodwill has been attributed to two cash generating units ("CGUs") of LU-VE Group: "Components" for €27.5 million and "Cooling Systems" for €27.5 million, to which intangible assets with a finite useful life for €39.7 million, rights of use for €17.6 million and property, plant and equipment for €141.1 million have also been allocated.<br><br>As required by IAS 36, as the above-mentioned CGUs include goodwill, the Group's Management performed an impairment test to determine whether the carrying amounts relating to the assets of the individual CGUs are recognised in the financial statements as at 31 December 2020 at a value no higher than their recoverable amount. After the conclusion of impairment tests, approved by the Board of Directors on 17 March 2021, the Group has not recognised any impairment losses.<br><br>The impairment process related to the recoverability of this asset values carried out by management is based on the value in use method, and is complex since it includes assumptions regarding, inter alia, the forecast of expected cash flows from the CGUs, making reference to the 2021-2024 consolidated business plan, approved by the Board of Directors of LU-VE S.p.A. on 24 February 2021, inclusive for the 2021 financial year of the effects deriving from the COVID-19 pandemic, the determination of an appropriate discounting rate (WACC) and a long-term growth rate (*g-rate*).<br><br>Considering the relevant value of the assets accounted for in the financial statements relative to the CGUs and the subjectivity of the estimates used to determine cash flows, we considered the impairment test a key audit matter of the review of the Group's consolidated financial statements.<br><br>Note 3.1 "Goodwill and Other intangible Assets" of the consolidated financial statements provides a disclosure on the impairment test, including a sensitivity analysis conducted by the Management which describes the effects that could arise when certain key assumptions used for the purposes of the impairment test change. |
| Audit procedures performed | To evaluate the recoverability of the assets of the individual CGUs, we preliminarily examined the methods used by the Management to determine the value in use of the CGUs, analysing the methods and assumptions used for the development of the impairment test. |

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

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

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

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

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

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

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

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

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

- we have identified and evaluated the risks of material errors in the consolidated financial statements due to fraud or unintentional conduct or events; we have defined and carried out audit procedures in response to such risks; we have acquired sufficient and appropriate proof on which to base our opinion. The risk of not identifying a material error due to fraud is higher than the risk of not identifying a material error deriving from unintentional conduct or events, as fraud may imply the existence of collusion, falsification, intentional omissions, misleading representations or the avoidance of internal control;

- we have acquired understanding of the internal controls relevant for the purposes of the audit in order to define audit procedures appropriate to the circumstances and not to express an opinion on the effectiveness of the Group's internal control;

- we have evaluated the appropriateness of the accounting standards used as well as the reasonableness of the accounting estimates carried out by the Directors, including the relative disclosure;

- we have reached a conclusion on the appropriateness of the use by the Directors of the going concern assumption and, on the basis of the proof acquired, on any existence of significant uncertainties with respect to events or circumstances that could give rise to significant doubts as to the Group's capacity to continue to operate as a going concern. In the presence of significant uncertainty, in the audit report we are required to call the reader's attention to the relative financial statement disclosure or, if such disclosure is inadequate, to reflect such circumstance in the development of our opinion. Our conclusions are based on the proof acquired until the date of this report. However, subsequent events or circumstances may cause the Group to stop operating as a going concern;

- we have evaluated the presentation, structure and content of the consolidated financial statements as a whole, including the disclosure, and whether the consolidated financial statements represent the underlying transactions and events so as to provide an accurate representation;

- we have acquired sufficient and appropriate proof on the financial information of the businesses or the different economic activities carried out within the Group to express an opinion on the consolidated financial statements. We are responsible for the management, supervision and performance of the accounting engagement for the Group. We are the only parties responsible for providing an audit opinion on the consolidated financial statements.

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

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

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY PROVISIONS

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

The Directors of LU-VE S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance as well as the ownership structures of the LU-VE Group as at 31 December 2020, including its consistency with the related consolidated financial statements and its compliance with the Law.

We have carried out the procedures set forth in the Auditing Standard (ISA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and ownership structures set forth in art. 123-bis, par. 4 of Legislative Decree 58/98 with the consolidated financial statements of LU-VE Group as at 31 December 2020 and on its compliance with the Law, as well as to make a statement about any eventual material misstatements.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance as well as the ownership structures are consistent with the consolidated financial statements of LU-VE Group as at 31 December 2020 and are prepared in accordance with the Law.

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

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

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

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

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

DELOITTE & TOUCHE S.p.A.

**Massimiliano Semprini**
Partner

Milan, 1 April 2021

# FINANCIAL STATEMENTS AND EXPLANATORY NOTES AS AT 31 DECEMBER 2020

# CONTENT

# 1 FINANCIAL STATEMENTS

## 1.1 STATEMENT OF FINANCIAL POSITION

| **Statement of Financial position** *(in Euro)* | **Notes** | **31/12/2020** | **31/12/2019** | |
|---|---|---|---|---|
| ASSETS | | | | |
| Goodwill | 3.1 | 14,629,431 | 14,629,431 | |
| Other intangible assets | 3.1 | 8,648,542 | 8,042,267 | |
| Property, plant and equipment | 3.2 | 36,178,219 | 36,993,708 | |
| Rights of use | 3.2 | 661,573 | 791,096 | |
| Other property, plant and equipment | 3.2 | 2,488,732 | 3,535,128 | |
| Deferred tax assets | 3.19 | 4,114,069 | 3,544,593 | |
| Equity investments | 3.3 | 153,174,732 | 152,089,453 | (*) |
| Other non-current financial assets | 3.4 | 23,208,065 | 24,160,853 | |
| Other non-current assets | 3.5 | 5,135,595 | 3,596 | |
| **Non-current assets** | | **248,238,958** | **243,790,125** | **(*)** |
| Inventories | 3.6 | 10,196,481 | 12,604,766 | |
| Trade receivables | 3.7 | 31,010,473 | 26,902,347 | |
| Due from the tax authorities for current taxes | 3.8 | 1,756,717 | 2,963,321 | |
| Current financial assets | 3.9 | 73,560,146 | 64,541,590 | |
| Other current assets | 3.10 | 4,328,121 | 1,186,641 | |
| Cash and cash equivalents | 3.11 | 103,762,553 | 38,941,739 | |
| **Current assets** | | **224,614,491** | **147,140,404** | |
| Assets held for sale | | - | - | |
| **Assets held for sale** | | **-** | **-** | |
| TOTAL ASSETS | | **472,853,449** | **390,930,529** | **(*)** |

(*) value restated respect to 31 December 2019 in order to retrospectively take into account the effects deriving from the price change of €308 thousand of the equity investment in Air Hex Alonte S.r.l..

| **Statement of Financial position** *(in Euro)* | **Notes** | **31/12/2020** | **31/12/2019** | |
|---|---|---|---|---|
| LIABILITIES | | | | |
| Share capital | 3.12 | 62,704,489 | 62,704,489 | |
| Reserves and retained earnings | 3.12 | 37,923,796 | 37,711,339 | |
| Profit for the year | 3.12 | 7,156,633 | 6,502,718 | |
| TOTAL SHAREHOLDERS' EQUITY | | **107,784,918** | **106,918,546** | |
| Loans | 3.13 | 228,104,363 | 136,583,613 | |
| Provisions | 3.14 | 1,270,668 | 1,270,668 | |
| Employee benefits | 3.15 | 848,901 | 884,348 | |
| Deferred tax liabilities | 3.19 | 5,299,533 | 7,682,296 | |
| Other financial liabilities | 3.16 | 348,963 | 856,956 | |
| **Non-current liabilities** | | **235,872,428** | **147,277,881** | |
| Trade payables | 3.17 | 25,676,753 | 31,291,281 | |
| Loans | 3.13 | 80,919,967 | 76,949,605 | |
| Provisions | 3.14 | - | - | |
| Tax payables | 3.18 | 1,273,999 | 616,148 | |
| Other financial liabilities | 3.16 | 13,654,310 | 19,897,685 | (*) |
| Other current liabilities | =3.20 | 7,671,074 | 7,979,383 | |
| **Current liabilities** | | **129,196,103** | **136,734,102** | **(*)** |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | **472,853,449** | **390,930,529** | **(*)** |

(*) value restated respect to 31 December 2019 in order to retrospectively take into account the effects deriving from the price change of €308 thousand of the equity investment in Air Hex Alonte S.r.l..

# 1.2 INCOME STATEMENT

| **Income Statement** *(in Euro)* | **Notes** | **31/12/2020** | **31/12/2019** |
|---|---|---|---|
| REVENUES AND OPERATING INCOME | | | |
| Revenues | 4.1 | 84,103,326 | 88,902,307 |
| Other revenues | 4.2 | 8,981,478 | 792,565 |
| **Total revenues and operating income** | | **93,084,804** | **89,694,872** |
| OPERATING COSTS | | | |
| Purchases of materials | 4.3 | (43,230,788) | (48,892,732) |
| Changes in inventories | 3.6 | (2,408,285) | 4,481,991 |
| Costs for services | 4.4 | (19,408,425) | (20,376,593) |
| Personnel costs | 4.5 | (17,321,101) | (17,809,324) |
| Net write-downs of financial assets | 4.6 | (2,150,000) | (1,100,000) |
| Other operating costs | 4.7 | (697,302) | (426,458) |
| **Total operating costs** | | **(85,215,901)** | **(84,123,116)** |
| Net change in fair value of derivatives | 3.16 | (963,066) | (692,558) |
| Depreciation and amortisation | 3.1 - 3.2 | (8,189,237) | (6,893,126) |
| Capital gains on the sale of non-current assets | | 533,670 | 32,531 |
| Write-downs on non-current assets | | (31,588) | (96,302) |
| EBIT | | **(781,318)** | **(2,077,699)** |
| Financial income | 4.8 | 13,002,959 | 10,451,446 |
| Financial expense | 4.9 | (3,053,038) | (2,520,340) |
| Exchange gains (losses) | 4.10 | (604,735) | 176,806 |
| Gains (losses) from equity investments | | (3,000,000) | - |
| EBT | | **5,563,868** | **6,030,213** |
| Income taxes | 4.11 | 1,592,765 | 472,505 |
| NET PROFIT | | **7,156,633** | **6,502,718** |
| Profit (loss) from assets/liabilities held for sale | | - | - |
| NET PROFIT FOR THE YEAR | | **7,156,633** | **6,502,718** |

# 1.3 STATEMENT OF COMPREHENSIVE INCOME

| **Statement of comprehensive income** *(in Euro)* | **Notes** | **31/12/2020** | **31/12/2019** |
|---|---|---|---|
| NET PROFIT FOR THE YEAR | 1.2 | 7,156,633 | 6,502,718 |
| *Components that will not subsequently be reclassified to the Income Statement* | | | |
| Actuarial valuation of post-employment benefits | 3.15 | (8,362) | (40,464) |
| Tax effect | | 2,007 | 9,711 |
| | | (6,355) | (30,753) |
| | | | |
| TOTAL COMPREHENSIVE INCOME | 1.4 | 7,150,278 | 6,471,965 |

## 1.4 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

| **Statement of changes in shareholders' equity** *(in Euro)* **Note 3.12** | **Share capital** | **Share premium reserve** | **Legal reserve** | **Treasury shares** | **Post-employment benefits discounting reserve** | **Other reserves** | **Profit for the period** | **Total shareholders' equity** |
|---|---|---|---|---|---|---|---|---|
| BALANCE AS AT 01/01/2019 | 62,704,489 | 24,762,200 | 2,717,782 | (1,618,754) | (40,499) | 12,739,398 | 3,098,524 | 104,363,129 |
| Allocation of profit 2018 | | | | | | | | |
| *Dividends paid* | - | - | - | - | - | (5,519,164) | - | (5,519,164) |
| *Retained* | - | - | 154,926 | - | - | 2,943,599 | (3,098,525) | - |
| Increases (decreases)* | - | - | - | 1,618,754 | - | 45,150 | - | 1,663,904 |
| Reversal of deferred taxes on costs relative to capital transactions | - | - | - | - | - | (61,288) | - | (61,288) |
| Statement of comprehensive income as at 31/12/2019 | - | - | - | - | (30,753) | - | 6,502,718 | 6,471,965 |
| BALANCE AS AT 31/12/19 | 62,704,489 | 24,762,200 | 2,872,708 | - | (71,252) | 10,147,695 | 6,502,717 | 106,918,546 |
| Allocation of profit 2018 | | | | | | | | |
| *Dividends paid* | - | - | - | - | - | (5,995,712) | - | (5,995,712) |
| *Retained* | - | - | 325,136 | - | - | 6,177,582 | (6,502,718) | - |
| Increases (decreases)** | - | - | - | (288,194) | - | - | - | (288,194) |
| Statement of comprehensive income as at 31/12/2020 | - | - | - | - | (6,355) | - | 7,156,633 | 7,150,278 |
| BALANCE AS AT 31/12/2020 | 62,704,489 | 24,762,200 | 3,197,844 | (288,194) | (77,607) | 10,329,565 | 7,156,632 | 107,784,918 |

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

** The change within the item "Increases (decreases)" makes reference to the purchase of treasury shares in 2020 for an amount of €288,194.

# 1.5 STATEMENT OF CASH FLOWS

| **Statement of cash flows LU-VE S.p.A.** *(in Euro)* | | **Notes** | **31/12/2020** | **31/12/2019** |
|---|---|---|---|---|
| A. | Cash and cash equivalents at the beginning of the period | | 38,941,739 | 57,595,795 |
| | Profit for the period | | 7,156,633 | 6,502,718 |
| | Adjustments for: | | | |
| | - Depreciation and amortisation | 3.1 - 3.2 | 8,189,237 | 6,893,126 |
| | - Realised gains on non-current assets | | (502,082) | 63,771 |
| | - Net financial income and expenses | 4.8 - 4.9 | (8,550,420) | (6,278,019) |
| | - Income taxes | 4.11 | (1,592,765) | (472,505) |
| | - Change in *fair value* | | (439,683) | (963,289) |
| | Changes in post-employment benefits | | (50,361) | (75,811) |
| | Changes in provisions | 3.14 | - | 0 |
| | *Changes in trade receivables* | | (4,108,126) | 5,018,314 |
| | *Changes in inventories* | | 2,408,285 | (4,481,991) |
| | *Changes in trade payables* | | (5,614,530) | 6,048,240 |
| | Changes in net working capital | | (7,314,371) | 6,584,563 |
| | Changes in other receivables and payables, deferred taxes | | (6,378,717) | 1,971,925 |
| | Tax payment | | - | - |
| | Net financial revenues/expenses received/paid | | 7,924,962 | 6,681,500 |
| B. | Cash flows generated by operating activities | | (1,557,567) | 20,907,979 |
| | Investments in non-current assets: | | | |
| | - intangible assets | 3.1 | (5,247,258) | (3,635,161) |
| | - property, plant and equipment | 3.2 | (2,310,618) | (4,435,932) |
| | - Equity investments | 3.3 | (12,785,279) | (40,518,942) |
| | Other non-current financial assets | | 379,585 | (2,073,702) |
| C. | Cash flows generated by investing activities | | (19,963,570) | (50,663,737) |
| | Repayment of loans | 3.13 | (102,242,000) | (80,675,000) |
| | New loans | 3.13 | 197,923,111 | 95,531,000 |
| | Changes in other financial liabilities | | 1,554,685 | (4,496,472) |
| | Changes in short-term financial assets | | (7,477,665) | 4,658,722 |
| | Sale/(Purchase) of treasury shares | | (288,194) | 1,618,754 |
| | Contributions/repayments of own capital | | - | - |
| | Payment of dividends | 4.13 | (5,995,712) | (5,519,164) |
| | Other changes | | - | 45,150 |
| D. | Cash flows generated by financing activities | | 83,474,225 | 11,162,990 |
| | Exchange differences | | - | - |
| | Other non-monetary changes | | 2,867,727 | (61,288) |
| E. | Other changes | | 2,867,727 | (61,288) |
| F. | Net cash flows in the period (B+C+D+E) | | 64,820,815 | (18,654,056) |
| | Cash and cash equivalents at the end of the period (A+F) | | 103,762,554 | 38,941,739 |
| | Current financial debt | | 21,014,131 | 32,305,701 |
| | Non-current financial debt | | 205,245,261 | 113,279,716 |
| | Net financial debt (Note 3.21) | | 122,496,838 | 106,643,678 |

# 2 EXPLANATORY NOTES

## 2.1 INTRODUCTION

### Tax realignment of some “assets” pursuant to art. 110 of Italian Decree Law 104/2020

Art. 110, paragraph 8) of Italian Decree Law 104/2020 (converted into Law 126/2020), provides the possibility to realign the differences between the book value and the tax value of tangible and intangible assets in the financial statements as at 31 December 2020 against the payment of a 3% substitute tax. On the basis of this decree, LU-VE S.p.A. opted for the realignment of book values referred to trademarks and buildings deriving from the deficit relative to the reverse merger in 2008 between LU-VE S.p.A. and the company Europarts S.r.l. In the light of a further amendment to the Budget Law, which added paragraph 8-bis to Art. 110 of the above decree, the possibility was extended of obtaining the tax recognition of greater values recognised in the financial statements also in relation of intangible assets without juridical protection. The Company availed itself of the option, applying the regulation also to the amount of goodwill, again arisen from the above mentioned merger transaction.

The net book value of the tax alignment of trademarks, buildings and goodwill of LU-VE S.p.A. amounts to approximately €21.1 million, respectively €2 million referred to trademarks, €4.5 million referred to buildings and €14.6 million referred to the goodwill, and at the date of the financial statements it is not considered that the corresponding values destined to a non-available shareholders' equity reserve will be redeemed by paying an additional substitute tax on 10% of the balance of reserves.

The impact on the 2020 financial statements is positive for approximately €1.8 million in relation to the release of deferred tax liabilities on the best book values of trademarks and buildings (respectively for €0.6 million and €1.2 million), partially offset by approximately €0.6 million for the recognition of the 3% substitute tax on the entire amount realigned in the tax section (of which approximately €0.5 million relative to the realignment of the goodwill and trademarks values).

### Advanced Price Agreement (hereinafter “APA”) for the transfer of the production line from the parent company LU-VE S.p.A. to SEST-LUVE-Polska SP.z.o.o.

In December the transfer was also completed from LU-VE S.p.A. to the new plan in Poland owned by the subsidiary SEST-LUVE Polska Sp.z.o.o. of the of the last smaller size evaporator production line, with the integral reabsorption of the workforce to other production lines in the plant at Uboldo. In consideration of the transfer, a procedure was launched, aimed at the stipulation of preventive binding agreements with the Italian and Polish Revenue Agencies (APA - Polish Revenue Agency) to negotiate the quantification of values transferred with respect to the customer list and know-how of the production line transferred (current estimate of €6.9 million), with a current tax burden for the year for approximately €1.8 million.

# 2.2 STRUCTURE AND CONTENT OF THE FINANCIAL STATEMENTS

## Information about the Company

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

Furthermore, it is noted that since 21 June 2017 LU-VE S.p.A. is a company listed on the Mercato Telematico Azionario ("MTA") market organised and managed by Borsa Italiana S.p.A. and that, in the capacity of Parent Company, it prepared the consolidated Financial Statements of the LU-VE group as at 31 December 2020.

## Declaration of compliance and accounting policies

The separate Financial Statements of LU-VE S.p.A. as at 31 December 2020 have been prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Union at that date. IFRSs refers to all International Financial Reporting Standards and International Accounting Standards (IAS) and all interpretations of the International Financial Reporting Interpretations Committee (IFRIC), previously called the Standing Interpretations Committee (SIC), endorsed by the European Union and contained in the relative EU Regulations.

The Financial Statements have been presented in Euro, which is the functional currency of the Company, and are compared with the Financial Statements for the previous year, prepared with the same criteria. The figures in the Explanatory Notes are shown in thousands of Euro. The financial statements consist of the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Shareholders' Equity, the Statement of Cash Flows and these Explanatory Notes.

The Financial Statements have been drawn up on the basis of the historical cost principle, except for the fair value evaluation of some financial instruments, pursuant to IFRS 9 and IFRS 13, as described below. Furthermore, the financial statements have been prepared on the basis of business continuity pursuant to paragraphs 25 and 26 of IAS 1, as the Directors have verified the non-existence of indicators of a financial, management or other nature that might indicate critical issues relating to the ability of the Company of meeting its commitments in the foreseeable future. The risks and uncertainties related to the business are described in the sections dedicated to the Director's Report.

In particular, with reference to this last assumption, as at 31 December 2020, the Company has a solid and balanced financial structure with a Net financial debt/Shareholders' equity ratio (Debt ratio) of 1.14 and a positive short-term net financial position of €82.7 million, therefore the repayment of medium/long-term debt maturing in 2021 is guaranteed by current liquidity. In addition, there are no substantial restrictions on the freeing up of invested liquidity, which therefore, if required, may be used to meet any payment commitments.

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

2020 did not highlight any critical issues. Furthermore, it is highlighted that the estimates of the 2021 Budget, which contemplate the estimated effects of the pandemic in line with those at the end of the 2020 financial year, lead to the expectation that no critical issues with regard to these requirements will arise also for the year 2021.

As outlined in the Single Management Report, and on the basis of what is reported above, the Directors consider that the possible impacts on the Company and on the LU-VE Group due to the current health emergency may not reasonably compromise the business continuity, taking into account the conditions of uncertainty and the information available to date.

In light of what is laid out above, the Financial Statements of LU-VE S.p.A. as at 31 December 2020 were prepared on the basis of the going concern assumption, pursuant to paragraphs 25 and 26 of IAS 1.

The Financial Statements of LU-VE S.p.A. as at 31 December 2020 were approved by the Board of Directors on 17 March 2021.

*COVID-19 health emergency*

As reported in the “Single Management Report” to which reference is made, the macro-economic scenario is difficult to predict and visibility is limited, due to COVID-19. Therefore, it is very complicated to define reliable forecasts on the trend of commercial, economic and financial results. The potential effects on the budget of future years cannot be precisely determined at present and will be constantly monitored by the management.

It is necessary, however, to report how the effects of the COVID-19 pandemic included in the final results of the Company as at 31 December 2020 were essentially in line with the initial forecasts with respect to the effects that the same might have been on the current financial year and then included - in terms of an expected reduction in revenues of 20% for 2020 and of 5% for 2021, in the 2020-23 business plan approved by the Board of Directors on 6 April 2020, as in terms of the economic results and on the financial projections (the latter with particular reference to the issues of revenues from customers and bank loans). The Business Plan for the 2021-2024 period, approved on 24 February 2021, which includes the effects of the pandemic estimated for 2021 in line with those at the end of the 2020 financial year, forecasts for the 2021 financial year and for the entire time span of the Plan expected revenue levels under those of the current 2020 financial year, a drop that is not due to the effects of the pandemic but to the change in some business logics in line with the wider rationalisation projects within the LU-VE Group.

In addition, in line with the directives of the "European common enforcement priorities for 2020 annual financial reports" Public Statement, issued by ESMA on 28 October 2020 and of Consob Alert Notice no. 1/21 of 16 February 2021, the subsequent paragraphs provide specific considerations on the areas of the financial statements potentially impacted by COVID-19. In particular, for the purposes of the financial statements of the LU-VE S.p.A. as at 31 December 2020, specific topic areas were identified with reference to the individual IFRSs, summarised below:

- going concern (IAS 1), pursuant to the paragraph “Observations on the Financial profile and on the going concern assumption” in the Single Report on Operations and to the previous paragraph “Declaration of compliance and accounting policies” of this document;

- financial instruments (IFRS 9), pursuant to note no. 3.6 “Trading receivables”;

- assets value impairment (IAS 36), pursuant to note no. 3.1 “Goodwill and other Intangible assets”;

- notes no. 4.5 “Personnel costs”, no. 4.4 “Services” and no. 4/7 “Other operational costs” report specific information on the “benefits” and costs incurred following the emergency state linked to the COVID-19 pandemic;

- exemption of the payment of the 2019 IRAP adjustment and of the 2020 IRAP account, see note 4.12 “Income taxes”;

- subscription of a loan of € 5,500 thousand covered by a guarantee of 90% of its value by the SME Central Guarantee Fund, pursuant to Law no. 40 of 5 June 2020;

- moratoria granted by some credit institutions with regard to capital repayments, in note 3.12 “Loans”;

Lastly, the management of liquidity risk is described in note "4.14 - Information on financial risks".

