

The Consolidated non-financial report should be read jointly with the Directors' Report on the financial statements for the year ended at 31 December 2017

Non-Financial consolidated report

Methodological note

The Consolidated Non-Financial Report 2017 (henceforth also the "Report") of the Landi Renzo Group (henceforth also the "Group"), reports to the various reference stakeholders on the news, activities and results achieved during 2017 regarding the economic, social and environmental performances.

The Report, following on from the last Sustainability Report 2015, was drafted in compliance with Italian Legislative Decree 254/2016 (henceforth also the "Decree") on Non-Financial Report and in compliance with the "Global Reporting Initiative Sustainability Reporting Standards" as established in 2016 by the GRI - Global Reporting Initiative (henceforth "GRI Standards"), "Core" option, which today constitute the most widely used standard in terms of sustainability accounting. This Report was subjected to a limited review by PricewaterhouseCoopers S.p.A. according to the criteria indicated in the "International Standard on Assurance Engagements 3000 - Assurance Engagements other than Audits or Reviews of Historical Financial Information" issued by the "International Auditing and Assurance Standards Board".

The process of drafting the document, as well as the definition of its contents and the determination of the materiality of the issues discussed, is based on principles foreseen by the GRI Standards Guidelines 2016 and has foreseen the involvement of company's heads of department (for more details refer to the paragraph "The stakeholders and relevant issues").

The relevance of the information included in the Report is established taking into consideration the impacts and the responsibilities perceived in the economic, social and environmental context, the regulatory reference context and the specificity of the segment in which the Group operates, as well as the requirements and the expectations of the stakeholders.

The data and information included in the document refer to the year closed on 31 December 2017 and, where explicitly specified, to some significant projects pursued during the first months of 2018.

To provide an accurate representation of the sustainability performances achieved, one has favoured the inclusion of dimensions that are directly measurable, avoiding where possible reference to estimates, which, where required, are based on the best possible methods available or on sample surveys and their use is indicated within the individual indicators.

To enable the reader to assess the evolution of the sustainability performance, the quantitative information is presented over a two-year temporal frame, with the exception a few figures which are presented only for 2017.

The accounting perimeter of the Non-Financial Statement refers to Landi Renzo S.p.A. and the consolidated companies with the integral method: Italian subsidiaries (A.E.B S.p.A., Lovato Gas S.p.A., Emmegas S.r.l., Eighteen Sound S.r.l. e SAFE S.p.A.) and foreign companies (Landi Renzo Polska Sp.Zo.O.,

L.R. Pak (Pvt) Limited, Landi Renzo RO S.r.l., Landi Renzo USA Corporation, AEB America S.r.l., Beijing Landi Renzo Autogas System Co. Ltd, Landi Renzo Pars Private Joint Stock Company and LR Industria e comercio Ltda). The following companies have been ruled out of the accounting perimeter: Eurogas Utrecht B.V., wound up on 1 January 2017, Officine Lovato Private Limited and Landi International B.V., in so far as they are companies devoid of employees, and Sound and Vision, seeing as it was never consolidated in the financial statements as it was purchased and sold during the year. It is however specified that during the course of 2017 the following operations were completed: A.E.B. S.p.A. was merged by incorporation into Landi Renzo S.p.A., Eighteen Sound S.r.l. (and its subsidiary Sound & Vision) was transferred (in December) and SAFE S.p.A. was conferred into a Joint Venture (on 29 December). The additional limitation to said perimeter are duly reported in the Statement.

Letter to the stakeholders

In continuity with the governance and transparency approach adopted in our relations with our stakeholders, the Landi Renzo Group reasserts the inspiring principle that has generated, ever since the first edition of the Sustainability Report, regardless of all contingencies, the goal of communicating our daily efforts to create value, not just for the company, but, in a broader context, for the entire collectivity and all interested parties with which the Group interacts.

Even in 2017 we have tried to operate with the utmost transparency and correctness towards our stakeholders, entertaining in a very open and collaborative dialogue.