## Financial Statements

The Company has adopted the following Financial Statements:

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

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

# MEASUREMENT CRITERIA

The accounting standards and measurement criteria adopted to prepare the Financial Statements as at 31 December 2020, which did not change compared to the previous year, are described below:

## INTANGIBLE ASSETS

### Goodwill and business combinations

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

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

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

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

## OTHER INTANGIBLE ASSETS

*Trademarks*

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

*Research and development costs*

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

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

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

*Other intangible assets*

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

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

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

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

## PROPERTY, PLANT AND EQUIPMENT

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

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

| Asset | Years |
|---|---|
| Buildings | 33 |
| Light constructions | 10 |
| Plant and equipment | 8 – 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 possible impairments may be subject to subsequent reversals should the causes that induced the Company to impair such assets no longer apply; value reversals will be made to the limit of the value the asset would have had if the impairment had not taken place.

Land is not depreciated.

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

## Lease contracts and rights of use

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

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

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

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

Lease payments included in the value of the lease financial liability include:

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

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

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

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

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

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

The incentives linked to the lease (for example free leasing periods) are recognised as part of the initial value of the right of use and of the lease liability throughout the contractual period.

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

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

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

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

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

## Equity investments

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

In the presence of specific impairment indicators (for example, significant losses for the year or for previous years, which for some of the subsidiaries have also highlighted negative shareholders' equity), the value of equity investments in subsidiaries, determined on the basis of the cost criterion, is subject to impairment test. For the purposes of the impairment test, the book value of the equity investment is compared with its recoverable value, defined as value in use.

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

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

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

### Impairment of assets

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

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

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

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

## FINANCIAL INSTRUMENTS

*Derivative financial instruments*

Derivative financial instruments are subscribed primarily for hedging, in order to reduce the risk of fluctuating exchange rates, interest rates and raw material costs. In line with IFRS 9, derivative financial instruments are accounted for using hedge accounting methods only when:

a) at the inception of the hedge, the hedging relationship is formally designated and documented;

b) the hedge is expected to be highly effective;

c) this effectiveness may be reliably measured;

d) the hedge is determined to have been highly effective during the different accounting periods for which it is designated.

All derivative financial instruments are measured at fair value, as established by IFRS 9.

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

However, at the date of presentation of these Financial Statements, not all requirements of IFRS 9 for the application of hedge accounting were satisfied. Therefore, the Company management deemed it appropriate to treat those instruments as trading, not hedging, transactions.

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

## INVENTORIES

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

## TRADE RECEIVABLES AND OTHER RECEIVABLES

The receivables are initially recognised at fair value.

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

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

## ASSIGNMENT OF RECEIVABLES

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

## LOANS

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

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

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

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

## PROVISIONS

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

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

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

## EMPLOYEE BENEFITS

*Short-term benefits*

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

*Post-employment benefits*

On 1 January 2007, the Financial Act (law 296/2006) and the relative implementing decrees introduced considerable amendments to the rules on post-employment benefits, including the selection to be made by the worker with respect to the allocation of accruing benefits. In particular, these new regulations required new post-employment benefit contributions to be allocated to pension plans chosen by the worker or, if the worker decided to keep those contributions within the company, to an INPS treasury account. In particular, the new dispositions require the payment of new flows of post-employment benefits to pension funds chosen by the employee or, in case the same employee has opted to retain these flows within the company, to a treasury account set up at INPS.

For employees of companies with more than 50 employees, as in the case of LU-VE S.p.A., only post-employment benefits accrued up to 31 December 2006 continue to be classified as “defined-benefit plans”, while those accruing subsequent to that date are classified as a “defined-contribution plan”, as all obligations of the company are met when it makes the periodic contribution to third-party entities. Therefore, discounted amounts are no longer recognised in the Income Statement. Instead, outlays made to the various types of pension plans selected by employees or to the separate INPS treasury fund, calculated based on art. 2120 of the Italian Civil Code, are recognised under personnel costs.

## TRADE PAYABLES AND OTHER PAYABLES

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

## CRITERIA FOR THE TRANSLATION OF ITEMS IN FOREIGN CURRENCY

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

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

## REVENUE RECOGNITION

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

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

## COST RECOGNITION

Costs and expenses are recognised in the Financial Statements on an accrual basis.

## FINANCIAL INCOME

Financial income includes interest income on invested funds and income from financial instruments. Interest income is allocated to the Income Statement when it accrues, using the effective yield method.

## FINANCIAL EXPENSE

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

## INCOME TAXES FOR THE YEAR

Income taxes include all taxes calculated on the Company's taxable income. Income taxes are recognised in the Income Statement, with the exception of those relating to items directly charged or credited to shareholders' equity, in which case the tax effect is recognised directly under shareholders' equity. Other taxes not correlated with income, such as taxes and fees on property, are classified as operating expenses. Deferred tax liabilities are recognised based on the full liability method. They are calculated on all temporary differences emerging between the taxable amount of an asset or liability and the carrying amount in the consolidated Financial Statements, with the exception of goodwill, which is not tax deductible. Deferred tax assets on tax losses and unused tax credits that may be carried forward are recognised to the extent to which is it likely that future taxable income will be available against which they may be recovered. Current and deferred tax assets and liabilities are offset when the income taxes are levied by the same tax authority and when there is a legal right to offset. Deferred tax assets and liabilities are calculated using the tax rates expected to be applicable in the years in which the temporary differences will be realised or extinguished.

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

## DIVIDENDS

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

## EXCHANGE GAINS AND LOSSES

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

At the end of the financial year the overall amount of gains and losses not realised on exchange rates is redetermined. When the overall net profit on exchange rates is higher than the amount of the equity reserve, the latter is integrated. If, however, a loss is recognised or a net profit lower than the reserve, respectively the entire reserve or the excess is reclassified in a freely distributable reserve in the preparation of the financial statements.

## TREASURY SHARES

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

## EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit (loss) attributable to shareholders of the Company by the weighted average of ordinary shares outstanding during the year. The diluted profit per share coincides with the basic profit per share as there are no options in circulation which may potentially lead to the issue of new Company's shares.

## TAX CONSOLIDATION CONTRACT

National Tax Consolidation applies (pursuant to art. 117 et seq. of Italian Presidential Decree 917/86 – TUIR (Consolidation Act on Income Taxes)), and its scope includes, in addition to the consolidating company LU-VE S.p.A., five other Italian subsidiaries: SEST S.p.A. (for the 2019-2021 financial years) and Thermo Glass Door S.p.A. (TDG), Manifold S.r.l., Air Hex Alonte S.r.l. and Tecnair LV S.p.A., the last three for the 2020-2022 financial years.

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

## USE OF ESTIMATES

The preparation of the Financial Statements and the relative notes in application of IFRS requires the management to make use of estimates and assumptions that impact the values of the assets and liabilities in the Financial Statements and the disclosure relating to contingent assets and liabilities as at the reporting date. Actual results may differ from those estimates.

In the preparation of the separate financial statements, the following significant judgement was defined during the process of application of the Group's accounting standards.

*Tax realignment*

The Company's directors decided to avail themselves of the realignment between the book values in their financial statements, prepared on the basis of international accounting standards, and tax values, pursuant to art. 110, paragraphs 8) and 8)-bis of Italian Decree Law no. 104/2020, for the following assets, whose recognition value is in line with the balances reported in the current financial statements: trademarks and buildings (respectively €2 million and €4.5 million), in addition to goodwill (for €14.6 million). This has involved a benefit in the income statement for the release of deferred tax liabilities relative to the trademark and the building for approximately €1.8 million (of which €0.6 million relative to trademarks and €1.5 million relative to buildings) and the cost of the substitute tax for approximately €0.6 million, of which €0.5 million relative to intangible assets (with reference to the realignment of goodwill, the Directors determined their accounting policy not to proceed with the immediate recognition in the income statement of the future tax benefit linked to the redemption. In spite of the fact that the tax effect of this benefit will apply from the financial year in which the substitute tax will be paid (therefore 2021), this decision represents the Directors' choice to apply alternative methods to the liquidation of taxes already in force as at 31 December 2020 and, therefore, comes fully within the Directors' control.
Even though at present the Tax Authority expresses some uncertainties on the possibility of amending the conditions to make use of the tax realignment of only intangible assets, please note that the net impact on the income statement of the 2020 financial year for the realignment of only intangible assets is equal to an income of approximately €50 thousand.
The directors consider it to be difficult to predict the distribution of non-available reserves deriving from the realignments described above in the near future and therefore have not recognised any effect of the deferred taxes on the same.

The estimates that have had a significant impact on the amounts recognised in the financial statements are indicated below.

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

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

The procedure for determining the impairment losses on goodwill, intangible assets and property, plant and equipment described in the accounting standard “Impairment of assets” implies - in estimating the value in use - assumptions regarding the forecast of expected cash flows from the only cash generating unit (“CGUs”) identified overall, making reference to the 2021-2024 business plan prepared by the Management and subsequently included in the LU-VE group consolidated plan approved by the Board of Directors of the Company held on 24 February 2021, the determination of an appropriate discounting rate (WACC) and a long-term growth rate (g-rate). These assumptions are based on the Management’s expectations of specialising the production with the objective to achieve an increase in the efficiency of plants, focusing on increasing the sales of certain higher-margin product families to improve the absorption of fixed costs, continuously improving the performance of existing products and developing innovative products, especially with the use of natural refrigerating liquids, so managing to erode the market share of smaller competitors, less able to commit to the necessary investments. These assumptions could be affected by the impacts deriving from the pandemic generated by COVID-19, in any case expected in the next 2021 financial year, in line with those of the previous financial year (for further information please refer to the previous paragraph "COVID-19 health emergency".

In addition to what is stated above, the Company is assessing the risks and opportunities correlated to the climate change and aims to fix scientific objectives for the reduction of greenhouse gases in line with the Paris Agreement. In particular, the investigation scope will take into consideration Scope 1 and 2 (direct and indirect emissions linked to the energy generated by the organisation) and Scope 3 (indirect emission generated by the value chain) emissions. Therefore, the consequences in terms of investments, costs and other impacts on cash flows have not yet been considered in the process for the preparation of the 2021-24 business plan (as were the benefits anticipated from the development of products with greater sustainability).

As laid out in IAS 36, as the above-mentioned CGU includes goodwill, the Company’s Management conducted an impairment test to determine whether the carrying amounts relating to the assets of the CGU are recognised in the Financial Statements as at 31 December 2020 at a value no higher than the recoverable amount. In particular, the Company recognised in the financial statements as at 31 December 2020 a goodwill of €14.6 million, in addition to intangible fixed assets with defined useful life for €8.6 million, rights of use for €0.7 million and material fixed assets for €38.7 million, for which the restrictions imposed by the pandemic during 2020 did not constitute a trigger event for the performance of an impairment test at this level.

*Recoverability of the value of equity investments*

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

In particular, the equity investments in subsidiaries subjected to impairment test include the equity investments in LU-VE Sweden AB, LU-VE Iberica s.l., LU-VE Deutschland GmbH, LU-VE Asia Pacific Ltd. – Hong Kong, LU-VE Heat Exchangers (Tianmen) Co, Ltd and Zyklus Heat Transfer Inc., for a total amount of €10.8 million, which have recorded significant losses in the financial year and/or in previous financial years that, for some companies, have led to highlight negative shareholder's equity for a total amount of €7.1 million at 31 December 2020.

This test was also extended to subsidiaries Air Hex Alonte S.r.l. and Fincoil LU-VE OY (acquired during 2019), whose book values in the Company's financial reports is higher compared to their shareholders' equity by an amount of €28 million, as the year 2020 was the first full year of operation.

The Management’s assessment process is based on the principle of discounted cash flow – Equity side through the estimated expected cash flows inferable by the 2021-2024 plans of such subsidiaries (2021-2027 plan for Zyklus Inc.) prepared by the local management in collaboration with the Company Management and subsequently included in the consolidated business plan approved on 24 February 2021 by the Company Management (which does not take into consideration the reallocation of some non-reallocated corporate costs), and on the determination of an appropriate discounting rate (WACC) and long-term g-rate growth, net of their net financial position. In particular, the key variables of greater significance in the determination of the cash flow forecasts are based on the Management’s expectations of focusing on the increase of sales with greater margins improving the absorption of fixed costs, focusing on new geographical markets deemed most attractive in terms of size, stability, growth and profit margins, strengthening, expanding and specialising existing production capacity particularly in markets where the LU-VE group is less present and in markets where the cold chain is rapidly expanding, continuously improving the performance of existing products and developing innovative products, in particular with the use of natural refrigerating liquids, so being able to erode the market share of smaller competitors that are less able to commit to the required investments.

*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 and prospective collection trends.

In the current uncertain context, the Management has estimated the impacts of the pandemic on the possible deterioration of customers' creditworthiness and on their ability to meet their obligations using exclusively forward looking information, so proceeding to make further allocations to the doubtful debt provision during the year.

*Income taxes and deferred tax assets*

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

In the taxable results deriving from the 2021-2024 business plan of companies used for the impairment test for the explicit period, and through the extrapolation of these, the taxable income expected for the following years were taken into account in the verification recognition and recoverability of deferred tax assets recognised in the financial statements as at 31 December 2020. The effects deriving from the temporary differences on which deferred tax liabilities were recognised were also used in the verification of recognition. However, the future trend of these factors, including the evolution of the difficult global health, economic and financial environment, requires circumstances to be constantly monitored by the Company Management.

## 2.3 NEW ACCOUNTING STANDARDS

### IFRS ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLIED AS AT 1 JANUARY 2020

The following IFRS accounting standards, amendments and interpretations have been applied by the Company for the first time as at 1 January 2020:

- On 31 October 2018, the IASB published “Definition of Material (Amendments to IAS 1 and IAS 8)”. The document introduced an amendment to the definition of “relevant” in IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors. This amendment has the objective of making the definition of “relevant" more specific and introduced the concept of “obscured information” alongside the concepts of omitted or incorrect information already present in the two standards subject to amendment. The amendment clarifies that information is “obscured” when it has been described in such a way as to produce for primary readers of Financial Statements an effect similar to that which would have been produced had such information been omitted or incorrect.
  The introduction of the new amendment had no effects on the Company’s financial statements.

- On 29 March 2018, IASB published an amendment “References to the Conceptual Framework in IFRS Standards”. The amendment is effective for financial years starting on 1 January 2020 or later, but early application is allowed. The Conceptual Framework defines the fundamental concepts for financial information and guides the Council in the development of IFRS standards. The documents helps to guarantee that the Standard are conceptually coherent and that similar transactions are treated in the same way, so as to provide useful information to investors, lenders and other creditors. The Conceptual Framework supports companies in the development of accounting standards when no IFRS standard is applicable to a particular transaction and, more generally, helps the interested parties in understanding and interpret the Standards. The introduction of the new amendment had no effects on the Company’s financial statements.

- On 26 September 2019, IASB published the “Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform”. The same amends IFRS 9 - Financial Instruments and IAS 39 - Financial Instruments: Recognition and Measurement as well as IFRS 7 - Financial Instruments: Disclosures. In particular, the amendment changes some of the requirements for the application of hedge accounting, including temporary derogations to the same, in order to mitigate the effect of the impact deriving from the uncertainty of the IBOR reform on future cash flows in the period prior to its completion. The amendment also requires companies to provide further information in financial statements with regard to their hedging transactions which are directly affected by the uncertainties generated by the review and to which the above mentioned derogations apply
  The introduction of the new amendment had no effects on the Company’s financial statements.

- On 22 October 2018, the IASB published "Definition of Material (Amendments to IFRS 3)". The document provides some clarifications on the definition of business for the correct application of the IFRS 3 standard. In particular, the amendment clarifies that while a business normally produces an output, the presence of an output is not strictly necessary to identify a business in the presence of an integrated set of activities/processes and goods. However, to satisfy the definition of business, an integrated set of activities/processes and goods must include, as a minimum, an input and a substantial process that together significantly contribute to the capacity to create an output. To that end, the IASB replaced the term "ability to create an output" with "ability to contribute to creating outputs" to clarify that a business can exist even without the presence of all inputs and processes necessary to create an output.
  The amendment also introduced an optional test ("concentration test") which allows to exclude the presence of a business if the corresponding price is essentially referable to a single asset or group of assets. The amendments are applied to all business combinations and acquisitions of activities after 1 January 2020, but early application is permitted.
  The introduction of the new amendment had no effects on the Company's financial statements.

- On 28 May 2020 IASB published an amendment called "COVID-19 Related Rent Concessions (Amendment to IFRS 16"). The document allows lessors the option to recognise the reductions in rentals linked to COVID-19 without having to value, through the analyses of agreements, if the lease modification of IFRS 16 definition has been respected. Therefore, lessors applying this option can recognise the effects of the reduction of the rental fees directly to the income statement at the date of effect of the reduction.
  The introduction of the new amendment 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 2020

- On 28 May 2020 IASB published an amendment called "Extension of the Temporary Exemption from Applying IFRS 9 (Amendment to IFRS 4)". The amendments allow to extend the temporary exemption from applying IFRS 9 until 1 January 2023 for insurance. These amendments will come into effect on 1 January 2021.
  The Directors do not expect the adoption of this standard to have a significant effect on the Company's Financial Statements.

- On 27 August 2020 IASB published, in the light of the reform on interbank interest rates such as IBOR, the document "Interest Rate Benchmark Reform - Phase 2", which includes amendments to the following standards:
  - IFRS 9 Financial Instruments;
  - IAS 39 Financial Instruments: Recognition and Measurement;
  - IFRS 7 Financial Instruments: Disclosures;

- IFRS 4 Insurance Contracts;
- IFRS 16 Leases.

All the amendments will come into effect on 1 January 2021.

The Directors do not expect the adoption of this standard to have a significant effect on the Company's Financial Statements.

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

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

- On 18 May 2017 IASB published standard IFRS 17 – Insurance Contracts, which is destined to replace standard IFRS 4 – Insurance Contracts. The objective of the new standard is that of guaranteeing that entities provide pertinent information that faithfully represent the rights and obligations deriving from insurance contracts issued. The new standard measures an insurance contract on the basis of a General Model or a simplified version thereof, called Premium Allocation Approach ("PAA"). The entity must apply the new standard to insurance contracts issued, including reassurance contracts issued, reinsurance contracts held and also to investment contracts with a discretionary participation feature (DPF). The standard applies as of 1 January 2023, but early application is permitted, only for entities that apply IFRS 9 - Financial Instruments and IFRS 15 - Revenue from Contracts with Customers. The Directors do not expect the adoption of these amendments to have a significant effect on the financial statements for the year.

- On 23 January 2020 IASB published an amendment called "Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current". The document has the objective of clarifying how to classify debts and other short or long-term liabilities. The amendments apply as at 1 January 2023, but early application is permitted
  The Directors do not expect the adoption of these amendments to have a significant effect on the Company's Financial Statements.

- On 14 May 2020 IASB published the following amendments:
  - Amendments to IFRS 3 Business Combinations: the amendments have the purpose of updating the IFRS 3 reference to the Conceptual Framework in the revised version, without this involving amendments to the provisions of the IFRS 3 standard.
  - Amendments to IAS 16 Property, Plant and Equipment: the amendments have the purpose of not allowing to deduct from the cost of property, plant and equipment the amount received from the sale of goods produced in the testing stage of the

same assets. These sale revenues and the relative costs will then be recognised in the income statement.

- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: the amendment clarifies that all costs directly referable to a contract must be taken into account in the estimate of the possible cost of that contract. In consequence, the evaluation of the possible cost of a contract includes not only incremental costs (such as, for example, the cost of materials directly used in processing) but also the costs that the company cannot avoid because it has stipulated the contract (such as, for example, the portion of personnel cost and the depreciation of machinery used to fulfil the contract).
- Annual Improvements 2018-2020: the amendments have been made to IFRS 1 First-time Adoption of International Financial Reporting Standards, to IFRS 9 Financial Instruments, to IAS 41 Agriculture and to the Illustrative Examples of IFRS 16 Leases.

All the amendments will come into effect on 1 January 2022.
The Directors do not expect the adoption of these amendments to have a significant effect on the Company's Financial Statements.

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

## 3.1 GOODWILL AND OTHER INTANGIBLE ASSETS

| **Goodwill and other intangible assets** *(in thousands of Euro)* | **Goodwill** | | **Other intangible assets** | **Total** |
|---|---|---|---|---|
| *Historical* | | | | |
| **As at 1 January 2019** | **21,078** | | **26,822** | **47,900** |
| Increases | - | | 3,636 | 3,636 |
| Decreases | - | | (496) | (496) |
| Reclassifications | - | | - | - |
| **As at 31 December 2019** | **21,078** | | **29,962** | **51,040** |
| Increases | - | | 5,247 | 5,247 |
| Decreases | - | | - | - |
| Reclassifications | - | | - | - |
| **As at 31 December 2020** | **21,078** | | **35,209** | **56,287** |
| *Provision* | | | | |
| **As at 1 January 2019** | **6,449** | **(*)** | **18,781** | **25,230** |
| Increases | - | | 3,233 | 3,233 |
| Decreases | - | | (95) | (95) |
| Reclassifications | - | | - | - |
| **As at 31 December 2019** | **6,449** | **(*)** | **21,919** | **28,368** |
| Increases | - | | 4,642 | 4,642 |
| Decreases | - | | - | - |
| Reclassifications | - | | - | - |
| **As at 31 December 2020** | **6,449** | **(*)** | **26,561** | **33,010** |
| *Net carrying amount* | | | | |
| **As at 31 December 2019** | **14,629** | | **8,043** | **22,672** |
| **As at 31 December 2020** | **14,629** | | **8,648** | **23,277** |

* The goodwill amortisation provision refers to the amount recognised as at 1/01/2014 in accordance with previous accounting standards and unchanged since that date.

*Goodwill*

Pursuant to IAS 36, goodwill is not subject to amortisation, but rather impairment testing on at least yearly basis or more frequently if specific circumstances take place that could require an immediate valuation of possible impairments (impairment test).

The Company tested the recoverability of the carrying amount of the Net Invested Capital (NIC) of LU-VE S.p.A. as at 31 December 2020 (identified as the only cash generating unit). Net invested capital is inclusive of the value of goodwill, other intangible assets with a finite useful life for €8.6 million, rights of use for €0.7 million and property, plant and equipment for €38.7 million.

In the determination of the recoverable value of the CGU, identified in the value of use as the sum of discounted cash flows generated in the future and of the net invested capital on a continuous manner (Discounted Cash Flow Unlevered method), the Management has made reference to the 2021-2024 business plan of the Company drawn up by Management and subsequently included in the consolidate LU-VE group business plan approved by the Board of Directors of the Company held on 24 February 2021 (which does not take into account the reallocation of some non-recharged corporate costs). These assumptions include the Management's expectations of specialising the production with the objective to achieve an increase in the efficiency of plants, focusing on increasing the sales of certain higher-margin product families to improve the absorption of fixed costs, continuously improving the performance of existing products and developing innovative products, especially with the use of natural refrigerating liquids, so managing to erode the market share of smaller competitors, less able to commit to the necessary investments.

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

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

- sector financial structure: 12.01% (third party capital) and 87.99% (own capital), taking into account the average of a panel of comparable companies;

- *sector relevered beta: 1,038;*

- risk-free rate: 1.90% determined considering the average five-year yield of government bonds with 10 year maturity, in consideration of the countries where Lu-Ve S.p.A. operates.

- risk premium: 5.17% (attributable to countries with an AAA rating – source Prof. A. Damodaran, January 2021);

- cost of debt: 1.49% and determined considering the average five-year IRS with 10 year maturity, of 0.48% increased by a spread of 1.01%.

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 1,99% (rate of expected inflation weighed on the basis of revenues of various jurisdictions). In the terminal value, an operating cash flow based on the last year of the plan (2024), 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. A tax rate of 27.9% was also considered, equal to the applicable Italian rates.

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 6.53% (6.43% as at 31 December 2019).

From the impairment test carried out, approved by the Directors of the Company on 17 March 2021, no losses emerged based on the testing carried out, as the value in use higher than the carrying amount.

In the impairment test mentioned above, the Management also considered a best case sensitivity scenario which includes a "surplus" asset deriving from the discounting of the tax benefit following the tax realignment of some assets pursuant to Decree Law 104/2020 (with regard to this, please refer to the note 2.1 “Introduction” above).

In addition to the sensitivity scenario mentioned above, as required by IAS 36 and by the impairment test guidelines drafted by the O.I.V., the group has carried out a further sensitivity analysis in relation to the recoverable cost of the CGU, on the one hand analysing the effect of the variation of the discounting rate used to discount future cash flows (WACC) and on the other of the EBITDA both for the specific period and for the terminal value, maintaining the main plan assumptions underlying the industrial plan unchanged.

These sensitivity analyses demonstrated potential impairment situations also in non-hardly probable scenarios.

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

- break-even WACC (maintaining all the other plan assumptions unchanged) equal to +6.59% (equal to +6.76% in the “best case” scenario above);

- reduction of the EBITDA in the explicit period of the Plan and in Terminal Value (maintaining all other plan assumptions unchanged) equal to -0.7% (equal to -2.35% in the “best case” scenario above);

- lowering of the break-even g-rate at 1.92% (maintaining all other plan assumptions unchanged) (at 1.73% in the “best case” scenario above).

As already mentioned earlier, the Company's 2021-2024 Business Plan reports that the estimated effects of the pandemic for 2021 are expected to be in line with those at the end of the 2020 financial year. For further information at this regard, please refer to the paragraph “COVID-19 health emergency” above.

*Other intangible assets*

The following table illustrates in more detail information relating to other intangible assets:

| **Detail of other intangible assets** *(in thousands of Euro)* | **Trademarks** | **Development costs** | **Development costs in progress** | **Software** | **Other** | **Total** |
|---|---|---|---|---|---|---|
| *Historical* | | | | | | |
| **As at 1 January 2019** | **10,799** | **6,804** | **2,062** | **7,062** | **95** | **26,822** |
| Increases | - | 671 | 631 | 1,770 | 564 | 3,636 |
| Decreases | - | (192) | (304) | - | - | (496) |
| Reclassifications | - | 1,445 | (1,445) | 95 | (95) | - |
| **As at 31 December 2019** | **10,799** | **8,728** | **944** | **8,927** | **564** | **29,962** |
| Increases | - | - | 492 | 4,755 | - | 5,247 |
| Decreases | - | - | - | - | - | - |
| Reclassifications | - | 735 | (735) | 541 | (541) | - |
| **As at 31 December 2020** | **10,799** | **9,463** | **701** | **14,223** | **23** | **35,209** |
| *Provision* | | | | | | |
| **As at 1 January 2019** | **7,395** | **5,941** | - | **5,445** | **-** | **18,781** |
| Increases | 716 | 986 | - | 1,531 | - | 3,233 |
| Decreases | - | (95) | - | - | - | (95) |
| Reclassifications | - | - | - | - | - | - |
| **As at 31 December 2019** | **8,111** | **6,832** | - | **6,976** | **-** | **21,919** |
| Increases | 717 | 930 | - | 2,995 | - | 4,642 |
| Decreases | - | - | - | - | - | - |
| Reclassifications | - | - | - | - | - | - |
| **As at 31 December 2020** | **8,828** | **7,762** | - | **9,971** | **-** | **26,561** |
| *Net carrying amount* | | | | | | |
| **As at 31 December 2019** | **2,688** | **1,896** | **944** | **1,951** | **564** | **8,043** |
| **As at 31 December 2020** | **1,971** | **1,701** | **701** | **4,252** | **23** | **8,648** |

*Development costs and development costs in progress*

The increase in development costs in progress for €492 thousand (€631 thousand in 2019), capitalised subject to the prior authorisation of the Board of Statutory Auditors, refers to product development projects in the process of being completed: the intense activities carried out have aimed to offer the market increasingly advanced products. The main projects regarded the development of new product ranges (mainly the use of natural refrigerants, such as carbon dioxide and ammonia), the miniaturisation and specialisation of tube surfaces and matrices for the improvement of heat exchange efficiencies, the introduction of electronic control systems optimised for unit coolers and air coolers. During the financial year, several projects were completed which have led to a reclassification of the relative costs recognised in the item "Development costs in progress" for €735 thousand.

*Software*

The Software development costs in 2020 increased by €4,755 thousand (€1,770 thousand in 2019). The increase in software for the current financial year is mainly due to the increase for the development of the PLM (Product Lifecycle Management) project for approximately €1,182 thousand, new SAP licences for €1,121 thousand and other management software for improved operativity at Group level (configurators, licences, evolutive, etc.) for €2,452 thousand.

*Other intangible assets*

Other intangible fixed assets increased by €541 thousand following the completion of the IT projects in progress in 2019, reclassified during the year under the item "Software".

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

# 3.2 PROPERTY, PLANT AND EQUIPMENT

| Property, plant and equipment *(in thousands of Euro)* | Property | Plant and equipment | Rights of use | Other property, plant and equipment | Property, plant and equipment in progress | Total |
|---|---|---|---|---|---|---|
| *Historical* | | | | | | |
| As at 1 January 2019 | 40,129 | 45,303 | - | 14,228 | 203 | 99,863 |
| Increases | 230 | 1,480 | 1,156 | 505 | 2,276 | 5,647 |
| Decreases | - | - | - | - | (358) | (358) |
| Reclassifications | - | 61 | - | - | (61) | - |
| As at 31 December 2019 | 40,359 | 46,844 | 1,156 | 14,733 | 2,060 | 105,152 |
| Increases | 226 | 1,120 | 296 | 637 | 101 | 2,380 |
| Decreases | - | (2,164) | (160) | (651) | - | (2,975) |
| Reclassifications | - | 986 | - | - | (986) | - |
| As at 31 December 2020 | 40,585 | 46,786 | 1,292 | 14,719 | 1,175 | 104,557 |
| *Provision* | | | | | | |
| As at 1 January 2019 | 9,934 | 37,527 | - | 12,712 | - | 60,173 |
| Increases | 696 | 2,053 | 365 | =546 | - | 3,660 |
| Decreases | - | - | - | - | - | - |
| Reclassifications | - | - | - | - | - | - |
| As at 31 December 2019 | 10,630 | 39,580 | 365 | 13,258 | - | 63,833 |
| Increases | 702 | 1,975 | 394 | 478 | - | 3,549 |
| Decreases | - | (1,694) | (129) | (330) | - | (2,153) |
| Reclassifications | - | - | - | - | - | - |
| As at 31 December 2020 | 11,332 | 39,861 | 630 | 13,406 | - | 65,229 |
| *Net carrying amount* | | | | | | |
| As at 31 December 2019 | 29,729 | 7,264 | 791 | 1,475 | 2,060 | 41,319 |
| As at 31 December 2020 | 29,253 | 6,925 | 662 | 1,313 | 1,175 | 39,328 |

As at 31 December 2020, the increases in the historical cost of property, plant and equipment amounted to €2,380 thousand. These increases are mainly due to:

- the technology investment program for the improvement and rationalisation of the existing productive capacity for €1,221 thousand, of which €101 thousand refer to tangible assets in progress;
- the purchase of industrial equipment and moulds for approximately €637 thousand;
- the subscription of new rights of use pursuant to IFRS 16 for €296 thousand.

It is specified that, of the €2,380 thousand increase in property, plant and equipment, approximately €7 thousand was recognised as payables in the item “other current payables”, as they were for purchases of assets not yet fully paid up as at 31 December 2020.

During the year decreases for €2,975 thousand, mainly attributable to transfers of machinery and vehicles to other companies of the Group were recognised, which led to a net gain of €534 thousand.

During the year €986 thousand previously recognised under Assets in progress, attributable to machinery purchased in previous years but used in the production process only from the current financial year were also reclassified.

During the year, financial expense was not capitalised on property, plant and equipment.

These property, plant and equipment assets were included in the impairment test described above as they were allocated to the only CGU identified by the Management.

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

| | Item | | | | | | |
|---|---|---|---|---|---|---|---|
| | Property | | Plant and equipment | | Other property, plant and equipment | | |
| **Types of revaluations** *(in thousands of Euro)* | **Gross amount** | **Net amount as at 31/12/2020** | **Gross amount** | **Net amount as at 31/12/2020** | **Gross amount** | **Net amount as at 31/12/2020** | **Net total as at 31/12/2020** |
| Law no. 413 of 30 December 1991 | 5 | 1 | - | - | - | - | 1 |
| Law no. 342 of 21 December 2000 | - | - | 1,347 | - | 1,080 | - | - |
| Law no. 350 of 24 December 2003 | - | - | 1,814 | - | 1,183 | - | - |
| Law no. 266 of23 December 2005 | - | - | 847 | - | 296 | - | - |
| TOTAL | 5 | 1 | 4,008 | - | 2,559 | - | 1 |

# 3.3 EQUITY INVESTMENTS

The details of this item are shown below:

| **Equity investments** *(in thousands of Euro)* | **31/12/2020** | **31/12/2019** | | **Change** | |
|---|---|---|---|---|---|
| Tecnair L.V. S.p.A. | 1,043 | 1,043 | | - | |
| SEST S.p.A. | 44,895 | 44,895 | | - | |
| Heat Transfer System s.r.o. (HTS) | 9,540 | 9,540 | | - | |
| LU-VE France S.à.r.l. | 1,303 | 1,303 | | - | |
| LU-VE Deutschland GmbH | 173 | 173 | | - | |
| LU-VE Iberica S.l. | 145 | 145 | | - | |
| LU-VE Contardo Pacific Pty Ltd (Australia) | - | - | | - | |
| LU-VE Asia Pacific Ltd. (Hong Kong) | 13 | 13 | | - | |
| LU-VE HEAT EXCHANGERS (Tianmen) Co, Ltd | 3,000 | 3,000 | | - | |
| LU-VE Sweden AB | 390 | 390 | | - | |
| MANIFOLD S.r.l. | 10 | 10 | | - | |
| LU-VE India Corporation Private Ltd | - | - | | - | |
| LUVEDIGITAL S.r.l. | 5 | 5 | | - | |
| Spirotech Heat Exchangers Private Ltd | 39,468 | 35,383 | | 4,085 | |
| LU-VE Austria GmbH | 18 | 18 | | - | |
| Zyklus Heat Transfer Inc. | 7,052 | 10,052 | | (3,000) | |
| Air Hex Alonte S.r.l. | 15,434 | 15,434 | (*) | - | (*) |
| Fincoil LU-VE OY | 30,649 | 30,649 | | - | |
| LU-VE Netherlands B.V. | 10 | 10 | | - | |
| «OOO» LU-VE Moscow | 1 | 1 | | - | |
| LU VE MIDDLE EAST DMCC | 20 | 20 | | - | |
| **Total subsidiaries:** | **153,169** | **152,084** | **(*)** | **1,085** | **(*)** |
| Industria e Università S.r.l. | 6 | 6 | | - | |
| **Total** | **153,175** | **152,090** | **(*)** | **1,085** | **(*)** |

(*) values restated respect to 31 December 2019 in order to retrospectively take into account the effects deriving from the price change of €308 thousand of the equity investment in Air Hex Alonte S.r.l..

The change in equity investments is due:

- to an increase of €4,086 thousand following the acquisition of the remaining equity investments held by the previous minority shareholders of Spirotech Ltd. In fact, during the financial year the minority shareholder exercised the *put* option on the remaining 5% of the equity held in Spirotech Ltd, according to contractual dispositions. This transaction allowed the Company to hold 100% interest in Spirotech Ltd.

- to a decrease of €3,000 thousand for the write-down of the equity investment in Zyklus Heat Transfer Inc. following the impairment test which the Management executed on the difference between the book value of the investment in the financial statements and the relative recoverable value, refer to what described below.

The Management tested the recoverability of the carrying amount of the following equity investments as at 31 December 2020 identifying significant losses for the year and/or previous years that led to the recognition of the negative shareholders' equities of some companies:

- LU-VE Sweden AB;
- LU-VE Deutschland GmbH;
- LU-VE Iberica s.l.;
- LU-VE Asia Pacific Ltd. – Hong Kong and LU-VE Tianmen (China);
- Zyklus Heat Transfer Inc.

This test was also extended to subsidiaries Air Hex Alonte S.r.l. and Fincoil LU-VE OY, for which the year 2020 was the first full year of operation within the LU-VE Group and whose book values in the Company's financial reports is higher compared to their shareholders' equity by an amount of €28 million.

In the determination of the recoverable value, identified in the value in use as the sum of discounted cash flows in the future and in a continuous manner net of the net financial position of the subsidiary (so called Discounted Cash Flow Method - Equity side), the Management made reference to the 2021-2024 Business Plans of these subsidiaries prepared by the local management in collaboration with the Management of the Company and subsequently included in the consolidated 2021-2025 Business Plan approved by the Company's Management on 24 February 2021 (which does not take into consideration the reallocation of some non-recharged corporate costs), which include the estimated effects of the COVID-19 pandemic for the 2021 financial year in line with those at the end of the 2020 financial statements. For the subsidiary Zyklus Heat Transfer Inc., given the project for the increase in production capacity already under way in the 2020 financial period, a Business Plan with an explicit 2021 - 2027 timetable was considered.

In particular, the key variables of greater significance in the determination of the cash flow forecasts are based on the Management’s expectations of focusing on the increase of sales with greater margins improving the absorption of fixed costs, focusing on new geographical markets deemed most attractive in terms of size, stability, growth and profit margins, strengthening, specialising and expanding existing production capacity particularly in already important markets where the LU-VE group is less present and in markets where the cold chain is rapidly expanding, continuously improving the performance of existing products and developing innovative products, in particular with the use of natural refrigerating liquids, so being able to erode the market share of smaller competitors that are less able to commit to the required investments.

In more detail, in order to determine the recoverable amount of the equity investments tested, cash flows were discounted using a discounting rate (WACC) which takes into account the specific risks of the equity investment and which reflects current market assessments of the cost of money. Different WACCs were calculated assuming as a reference basis the risk free rates relating to the different countries of the tested equity investments. The recoverable amount also includes the terminal value of income flows, which was calculated with the “perpetual cash flow” method considering a growth rate (g rate) in line with the expected growth rates of the countries in which each Company operates. In the terminal value, an operating cash flow equal to the last year of the plan (2024 and 2027 for Zyklus), 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. A weighted tax rate was also considered in relation to the countries in which the individual subsidiaries operate.

The Terminal Value cash flow therefore reflects a level of amortisation corresponding to the value of investments under normal circumstances and no change in working capital. The main parameters considered in estimating the Equity value are reported below:

| Company | *WACC* | *g rate* |
|---|---|---|
| LU-VE Sweden AB | 6.22% | 1.45% |
| LU-VE Deutschland GmbH | 5.57% | 1.00% |
| LU-VE Iberica s.l. | 7.49% | 1.85% |
| Zyklus Heat Transfer Inc | 7.68% | 2.00% |
| LU-VE Tianmen (China) and LU-VE Asia Pacific Ltd. – Hong Kong | 8.04% | 2.59% |
| Air Hex Alonte S.r.l. | 6.67% | 1.93% |
| Fincoil LU-VE OY | 6.06% | 1.00% |

The level of net financial debt as at 31 December 2020 of the respective equity investments was subtracted from the value obtained from the discounted sum of expected cash flows and the terminal value, in order to obtain the equity value.

No impairment losses emerged based on the testing carried out, approved by the Directors of the Company on 17 March 2021, other than for the company Myklus as the value in use of the equity investments was found to be lower than the carrying amount recognised in the Financial Statements, for which a write-down of the equity investment for €3 million was recognised.

In addition, as the recoverable amount is determined on the basis of projections, the Company Management has developed sensitivity analyses.

As required by IAS 36 and by the impairment test guidelines drafted by the O.I.V., the Company has carried out a sensitivity analysis in relation to the recoverable value of the above mentioned equity investments, analysing the effect of the variation of the discounting rate used to discount future cash flows (WACC) and, on the one hand, the g-rate, on the other the EBITDA of the terminal value, maintaining the main business plan assumptions unchanged.

These sensitivity analyses did not highlight any particular critical issues, confirming the results in terms of the tightness of the test, with the exception of the subsidiary Fincoil LU-VE OY for which the test highlighted potential impairment situations also in not hardly probable scenarios.

A sensitivity analysis was also carried out for the subsidiary Zyklus considering an explicit time span equal to the 2021-2025 period, maintaining unchanged the main assumptions underlying the relative industrial plan, which highlighted an impairment situation with a significant incremental write-down.

In addition, the Management has provided to determine the break-even WACC and g-rate, together with a reduction in the percentage of the EBITDA value of the Terminal Value for each equity investment subject to impairment test:

| Company | EBITDA | *WACC** | *g rate *** |
|---|---|---|---|
| LU-VE Sweden AB | -45.5% | 9.6% | n.s. |

| | | | |
|---|---|---|---|
| LU-VE Deutschland GmbH | n.s. | n.s. | n.s. |
| LU-VE Iberica s.l. | n.s. | n.s. | n.s. |
| LU-VE Asia Pacific Ltd. – Hong Kong /LU-VE Tianmen (China) | -60.5% | 15.1% | n.s. |
| Air Hex Alonte S.r.l. | -52.5% | 9.11% | n.s. |
| Fincoil LU-VE OY | -12.1% | 0.9% | n.s. |

* These values are added to the WACC values of the base scenarios.
** Break-even g-rate: not significant reduction of the g of TV. Even by using a nil value, the Cover would not be zero.

A dedicated list indicating the information required for each subsidiary by art. 2427 of the Italian Civil Code, is provided in annex.

## 3.4 OTHER NON-CURRENT FINANCIAL ASSETS

| **Other non-current financial assets** *(in thousands of Euro)* | **31/12/2020** | **31/12/2019** | **Change** |
|---|---|---|---|
| Other non-current assets | 23,208 | 24,161 | (953) |
| **Total** | **23,208** | **24,161** | **(953)** |

The item "*Other non-current financial assets*" amounted to €23,208 thousand compared to €24,161 thousand in the previous year and make exclusive reference to financial receivables from subsidiaries.

These financial receivables are detailed as follows:

- for €998 thousand for a long-term loan granted to the subsidiary LU-VE Ibérica s.l.;
- for €6,775 thousand for a long-term loan granted to the subsidiary LU-VE Asia Pacific Limited. In the past, the subsidiary used part of that loan to subscribe 100% of the share capital of LU-VE Heat Exchangers (Changshu) LTD in China.
- for €5,063 thousand for a long-term loan granted to the subsidiary LU-VE Sweden AB;.
- for €9,016 thousand for a long-term loan granted to the subsidiary Zyklus Heat Transfer Inc.;
- for €1,000 thousand for the long-term loan granted to "OOO" LU-VE MOSCOW to guarantee the company's ordinary operations;
- for €250 thousand for the long-term loan granted to LU-VE MIDDLE EAST DMCC to guarantee the company's ordinary operations.
- for €500 thousand for the long-term loan granted to the newly constituted LU-VE Netherlands B.V. to guarantee the company's ordinary operations;

## Decreases in the year:

- for €3,000 thousand, due to the full reimbursement of the long-term loan granted in 2019 to the subsidiary Fincoil LU-VE OY;
- for €750 thousand, due to the full reimbursement of the long-term loan granted in 2019 to the subsidiary Air Hex Alonte S.r.l.;
- for €558 thousand, due to the partial reimbursement of the loan granted to the subsidiary LU-VE Ibérica s.l. (the amount of the residual loan as at 31 December 2019 was approximately €1,556 thousand);
- for €300 thousand, due to the partial reimbursement of the loan granted to the subsidiary LU-VE Netherland BV (the amount of the residual loan as at 31 December 2019 was approximately €800 thousand);

## Increases in the year:

- for €4,228 thousand, due to new long-term loan disbursements granted to the subsidiary Zyklus Heat Transfer Inc. in order to guarantee the company's ordinary operations and the realisation, already under way, of the new production plant.

Loans receivables in foreign currency (mainly the one agreed with the subsidiary Zyklus Heat Transfer Inc.) also generated in the 2020 financial year a negative exchange effect of €573 thousand.

With reference to the recoverability of financial receivables from subsidiaries subjected to impairment test, as described in the previous note 3.3 “Equity investments”, the value in use was determined as the sum of discounted future and continuous cash flows, net of the subsidiary's net financial position, which therefore also includes the financial payables from LU-VE S.p.A.

## 3.5 OTHER NON-CURRENT ASSETS

| **Other non-current assets** *(in thousands of Euro)* | **31/12/2020** | **31/12/2019** | **Change** |
|---|---|---|---|
| Other non-current assets | 5,136 | 4 | 5,132 |
| **Total** | **5,136** | **4** | **5,132** |

"*Other non-current assets*" amount to €5,136 thousand (€4 thousand in 2019). The increase for approximately €5,132 thousand refers to non-current receivables from the subsidiary SEST-LUVE-Polska SP.z.o.o. relative to values transferred in reference to the customer list and the know-how of the commercial evaporators production line transferred to Poland (as reported in the note "introduction"). "*Other current assets*" (Note 3.10) include the recognition of the current portion of the receivable deriving from the same transfer operation for approximately €1,283 thousand. The contract signed with the counterparty includes a 5-year instalment repayment plan.

## 3.6 INVENTORIES

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

| **Inventories** *(in thousands of Euro)* | **31/12/2020** | **31/12/2019** | **Change** |
|---|---|---|---|
| Raw materials and consumables | 6,765 | 6,463 | 302 |
| Work in progress and semi-finished products | 1,276 | 1,362 | (86) |
| Finished products and goods for resale | 3,402 | 5,848 | (2,446) |
| Provision for inventory losses | (1,247) | (1,068) | (179) |
| **Total** | **10,196** | **12,605** | **(2,409)** |

The decrease in value recorded compared to 2019 is mainly due to an improvement of the finished goods inventory management.

The provision for inventory losses, equal to €1,247 thousand as at 31 December 2020 (of €1,068 thousand in 2019) 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.

No releases were made for redundancies during the financial year.

# 3.7 TRADE RECEIVABLES

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

| Trade Receivables *(in thousands of Euro)* | 31/12/2020 | 31/12/2019 | Change |
|---|---|---|---|
| Trade receivables from third parties | 12,050 | 10,035 | 2,015 |
| Trade receivables from Group customers | 31,875 | 27,713 | 4,162 |
| Third party bad debt provision | (2,703) | (2,634) | (69) |
| Group bad debt provision | (10,212) | (8,212) | (2,000) |
| **Total** | **31,010** | **26,902** | **4,108** |

As at 31 December 2020 the receivables from customers include receivables from some subsidiaries for the net value of €21,663 thousand (of which €31,875 thousand) of credits for invoices issued, partially offset by the relative bad debt provision for an amount of €10,212 thousand. For the details, refer to the Note on Related Parties (Note 4.14).

All trade receivables are due within the subsequent year and derive from normal sales transactions. Please note that no receivables with a duration of more than 5 years were recognised in this item of the Financial Statements.

In December 2020 receivables of approximately €4,743 thousand were transferred to Factoring companies, compared to approximately €5,311 thousand in the same month in the previous financial year. All these transfer were without recourse. Factored receivables as a percentage of turnover came to 5.1% in 2020 and 5.9% in 2019.

Trade receivables include contract assets (invoices to be issued relative to services already rendered by the Company) for an amount of €54 thousand and a reduction in trade receivables for variable compensations (credit notes to be issued for bonuses granted to customers) for €759 thousand.

The Company's bad debt provision increased in the year by €2,069 thousand due to the effect of the Expected Credit Loss required by IFRS 9.

The breakdown of receivables from third parties by geographical area is shown below:

| **Breakdown of trade receivables from third parties by geographical area** *(in thousands of Euro)* | **31/12/2020** | **31/12/2019** | **Change** |
|---|---|---|---|
| Italy | 4,319 | 1,874 | 2,445 |
| EU Countries | 4,208 | 3,143 | 1,065 |
| Non-EU Countries | 3,523 | 5,018 | (1,495) |
| Bad debt provision | (2,703) | (2,634) | (69) |
| **Total** | **9,347** | **7,401** | **1,946** |

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

| **Breakdown of trade receivables from third parties by maturity** *(in thousands of Euro)* | **31/12/2020** | **31/12/2019** | **Change** |
|---|---|---|---|
| Current receivables (not past due) | 8,657 | 6,786 | 1,871 |
| Past due up to 30 days | 146 | 839 | (693) |
| Past due from 30 to 60 days | 220 | 3 | 217 |
| Past due from 60 to 90 days | 892 | 2 | 890 |
| Past due for more than 90 days | 2,135 | 2,405 | (270) |
| **Total** | **12,050** | **10,035** | **2,015** |

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

As at 31 December 2020, the estimate of the expected losses included the potential forward-looking impacts of the pandemic on the possible deterioration of customers' creditworthiness, of the countries in which operate and on their ability to meet their obligations. With reference to these latter considerations, we report how the effects on receivables deriving from the COVID-19 health crisis as at 31 December 2020 have not involve significant delays in customers' payments with respect to the dates originally contractually scheduled with customers: the Management deemed it reasonable, in any case, on the basis of the forward-looking impacts of the pandemic, to increase their expectations of future losses and proceed to a further allocation in the year to reflect this risk in the financial statements.