During 2017 a new Strategic Plan was presented which envisages a reorganisation and improved efficiency of the industrial and operating structure, and a simplification of the corporate make up. All this with an eye to improving services to our global customers and creating hubs of excellence.

The attention to quality and constant improvement cannot overlook a careful and responsible management of procurement, particularly in our business model in which activities are for the most part carried out with the support of suppliers and partners. This model enables a constant oversight over the quality of the products and their compliance with the quality standards adopted by the Group, and a flexibility in both production and distribution that is best suited to fulfil the various market requirements.

The compliance and constant effort in developing and providing solutions that have a positive impact on the quality of the air and the environment continues to represent a mission for the Group that is manifested primarily in the development of increasingly efficient products, the Group's core business ever since its inception. All this without disregarding a very careful management of the energy efficiency of its own premises, monitoring and containing the consumption of resources as well as making sure our employees are fully updated on environmental issues.

Certain that the Group's success will be assured not just by its economic and financial results but also by its ability to operate in a responsible way, creating value for our stakeholders, we renovate our commitment to operating in compliance with the interests that revolve around the Group.

Chairman of the Board of Directors
Stefano Landi

The Alternative in motion

Over 60 years of history in building the future

For over sixty years the history of the Landi Renzo Group is the history of sustainable mobility. A process involving research and production excellence aimed to achieve a single objective: designing and manufacturing the technologies that have enabled the marketing of CNG and LPG fuelled vehicles.

The company from Reggio Emilia first started out with the name Officine Meccaniche Renzo Landi in 1954, set up by Renzo Landi and his wife Giovannina Domenichini. Exploiting the economic context of those years, which saw Italy and particularly the Emilia region favouring the use of gas fuelled vehicles, the Landi family achieved a long history of success. In the Nineties Landi Renzo became an industrial group and the internationalisation process continued into the next millennium, with the opening of a number of branches abroad. On 26 June 2007 Landi Renzo S.p.A. was launched on the STAR segment of Piazza Affari, the Italian Stock Market, recording the best performance in terms of share price during 2008. A significant step, with which the company meant to further boost its growth. At the same time the listing guarantees the Landi Renzo Group's reputation on markets and in its relations to customers and suppliers at the highest levels. The intention is to accelerate the development process in a sector, that of alternative energy sources, that requires major investment in research, which is the main driving force behind growth and development.

The Landi Renzo Group's historical path

1954

In 1954 in Reggio Emilia Renzo Landi, along with his wife Giovannina Domenichini, founded Officine Meccaniche Renzo Landi: the only firm to build custom made mixers for every type of vehicle.

SIXTIES

The external sale activities was developed in a very short time throughout the national territory and in the years between 1963 and 1964 came the first exports to Japan, France, Belgium and Holland. Soon enough opportunities opened up in Eastern European markets, as well as in India and South America.

SEVENTIES AND EIGHTIES

Renzo Landi passed away prematurely in 1977. The company continued working, managed by his wife and his son Stefano who in 1987 became the company's Managing Director, and it became a Limited company.

NINETIES

Landi Renzo became an Industrial Group; in 1993 it took over control of the company Landi S.r.l. and Eurogas Holding B.V., a Dutch company operating in the segment.

In 1999 the Dutch branch of the Group, Landi Renzo Polska S.p.Z.o.o was set, while Med S.p.A. of Reggio Emilia was acquired the following year.

NOUGHTIES

In 2001 the Eurogas Utrecht B.V. company was purchased by the subsidiary Landi International B.V.

The internationalisation process continued with the opening of a number of branches abroad: in Brazil in 2003, in China in 2005 and in Pakistan in 2006, the year that also saw the birth of Landi Renzo Corporate University.

The Landi Renzo Quality System, previously certified as meeting the ISO 9001 standard in 1995 and ISO / TS 16949 in 2001, the latter specific to the Automotive segment, in November 2006 extended to the Rete Italia the ISO 9001 processes and procedures in order to guarantee the quality standards previously adopted by the company.

In 2007, the Land Renzo Pars was inaugurated in Tehran (Iran).