The following table summarises, on the basis of the IFRS 9, the risk profile of trade receivables on the basis of the allocation matrix reviewed by the Company in 2020, therefore reporting the gross accounting value of receivables from third parties at the time of possible default (equivalent to the recognition value of receivables), and the estimate as at 31 December 2020 of expected losses throughout the credit life:

| *(in thousands of Euro)* | Not past due | <30 | 31 - 60 | 61 - 90 | >90 | Total |
|---|---|---|---|---|---|---|
| Expected default rate | 4.47% | 3.42% | 16.44% | 17.94% | 100.00% | |
| Estimate of gross accounting value at the time of default | 8,213 | 146 | 219 | 892 | 2,135 | 11,605 |
| Expected losses throughout the life of the credit | 367 | 5 | 36 | 160 | 2,135 | 2,703 |

The Management has also calculated the ECL on the Company's net credit position towards controlled companies, in the assumption that in case of default of a subsidiary within the Group, the Parent Company would only suffer the loss of the net amount of reciprocal items, having the possibility of controlling cash flows between the parties. Therefore, for each directly or indirectly controlled company, the test has considered as its unit-of-account, the algebraic sum of trade receivables, other non-current financial assets, the balance of Cash Pooling included in "Current financial assets", net of the balance payable of "Cash Pooling" included in the item "Other current financial liabilities" and of "Trade payables" and "Tax consolidation liabilities and assets".

Management has then divided directly and indirectly controlled companies into three risk categories, on the basis of their historical economic performance and expectations of the same.

Subsequently, the Management has estimated the recovery times of return of expected future revenue. On the basis of recovery times, these revenue flows were discounted at the annual rate that includes a component of country (free risk rate) and the specific risk of the three identified categories (0.5%, 2% and 4.5%).

Also in reference with the receivables from the Group's companies, the Company has estimated the expected losses including the potential forward-looking impacts of the pandemic on the possible deterioration of the capacity of these companies to meet their obligations. In the light of this it was deemed to be reasonable to proceed to make a further allocation in the financial year of an amount of €2,000 thousand.

The results of the analyses in thousands of Euro as at 31 December 2020 are reported below:

| Risk Class | Trade receivables | Other non-current financial assets | Cash Pools Assets | Cash Pools Liabilities | Other payables and receivables | Net lending position | Impairment loss on accounts receivables | Impairment loss on cash pooling |
|---|---|---|---|---|---|---|---|---|
| Risk Class 1 | 20,726 | 9,523 | 609 | (10,015) | 3,476 | 24,319 | 331 | - |
| Risk Class 2 | 1,904 | - | - | - | (70) | 1,834 | 174 | - |
| Risk Class 3 | 9,245 | 13,685 | 3,963 | (651) | (908) | 25,334 | 9,707 | 1,270 |
| **Total** | **31,875** | **23,208** | **4,572** | **(10,666)** | **2,498** | **51,487** | **10,212** | **1,270** |

The loss was mainly allocated to trade receivables, rather than financial receivables, which do not normally have a due date and are repayable to the Company on demand (except in cases where cash pooling represents most of its balance). With specific reference to these latter financial receivables, please also take into account, as described in the previous note 3.3 "Equity investments", that the value in use of the companies subject to impairment test was determined as the sum of discounted future and continuous cash flows, net of the subsidiary's net financial position, which therefore also includes the above mentioned financial payables from LU-VE S.p.A.

The allocation made mainly refers to trade receivables from the Australian subsidiary LU-VE Contardo Pacific pty. Ltd. (for approximately €4,200 thousand), which in the first half of 2021 will complete its relative liquidation process, started in 2020.

## 3.8 TAX RECEIVABLES FOR CURRENT TAXES

This item was broken down as follows:

| **Due from the tax authorities for current taxes** *(in thousands of Euro)* | **31/12/2020** | **31/12/2019** | **Change** |
|---|---|---|---|
| Tax receivables for VAT | 1,698 | 2,227 | (529) |
| Tax receivable for payments on account of direct taxes | - | 684 | (684) |
| Others | 59 | 52 | 7 |
| Total | 1,757 | 2,963 | (1,206) |

"Receivables from tax authorities for direct tax advances" decreased by €684 thousand compared to the financial year closed as at 31 December 2019, as the amount of advances paid during the 2020 financial year have been reclassified as payment of payables for current taxes (please see Note 3.18).

The change in Receivables from tax authorities for VAT, down by €529 thousand, is mainly due to a more careful management of VAT by the Company.

# 3.9 CURRENT FINANCIAL ASSETS

Current financial assets included in this item are part of the “FVTPL” category indicated by IFRS9. These are financial instruments, whose contractual financial flows are not constituted solely by payment of capital and interest on the amount of capital to be repaid, and are held by the Company in the context of a pro tempore strategy whose objective, at equal risk, is the optimisation of the net cost of debt. This item was broken down as follows::

| **Current financial assets** *(in thousands of Euro)* | **31/12/2020** | **31/12/2019** | **Change** |
|---|---|---|---|
| Capitalisation policies | 69,958 | 58,632 | 11,326 |
| Other securities | 300 | 303 | (3) |
| Cash pooling | 3,302 | 5,607 | (2,305) |
| **Total** | **73,560** | **64,542** | **9,018** |

The item “Capitalisation policies” includes the following financial instruments:

- Capitalisation policies issued by Aviva Vita S.p.A. and subscribed by the Parent Company LU-VE S.p.A. for a nominal value of €49,856, recognised at fair value for a value of €54,003 thousand (as at 31 December 2019 the nominal value was of €39,936 thousand, while the fair value was €43,087 thousand) and are the type of policies which allow, after the payment of a lump-sum premium, for an annual capital revaluation based on the return obtained from management (almost exclusively invested in government securities and very highly rated bonds). During the financial year further Branch I capitalisation policies were subscribed to supplement those already subscribed in 2016, for €10,000 thousand, net of purchasing commission of €80 thousand (the latter recognised in the income statement in the item "Financial charges"). This entry constitute the numerary change of the 2020 financial year reported in the cash flow statement. The fair value measurement at the end of the financial year entailed the recognition of a positive change of €996 thousand, recognised under the item “Financial income”.

- Capitalisation policies issued by BNP Paribas Cardif Vita Compagnia di assicurazione e Riassicurazione S.p.A. and subscribed by the Parent Company LU-VE S.p.A. in the previous financial year, for a nominal amount of €15,000 thousand, measured at fair value for a value of €15,955 thousand (as at 31 December 2019 the fair value was €15,544 thousand); during the financial year no new capitalisation policies were subscribed. The fair value measurement at the reporting date entailed the recognition of a positive amount of €411 thousand, recognised under the item “Financial income”.

Please note that the capitalisation policies provide for a guarantee on the capital and the capitalisation of returns (which in this manner also become guaranteed) every twelve months as well as some penalties in the case of early redemption, of amounts not overall significant (mainly with expiry in 2021 and 2022).

Other securities refer to investments, made in 2017 with Unicredit for around 300 thousand which involved the recognition as at 31 December 2020 of a negative fair value change of €3 thousand, recognised under the item “Financial charges”.

Profits and losses from disinvestment are recognised in the Income Statement under the items "Financial income" or "Financial charges", like the fair value increases and decreases.

It is reported that these are “guaranteed return” policies and therefore not subject to significant fair value fluctuation. In the case of disinvestment of such policies, the negative impact would not be significant.

“Cash pooling” represents positive balances for the Company deriving from the centralised treasury (net of the recognition of the provision for doubtful ECL accounts for €1,270 thousand, calculated with the same procedures reported in note 3.7) above.

As at 31 December 2020 the various categories of derivative financial instruments held by the Company do not present positive fair values: in particular derivative financial instruments on IRS, the only derivative instruments in place as at 31 December 2020, present a negative fair value of €2,674 thousand.

The summary relating to outstanding derivative financial instruments as at 31 December 2020 broken down by type and classified under the item “Other financial liabilities” is provided below:

| **Derivative financial instruments as at 31/12/2020** *(in thousands of Euro)* | | **31/12/2020** | | **31/12/2019** | | **31/12/2020** | **31/12/2019** |
|---|---|---|---|---|---|---|---|
| **TYPE** | **ORIGINAL NOTIONAL** | **NOT. Short** | **NOT. M/L** | **NOT. Short** | **NOT. M/L** | **FAIR VALUE** | **FAIR VALUE** |
| IRS on loans | 277,478 | 47,060 | 180,909 | 40,574 | 124,969 | (2,674) | (1,711) |
| Commodity Swaps | - | - | - | - | - | - | - |
| **Total** | **277,478** | **47,060** | **180,909** | **40,574** | **124,969** | **(2,674)** | **(1,711)** |
| **Total Notional** | | **227,969** | | **165,543** | | | |

The details relating to outstanding derivative financial instruments as at 31 December 2020 broken down by type are provided below:

### IRS on loans *(in thousands of Euro)*

| DEBTOR COMPANY | COUNTERPARTY | TAKEN OUT | MATURITY | ORIGINAL NOTIONAL | 31/12/2020 NOT. Short | 31/12/2020 NOT. M/L | 31/12/2020 FAIR VALUE |
|---|---|---|---|---|---|---|---|
| LU-VE S.P.A. | Deutsche Bank | 27/03/2017 | 23/03/2021 | 5,500 | 344 | - | (1) |
| LU-VE S.P.A. | Intesa San Paolo | 21/06/2017 | 28/02/2022 | 22,059 | 5,882 | 1,471 | (32) |
| LU-VE S.P.A. | Unicredit S.p.A. | 30/01/2018 | 31/03/2023 | 18,750 | 3,750 | 5,625 | 1 |
| LU-VE S.P.A. | Intesa San Paolo | 28/11/2018 | 28/06/2024 | 12,500 | 2,500 | 6,250 | (147) |
| LU-VE S.P.A. | Intesa San Paolo | 28/11/2018 | 28/06/2024 | 12,500 | 2,500 | 6,250 | (147) |
| LU-VE S.P.A. | Banca Nazionale del Lavoro S.p.A. | 20/12/2018 | 24/09/2024 | 10,000 | 2,000 | 6,000 | (128) |
| LU-VE S.P.A. | Banca Nazionale del Lavoro S.p.A. | 20/12/2018 | 20/12/2023 | 10,000 | 1,111 | 6,667 | (145) |
| LU-VE S.P.A. | Unicredit S.p.A. | 20/09/2018 | 30/06/2024 | 12,000 | 2,400 | 6,000 | (190) |
| LU-VE S.P.A. | Unicredit S.p.A. | 30/09/2019 | 30/09/2023 | 15,000 | 2,000 | 13,000 | (410) |
| LU-VE S.P.A. | Banca Popolare di Milano | 25/01/2019 | 30/09/2024 | 25,000 | 5,000 | 16,250 | (229) |
| LU-VE S.P.A. | Unicredit S.p.A. | 12/07/2019 | 30/06/2024 | 9,600 | 2,400 | 6,000 | (122) |
| LU-VE S.P.A. | Unione di Banche Italiane S.p.A. | 30/07/2020 | 30/07/2026 | 21,569 | 5,232 | 16,337 | (251) |
| LU-VE S.P.A. | Intesa San Paolo | 20/05/2020 | 30/09/2025 | 12,500 | 2,083 | 10,417 | (85) |
| LU-VE S.P.A. | Unicredit S.p.A. | 15/04/2020 | 30/04/2022 | 15,000 | - | 15,000 | (88) |
| LU-VE S.P.A. | Banca Nazionale del Lavoro S.p.A. | 28/05/2020 | 28/05/2025 | 40,000 | 5,000 | 35,000 | (384) |
| LU-VE S.P.A. | Unicredit S.p.A. | 30/11/2020 | 30/11/2024 | 20,000 | 2,857 | 17,143 | (151) |
| LU-VE S.P.A. | Deutsche Bank | 30/10/2020 | 30/10/2026 | 5,500 | - | 5,500 | (69) |
| LU-VE S.P.A. | Deutsche Bank | 30/10/2020 | 30/10/2025 | 10,000 | 2,000 | 8,000 | (96) |
| Total | | | | **277,478** | **47,059** | **180,910** | **(2,674)** |

## 3.10 OTHER CURRENT ASSETS

The details of this item are shown below:

| **Other current assets** *(in thousands of Euro)* | **31/12/2020** | **31/12/2019** | **Change** |
|---|---|---|---|
| Advances to suppliers | 1,514 | 456 | 1,058 |
| Receivables from the Group's Companies for tax consolidation | 1,010 | 459 | 551 |
| Other receivables | 1,804 | 272 | 1,532 |
| **Total** | **4,328** | **1,187** | **3,141** |

The item "Advances to suppliers" increased by €1,058 thousand mainly for advances to suppliers for cloud based services.

The item "Receivables to the Group Companies for tax consolidation" increased by €551 thousand for the contribution of receivables for the tax consolidation deriving from the liquidation of the IRES tax of SEST S.p.A. and TECNAIR LV S.p.A..

The item "Miscellaneous receivables" increased by €1,532 thousand mainly for the current portion of the receivable from the subsidiary SEST LUVE POLSKA Sp.z.o.o., attributable to the quantification of the values transferred in reference to the customer list and know-how of the commercial evaporator line transferred to Poland, as already explained in detail in the note "introduction".

## 3.11 CASH AND CASH EQUIVALENTS

The details of this item are shown below:

| **Cash and cash equivalents** *(in thousands of Euro)* | **31/12/2020** | **31/12/2019** | **Change** |
|---|---|---|---|
| Cash and cash equivalents | 103,763 | 38,942 | 64,821 |
| **Total** | **103,763** | **38,942** | **64,821** |

The increase of €64.821 thousand is mainly due to the ordinary management of working capital and the provision of new financial resources in the latter part of the financial year.

For further information on cash flows dynamics, please refer to paragraph 1.5 – "Statement of Cash Flow".

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

## 3.12 SHAREHOLDERS' EQUITY

Share capital amounted to €62,704 thousand (€62,704 thousand as at 31 December 2019).

In 2020, dividends of €5,996 thousand were distributed by the Company from the extraordinary reserve and retained earnings carried forward from the previous year.

As at 31 December 2020 LU-VE S.p.A. holds 28,027 treasury shares, acquired during the year and recognised in the financial statements to reduce the Shareholders' Equity by a value of €288 thousand.

Please note that, following the decision of the Directors of the Company LU-VE S.p.A. to benefit from the "tax realignment" regulation (pursuant to art. 110 of Italian Legislative Decree 104/2020), the same will propose to the Shareholders' Meeting, at the time of approval of the 2020 financial statements of LU-VE S.p.A., to bind a part to an already existing available reserve for an amount of €20,482 thousand, corresponding to the values of tax aligned goodwill, trademarks and buildings (€21,116 thousand) net of the relative substitute tax (€633 thousand).

In the case, following future changes to the conditions allowing to have access to this option (as previously described), the realignment of the goodwill and of the trademark should be viewed less favourably by the directors, please note that the tax realignment of only intangible assets would require to bind available reserves of €4.4 million.

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

| | | | | Summary of uses in the last three years (*) | |
|---|---|---|---|---|---|
| **Nature/description** | **Amount** | **Possibility of use** | **Available portion** | **to cover losses** | **for other reasons** |
| **Share capital** | 62,704 | - | | | |
| **Principal amount reserves:** | | - | | | |
| Share premium reserve | 24,762 | A,B,C | 24,762 | | |
| Reserve for treasury shares | - | - | | | |
| **Profit reserves:** | | | | | |
| Legal reserve | 3,198 | B | | | |
| Extraordinary reserve | 9,769 | A,B,C | 9,769 | | (16,375) |
| Revaluation reserve | 273 | A,B | 273 | | |
| Post-employment benefits discounting reserve | (78) | - | | | |
| **Total** | **100,628** | | **34,804** | | - |
| Non-distributable portion | 66,097 | | | | |
| Residual distributable portion | 34,531 | | | | |

Key:

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

# 3.13 LOANS

| Loans (in thousands of Euro) | 31/12/2020 Current | 31/12/2020 Non-current | 31/12/2019 Current | 31/12/2019 Non-current |
|---|---|---|---|---|
| M/L term bank loans | 71,420 | 228,104 | 74,908 | 136,584 |
| Advances on export flows in Euro | 9,500 | - | 2,000 | - |
| Advances on invoices subject to collection | - | - | 42 | - |
| **Total** | **80,920** | **228,104** | **76,950** | **136,584** |

As at 31 December 2020, bank loans amounted to €299,524 thousand.
The breakdown of this item, the evolution with respect to the previous year and the characteristics of the bank loans held by the Company are as follows:

| Bank loans (in thousands of Euro) | | | | | | AMORTISED COST | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | 31/12/2020 | | 31/12/2019 | |
| DEBTOR COMPANY | COUNTERPARTY | LOAN TYPE | TAKEN OUT | MATURITY | RATE APPLIED | ORIGINAL AMOUNT | RESIDUAL AMOUNT | OF WHICH CURRENT | RESIDUAL AMOUNT | OF WHICH CURRENT |
| LU-VE | Banca Nazionale del Lavoro S.p.A. | Unsecured loan | 09/06/2015 | 09/06/2020 | 6M Euribor + Spread | 20,000 | - | - | 2,220 | 2,220 |
| LU-VE | UniCredit S.p.A. | Unsecured loan | 17/09/2015 | 31/12/2020 | 6M Euribor + Spread | 10,000 | - | - | 2,500 | 2,500 |
| LU-VE | Mediocredito Italiano S.p.A. | Unsecured loan | 29/10/2015 | 30/09/2020 | 6M Euribor + Spread | 10,000 | - | - | 2,501 | 2,501 |
| LU-VE | Banca Nazionale del Lavoro S.p.A. | Unsecured loan | 20/09/2016 | 20/09/2020 | 3M Euribor floor 0% + Spread | 30,000 | 2,000 | 2,000 | 6,000 | 6,000 |
| LU-VE | Banca Popolare di Bergamo S.p.A. | Unsecured loan | 30/09/2016 | 30/09/2021 | 3M Euribor + Spread | 10,000 | 1,512 | 1,512 | 3,519 | 2,007 |
| LU-VE | Banca Popolare di Sondrio Società Cooperativa per Azioni | Unsecured loan | 15/12/2016 | 31/01/2020 | Average prev quart 3M Euribor + Spread | 10,000 | - | - | 837 | 837 |
| LU-VE | Deutsche Bank S.p.A. | Unsecured loan | 23/03/2017 | 28/11/2020 | 3M Euribor + Spread | 1,500 | - | - | 400 | 400 |
| LU-VE | Deutsche Bank S.p.A. | Unsecured loan | 23/03/2017 | 23/03/2021 | 3M Euribor + Spread | 5,500 | 344 | 344 | 1,718 | 1,374 |
| LU-VE | Mediocredito Italiano S.p.A. | Unsecured loan | 31/03/2017 | 28/02/2022 | 3M Euribor + Spread | 25,000 | 7,354 | 5,884 | 13,242 | 5,879 |
| LU-VE | UniCredit S.p.A. | Unsecured loan | 20/04/2017 | 31/12/2020 | Fixed | 10,000 | - | - | 2,856 | 2,856 |
| LU-VE | Unione di Banche Italiane Società cooperativa per azioni | Unsecured loan | 20/12/2017 | 20/12/2020 | 3M Euribor + Spread | 20,000 | - | - | 19,999 | 19,999 |
| LU-VE | Unicredit S.p.A. | Unsecured loan | 30/01/2018 | 31/03/2023 | 6M Euribor + Spread | 25,000 | 12,508 | 5,002 | 17,500 | 4,993 |
| LU-VE | Unicredit S.p.A. | Unsecured loan | 20/09/2018 | 30/06/2024 | 6M Euribor + Spread | 12,000 | 8,398 | 2,397 | 10,797 | 2,395 |
| LU-VE | Unicredit S.p.A. | Unsecured loan | 20/09/2018 | 30/09/2023 | 6M Euribor + Spread | 15,000 | 15,044 | 2,005 | 15,033 | 147 |
| LU-VE | Mediocredito Italiano S.p.A. | Unsecured loan | 28/11/2018 | 30/06/2024 | 6M Euribor + Spread | 12,500 | 8,744 | 2,495 | 11,239 | 2,492 |
| LU-VE | Mediocredito Italiano S.p.A. | Unsecured loan | 28/11/2018 | 30/06/2024 | 6M Euribor + Spread | 12,500 | 8,744 | 2,495 | 11,239 | 2,492 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| LU-VE | Banca Nazionale del Lavoro S.p.A. | Unsecured loan | 20/12/2018 | 24/09/2024 | 6M Euribor + Spread | 10,000 | 8,024 | 2,006 | 10,026 | 1,976 |
| LU-VE | Banca Nazionale del Lavoro S.p.A. | Unsecured loan | 20/12/2018 | 20/12/2023 | 6M Euribor + Spread | 10,000 | 8,336 | 1,109 | 8,876 | 1,104 |
| LU-VE | Banca Popolare di Milano | Unsecured loan | 16/06/2019 | 28/06/2024 | 3M 360 days Euribor + Spread | 10,000 | 6,993 | 1,963 | 8,972 | 1,948 |
| LU-VE | Banca Popolare di Milano | Unsecured loan | 25/01/2019 | 31/03/2025 | 3M 360 days Euribor + Spread | 30,000 | 21,214 | 4,985 | 26,195 | 4,982 |
| LU-VE | Unicredit S.p.A. | Unsecured loan | 12/07/2019 | 30/06/2024 | 6M 360 days Euribor + Spread | 12,000 | 8,395 | 2,396 | 10,793 | 2,394 |
| LU-VE | Unione di Banche Italiane Società cooperativa per azioni | Unsecured loan | 26/07/2019 | 30/07/2026 | 6M 360 days Euribor + Spread | 25,000 | 21,613 | 3,461 | 25,030 | 3,412 |
| LU-VE | Intesa San Paolo S.p.A. | Unsecured loan | 23/03/2020 | 23/09/2025 | 3M 360 days Euribor + 1.05% Spread | 25,000 | 24,986 | 4,155 | - | - |
| LU-VE | Unione di Banche Italiane Società cooperativa per azioni | Unsecured loan | 15/04/2020 | 15/04/2023 | 3M 360 days Euribor + 0.9% Spread | 30,000 | 29,986 | 7,451 | - | - |
| LU-VE | Unicredit - 8456782 | Unsecured loan | 15/04/2020 | 30/04/2022 | 6M 360 days Euribor + 0.4% Spread | 15,000 | 14,981 | 6 | - | - |
| LU-VE | Banca Nazionale del Lavoro S.p.A. | Unsecured loan | 28/05/2020 | 28/05/2025 | 6M 360 days Euribor + 1.22% Spread | 40,000 | 39,897 | 4,943 | - | - |
| LU-VE | Cassa Depositi e Prestiti | Unsecured loan | 18/06/2020 | 17/12/2021 | 1.07% Fixed | 10,000 | - | - | - | - |
| LU-VE | Banca Popolare di Milano | Unsecured loan | 25/06/2020 | 30/06/2022 | 3M 360 days Euribor + 1% Spread | 12,500 | 12,475 | 8,301 | - | - |
| LU-VE | Banca Popolare di Milano | Unsecured loan | 25/06/2020 | 30/06/2022 | 3M 360 days Euribor + 1% Spread | 2,500 | 2,495 | 1,660 | - | - |
| LU-VE | UniCredit S.p.A. | Unsecured loan | 04/11/2020 | 30/11/2024 | 6M 360 days Euribor + 0.78% Spread | 20,000 | 20,000 | 2,854 | - | - |
| LU-VE | Deutsche Bank S.p.A. | Unsecured loan | 11/11/2020 | 11/11/2026 | 3M 360 base Euribor + 1.10% spread | 5,500 | 5,495 | 5 | - | - |
| LU-VE | Deutsche Bank S.p.A. | Unsecured loan | 11/11/2020 | 11/11/2025 | 3M 360 base + 1.20% spread | 10,000 | 9,986 | 1,991 | - | - |
| | | | | | Total | | **299,524** | **71,420** | **211,492** | **74,908** |

In relation to certain loan agreements, LU-VE S.p.A. committed to respecting specific financial parameters (covenants). For the loans still outstanding as at 31 December 2020, in compliance to the CONSOB communication of 28 July 2006, the details of loans that require financial covenants to be met on a consolidated basis are provided below (in thousands of Euro):

| COMPANY | COUNTERPARTY | LOAN TYPE | TAKEN OUT | MATURITY | RATE | FINANCIAL COVENANTS | INITIAL AMOUNT |
|---|---|---|---|---|---|---|---|
| LU-VE | Banca Nazionale del Lavoro S.p.A. | Unsecured loan | 09/06/2015 | 09/12/2020 | 6M Euribor + Spread | PFN/EBITDA <= 3; PFN/PN <= 1.25 | 20,000 |
| LU-VE | Mediocredito Italiano S.p.A. | Unsecured loan | 29/10/2015 | 30/09/2020 | 6M Euribor + Spread | NFP/EBITDA <= 3; NFP/SE <1 | 10,000 |
| LU-VE | Banca Nazionale del Lavoro S.p.A. | Unsecured loan | 20/09/2016 | 21/03/2021 | 3M Euribor + Spread | NFP/EBITDA <= 3; NFP/SE <= 1.25 | 30,000 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| LU-VE | Banca Popolare di Bergamo S.p.A. | Unsecured loan | 30/09/2016 | 30/09/2021 | 3M Euribor + Spread | PFN/EBITDA <= 3; PFN/PN <= 1.5 | 10,000 |
| LU-VE | Deutsche Bank S.p.A. | Unsecured loan | 23/03/2017 | 28/11/2020 | 3M Euribor + Spread | NFP/EBITDA <= 3 | 1,500 |
| LU-VE | Deutsche Bank S.p.A. | Unsecured loan | 23/03/2017 | 23/03/2021 | 3M Euribor + Spread | NFP/EBITDA <= 3 | 5,500 |
| LU-VE | Mediocredito Italiano S.p.A. | Unsecured loan | 31/03/2017 | 28/02/2022 | 3M Euribor + Spread | NFP/EBITDA <= 3; NFP/SE <1 | 25,000 |
| LU-VE | Unicredit S.p.A. | Unsecured loan | 20/04/2017 | 31/12/2020 | Fixed Rate | NFP/EBITDA <=3.5; NFP/OWN FUNDS <=1 | 10,000 |
| LU-VE | Unicredit S.p.A. | Unsecured loan | 30/01/2018 | 31/03/2023 | 6M Euribor + Spread | NFP/EBITDA <=3.5; NFP/OWN FUNDS <=1 | 25,000 |
| LU-VE | Unicredit S.p.A. | Unsecured loan | 20/09/2018 | 30/06/2024 | 6M Euribor + Spread | NFP/EBITDA <=3; NFP/OWN FUNDS <=1 | 12,000 |
| LU-VE | Unicredit S.p.A. | Unsecured loan | 20/09/2018 | 30/09/2023 | 6M Euribor + Spread | NFP/EBITDA <=3; NFP/OWN FUNDS <=1 | 15,000 |
| LU-VE | Mediocredito Italiano S.p.A. | Unsecured loan | 28/11/2018 | 30/06/2024 | 6M Euribor + Spread | NFP/EBITDA < 3; NFP/SE <=1 | 12,500 |
| LU-VE | Mediocredito Italiano S.p.A. | Unsecured loan | 28/11/2018 | 30/06/2024 | 6M Euribor + Spread | NFP/EBITDA < 3; NFP/SE <=1 | 12,500 |
| LU-VE | Banca Nazionale del Lavoro S.p.A. | Unsecured loan | 20/12/2018 | 24/09/2024 | 6M Euribor + Spread | NFP/EBITDA <= 3; NFP/SE <= 1.25 | 10,000 |
| LU-VE | Banca Nazionale del Lavoro S.p.A. | Unsecured loan | 20/12/2018 | 20/06/2024 | 6M Euribor + Spread | NFP/EBITDA <= 3; NFP/SE <= 1.25 | 10,000 |
| LU-VE | Banca Popolare di Milano | Unsecured loan | 25/01/2019 | 31/03/2025 | 3M Euribor floor 0% + Spread | NFP/EBITDA <= 3; NFP/SE <= 1.25 | 30,000 |
| LU-VE | Unicredit S.p.A. | Unsecured loan | 12/07/2019 | 30/06/2024 | 6M Euribor + Spread | NFP/EBITDA <=3; NFP/OWN FUNDS <=1 | 12,000 |
| LU-VE | Unione di Banche Italiane Società cooperativa per azioni | Unsecured loan | 26/07/2019 | 30/07/2026 | 6M Euribor + Spread | NFP/EBITDA <= 3.5; NFP/SE <= 1.5 | 25,000 |
| LU-VE | Intesa San Paolo | Unsecured loan | 23/03/2020 | 23/09/2025 | 3M 360 days Euribor + 1.05% Spread | NFP/EBITDA <= 3; NFP/SE <1 | 25,000 |
| LU-VE | Unione di Banche Italiane Società cooperativa per azioni | Unsecured loan | 15/04/2020 | 15/04/2023 | 3M 360 days Euribor + 0.9% Spread | NFP/EBITDA <= 3.5; NFP/SE <= 1.5 | 30,000 |
| LU-VE | Unicredit S.p.A. | Unsecured loan | 15/04/2020 | 30/04/2022 | 6M 360 days Euribor + 0.4% Spread | NFP/EBITDA <=3; NFP/OWN FUNDS <=1 | 15,000 |
| LU-VE | Banca Nazionale del Lavoro S.p.A. | Unsecured loan | 28/05/2020 | 28/05/2025 | 6M 360 days Euribor + 1.22% Spread | NFP/EBITDA <= 3; NFP/SE <= 1.25 | 40,000 |
| LU-VE S.p.A. | Unicredit S.p.A. | Unsecured loan | 04/11/2020 | 30/11/2024 | 6M 360 days Euribor + 0.78% Spread | NFP/EBITDA <=3; NFP/OWN FUNDS <=1 | 20,000 |
| LU-VE S.p.A. | Deutsche Bank | Unsecured loan | 11/11/2020 | 11/11/2026 | 3M 360 base Euribor + 1.10% spread | NFP/EBITDA </=N | 5,500 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | | 3.2NFP/EQUITY </=1,15 | |
| LU-VE S.p.A. | Deutsche Bank | Unsecured loan | 11/11/2020 | 11/11/2025 | 3M 360 base + 1.20% spread | NFP/EBITDA </=N 3.2NFP/EQUITY </=1,15 | 10,000 |

**Notes:**

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

The changes in loans during the financial year are shown below:

| **Financing: changes for the year** *(in thousands of Euro)* | **Opening balance** | **New loans** | **Repayments** | **Amortised cost effect** | **Closing balance** |
|---|---|---|---|---|---|
| Loans | 211,491 | 170,500 | (82,277) | (190) | 299,524 |
| Advances on bank invoices | 2,000 | 27,423 | (19,923) | - | 9,500 |
| Advances on export flows in Euro | 42 | - | (42) | - | - |
| **Total** | **213,533** | **197,923** | **(102,242)** | **(190)** | **309,024** |

The following changes took place in loans in 2020:

- subscription of a “positive loan” for €40,000 thousand with B.N.L. S.p.A. with expiry on 28 May 2025. The BNL positive loan provides conditions that are further improved for the company when it reaches specific sustainability objectives. The loan has constant half-yearly instalments, with 6-months Euribor interest rate plus a progressively decreasing spread on the basis of achieved sustainability objectives. The loan is subject to compliance with financial covenants;

- unsecured medium-term loan for a total of €30,000 thousand entered into with Union Banche Italiane S.c.p.A., a French system of amortisation and an interest rate equal to 3-months Euribor plus a spread. The loan is subject to compliance with financial covenants;

- unsecured medium-term loan for a total of €25,000 thousand entered into with Intesa Sanpaolo S.p.A., maturing on 23 September 2025, with repayment in equal quarterly instalments and an interest rate equal to the 3-month Euribor plus a spread. The loan is subject to compliance with financial covenants;

- unsecured medium-term bullet loan for a total of €15,000 thousand with Unicredit S.p.A.. The loan matures on 30 April 2022 and has interest rate equal to 6-months Euribor plus a spread. The loan is subject to compliance with financial covenants;

- unsecured short-term bullet loan for €10,000 thousand with Cassa Depositi e Prestiti with maturity on 17 December 2021. This is a fixed-rate loan and it is not subject to compliance with financial covenants (repaid early in December 2020);

- unsecured medium-term loan for a total of €12,500 thousand entered into with BPM S.p.A., maturing on 30 June 2022, with French style amortisation plan with quarterly instalments and an interest rate equal to the 3-month Euribor plus a spread. The loan is not subject to compliance with financial covenants;

- unsecured medium-term loan for a total of €2,500 thousand entered into with BPM S.p.A., maturing on 30 June 2022, with French style amortisation plan with quarterly instalments and an interest rate equal to the 3-month Euribor plus a spread. The loan is not subject to compliance with financial covenants;

- unsecured medium-term loan for a total of €20,000 thousand with Unicredit S.p.A. maturing on 30 November 2024, with an interest rate equal to the 6-month Euribor plus a spread. The loan is subject to compliance with financial covenants;

- unsecured medium-term loan for a total of €5,500 thousand taken out from Deutsche Bank S.p.A., maturing on 11 November 2026, with an interest rate equal to the 3-month Euribor plus a spread. The loan is subject to compliance with financial covenants;

- unsecured medium-term loan for a total of €10,000 thousand with Deutsche Bank, S.p.A. maturing on 11 November 2025, with an interest rate equal to the 3-month Euribor plus a spread. The loan is subject to compliance with financial covenants;

- Early repayment of the UBI Banca loan for €20,000 thousand taken out on 13 December 2017 and maturing 13 December 2020.

- Early repayment of the Cassa Depositi e Prestiti loan for €10,000 thousand taken out on 18 June 2020 and maturing 17 December 2021.

The part relative to the difference between financial charges in the income statement and the interest paid amounts to €288 thousand.

In addition to the early repayment of the UBI Banca loan for the amount of €20,000 thousand and Cassa Depositi e Prestiti for €10,000 thousand, repayments of the current instalments of the loans for the year amount to €52,277 thousand, in addition to the €19,923 thousand (taken out during the financial year for €27,423 thousand) relative to the early repayments on export flows in Euro and reimbursements of bank advances on invoices subject to collection for €42 thousand, for a reimbursement total of €102,242 thousand.

We note that the following guarantees operate on the loans subscribed with Deutsche Bank in the current financial year:

- with reference to the loan of €5,500 thousand maturing on 11 November 2026, a 90% guarantee granted by the SME Central Guarantee Fund pursuant to Law no. 40 of 5 June 2020, in order to support small and medium companies whose business has been affected by the COVID-19 emergency;

- with reference to the loan of €10,000 thousand maturing on 11 November 2025, a payment guarantee issued by SACE S.p.A. for the benefit of the bank to cover 50% of the due amount of capital and interest to be paid by LU-VE S.p.A.. The SACE guarantee is to be intended as public support intervention for the development of the production activities benefiting from the counter-guarantee of the Italian government in the context of the application of Italian Legislative Decree no 123 of 31 March 1998, "Dispositions for the rationalisation of public support interventions to enterprises", pursuant to article 4, paragraph 4, letter c) of Law no. 59 of 15 March 1997.

During the financial year the Company also benefited from a voluntary moratorium on some loans which has led to a delay to 2021 of capital repayments for €2,000 thousand, initially scheduled for the current year.

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

All outstanding bank loans were denominated in Euro, and were mainly floating rate and pegged to the Euribor. Note 4.15 below provides the information relating to financial risks.

# 3.14 PROVISIONS

| **Change in provisions** *(in thousands of Euro)* | **31/12/2019** | **Prov./incr** | **Exchange delta** | **Uses** | **Release of excess portion** | **31/12/2020** |
|---|---|---|---|---|---|---|
| Provision for agents' leaving indemnities | 25 | - | - | - | - | 25 |
| Product warranty provision | 1,246 | - | - | - | - | 1,246 |
| **Total** | **1,271** | **-** | **-** | **-** | **-** | **1,271** |

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

The product warranty provision relates to the risk of returns or charges from customers for products already sold and identified as non-compliant. The provision is adjusted on the basis of analyses conducted and past experience.

Provisions, which represent the estimated future outflows calculated partly based on historical experience, were subject to actuarial valuation as at 31 December 2020. As the effect was deemed negligible, it was not incorporated in the Company's Financial Statements as at 31 December 2020.

# 3.15 EMPLOYEE BENEFITS

Employee benefits amounted to €849 thousand, a net decrease of €35 thousand compared to 31 December 2019. The entire amount of this item referred to the provision for employee severance benefits, which includes substantially the post-employment benefits accrued by personnel employed as at 31 December, net of advances paid out to employees.

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

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

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

The date of the last actuarial valuation was 31 December 2020.

The breakdown and changes in the item as at 31 December 2020 are shown below:

| **Employee benefits** *(in thousands of Euro)* | **31/12/2020** | **31/12/2019** |
|---|---|---|
| Liabilities as at 1 January | 884 | 909 |
| Provisions | - | - |
| Financial expenses | 7 | 10 |
| Payments made | (58) | (76) |
| Transfers in/out | 8 | - |
| Actuarial (gains)/losses | 8 | 41 |
| **Liabilities at the end of the year** | **849** | **884** |

The Provision for employee severance benefits changed primarily based on uses for the year to provide advances and/or payments to former personnel.

The net equity adjustment for actuarial gains and losses includes a net actuarial loss of €8 thousand, calculated as follows:

- Actuarial loss deriving from the change in the main actuarial assumptions used as at 31 December 2020 with respect to the previous valuation as at 31 December 2019: €12 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 recognised in shareholders' equity through the statement of comprehensive income.

The main financial and demographic assumptions used at the date of the last reference valuation of 31 December 2020 are shown below:

| **Financial assumptions** | **31/12/2020 %** | **31/12/2019 %** |
|---|---|---|
| Discount rate (IBOXX Eurozone Corporate AA 10+ Index) | 0.34 | 0.74 |
| Inflation | 0.80 | 1.20 |
| Salary increase rate (Blue-collar workers, White-collar workers, Middle Managers) | 1.00 | 1.00 |
| Salary increase rate (Executives) | 2.50 | 2.50 |
| Post-employment benefits increase | 2.10 | 2.40 |

| Demographic assumptions | 31/12/2020 | 31/12/2019 |
|---|---|---|
| Mortality rate | State General Accountancy Table RG48 | State General Accountancy Table RG48 |
| Disability | INPS Tables | INPS Tables |
| Personnel turnover | 2% | 2% |
| Advances | 5% | 5% |
| Retirement age | 100% upon satisfaction of general compulsory insurance requirements | 100% upon satisfaction of general compulsory insurance requirements |

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

| Sensitivity of provision for employee severance benefits as at 31/12/2020 *(in thousands of Euro)* | 0.25% | -0.25% |
|---|---|---|
| Discounting rate | (17) | 18 |

# 3.16 OTHER FINANCIAL LIABILITIES

The details of this item are shown below:

| **Other non-current financial liabilities** *(in thousands of Euro)* | **31/12/2020** | **31/12/2019** | **Change** |
|---|---|---|---|
| IFRS 16 Financial payables | 349 | 460 | (111) |
| Other financial liabilities | - | 397 | (397) |
| **Total** | **349** | **857** | **(508)** |

The item "*Financial payables for IFRS 16*" of around €349 thousand refer to the medium and long-term payable for leases recognised in application of the IFRS 16 standard.

The change of €397 thousand in relation to "Other financial liabilities" refers to the contractual release of the earn-out payable, relative to the purchase of the US company Zyklus, recognised in 2018, for which the requirements for the relative payment to the counterparty were not met.

| **Other current financial liabilities** *(in thousands of Euro)* | **31/12/2020** | **31/12/2019** | | **Change** | |
|---|---|---|---|---|---|
| Cash pooling | 10,666 | 8,846 | | 1,820 | |
| Payables for the purchase of equity investments | - | 9,008 | (*) | (9,008) | (*) |
| Fair value of derivatives | 2,674 | 1,711 | | 963 | |
| IFRS 16 Financial payables | 314 | 332 | | (18) | |
| **Total** | **13,654** | **19,897** | **(*)** | **(6,243)** | **(*)** |

(*) values restated respect to 31 December 2019 in order to retrospectively take into account the effects deriving from the price change of €308 thousand of the equity investment in Air Hex Alonte S.r.l..

Cash pooling represented payable balances for the Company relating to the Group's centralised treasury. The increase compared to the previous financial year is mainly due to the contribution of liquidity by the companies HTS S.R.O., SEST S.p.A. and SEST-LUVE-Polska SP.z.o.o. to the Group's treasury.

The change of €9,008 thousand refers for €8,700 thousand to the final payment of the debt for the acquisition of "Al Air" by virtue of the definitive agreement reached with the counterparty (the Alfa Laval Group) in February 2020 and to the effects resulting from the price variation of €308 thousand of "Al Air" paid in full during the 2020 financial year).

The "Fair value of derivative instruments" represented the fair value as at 31 December 2020 of derivatives subscribed by the Company. For further information, please refer to note 3.9. – "Current financial assets".

The item “IFRS 16 Financial payables” of around €314 thousand refers to the short-term payable for leases recognised in application of the IFRS 16 standard for which more details can be found in the notes in the introduction and in note 3.2.

## 3.17 TRADE PAYABLES

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

| **Trade Payables** *(in thousands of Euro)* | **31/12/2020** | **31/12/2019** | **Change** |
|---|---|---|---|
| Italy | 21,693 | 26,294 | (4,601) |
| EU Countries | 3,781 | 4,271 | (490) |
| Non-EU Countries | 203 | 726 | (523) |
| **Total** | **25,677** | **31,291** | **(5,614)** |

The average payment terms have not changed since the previous year. As at 31 December 2020, there were no past-due payables of significant amounts with due date exceeding 5 years, nor had the Company received payment orders for past-due payables.

Contract liabilities (advances received from customers before rendering any service) for an amount of €398 thousand were recognised under trade payables No supplier financing transactions were carried out during the period.

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

# 3.18 TAX PAYABLES

| **Payables to the tax authorities for current taxes** *(in thousands of Euro)* | **31/12/2020** | **31/12/2019** | **Change** |
|---|---|---|---|
| Payables to tax authorities for direct taxes | 602 | - | 602 |
| Others | 672 | 616 | 56 |
| **Total** | **1,274** | **616** | **658** |

The item "Payables to tax authorities for direct taxes" for €602 thousand refers to the net payable for direct taxes detailed below:

- €633 thousand refer to the payable for the substitute tax on trademarks, buildings and goodwill following the tax realignment described earlier;
- €876 thousand refer to the IRES payable of the Italian companies included in the tax consolidation and to the IRAP payable of LU-VE S.p.A. for the year (please also note that the Company benefited from approximately €90 thousand from the non-payment of the first IRAP account (2020) as established by the "Relaunch Decree");
- €(907) thousand refer to the receivables for direct taxes to offset tax payables (Note 3.8).

The item "others" for €604 thousand mainly refers to the payable to the tax authorities for tax withholdings for employees and self-employed workers.

# 3.19 DEFERRED TAX ASSETS AND LIABILITIES

The details of this item are shown below:

| **Deferred tax assets and liabilities** *(in thousands of Euro)* | **31/12/2020** | **31/12/2019** | **Change** |
|---|---|---|---|
| Deferred tax assets | 4,114 | 3,545 | 569 |
| Deferred tax liabilities | (5,299) | (7,682) | 2,383 |
| **Net position** | **(1,185)** | **(4,137)** | **2,952** |

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

| **Deferred tax liabilities and assets: changes in the year** *(in thousands of Euro* | **AMORT. AND LEASES** | **Fair value of derivative instruments** | **MERGER GROSS UP** | **ACTUARIAL VALUATION OF POST-EMPLOYMENT BENEFITS** | **PROVISIONS AND VALUE ADJUSTMENTS** | **OTHER DIFFERENCES** | **TOTAL** |
|---|---|---|---|---|---|---|---|
| 01.01.2019 | 1,125 | (7) | 6,946 | (11) | (2,967) | (480) | 4,606 |
| In Income Statement | (85) | 5 | (260) | - | (243) | 63 | (520) |
| In shareholders' equity | - | - | - | (10) | - | 61 | 51 |
| Reclassification | - | - | - | - | - | - | - |
| Other | - | - | - | - | - | - | - |
| 31.12.2019 | 1,040 | (2) | 6,686 | (21) | (3,210) | (356) | 4,137 |
| To Income Statement | (77) | 2 | (2,308) | - | (564) | (3) | (2,950) |
| To shareholders' equity | - | - | - | (2) | - | - | (2) |
| Reclassification | - | - | - | - | - | - | - |
| Other | - | - | - | - | - | - | - |
| 31.12.2019 | 963 | - | 4,378 | (23) | (3,774) | (359) | 1,185 |

As at 31 December 2020, Deferred tax assets referred to:

- the tax differences on allocations to provisions, where the most significant impact refers to the provision for bad debts for €2,766 thousand, of which €1,512 thousand recognised on the first application of the IFRS 9 standard on 1 January 2018 with balancing entry in Shareholders' Equity;

- the deferred tax impact of the actuarial valuation of post-employment benefits following the application of IAS 19;

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

There are no deferred tax assets earmarked for previous tax losses as there are none as at the end of the financial year.

As at 31 December 2020, deferred tax liabilities referred to:

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

- the recognition of taxes on the 2008 merger deficit allocated to trademarks, buildings and land. Following the tax realignment (as reported in the note “introduction”), approximately €1.8 million were released in reference to the values of the 2008 merger deficit allocated to trademarks and buildings.

As reported in the previous note “Use of estimates”, the taxable results deriving from the Company's 2021-2024 business plan for the explicit period, and through the extrapolation of these, the taxable income expected for the following years were taken into account for the purposes of the verification recognition and recoverability of deferred tax assets recognised in the financial statements as at 31 December 2020. The effects deriving from the temporary differences on which deferred tax liabilities were recognised were also used in the verification of recognition.

## 3.20 OTHER CURRENT LIABILITIES

The details of this item are shown below:

| **Other current liabilities** *(in thousands of Euro)* | **31/12/2020** | **31/12/2019** | **Change** |
|---|---|---|---|
| To personnel | 3,514 | 3,183 | 331 |
| To social security institutions | 1,693 | 1,744 | (51) |
| To Directors and Statutory Auditors | 1,345 | 1,313 | 32 |
| Payables to subsidiaries for tax consolidation | 523 | 1,276 | (753) |
| Other current payables | 596 | 463 | 133 |
| **Total** | **7,671** | **7,979** | **(308)** |

The item “other current liabilities” includes the decrease of €308 thousand mainly linked to the payment made in the year of the payables for the tax consolidation of previous financial years to the subsidiary TGD.

In the beginning of 2021, payables to personnel and social security institutions were paid in accordance with the relative due dates.

# 3.21 NET FINANCIAL POSITION

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

| **Net financial position** *(in thousands of Euro)* | **31/12/2020** | **31/12/2019** | | **Change** |
|---|---|---|---|---|
| A. Cash (Note 3.11) | 8 | 2014 | | (6) |
| B. Unrestricted current account asset balances (Note 3.11) | 103,755 | 38,928 | | 64,827 |
| C. Current financial assets (Note 3.8) | 73,560 | 64,542 | | 9,018 |
| **D. Liquidity (A+B+C)** | **177,323** | **103,484** | | **73,839** |
| E. Current bank payables (Note 3.13) | - | 42 | | (42) |
| F. Current portion of non-current debt (Note 3.13) | 80,920 | 76,908 | | 4,012 |
| G. Other current financial liabilities (Note 3.16) | 13,654 | 19,898 | (*) | (6,244) |
| **H. Current financial debt (E+F+G)** | **94,574** | **96,848** | **(*)** | **(2,274)** |
| **I. Net current financial debt (H-D)** | **(82,749)** | **(6,636)** | **(*)** | **(76,113)** |
| J. Other non-current financial assets (Note 3.4) | (23,208) | (24,161) | | 953 |
| K. Non-current bank payables (Note 3.13) | 228,104 | 136,584 | | 91,520 |
| L. Other non-current financial liabilities (Note 3.16) | 349 | 857 | | (508) |
| **M. Non-current financial debt (J+K+L)** | **205,245** | **113,280** | | **91,965** |
| **N. Net financial debt (I+M)** | **122,496** | **106,644** | **(*)** | **15,852** |

(*) values restated respect to 31 December 2019 in order to retrospectively take into account the effects deriving from the price change of €308 thousand of the equity investment in Air Hex Alonte S.r.l..