On 26 June 2007 Landi Renzo S.p.A. made its début on the STAR segment at Piazza Affari, the Italian stock market. In October 2008 a subsidiary was set up in Iran and the third player at international level was acquired, Lovato Gas S.p.A..

2010-2016

In recent years the acquisitions have included AEB Technologies and the American Baytech, in addition to opening further subsidiaries in Romania, Venezuela, Argentina, India and the United States.

In July 2012 SAFE S.p.A. became part of the Group followed by Emmegas S.r.l. the following year. Also in 2013 the Eighteen Sound S.r.l. was first set up, previously included in AEB Technologies. This year also saw the setting up of the Indian Joint Venture Krishna Landi Renzo India Private Limited Held and the Uzbek EFI Avtosanoat-Landi Renzo LLC.

During the course of 2014 the Safe Gas Pte Ltd. was first set up in Singapore. In the same year, the Event organised to celebrate the 60th anniversary of the foundation of Landi Renzo S.p.A. also involved the inauguration of the new Research and Development centre , which in 2015 obtained the Prize for Sustainable development.

In 2015 the Landi Renzo Argentina S.r.l. was set up with headquarters in Buenos Aires.

Reference business: eco-mobility

LPG and CNG, are the most popular options in the field of ecological transport solutions; these are also areas in which the Landi Renzo Group has considerable expertise, thanks to a combination of research and manufacturing excellence. The Landi Renzo Group has long-standing experience in the design, manufacture and marketing of eco-compatible systems for conversion to LPG and CNG for transportation vehicles. These solutions are designed with the highest level of customisation to adapt to the specific requirements of the various models, earmarked for two reference markets:

- the car manufacturers (**OEM - Original Equipment Manufacturers**), with which they have instated active and consolidated partnerships;
- the gas distribution companies and the networks of branches, retailers, independent importers and installers (**AM - After Market**).

The Landi Renzo CNG and LPG systems use low environmental impact energy sources and thus contribute to the **development of an ecological mobility**, guaranteeing lower emissions and economic advantages

The Group is a world leader thanks to its extreme environmental awareness, the constant attention paid to technological and qualitative development of its products, its flexible and efficient business model and its readiness to listen to customer and market needs. The offer of the Landi Renzo Group is made up of **systems and components for the conversion of vehicles to gas fuelling, available for both petrol and diesel engines**. Every product is the result of in depth study and technological research which, over the years, has led to the filing of a good number of patents. The many inventions of the Group's Research and Development centre have signalled a decisive evolution in the integration of the components inside the vehicles, both in terms of the mechanical parts and the electronics.

Distinctive features of Landi Renzo Group



Leadership in the design and manufacture of sustainable LPG and CNG gas supply systems.



Excellence in technological innovation focused on the development of state-of-the-art products for the exploitation of low environmental impact energy sources for vehicle fuelling.



A flexible and efficient business model, capable of coping with market fluctuations while maintaining constant control of the critical phases in the production process.



Quality and versatility of its products, which makes it possible to meet demand and regulation requirements in all reference markets.



Detailed knowledge of distribution channels, through consolidated relationships with leading customers in the OEM channel and an extensive presence in the After Market segment, which features potential for constant growth.

Other products and markets in which the Group operates

Thanks to the growth of external production lines the Landi Group over the years has acquired significant know-how, particularly in electronics, and now is present on many different markets.

Thanks to the MED Automotive label, the Group is in a position to offer a vast range of devices dedicated to vehicle **safety** and **mobility**. The main lines of product marketed with this label are:

- *Safety*: parking assistance systems, Bluetooth, speed trap warning systems;
- *Security*: anti-theft systems, remote door opening and closing controls, pagers and their accessories;
- *Mobility*: computer based systems for vehicle fleet management.