Please refer to the Statement of Cash Flow in Note 1.5 for details on changes.

# 4 COMMENT ON THE MAIN ITEMS OF THE INCOME STATEMENT

## 4.1 REVENUES

In 2020, revenues from sales amounted to €84,103 thousand, an increase of 5.4% compared to the previous year (€88,902 thousand as at 31 December 2019).

*Revenues by product family*

| **Revenue by product** *(in € thousand)* | **2020** | **%** | **2019** | **%** | **Change** | **% Change** |
|---|---|---|---|---|---|---|
| Air Cooled Equipment | 73,976 | 87.96% | 75,846 | 85.31% | (1,870) | (2.47%) |
| Heat exchangers | 10,127 | 12.04% | 13,056 | 14.69% | (2,929) | (22.43%) |
| TOTAL | 84,103 | 100.00% | 88,902 | 100.00% | (4,799) | (5.40%) |

*Revenues by geographical area*

| **Revenues by geographical area** *(in thousands of Euro):* | **2020** | **%** | **2019** | **%** | **Change** | **% Change** |
|---|---|---|---|---|---|---|
| Italy | 18,169 | 21.60% | 24,051 | 27.05% | (5,882) | (24.46%) |
| France | 16,838 | 20.02% | 13,266 | 14.92% | 3,572 | 26.93% |
| Germany | 3,885 | 4.62% | 5,984 | 6.73% | (2,099) | (35.08%) |
| Spain | 4,526 | 5.38% | 5,952 | 6.70% | (1,426) | (23.96%) |
| Poland | 3,642 | 4.33% | 5,421 | 6.10% | (1,779) | (32.82%) |
| Austria | 2,420 | 2.88% | 2,851 | 3.21% | (431) | (15.12%) |
| Russia | 3,483 | 4.14% | 3,771 | 4.24% | (288) | (7.64%) |
| Sweden | 3,291 | 3.91% | 2,435 | 2.74% | 856 | 35.15% |
| Czech Rep. | 1,251 | 1.49% | 2,116 | 2.38% | (865) | (40.88%) |
| United Kingdom | 1,133 | 1.35% | 2,280 | 2.56% | (1,147) | (50.31%) |
| The Netherlands | 2,053 | 2.44% | 2,506 | 2.82% | (453) | (18.08%) |
| India | 236 | 0.28% | 385 | 0.43% | (149) | (38.70%) |
| Croatia | 910 | 1.08% | 1,327 | 1.49% | (417) | (31.42%) |
| Romania | 553 | 0.66% | 842 | 0.95% | (289) | (34.32%) |
| Ukraine | 898 | 1.07% | 945 | 1.06% | (47) | (4.97%) |
| Other countries | 20,815 | 24.75% | 14,770 | 16.61% | 6,045 | 40.93% |
| TOTAL | 84,103 | 100.00% | 88,902 | 100.00% | (4,799) | (5.40%) |

In the 2020 financial year sales recorded a decrease of 5.4% following the reduction in sales volumes. For further details, please refer to the Single Directors' Report.

## 4.2 OTHER INCOME

The details of this item are shown below:

| **Other Revenue** *(in thousands of Euro)* | **2020** | **2019** | **Change** |
|---|---|---|---|
| Rent income | 103 | 85 | 18 |
| Insurance | 28 | 8 | 20 |
| Other income | 8,850 | 700 | 8,150 |
| **Total** | **8,981** | **793** | **8,188** |

The item other revenue includes €6,893 thousand relative to the transfer of the customer list and know-how in reference with the sale transaction of the commercial evaporators production line transferred to the subsidiary SEST LUVE POLSKA as reported in the note "introduction" and the incremental value compared to the previous financial year for €1,229 thousand for inter-company services (mainly IT).

## 4.3 PURCHASES OF MATERIALS

| **Purchases of materials** *(in thousands of Euro)* | **2020** | **2019** | **Change** |
|---|---|---|---|
| Raw materials and purchased components | 41,725 | 47,187 | (5,462) |
| Consumables | 1,506 | 1,706 | (200) |
| **Total** | **43,231** | **48,893** | **(5,662)** |

In 2020, the cost for the purchases of materials decreased from €48,893 thousand to €43,231 thousand (increase of €5,662 thousand, equal to around 11.58%). This decrease is mainly linked to the reduction of sales volumes. For further details, please refer to the Single Directors' Report.

# 4.4 COSTS FOR SERVICES

| **Services** *(in thousands of Euro)* | **2020** | **2019** | **Change** |
|---|---|---|---|
| General expenses and consultancies | 6,614 | 7,019 | (405) |
| Remuneration to the corporate bodies | 2,789 | 2,046 | 743 |
| External processing | 2,494 | 2,953 | (459) |
| Expenses for energy, telephone and telex | 1,702 | 1,767 | (65) |
| Transport expenses | 1,473 | 1,677 | (204) |
| Maintenance expenses | 1,229 | 1,465 | (236) |
| Commissions | 954 | 832 | 122 |
| Costs for use of third-party assets | 278 | 339 | (61) |
| Advertising and promotional expenses | 157 | 459 | (302) |
| Other costs for services | 1,718 | 1,820 | (102) |
| **Total** | **19,408** | **20,377** | **(969)** |

The item “Costs for services” decreased compared to the previous financial year by a total of €969 thousand. This decrease mainly refers to the reduction in travel trips and for exhibitions, linked to the effects of the COVID-19 effects.

Furthermore, during the financial year approximately €266 thousand were spent on materials, adjustments to current norms and sanitation of environments to fight the COVID-19 pandemic. With respect to these expenses, as already mentioned, a contribution of €28 thousand was received in connection to the Impresa Sicura announcement by Invitalia.

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

| **Remuneration to the corporate bodies** *(in thousands of Euro)* | **2020** | **2019** | **Change** |
|---|---|---|---|
| Directors’ fees | 2,636 | 1,899 | 737 |
| Board of Statutory Auditors fees | 153 | 147 | 6 |
| **Total** | **2,789** | **2,046** | **743** |

Remuneration to Directors increased as since 2020 all remuneration is centralised in LU-VE S.p.A. for its role as parent company and is no longer recognised also in the other subsidiaries.

## 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 of the consolidated financial statements.

| Type of Services | Service provider | Recipient | Remunerations *(in thousands of Euro)* |
|---|---|---|---|
| Auditing | Deloitte & Touche | LU-VE S.p.A. | 135 |
| Limited examination of the consolidated non-financial statement | Deloitte & Touche | LU-VE S.p.A. | 30 |
| Other Services | Deloitte & Touche | LU-VE S.p.A. | 9 |
| Other Services | Deloitte & Touche Network | LU-VE S.p.A. | 23 |

# 4.5 PERSONNEL COSTS

| Personnel costs *(in thousands of Euro)* | 2020 | 2019 | Change |
|---|---|---|---|
| Wages and salaries | 11,965 | 12,607 | (642) |
| Social security costs | 4,403 | 4,309 | 94 |
| Post-employment benefits | 915 | 846 | 69 |
| Other personnel costs | 38 | 47 | (9) |
| **Total** | **17,321** | **17,809** | **(488)** |

The average number of LU-VE S.p.A. employees was 401 in 2020.

As at 31 December 2020, the number of Company employees was 384 (228 blue-collar workers, 141 white-collar workers and middle managers, 15 executives), against 407 in 2019.

As at 31 December 2020, the number of temporary workers came to 26 (37 in 2019).

In addition, during the financial year the Company benefited from access to the Ordinary Earnings Supplement Fund for the COVID-19 emergency, as indicated by the D.L.N. of 18 March 2020. The overall benefit for the year relative to these extraordinary adopted measures amounted to a total of approximately €311 thousand.

## 4.6 NET WRITE-DOWNS OF FINANCIAL ASSETS

| **Impairments** *(in thousands of Euro)* | **2020** | **2019** | **Change** |
|---|---|---|---|
| Provisions for intragroup bad debt | 2,000 | 600 | 1,400 |
| Provisions for third party bad debt | 150 | 500 | (350) |
| Total | 2,150 | 1,100 | 1,050 |

The item write-downs refer to the allocations made during 2020 in accordance with the application of the IFRS 9 standard, reflecting the estimate of the potential forward-looking impacts of the pandemic on the possible deterioration of third party customers' creditworthiness, and the deterioration of the ability of the Group companies to meet their obligations.

## 4.7 OTHER OPERATING COSTS

| **Other operating costs** *(in thousands of Euro)* | **2020** | **2019** | **Change** |
|---|---|---|---|
| Non-income taxes | 249 | 297 | (48) |
| Other operating costs | 448 | 129 | 319 |
| Total | 697 | 426 | 271 |

Non-income taxes included mainly taxes on owned property.

The item “other operating costs” include approximately €300 thousand of voluntary contributions made by the Group to support the four hospitals in Lombardy and Veneto engaged in the fight against COVID-19.

## 4.8 FINANCIAL INCOME

| **Financial income** *(in thousands of Euro)* | **2020** | **2019** | **Change** |
|---|---|---|---|
| Dividends from subsidiaries | 10,500 | 8,000 | 2,500 |
| Interest income | 701 | 711 | (10) |
| Other financial income | 1,802 | 1,740 | 62 |
| Total | 13,003 | 10,451 | 2,552 |

Dividends distributed amounted to €7,000 thousand from SEST S.p.A. and to €2,000 thousand from Heat Transfer Systems s.r.o. (HTS) and to €1,500 thousand from Air Hex Alonte S.r.l.

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

The item "Other financial income" mainly includes:

- €1,403 thousand, relative to the change in fair value of the capitalisation policies (please refer to Note 3.9);
- €397 thousand, relative to the economic effect of the release of the contractually required earn-out payable, and no longer due as at 31 December 2020, relative to the acquisition of the US company Zyklus in 2018.

## 4.9 FINANCIAL EXPENSES

| **Financial expenses** *(in thousands of Euro)* | **2020** | **2019** | **Change** |
|---|---|---|---|
| Interest expense to banks | 1,930 | 1,385 | 545 |
| Interest expense to other lenders | 29 | 64 | (35) |
| Other financial expenses | 1,094 | 1,071 | 23 |
| **Total** | **3,053** | **2,520** | **533** |

Details of the item "other financial expenses" are as follow:

- €801 thousand refer to realised losses on derivative financial instruments;
- €190 thousand refer to the effect of the application of the amortised cost.
- €80 thousand refer to commissions for the subscription of new AVIVA capitalisation policies for €9,920 thousand (Note 3.9);
- €23 thousand refer to other charges.

## 4.10 EXCHANGE GAINS AND LOSSES

In 2020, LU-VE S.p.A. realised net exchange losses of €605 thousand (net losses of €177 thousand in 2019).

# 4.11 INCOME TAXES

| **Income taxes** *(in thousands of Euro)* | **2020** | **2019** | **Change** |
|---|---|---|---|
| Current taxes | 914 | 170 | 744 |
| Deferred tax liabilities | (2,950) | (520) | (2,430) |
| Adjustment previous year | 443 | (123) | 566 |
| Total | (1,593) | (473) | (1,120) |

The reconciliation between the tax charge recognised in the Financial Statements and the theoretical tax charge, determined on the basis of theoretical tax rates in force in Italy, is shown below:

| **Reconciliation of IRES theoretical tax charge** *(in thousands of Euro)* | **Basis for assessment** | **%** | **Tax effect** |
|---|---|---|---|
| **Pre-tax profit (loss)** | **5,564** | **24.00%** | **1,335** |
| + Non-deductible amortisation and depreciation | 1,021 | 4.40% | 245 |
| + Costs for motor vehicles, telephony and food service | 142 | 0.61% | 34 |
| + Non-deductible local taxes | 90 | 0.39% | 22 |
| + Other permanent upward adjustments | 3,162 | 13.64% | 759 |
| - Non-taxable dividends | (9,975) | (43.03%) | (2,394) |
| - Deductible IRAP | (25) | (0.11%) | (6) |
| - Other permanent downward adjustments | (2,011) | (8.67%) | (483) |
| **Actual tax charge** | **(2,032)** | **(32.76%)** | **(488)** |
| + Temporary upward adjustments | 2,612 | 11.27% | 627 |
| - Temporary downward adjustments | (31) | (0.13%) | (7) |
| **Current tax charge** | **549** | **(21.63%)** | **132** |

| **Reconciliation of IRAP theoretical tax charge** *(in thousands of Euro)* | **Basis for assessment** | **%** | **Tax effect** |
|---|---|---|---|
| Difference between values and costs of production | (1,333) | 3.90% | (52) |
| + Non-deductible amortisation and depreciation | 1,003 | (2.93%) | 39 |
| + Non-deductible local taxes | 225 | (0.66%) | 9 |
| + Non-deductible labour costs | 1,509 | (4.41%) | 59 |
| + Other permanent upward adjustments | 4,660 | (13.63%) | 182 |
| - Permanent downward adjustments | (2,722) | 0.00% | (106) |
| Actual tax charge | 3,342 | (17.74%) | 131 |
| + Temporary upward adjustments | 436 | (1.28%) | 18 |
| - Temporary downward adjustments | - | 0.00% | - |
| **Current tax charge** | **3,778** | **(19.02%)** | **149** |

The difference between current IRES and IRAP, €281 thousand, and the amount of €914 thousand in current taxes refers to the €633 thousand for the payment of the substitute tax on eligible values for tax realignment, as already described in the note “introduction”.

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

As at 31 December 2020, there were no tax disputes.

## 4.12 PUBLIC FUNDING

During 2020, the Company accounted on an accrual basis the following contributions falling under the examples included in Italian Law 124 of 4 August 2017. With regard to tax credits (already included by the Company in the specific declarations) and the general measures available to all companies, it has not been deemed necessary to indicate these in the Explanatory Notes to the Financial Statements on the basis of authoritative interpretations of current regulations while waiting for a definitive interpretation by the relevant Ministries.

| **Granting authority** *(in thousands of Euro)* | **Nature of public funding** | **Public Funding relating to 2020** | **Public Funding relating to 2019** | **Classification in Financial Statements** |
|---|---|---|---|---|
| Gestore dei Servizi Energetici GSE S.p.A. | Subsidies in the year for photovoltaic installation | 89 | 75 | Expenses for energy, telephone and telex |
| **Total** | | **89** | **75** | |

The benefits obtained in the context of the measures for the containment of COVID-19 to support companies were provided by virtue of the provision having a general nature and it is considered that they do not fall into the context of application of the regulations in question. These effects are in any case summarised in the relative explanatory notes to the financial statements.

With particular reference to these benefits received by the Company for various reasons following the pandemic, it is confirmed that the threshold fixed by the Temporary Framework on the issue of government aids issued by the EU Commission of €800 thousand was respected at LU-VE Group level.

# 4.13 DIVIDENDS

In May 2020, dividends totalling €5,996 thousand were distributed, corresponding to the distribution of a gross dividend of €0.27 (zero/27) for each of the 22,206,341 shares outstanding, net of treasury shares.

With respect to the year under way, the Directors proposed the payment of a €0,27 dividend per share. This dividend is subject to the approval of the shareholders at the annual meeting called for the approval of the Financial Statements of the Parent Company and therefore it was not included under liabilities in these Financial Statements.

Any proposed dividend will be payable as at 5 May 2021 (coupon no. 6 ex-dividend date 3 May 2021 and record date 4 May 2021).

# 4.14 INFORMATION ON FINANCIAL RISKS

IFRS 7 requires companies to provide supplemental information in their Financial Statements that enable users to evaluate:

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

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

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

The coordination and monitoring of the main financial risks are centralised in the Head Office. The Company carefully and specifically monitors each of the above-mentioned financial risks, intervening with the aim of minimising them promptly, also including using hedging derivatives.

One of the Company's policies is to protect its exposure to fluctuations in prices, exchange rates and interest rates using derivative financial instruments. This hedging may be achieved using forward contracts, options and interest rate swaps.

Please note that all derivative instruments were subscribed for the purposes of hedging the underlying risks. However, at the date of presentation of these Financial Statements, not all requirements of IFRS 9 for the application of hedge accounting were satisfied. Therefore, the

Company management deemed it appropriate to treat those instruments as trading, not hedging, transactions.

## Categories of financial instruments

The following tables group information relative to:

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

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

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

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

| **Assets and Liabilities valued at fair value as at 31/12/2020** *(in thousands of Euro)* | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **Other financial assets** | | | | |
| Current financial assets | - | 70,257 | - | 70,257 |
| **Other financial liabilities** | | | | |
| Derivatives | - | (2,674) | - | (2,674) |
| **Total** | **-** | **67,583** | **-** | **67,583** |

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

More specifically, the fair value of interest rate swaps is calculated discounting future cash flows on the basis of forward exchange rates, discounted at the date of the Financial Statements (level 2 fair value).

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

The categories of financial instruments are reported below:

| **Financial instruments by IFRS 9 categories** *(in thousands of Euro)* | **31/12/2020** | **31/12/2019** |
|---|---|---|
| Financial assets | | |
| *Amortised cost* | | |
| Cash and cash equivalents | 103,763 | 38,942 |
| Trade receivables | 31,010 | 26,902 |
| Current financial assets | 73,560 | 64,542 |
| Non-current financial assets | 23,208 | 24,161 |
| Inter-company loans | 23,208 | 24,161 |
| Financial liabilities | | |
| *Amortised cost* | | |
| Loans | 309,024 | 213,534 |
| Other financial liabilities | 11,329 | 18,735 |
| Trade payables | 25,677 | 31,291 |
| *Fair Value* | - | - |
| Trading derivatives | 2,674 | 1,711 |

## Credit risk management

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

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

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.

The historically low levels of losses on receivables recognised are proof of the good results achieved also in the presence of the impact of the pandemic.

LU-VE S.p.A. is also exposed to the credit risk of issuers of financial instruments.

## 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 the US dollar (USD): indeed, raw materials in the reference markets are quoted in 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.

Similarly, at financial level the main currency the Company is exposed to is the American dollar, the currency of the long-term loan granted to the subsidiary Zyklus Heat Transfer Inc. (USD 10,580 thousand).

*Sensitivity analysis*

With reference to financial assets and liabilities in foreign currency as at 31 December 2020, a theoretical and immediate revaluation of the euro by 10% compared to other currencies would have entailed a loss of €1,299 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 expenses. 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 2020, 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 €2,759 thousand as at 31 December 2020, and equal to 6,162 thousand on the entire residual contractual duration, without taking into account transactions with derivative instruments which were considered for trading.

## Raw material price risk management

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

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

## Liquidity risk management

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

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

Furthermore, as at 31 December 2020 the Company has access to unused short-term credit lines for approximately €27 million. In order to minimise the risk of liquidity, the Administrative and Financial Management also:

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

An analysis of financial liabilities at 31 December 2020 is provided below by maturity:

| **Analysis of financial liabilities as at 31 December 2020** *(in thousands of Euro)* | **Carrying amount** | **Contractual cash flows** | **Within 1 year** | **From 1 to 5 years** | **More than 5 years** |
|---|---|---|---|---|---|
| Bank loans | 299,524 | 299,714 | 71,603 | 223,283 | 4,827 |
| Advances on export flows in Euro | 9,500 | 9,500 | 9,500 | - | - |
| IFRS 16* Financial payables | 663 | 663 | 314 | 349 | - |
| **Financial Liabilities** | **309,024** | **309,214** | **81,103** | **223,283** | **4,827** |
| Trade payables | 25,677 | 25,677 | 25,677 | - | - |
| Total | 334,701 | 334,891 | 106,780 | **223,283** | **4,827** |

* "IFRS 16 Financial Payables" include the discounting of repayments of portions of capital

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

## Capital risk management

The Company manages its own capital in order to ensure its business continuity, maximising at the same time return for shareholders, through the optimisation of the debt to equity ratio.

The Company's capital structure consists of net financial debt (loans described in note 3.13, net of relative balances of cash and cash equivalents) and the Company's shareholders' equity (which includes the fully paid capital, reserves, earnings carried forward and minority interests, as described in note 3.12).

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

## 4.15 RELATED PARTY TRANSACTIONS

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

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

The transactions of LU-VE S.p.A. with Related Parties primarily relate to:

- financial transactions;
- transactions connected to service agreements;
- trade transactions;
- transactions entered into as part of the national tax consolidation with the Italian companies of the LU-VE group therein included.

The impact on Balance Sheet and Income Statement items of the transactions between the Company and its directly and indirectly controlled subsidiaries is shown below:

| **Inter-company** *(in thousands of Euro)* | **Trade receivables** | **Trade payables** | **Financial receivables** | **Financial payables** | **Other Receivables/(Payables)** | **Revenues for goods and services** | **Costs for goods and services** | **Financial income** | **Financial costs** | **Other Revenue/(Costs)** |
|---|---|---|---|---|---|---|---|---|---|---|
| TECNAIR LV SPA | 631 | (56) | - | - | 70 | 1,093 | - | - | - | - |
| SEST SPA | 1,624 | (1,020) | - | (3,632) | 903 | 685 | (942) | 4 | - | - |
| SEST-LUVE-POLSKA | 2,835 | (2,520) | - | (2,451) | 6,891 | 3,617 | (5,764) | - | (24) | 476 |
| TGD | 392 | (118) | 3,963 | - | (193) | 313 | (129) | 112 | - | - |
| OOO SEST LUVE | 1,329 | (13) | - | - | - | 1,883 | (14) | - | - | - |
| HTS SRO | 812 | (56) | - | (3,839) | - | 858 | - | 16 | - | - |
| LUVE FRANCE | 4,088 | (31) | - | - | - | 13,414 | (200) | - | - | - |
| LUVE DEUTSCHLAND | 1,904 | (70) | - | - | - | 735 | (140) | - | - | - |
| LUVE IBERICA | 2,954 | (15) | 998 | - | - | 4,601 | (17) | 4 | - | - |
| LUVE PACIFIC | 4,034 | - | - | - | - | 869 | - | - | - | - |
| LUVE TIANMEN | 749 | (10) | - | - | - | 346 | - | - | - | - |
| LUVE ASIA PACIFIC HK | 1,927 | (151) | 6,775 | - | - | - | - | 237 | - | - |
| LUVE SWEDEN AB | 3,724 | (593) | 5,063 | (651) | - | 3,733 | (2,705) | - | (5) | - |
| MANIFOLD SRL | 2 | (326) | 516 | - | (2) | 4 | (1,214) | 10 | - | - |
| LUVE DIGITAL SRL | 5 | (137) | - | - | - | - | - | - | - | - |
| SPIROTECH LTD | 515 | (161) | - | - | - | 352 | (65) | - | - | - |
| LU-VE AUSTRIA | 132 | (131) | - | - | - | (131) | - | - | - | - |
| ZYKLUS HEAT TRANSFER INC. | 943 | (2) | 8,622 | - | - | 563 | (6) | 177 | - | - |
| LU-VE Netherlands B.V. | 351 | (21) | 500 | - | - | 364 | (102) | 22 | - | - |
| LU VE MIDDLE EAST DMCC | 108 | (23) | 250 | - | - | - | (235) | 10 | - | - |
| «OOO» LU-VE Moscow | 536 | - | 1,000 | - | - | 633 | 9 | 30 | - | - |
| Air Hex Alonte S.r.l. | 1,646 | (128) | - | - | (291) | 1,209 | (318) | 30 | - | - |
| Fincoil LU-VE OY | 635 | (14) | - | - | - | 637 | 276 | 60 | - | - |
| TOTAL | 31,876 | (5,596) | 27,687 | (10,573) | 7,378 | 35,778 | (11,566) | 712 | (29) | 476 |

The table below shows the economic and financial transactions carried out by the Company with related parties outside of the LU-VE GROUP:

| **Related Companies** *(in thousands of Euro)* | **Trade receivables** | **Trade payables** | **Financial receivables** | **Financial payables** | **Trade revenues** | **Trade costs** | **Financial revenues** | **Financial costs** |
|---|---|---|---|---|---|---|---|---|
| MGPE SRL | - | - | - | - | - | (6) | - | - |
| VITALE ZANE & CO SRL | - | - | - | - | - | (40) | - | - |
| Mauro Cerana | - | (8) | - | - | - | (21) | - | - |
| **Total** | **-** | **(8)** | **-** | **-** | **-** | **(65)** | **-** | **-** |

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 until April 2020) holds an equity investment. The office remuneration includes a fixed annual compensation of €6 thousand.

The company Vitale Zane & CO S.r.l., in which a close family member of a LU-VE S.p.A. director holds an equity investment, provide strategic advisory services to LU-VE S.p.A. for annual compensation of €40 thousand.

# 4.16 DIRECTORS' AND STATUTORY AUDITORS' FEES

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

| Name and surname | Office | Period of office | End of office | Fixed remuneration (in Euro) | Remuneration for taking part in committees (in Euros) | Variable non-equity remuneration (in Euros) | Non-monetary benefits (in Euros) | Other remuneration (in Euros) | Total (in Euro) |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Bonuses and other incentives | | | |
| **Iginio Liberali** | **Executive chairman** | 01/01/2020-31/12/2020 | Approval of 2022 Financial Statements | | | | | | |
| (I) Remunerations in the company that prepares the Financial Statements | | | | 234,544 (1)(2) | - | 216,326 | - | - | 450,870 |
| **(II) Total** | | | | **234,544** | | **216,326** | | | **450,870** |
| **Pierluigi Faggioli** | **Vice Chairman** | 01/01/2020-31/12/2020 | Approval of 2022 Financial Statements | | | | | | |
| (I) Remunerations in the company that prepares the Financial Statements | | | | 195,344 (1)(3) | - | 219,843 | 3,080 | - | 418,268 |
| **(II) Total** | | | | **195,344** | **-** | **219,843** | **3,080** | | **418,268** |
| **Matteo Liberali** | **CEO** | 01/01/2020-31/12/2020 | Approval of 2022 Financial Statements | | | | | | |
| (I) Remunerations in the company that prepares the Financial Statements | | | | 399,344 (1)(4) | - | 351,849 (5) | 6,212 | - | 757,405 |
| **(II) Total** | | | | **399,344** | **-** | **351,849** | **6,212** | | **757,405** |
| **Michele Faggioli** | **COO** | 01/01/2020-31/12/2020 | Approval of 2022 Financial Statements | | | | | | |
| (I) Remunerations in the company that prepares the Financial Statements | | | | 379,344 (1)(6) | - | 357,360 (5) | 9,271 | | 745,976 |
| **(II) Total** | | | | **379,344** | **-** | **357,360** | **9,271** | | **745,976** |
| **Raffaella Cagliano** | **Director** | 30/04/2020-31/12/2020 | Approval of 2022 Financial Statements | | | | | | |
| (I) Remunerations in the company that prepares the Financial Statements | | | | 13,443 (1) | - | - | - | | 13,443 |
| | | | | **13,443** | **-** | **-** | **-** | | **13,443** |
| **Giovanni Cavallini** | **Director** | 01/01/2020-29/04/2020 | 29/04/2020 | | | | | | |
| (I) Remunerations in the company that prepares the Financial Statements | | | | 5,902 (1) | - | - | - | | 5,902 |
| **(II) Total** | | | | **5,902** | **-** | **-** | **-** | | **5,902** |
| **Guido Crespi** | **Director** | 30/04/2020-31/12/2020 | Approval of 2022 Financial Statements | | | | | | |
| (I) Remunerations in the company that prepares the Financial Statements | | | | 13,443 (1) | | | | | 13,443 |
| **(II) Total** | | | | **13,443** | **-** | **-** | **-** | | **13,443** |
| **Michele Garulli** | **Director** | 01/01/2020-29/04/2020 | 29/04/2020 | | | | | | |
| (I) Remunerations in the company that prepares the Financial Statements | | | | 5,902 (1) | 1,639 (7) | - | - | 7,213 (8) | 14,754 |
| **(II) Total** | | | | **5,902** | **1,639** | **-** | **-** | **7,213** | **14,754** |
| **Anna Gervasoni** | **Director** | 01/01/2020-31/12/2020 | Approval of 2022 | | | | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Financial Statements | | | | | | |
| (I) Remunerations in the company that prepares the Financial Statements | | | | 19,344 | 11,344 [7] | - | - | | 30,689 |
| **(II) Total** | | | | **19,344** | **11,344** | **-** | **-** | | **30,689** |
| | | | | | | | | | |
| **Laura Oliva** | **Director** | 01/01/2020-31/12/2020 | Approval of 2022 Financial Statements | | | | | | |
| (I) Remunerations in the company that prepares the Financial Statements | | | | 19,344 [1] | 4,033 [7] | - | - | | 23,377 |
| **(II) Total** | | | | **19,344** | **4,033** | **-** | **-** | | **23,377** |
| | | | | | | | | | |
| **Fabio Liberali** | **Director** | 01/01/2020-31/12/2020 | Approval of 2022 Financial Statements | | | | | | |
| (I) Remunerations in the company that prepares the Financial Statements | | | | 19,344 [1] | - | - | 5,052 | 101,697 [9] | 126,093 |
| **(II) Total** | | | | **19,344** | **-** | **-** | **5,052** | **101,697** | **126,093** |
| | | | | | | | | | |
| **Stefano Paleari** | **Director** | 01/01/2020-31/12/2020 | Approval of 2022 Financial Statements | | | | | | |
| (I) Remunerations in the company that prepares the Financial Statements | | | | 19,344 [1] | 15,344 [10] | - | - | | 34,689 |
| **(II) Total** | | | | **19,344** | **15,344** | **-** | **-** | | **34,689** |
| | | | | | | | | | |
| **Roberta Pierantoni** | **Director** | 01/01/2020-31/12/2020 | Approval of 2022 Financial Statements | | | | | | |
| (I) Remunerations in the company that prepares the Financial Statements | | | | 19,344 [1] | 5,672 [7] | - | - | | 25,016 |
| **(II) Total** | | | | **19,344** | **5,672** | **-** | **-** | | **25,016** |
| | | | | | | | | | |
| **Marco Vitale** | **Director** | 01/01/2020-31/12/2020 | Approval of 2022 Financial Statements | | | | | | |
| (I) Remunerations in the company that prepares the Financial Statements | | | | 19,344 [1] | - | - | - | | 19,344 |
| **(II) Total** | | | | **19,344** | **-** | **-** | **-** | | **19,344** |
| | | | | | | | | | |
| **Paola Mignani** | **Chairman - Board of Statutory Auditors** | 01/01/2020-29/04/2020 | 29/04/2020 | | | | | | |
| | **Standing Auditor** | 30/04/2020-31/12/2020 | Approval of 2022 Financial Statements | | | | | | |
| (I) Remunerations in the company that prepares the Financial Statements | | | | 34,918 [11] | - | - | - | | 34,918 |
| **(II) Total** | | | | **34,918** | **-** | **-** | **-** | | **34,918** |
| | | | | | | | | | |
| **Simone Cavalli** | **Chairman - Board of Statutory Auditors** | 30/04/2020-31/12/2020 | Approval of 2022 Financial Statements | | | | | | |
| (I) Remunerations in the company that prepares the Financial Statements | | | | 30,246 [11] | | - | - | | 30,246 |
| **(II) Total** | | | | **30,246** | **-** | **-** | **-** | | **30,246** |
| | | | | | | | | | |
| **Stefano Beltrame** | **Standing Auditor** | 01/01/2020-31/12/2020 | Approval of 2022 Financial Statements | | | | | | |
| (I) Remunerations in the company that prepares the Financial Statements | | | | 30,000 [11] | - | - | - | | 30,000 |
| **(II) Total** | | | | **30,000** | **-** | **-** | **-** | | **30,000** |
| | | | | | | | | | |
| **Ivano Pelassa** | **Standing Auditor** | 01/01/2020-31/12/2020 | Approval of 2022 Financial Statements | | | | | | |
| (I) Remunerations in the company that prepares the Financial Statements | | | | 9,836 [11] | - | - | - | | 9,836 |
| **(II) Total** | | | | **9,836** | **-** | **-** | **-** | | **9,836** |

(1) The Board of Directors resolved to assign to each member of the Board an annual gross compensation of €20,000.00 pro rata temporis. As the fixed annual remuneration resolved by the Board on 12 April 2017 was €18,000.00 pro rata temporis, the compensation accrued by the directors which remained in office for the entire 2020 financial year is equal to €19,344.26 (and in detail €5,901.64 as director for the 1/1/2020 - 29/04/2020 period, and €13,442.62 as director for the 30/4/2020 -31/12/2020 period);
(2) of which €19,344.26 for the position of director, and €215,200.00 for the position of Chairman of the Board of Directors;
(3) of which €19,344.26 for the position of director, and €176,000.00 for the position of Vice-Chairman of the Board of Directors;
(4) of which €19,344.26 for the position of director, and €380,000.00 for the position of CEO;
(5) of which €83,639.61 as variable and medium/long term Component (LTI 2020 -2021) accrued for 2020;
(6) of which €19,344.26 for the position of director, and €360,000.00 for the position of COO;
(7) the Board of Directors resolved to assign each member of the Remuneration and Appointment Committee and of the Control and Risk Committee a fixed annual compensation of €6,000.00 gross pro rata temporis. Until 29 April 2020 the compensation was of €5,000.00 gross. For the year 2020, the compensation accrued by each member of the committees in office for the entire 2020 financial year was €5,672.13 gross (and in detail, €1,639.34 for the 1/1/2020 -29/4/2020 period, and €4,032.79 for the 30/04/2020 - 31/12/2020 period);
(8) compensation accrued for the position of Investor Relator in relation to which a fixed annual compensation was established of €22,000.00 gross. The position of director Michele Garulli terminated with the Shareholders' Meeting of 29 April 2020. For this, for the year 2020, in relation to the position of Investor Relator, he accrued (01/01/2020 - 29/04/2020 period) €7,213.11 gross.
(9) as annual gross remuneration accrued in relation to the employment with LU-VE SPA.
(10) the Board of Directors resolved to assign to the Chairman of the Remuneration and Appointment Committee and the Chairman of the Control and Risk Committee an annual gross compensation of €8,000.00 pro rata temporis. Until 29 April 2020, the compensation was €7,000.00 gross for each office to be paid pro rata temporis. For the year 2020, the compensation accrued by the Chairmen of both committees was €7,672.13 for each office (in detail, €2,295.08 for the 1/1/2020 -29/4/2020 period, and €5,377.05 for the 30/4/2020 - 31/12/2020 period);
(11) the Board of Statutory Auditors was renewed in 2020. The Shareholders' Meeting of 29 April 2020 confirmed, pro rata temporis, an annual compensation of €45,000.00 gross for the Chairman and of €30,000 gross for each of the two statutory auditors;

## 4.17 SHARE-BASED PAYMENTS

As at 31 December 2020, there were no share-based incentive plans in favour of Company Directors or employees.

## 4.18 COMMITMENTS

Details of existing sureties as at 31 December 2020 are reported below:

| **Commitments as at 31 December 2020** *(in thousands of Euro)* | **2020** | **2019** | **Change** |
|---|---|---|---|
| Sureties to banks with respect to customers of our subsidiaries | 322 | 1,438 | (1,116) |
| Sureties to banks with respect to customers | 1,174 | 1,147 | 27 |
| Sureties to our subsidiaries | - | 433 | (433) |
| Insurance sureties | 225 | 225 | - |
| **Total** | **1,721** | **3,243** | **(1,522)** |

# 5 LIST OF EQUITY INVESTMENTS IN SUBSIDIARIES (ART. 2427 N.5 CC)

| Company name | Registered office | % owned | Currency | Share capital | Foreign Currency | Shareholders' equity as at 31/12/2020 | Currency | Result for the 2020 financial year | Currency | Cost of the equity investment |
|---|---|---|---|---|---|---|---|---|---|---|
| *Direct subsidiaries:* | | | | | | | | | | |
| SEST S.p.A. | Limana (BL) | 100.00 | EUR | 1,000,000 | EUR | 23,694,493 | EUR | 7,954,960 | EUR | 44,894,885 |
| Tecnair LV S.p.A. | Uboldo (VA) | 79.90 | EUR | 200,000 | EUR | 3,922,460 | EUR | 627,159 | EUR | 1,043,108 |
| Heat Transfer Systems s.r.o. (HTS) | Novosedly (Czech Rep.) | 100.00 | CZK | 133,300,000 | CZK | 350,169,544 | CZK | 53,307,627 | EUR | 9,539,657 |
| LU-VE Sweden AB | Asarum (Sweden) | 100.00 | SEK | 50,000 | SEK | (27,203,630) | SEK | 10,175,932 | EUR | 390,448 |
| LU-VE France S.a.r.l. | Lyon (France) | 100.00 | EUR | 84,150 | EUR | 1,785,515 | EUR | 267,716 | EUR | 1,303,072 |
| LU-VE Pacific Pty Ltd | Thomastown (Australia) | 75.50 | AUD | 200,000 | AUD | (5,847,861) | AUD | (1,585,075) | EUR | 1 |
| LU-VE Deutschland GmbH | Stuttgart (Germany) | 100.00 | EUR | 230,000 | EUR | (924,613) | EUR | (392,004) | EUR | 173,001 |
| LU-VE Iberica S.L. | Madrid (Spain) | 85.00 | EUR | 180,063 | EUR | (432,399) | EUR | (32,830) | EUR | 145,285 |
| LU-VE Asia Pacific Limited | Wan Chai (Hong Kong) | 100.00 | HKD | 10,000 | HKD | (35,344,418) | HKD | (8,496,753) | EUR | 13,175 |
| LuveDigital S.r.l. | Uboldo (VA) | 50.00 | EUR | 10,000 | EUR | 32,772 | EUR | 3,812 | EUR | 5,000 |
| MANIFOLD S.r.l. | Uboldo (VA) | 99.00 | EUR | 10,000 | EUR | 49,373 | EUR | 14,022 | EUR | 9,900 |
| Spirotech Ltd | New Delhi (India) | 100.00 | INR | 25,729,600 | INR | 2,693,292,464 | INR | 363,754,479 | INR | 39,468,270 |
| LU-VE AUSTRIA GmbH | Vienna (Austria) | 100.00 | EUR | 17,500 | EUR | 98,068 | EUR | 39,639 | EUR | 17,500 |
| Zyklus Heat Transfer Inc | Jacksonville (USA, Texas) | 100.00 | USD | 1,000 | USD | (1,051,835) | USD | (2,655,695) | USD | 7,052,273 |
| Air Hex Alonte S.r.l. | Uboldo (VA) | 100.00 | EUR | 2,010,000 | EUR | 12,897,273 | EUR | 2,743,893 | EUR | 15,433,476 |
| Fincoil LU-VE OY | Vantaa (Finland) | 100.00 | EUR | 1,190,000 | EUR | 5,204,569 | EUR | 52,964 | EUR | 30,648,883 |
| LU-VE Netherlands B.V. | Breda (Netherlands) | 100.00 | EUR | 10,000 | EUR | (477,303) | EUR | (420,129) | EUR | 10,000 |
| «OOO» LU-VE Moscow | Moscow (Russia) | 100.00 | RUB | 100,000 | RUB | (60,425,077) | RUB | (52,380,963) | RUB | 1,382 |
| LU VE MIDDLE EAST DMCC | Dubai (UAE) | 100.00 | AED | 50,000 | AED | (6,008) | AED | (219,270) | AED | 20,147 |
| *Indirect subsidiaries:* | | | | | | | | | | |
| SEST-LUVE-Polska SP.z.o.o. (95% owned by SEST S.p.A.) | Gliwice (Poland) | 95.00 | PLN | 16,000,000 | PLN | 249,093,412 | PLN | 44,634,128 | EUR | 4,134,121 |
| «OOO» SEST LU-VE (95% owned by SEST S.p.A.) | Lipetsk (Russia) | 95.00 | RUB | 136,000,000 | RUB | 1,011,284,522 | RUB | 329,880,114 | EUR | 3,770,723 |
| LU-VE HEAT EXCHANGERS (Tianmen) Co, Ltd (62.62% owned by LU-VE Asia Pacific Limited and 37.38% owned by LU-VE SpA) | Tianmen (China) | 100.00 | CNY | 61,025,411 | CNY | 31,451,054 | CNY | (1,456,217) | EUR | 7,877,148 |
| Thermo Glass Door S.p.A. (100% owned by SEST S.p.A.) | Travacò Siccomario (PV) | 100.00 | EUR | 100,000 | EUR | 466,684 | EUR | (1,056,700) | EUR | 1,635,590 |

# 6 SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

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

# 7 TRANSACTIONS DERIVING FROM ATYPICAL AND/OR UNUSUAL TRANSACTIONS

Pursuant to Consob communication of 28 July 2006, please note that in 2020 the Company did not carry out atypical and/or unusual transactions, i.e., transactions which in terms of their significance, the nature of the counterparties, the subject of the transaction, the pricing methods and the timing of occurrence may give rise to doubts with regard to the accuracy of the information in the Financial Statements, conflicts of interests, the safeguarding of the company assets or the protection of non-controlling shareholders.

# 8 EVENTS SUBSEQUENT TO 31 DECEMBER 2020

The first two months of 2021 show a turnover for products only of €12.1 million, with a reduction of approximately 24% compared to the same period of the previous year, which had recorded a very strong start (also thank to some non-repetitive commissions) before the explosion of the pandemic.

The order portfolio amounts to €23.3 million with an increase of 10.0% compared to February 2020.

In spite of the uncertain situation linked to the persistence of the pandemic and the slowness of the vaccination process, the demand remains generally active with the exception of the "Horeca" sector, penalised by the lockdown measures. A constant disruption caused by the pandemic (responsible in part for the turnover for the two months being lower than the previous year) has been determined by the frequent delays in projects, orders and deliveries of finished products due to the difficulty of access to worksites or to the strengthening of prevention measures adopted by individual countries.

Another area of attention is linked to the area of purchases and of the supply chain. In fact, fears linked to the availability of some materials, in particular sheet metal and electronic components were added to the increase in prices in all the main raw materials, both because of the explosion in rental and transport costs compounded by potential risks of interruption in supplies on the part of suppliers in area particularly at risk. The Company Purchasing Direction closely and timely monitors the critical issues linked to the possible supply difficulties of suppliers (both in Italy and abroad) as well as the difficulties linked to the circulation of goods are very closely and promptly monitored. Thanks to a widespread geographical presence and a careful scouting policy, alternative supply sources have been activated which have to date allowed to regularly supply production.

In January 2021 the transfer of the former Alfa Laval production site and of the entire business unit was completed, with the signature and execution of the final agreements by the subsidiary Spirotech, with the payment at the same time of the residual contractually defined price (only €0.2 million linked to delays linked to some marginal fulfilments by the counterparty).

As the macro-economic scenario remains characterised by a strong uncertainty with regard to the time necessary to overcome the pandemic at global level, it is rather difficult to make accurate forecasts on the trends in orders and in the commercial, economic and financial results, against the budget of a challenging financial year but based at present on the development of a hypothesis of a faster speed to exit the crisis linked to the pandemic.

in June, an unsecure loan agreement was entered into with Cassa Depositi e Prestiti for €30 million with a duration of 18 months, with fully repayment at the end of the term (subsequently repaid in full in December);

In March 2021 the constitution process of the subsidiary LU-VE Korea LLC was concluded.

CEO

Matteo Liberali

# 9 GENERAL INFORMATION ABOUT THE COMPANY

*Registered office:*

Via Vittorio Veneto, 11

21100 Varese

*Contact information:*

| | |
|---|---|
| Tel: | +39 02 - 96716.1 |
| Fax: | +39 02 – 96780560 |
| E-mail: | info@luvegroup.com |
| Website: | www.luvegroup.com |

*Tax information:*

| | |
|---|---|
| Economic and Administrative Index | VARESE 191975 |
| P. IVA/C.F. | 01570130128 |

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

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

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

of the administrative and accounting procedures for the formation of the separate financial statements in the period 1 January - 31 December 2020.

It is also certified that the separate financial statements as at 31 December 2020:

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

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

1 April 2021

| | |
|---|---|
| Matteo Liberali | Eligio Macchi |
| CEO | Manager in charge |
| | of financial reporting |

**LU-VE S.p.A.**

Registered Office in Varese - Via Vittorio Veneto, 11 - Share Capital € 62,704,488.80

Tax Code and VAT no. 01570130128, Varese Economic and Administrative Index 191975

* * * *

# REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING

Dear Shareholders,

With this report, prepared pursuant to art. 153 of Italian Legislative Decree 58/1998 ("Consolidated Law on Finance") and art. 2429 of the Italian Civil Code, taking into account the applicable CONSOB recommendations, the Board of Statutory Auditors of LU-VE S.p.A. (hereinafter, "LU-VE" or the "Company") reports on the supervisory activity carried out and on the relative results, as well as on the significant events that took place during the year.

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## 1. Introduction

The Board of Statutory Auditors, appointed by the Shareholders' Meeting on 29 April 2020, is comprised by Simone Cavalli, Chairman, Stefano Beltrame and Paola Mignani, standing auditors and shall remain in office until the Shareholders' Meeting called to approve the financial statements for the year ended as at 31 December 2022. Paola Mignani and Stefano Beltrame were reconfirmed as standing auditors, while the Chairman Simone Cavalli was newly appointed.

In the year ending on 31 December 2020, the Board of Statutory Auditors carried out the supervisory activity required by law, also taking into account the CONSOB recommendations on corporate controls and the activities of the Board of Statutory Auditors, the rules of conduct of the Board of Statutory Auditors of listed companies recommended by the Board of Professional Accountants and Auditors and the instructions contained in the Corporate Governance Code of listed companies, which LU-VE has applied since 31 December 2020.

During 2020, the meetings of the Board of Directors and of the Board of Statutory Auditors, with the exception of those in the first few months of the year, were held remotely, substantially applying art. 106 of Italian Decree Law no. 18/2020, as well as complying with the instructions reiterated, at the end of the same year, by art. 1, paragraph 10, letter o) of Italian Ministerial Decree of 3 December 2020, regarding measures to stop the spread of Covid-19.

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## 2. Compliance with the law and the articles of association

In its supervisory activity, during the year the Board held regular meetings, participated in the Shareholders' Meeting, the Board of Directors' meetings and the meetings of the Board Committees, i.e., the Committee for Control and Risks and Related Party Transactions, to which have been assigned competences also with regard to the Non-Financial Statement ("NFS") and sustainability, and the Remuneration and Appointments Committee. In particular, in 2020 the Board of Statutory Auditors:

- held 12 board meetings in which as a rule all members in office participated;
- participated, typically in the form of the entire board, in the 10 meetings held by the Board of Directors;
- participated, typically in the form of the entire board, in the 11 meetings held by the "Committee for Control and Risks and Related Party Transactions" (hereinafter also the "Control and Risk Committee");
- participated, typically in the form of the entire board, in the 8 meetings held by the Remuneration and Appointments Committee;
- participated in the form of the entire board in the Ordinary Shareholders' Meeting for the approval of the 2019 financial statements, held on 29 April 2020;
- maintained a continuous flow of information and held regular meetings with the Auditing Firm, in order to promptly exchange relevant data and information for the completion of their respective tasks as laid out in art. 150, paragraph 3 of the Consolidated Law on Finance;
- maintained a continuous flow of information and held regular meetings with the Supervisory Body;
- maintained a continuous flow of information and held regular meetings with the Head of Internal Audit;
- exchanged information, as laid out in art. 151, paragraph 2 of the Consolidated Law on Finance, with the Board of Statutory Auditors of the Italian Subsidiaries, without the emergence of any relevant aspects to be reported.

Through these activities, the Board verified the compliance of the organisational structure, the internal procedures, the corporate deeds and the resolutions of the corporate bodies with applicable legal standards, provisions of the articles of association and regulations, as well as the codes of conduct which the Company has declared it follows.

In general, the Board believes that the law and the articles of association have been respected and it did not identify violations of provisions of law or the articles of association or transactions carried out by the Directors that are clearly imprudent or risky, in potential conflict of interests, in conflict with the resolutions passed by the Shareholders' Meeting or in any event such so as to compromise the integrity of the company's assets.

Please note that within the scope of the Board's activities, in 2020:

- no complaints pursuant to art. 2408 of the Italian Civil Code were received;
- no reports were received;

- the Board of Statutory Auditors provided its opinions when required by law during the meetings of the Board of Directors and the Committees in which the Board of Statutory Auditors participated.

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### 3. Respect for the principles of proper management (and reference to the main transactions)

The Board of Statutory Auditors obtained information from the Directors, with the required frequency, on the activity carried out as well as on the transactions of greatest significance for the profit and loss, financial position and cash flows approved and carried out during the year, including through subsidiaries.

The transactions capable of significantly impacting the company's results, financial position and cash flows are reported in the Directors' Report and in the Explanatory Notes where the Directors specify, inter alia:

– in February 2020, the purchase price of "Al Air", the air heat exchanger division ("Air Division") of the Alfa Laval Group acquired in 2019 was restated with a significant reduction, at a value of €51 million;
– during the year, following the exercise of the put option on the remaining 5% of equity by the minority shareholder in Spirotech Ltd, the Parent Company LU-VE S.p.A. now holds 100% of the Share Capital of the subsidiary. The transaction entailed an outlay of €4.1 million;
– during the year, new loans were entered into for a total of €170.5 million, the majority of which did not benefit from the measures set out in the various decrees of the President of the Council of Ministers.

Specifically with respect to transactions with related parties, the Board of Statutory Auditors supervised the compliance of the procedures adopted by the Company with the principles specified by CONSOB, as well as their observance, also by participating in the meetings of the Control and Risk Committee. In this respect:

- the Company adopted a procedure intended to govern the Group's transactions with related parties, in compliance with the principles established by the Supervisory Authority with CONSOB Regulation no. 17221 of 12 March 2010 as amended;
- the Directors adequately specified the ordinary intra-group transactions and transactions with related parties in their Directors' Report and in the Explanatory Notes, taking into account their size.

We did not find, or receive information from the Board of Directors, from the Auditing Firm or from the Control and Risk Committee regarding the existence of atypical and/or unusual transactions made with third parties, with Group companies or with related parties.

During the year, the Company purchased 28,027 treasury shares (0.1261% of share capital) at an average price of €10.2827 for a total value of €288 thousand.

The Directors adequately illustrated in the notes to the financial statements, the main assumptions used to conduct mandatory impairment testing on several financial statement assets, together with the sensitivity analyses conducted.

In line with what is laid out in the Corporate Governance Code (art. 8), control on the principles of proper administration was carried out by the Board through preventive supervision and not only the *ex post* supervision of processes. When necessary, the result of this supervision was brought to the attention of the Directors, so that they could adopt a plan of corrective measures.

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## 4. Adequacy of the governance and organisational structure

Insofar as it is responsible, the Board of Statutory Auditors supervised the adequacy of the organisational structure of the Company and the Group, compliance with the principles of proper administration in terms of structure, procedures, roles and responsibilities, taking into account the size of the Company and the nature and methods for the pursuit of the corporate purpose, also with reference to the adequacy of the instructions provided by the Company to its subsidiaries, pursuant to art. 114, paragraph 2 of the Consolidated Law on Finance. In this regard the Board, after acquiring information from the heads of the competent corporate functions, at meetings with the Auditing Firm and with the control bodies of subsidiary companies (if any), within the context of the reciprocal exchange of significant information, reports that no findings to be reported emerged.

In application of application criterion 8.C.1. of the Corporate Governance Code, the Board of Statutory Auditors verified that all its members met the independence requirements, also on the basis of the criteria set out in art. 3.C.1 of the Corporate Governance Code, at the meeting that installed the Board on 29 April 2020, communicating them to the Board of Directors, which notified these to the public by means of press release on the same date. The Board also verified the continuation of the above mentioned requirements, in its meeting of 25 February 2021 on the outcome of the self evaluation activity carried out internally, in compliance with Rule Q.1.1 contained in “Rules of conduct of the Board of Statutory Auditors of listed companies”, issued by the Board of Professional Accountants and Auditors updated in April 2018 (“CNDCEC Rules of Conduct”), as well as the combined provisions of art. 8.C.1. and art. 3 of the Corporate Governance Code.

With respect to the composition, size and functioning of the Board of Directors and the Committees, particularly with regard to the requirements established for Independent Directors and the determination of remuneration, as well as the comprehensiveness, roles and responsibilities connected to each corporate function, the Board of Statutory Auditors refers in general to the “Report on corporate governance and ownership structures” and the “Remuneration Report”. In particular, we verified the correct application of the assessment criteria and procedures adopted by the Board of Directors for evaluating the independence of its members based on the criteria envisaged by law and by the Corporate Governance Code.

On 3 November 2020, the members of the Board of Directors, together with those of the Board of Statutory Auditors, received an exhaustive report from one of the directors, an expert in this topic, on the new principles and recommendations dictated by the New Corporate Governance Code (Induction Programme), which the Company applied from 1 January 2021.

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## 5. Adequacy of the internal control system

The Board of Statutory Auditors supervised the adequacy of the organisational structure of the Company and the Group, in terms of structure, procedures, roles and responsibilities, taking into account the size of the Company and the nature and methods for the pursuit of the corporate purpose. In this respect it has interacted with the top management to verify the effectiveness of the organisational structure, meeting the officers in charge of the various management areas for updates with regard to the organisational chart of each area, the adequacy of the available resources and the main activities carried out.

Moreover:

- no observations on the application of the organisational model pursuant to Italian Legislative Decree 231/2001 and on the procedures adopted by the company arose from the annual report issued by the Supervisory Organism pursuant to Italian Legislative Decree 231/2001. The additions and the amendments to the organisational model pursuant to Italian Legislative Decree 231/2001 are under way, with a view to transpose the new predicate offences introduced by Italian Legislative Decree 75/2020 (Tax offences and "smuggling") and by Italian Ministerial Decree no. 131 of 30 July 2020 (Cyber Security);
- in the course of 2020, the CEO responsible for the internal control and risk management system discussed the main risks existing for the Group with the Control and Risk Committee, sharing a process for updating the identification and management of risks;
- the Board of Directors is responsible for governing the process underlying the internal control system. On the other hand, the organisational units are responsible for managing the process of identifying, measuring, managing and monitoring risks, as well as defining the relative countermeasures.

With regard to financial, administrative and accounting management in a year characterised by the explosion of the COVID-19 pandemic, the Group focused on the close monitoring of net working capital and its net financial position. This was made possible increasing the frequency of both monitoring of the Group's credit situation and reports on the treasury situation, as well as through the availability of financial resources with a reference timeframe that rose from 24 months to at least 30, following the renewal/renegotiation of existing loans or by obtaining new loans. A specific Group Crisis Committee was immediately established (which was participated in by most of the Directors of the various Group companies, the members of the Board of Statutory Auditors and of the Supervisory Body, as well as by the heads of the individual strategic functions of the production units) which, twice-weekly during the initial stage of the pandemic, and then weekly, enabled the problems that arose from time to time to be handled, adopting Group measures and protocols agreed at global level.

The effects and the measures undertaken are illustrated in a specific section in the Directors' Report. ESMA (European Securities and Markets Authority) and Consob, in Notice no. 1/21 of 16 February 2021, issued official notes containing the guidelines for communications to the markets in the current situation linked to the Coronavirus health emergency. For an analysis of the impact of the measures, please refer to the specific paragraphs contained in the Directors' Report and in the Explanatory Notes drawn up by the Directors. During the year, the Board of Statutory Auditors, focused its utmost attention on the measures taken by the Company to respond to the pandemic and will continue to monitor the development of the situation and the relative impacts on the economic and financial results of the Group.

Overall, in defining and applying the internal control and risk management system, no significant critical issues emerged such so as to considerably compromise the achievement of a risk profile that is acceptable on the whole.

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## 6. Adequacy of the accounting administrative system and the auditing activities

The Board of Statutory Auditors supervised the accounting-administrative system and, on the basis of the provisions of art. 19 of Italian Legislative Decree 39/2010, on: (i) the financial reporting process; (ii) the independent audit of the annual and consolidated accounts; (iii) the independence of the auditing firm, with reference to the non-audit services provided. More specifically, the Board observes the following:

- the Company has provided adequate instructions to the subsidiaries pursuant to art. 114, paragraph 2 of Italian Legislative Decree no. 58/98, so that they may provide the necessary information to fulfil the communication obligations laid out by law, without identifying any exceptions;
- the main characteristics of the risk management and internal control system existing in relation to the financial reporting process are described by the Directors in the Directors' Report;
- the Manager in charge of financial reporting conducted an assessment of the accounting-administrative internal control system. No critical issues emerged from the annual report, issued in accordance with art. 154-bis of the Consolidated Law on Finance and presented to the Board of Directors;
- the company responsible for auditing the accounts of LU-VE is Deloitte & Touche S.p.A. (hereinafter also the "Auditing firm"). This engagement was assigned by the LU-VE Ordinary Shareholders' Meeting by resolution of 10.03.2017 and will end with the approval of the financial statements as at 31 December 2025;
- in addition to the statutory audit and the limited audit of the interim report, according to the Board of Statutory Auditors, during the 2020 financial year, (1) LU-VE S.p.A. conferred to Deloitte & Touche S.p.A. the mandate to assist with the activities relating to legislative compliance with directive 2013/50/EU which amends directive 2004/109/EC ("Transparency Directive") for additional fees of €9 thousand and to Deloitte Financial Advisory S.r.l., the mandate to provide support to conduct a Cyber Risk Assessment for additional fees of €23 thousand;
- during systematic meetings between the Board of Statutory Auditors and the Auditing Firm, no significant aspects to be reported emerged. In this respect, the Board:

- analysed the auditing plan prepared by the auditing firm, verifying the adequacy of the audits and the validations planned with respect to the size and organisational and business complexity of the Company;
- on 01.04.2021, received the audit reports from the auditing firm on the separate and consolidated financial statements of the Company and the Group pursuant to arts. 14 of Italian Legislative Decree 39/10 and 10 of Regulation (EU) 537/2014, which were issued with no findings or requests for information;
- on 01.04.2021, received from the auditing firm the additional report on the internal control and audit committee established by art. 11 of Regulation (EU) 537/2014. Aside from confirming the continuing fulfilment of the independence requirements by the Auditing Firm (referred to herein), this report does not indicate the presence of significant gaps in the internal control system, or cases of non-compliance, effective or presumed, with laws and regulations or provisions of the articles of association, or the identification of significant errors;
- on 01.04.2021, received the report from the auditing firm pursuant to art. 3, paragraph 10 of Italian Legislative Decree 254/2016 and art. 5 of Consob Regulation no. 20267, concerning the limited assurance engagement, on the consolidated non-financial statement (NFS) of LU-VE S.p.A. and its subsidiaries;
- did not observe any critical aspect with respect to the independence of the auditing company and received by the same on 01.04.2021, a communication of annual confirmation of independence pursuant to article 6 paragraph 2) letter a) of the European Regulation 537/2014 and pursuant to paragraph 17 of ISA Italia 260 that, in order to ensure the independence of Auditors, also apply limits to the assignment of consultancy projects to auditing companies that already carry out audit activities of which adequate information is also provided by the information in the separate financial statements of LU-VE S.p.A. pursuant to art.149-duodecies of the Issuers' Regulation.

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## 7. Implementation of corporate governance rules

The Company has enacted the principles of corporate governance approved by the Italian Stock Exchange and contained in the relative Corporate Governance Code. The Directors have provided analytical information in this regard, which is included in the Annual Report on corporate governance and ownership structures attached to the financial statement disclosure, to which reference is made. This report is adequate with respect to the provisions pursuant to art. 123-bis of the Consolidated Law on Finance. We also acknowledged the completed preparation of the Remuneration Report pursuant to articles 123-ter of the Consolidated Law on Finance and 84-quater of the Issuers' Regulation, as well as in compliance with that recommended by art. 6 of the Corporate Governance Code, and we have not specific observations to make.

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## 8. Non-Financial Statement

In compliance with the provisions of Italian Legislative Decree no. 254/2016 implementing "Barnier" Directive 95/2014, the Company has published a Consolidated Non-Financial Statement (NFS), which is required from large public interest entities.

The NFS was prepared to the extent necessary to ensure the understanding of the Group's activities, its performance, its results and the impact of the same product, covering issues considered to be relevant and required by articles 3 and 4 of Italian Legislative Decree 254/16.

The document was drafted in compliance with the fifth generation guidelines for sustainability reporting of the Global Reporting Initiative (GRI) and the 2016 Sustainability Reporting Standards GRIs, according to the Core option and in compliance with the required content and quality principles. A table with the list of contents relative to the requirements of GRIs, both general ones and those linked to specific issues, is reported at the end of the document.

The definition of the content laid out in the 2020 NFS involved all relevant corporate functions responsible for the aspects dealt with in the sections described above. For further information on the methods for calculating and the results of the above-mentioned indicators, please refer to the methodological notes of the Non-Financial Statement as at 31 December 2020.

The Board observes that the examination carried out by the Auditing Firm on the NFS, as a "limited assurance engagement" as indicated in the report they issued (to which reference is made), entailed a more limited extent of work than that necessary for conducting a full review in accordance with the provisions of ISAE 3000 Revised, and as such did not enable the Auditing Firm to have the certainty that they had become aware of all significant facts and circumstances that could be identified with the performance of such a review. This being said, the Auditing Firm did not identify any elements that led it to believe that the NFS was not compliant, in all significant aspects, with the requirements of articles 3 and 4 of the above-mentioned Decree and the GRI Sustainability Reporting Standards.

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## 9. Observations on the separate and consolidated financial statements, their approval and the matters under the responsibility of the board of statutory auditors

Within the limits of the function assigned to it, through direct checks and information obtained from the auditing firm and through the Manager in charge of financial reporting, the Board of Statutory Auditors evaluated the separate financial statements, the consolidated financial statements, the relative explanatory notes and the Directors' report, placing attention on the promptness and accuracy of the formation of the documents that make up the financial statements and the procedure whereby they were prepared and presented to the Shareholders' Meeting.

During the supervisory activity carried out, no objectionable events, omissions or irregularities emerged which would require reporting to the control bodies or mentioning in this report.

The auditing firm, in its reports issued pursuant to arts. 14 and 16 of Italian Legislative Decree no. 39 of 27 January 2010, expressed its opinion with no findings on the 2020 separate and consolidated financial statements. The certifications of the Manager in charge and the CEO required by art. 154-bis of the Consolidated Law on Finance are attached to the separate and consolidated financial statements.

The consolidated results as at 31 December 2020 show operating revenues and income of €401.5 million, EBIT of €15.5 million, a net profit of €10.7 million (of which €9.9 million pertaining to the Group) and, lastly, a negative net financial position of €106.8 million. With respect to the factors impacting the results for the year, please refer to what is described in the Directors' report to the financial statements (as well as the explanatory notes).

The Board of Statutory Auditors, on the basis of the activity carried out during the financial year and to the extent of its competence, does not see any impediment to the approval of the annual financial statements as at 31 December 2020 of LU-VE S.p.A. (which show a net profit of €7.2 million) and the relative proposals for deliberation formulated by the Board of Directors (including the distribution of a gross ordinary dividend of €0.27 per outstanding share, net of any treasury shares held by the Company at the date of the coupon detachment).

Milan, 1 April 2021

For the Board of Statutory Auditors of LU-VE S.p.A.

The Chairman

Simone Cavalli

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

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

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### Opinion

We have audited the separate financial statements of the LU-VE S.p.A. company (the "Company"), consisting of the statement of financial position as at 31 December 2020, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows for the year ending on that date and the explanatory notes, which also include a summary of the most significant accounting standards applied.

In our opinion, the separate financial statements give a true and fair view of the statement of financial position of the Company as at 31 December 2020, of its financial performance and its cash flows for the year than ended in compliance with the International Financial Reporting Standards as adopted by the European Union as well as the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

### Basis for opinion

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

## Key aspects of the audit

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

| *Impairment testing on goodwill, intangible assets and property, plant and equipment* | |
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| Description of the key audit matter | The Company accounts for goodwill for to €14.6 million (3.1% of total assets in the financial statements as at 31 December 2020) allocated to a single cash generating unit ("CGU"), defined in line with the view of the Management and in particular with the method of monitoring and forecasting the Company's performance, to which intangible assets with a finite useful life amounting for €8.6 million, right-of-use assets for €0.7 million and property, plant and equipment for €39.7 million were also allocated.<br><br>As requested by IAS 36, as the above-mentioned CGU includes goodwill, the Company's Management performed an impairment test to determine whether the assets of the CGU are recognised in the financial statements as at 31 December 2020 at a value no higher than the recoverable amount. After the conclusion of the impairment tests, approved by the Board of Directors on 17 March 2021, the Company has not recognised any impairment losses.<br><br>The impairment process carried out by management is based on the determination of the value in use, and is complex since it includes assumptions regarding, inter alia, the forecast of expected cash flows from the CGUs, making reference to the 2021-2024 plan prepared by the Board of Directors and subsequently included in the consolidated plan of the LU-VE group approved by the Company's Board of Directors in its meeting held on 24 February 2021, the determination of an appropriate discounting rate (WACC) and a long-term growth rate (*g-rate*).<br><br>Considering the relevance of the amount of the assets recognised in the financial statements relating to the CGU, the subjectivity of the estimates concerning the determination of the cash flows and of the results of the impairment test which, on the basis of the sensitivity analyses carried out, demonstrated limited coverage due to also reduced model key variables, we considered the impairment test a key aspect of the audit of the LU-VE S.p.A. financial statements.<br><br>Note 3.1 "Goodwill and Other intangible assets" of the consolidated financial statements provides a disclosure on the impairment test, including a sensitivity analysis conducted by the Management which describes the effects that could arise when certain key assumptions used for the purposes of the impairment test change. |

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| **Audit procedures performed** | To evaluate the recoverability of the assets of the CGU, we preliminarily examined the methods used by the Management to determine the value in use of the CGU, analysing the methods and assumptions used for the development of the impairment test.<br><br>As part of our audits we, inter alia, performed the following procedures, also relying on the support of experts within our Network:<br><br>• identification and understanding of the significant checks put into place by the Company on the process of conducting impairment testing;<br>• analysis of the reasonableness of the primary assumptions adopted by the Management to develop cash flow forecasts and obtain information;<br>• analysis of variances in actual data with respect to original plans, so as to evaluate the nature of the variances and the reliability of the process of preparing the plans;<br>• evaluation of the methods for determining the discounting rate (WACC) by analysing its individual elements and their consistency with generally used valuation practices and analysis of the reasonableness of the long-term growth rate (*g-rate*);<br>• verification of the mathematical accuracy of the model used for the determination of the value in use of the CGU;<br>• verification of the proper determination of the carrying amount of the CGU and its consistency with the methods for determining values in use;<br>• examination of the sensitivity analysis prepared by the Management;<br>• verification of the adequacy of the disclosure provided by the Company on the impairment test with what is laid out in IAS 36. |
| ***Impairment test on equity investments*** | |
| **Description of the key audit matter** | The Company's financial statements include equity investments in subsidiaries for a total of €153.2 million, of which €10.8 million refer to the subsidiaries LU-VE Sweden AB, LU-VE Iberica s.l., LU-VE Deutschland GmbH, LU-VE Asia Pacific Ltd. – Hong Kong and LU-VE Heat Exchangers (Tianmen) Co, Ltd and Zyklus Heat Transfer Inc., which have recorded significant losses in the financial year and/or in previous financial years that, for some companies, have led to highlight negative shareholder's equity for a total amount of €7.1 million as at 31 December 2020. Furthermore, this includes €46.1 million relative to the subsidiaries Air Hex Alonte S.r.l. and Fincoil LU-VE OY, acquired during 2019. |

As provided for in IAS 36, due to the presence of possible impairment indicators, the Company's Management performed an impairment test to determine whether the book value of the above mentioned equity investments are recognised in the financial statements at 31 December 2020 at a value no higher than their recoverable amount. This test was also extended to subsidiaries Air Hex Alonte S.r.l. and Fincoil LU-VE OY, for which the year 2020 was the first full year of operation within the LU-VE Group and whose book values in the Company's financial reports is higher compared to their shareholders' equity by an amount of €28 million.

After the results of the impairment tests, approved by the Board of Directors in the meeting of 17 March 2021, the Company recognised a write-down of €3 million attributable to the equity investment in Zyklus Heat Transfer Inc.

The impairment process carried out by Management is complex and based on assumptions regarding, inter alia, the forecast of expected cash flows from the subsidiaries and the determination of an appropriate discounting rate (WACC) and of a long-term growth (g-rate).

The plans underlying such cash flows were prepared by the subsidiaries' management in collaboration with the Company's Management and subsequently included in the consolidated business plan approved by the Board of Directors in the meeting held on 24 February 2021, inclusive for the 2021 financial year of the expected effects deriving from the COVID-19 pandemic.

Considering the judgement of the estimates used to determine the cash flows and the key assumptions of the impairment models, and in relation to the economic/financial performance of such investees, we considered the impairment test a key audit matter of the review of the Company's financial statements.

Note 3.3 "Equity investments" of the financial statements provides a disclosure on the impairment test, including a sensitivity analysis conducted by the Management which describes the effects that could arise when certain key assumptions used in the impairment test on the recoverable amount of the equity investments.

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**Audit procedures performed**

We preliminarily examined the methods used by the Management to determine the recoverable amount of the equity investments, analysing the methods and assumptions used for the development of the impairment test.

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

- identification and understanding of the significant controls put into place by the Company on the process of conducting impairment testing on the equity investments in subsidiaries;

- analysis of the reasonableness of the primary assumptions adopted by the Management to develop cash flow forecasts and obtain information;
- analysis of variances in actual data with respect to original plans, so as to evaluate the nature of the variances and the reliability of the process of preparing the plans;
- evaluation of the methods for determining the discounting rate (WACC) by analysing its individual elements and their consistency with generally used valuation practices and analysis of the reasonableness of the long-term growth rate (*g-rate*);
- comparison of the recoverable value with the recognised value of equity investments and the adjusted net financial position with respect to such subsidiaries;
- examination of the sensitivity analysis prepared by the Management;
- verification of the adequacy of the disclosure provided by the Company on the impairment test with what is provided for in IAS 36.

## Responsibility of the Directors and the Board of Statutory Auditors for the separate financial statements

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

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

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

## Responsibility of the auditing firm for the audit of the separate financial statements

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

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

- we have identified and evaluated the risks of material errors in the financial statements due to fraud or unintentional conduct or events; we have defined and carried out audit procedures in response to such risks; we have acquired sufficient and appropriate proof on which to base our opinion. The risk of not identifying a material error due to fraud is higher than the risk of not identifying a material error deriving from unintentional conduct or events, as fraud may imply the existence of collusion, falsification, intentional omissions, misleading representations or the avoidance of internal control;

- we have acquired understanding of the internal controls relevant for the purposes of the audit in order to define audit procedures appropriate to the circumstances and not to express an opinion on the effectiveness of the Company's internal control;

- we have evaluated the appropriateness of the accounting standards used as well as the reasonableness of the accounting estimates carried out by the Directors, including the relative disclosure;

- we have reached a conclusion on the appropriateness of the use by the Directors of the going concern assumption and, on the basis of the proof acquired, on any existence of significant uncertainties with respect to events or circumstances that could give rise to significant doubts as to the Company's capacity to continue to operate as a going concern. In the presence of significant uncertainty, in the audit report we are required to call the reader's attention to the relative financial statement disclosure or, if such disclosure is inadequate, to reflect such circumstance in the development of our opinion. Our conclusions are based on the proof acquired until the date of this report. However, subsequent events or circumstances may cause the Company to stop operating as a going concern;

- we have evaluated the presentation, structure and content of the financial statements as a whole, including the disclosure, and whether the financial statements represent the underlying transactions and events so as to provide an accurate representation.

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

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

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

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

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

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

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

## REPORT ON OTHER LEGAL AND REGULATORY PROVISIONS

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

The Directors of LU-VE S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and the ownership structures of LU-VE S.p.A. as at 31 December 2020, including its consistency with the related financial statements and its compliance with the Law.

We have carried out the procedures set forth in Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and ownership structures set forth in art. 123-bis, n. 4 of Legislative Decree 58/98 with the financial statements of LU-VE S.p.A. as at 31 December 2020 and on its compliance with the Law, as well as to make a statement about any eventual material errors.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and the ownership structures are consistent with the financial statements of LU-VE S.p.A. as at 31 December 2020 and are prepared in accordance with the Law.

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

DELOITTE & TOUCHE S.p.A.

Massimiliano Semprini
Partner

Milan, 1 April 2021