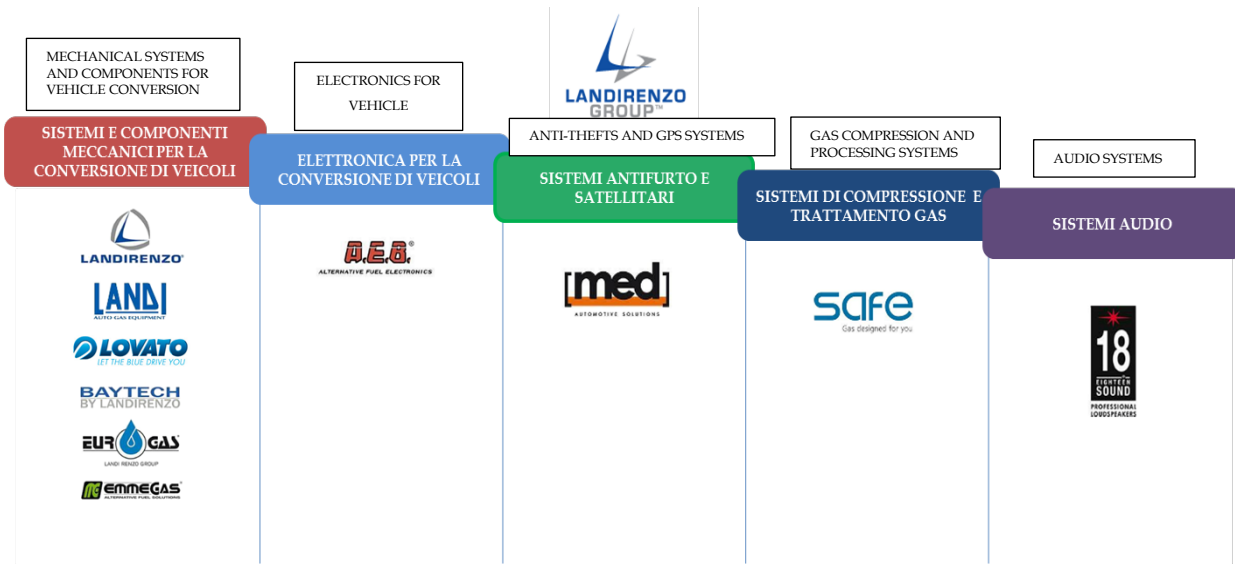
SAFE S.p.A., even through its Joint Venture with Clean Energy Compression, develops and manufactures natural gas distribution systems and processing compressors, both in the **Oil & Gas** and the **Biogas** sectors. It therefore markets auxiliary systems for the gas processing activities from extraction to distribution and systems for the transformation of biogas into biomethane, to be used in public networks. The production of compressors for CNG and RNG fuelling stations is strategic in so far as it anticipates future market dynamics and sales development opportunities for car conversion systems. Thanks to the agreement with Clean Energy Compression it has created the second Group worldwide in this segment in terms of business volume, with a market share in Europe and the United States exceeding 15%.

Finally, thanks to the Eighteen Sound S.r.l. company, up until its transfer which took place at the beginning of December 2017, the Group also operated in the design and production of **speakers** for **professional use**.

The brands

The Landi Renzo Group pays particular care over the image of its brands, developed through marketing activities at international level and direct strategic communication to its customers and final users. The identifying brand name of the Landi Renzo Group was first conceived in 2015 to communicate the values shared by the companies that are part of its: an constant aspiration towards **Innovation**, **Internationalisation** and **Continuous Training**

The Landi Renzo Group brands



Mission and vision

“Building a cleaner world and drafting a better future for the next generations, abiding by the highest standards of social responsibility towards the territory, society and the environment in the dissemination of an eco-sustainable mobility culture.”

This is the Group's mission, which offers a tangible contribution to this ambitious goal: for over 60 years the Landi Renzo Group has been providing concrete and effective answers to environmental sustainability issues. Technology, innovation, respect for the planet and human beings are values that the Group aspires to on a daily basis.

Gas systems to improve living standards

- Promoting the use of innovative and state-of-the-art systems to fight atmospheric pollution, climate change and improve living standards.
- Research and development are designed to encourage the use of alternative, cheaper fuels that are not harmful to the environment.
- Spreading a culture of sustainable mobility

Market Driven approach:	<ul style="list-style-type: none"> - Listen and support customers - Meet and exploit the requests of customer/market requests without bowing to the market - Integration at national and international level
Becoming better at what we do:	<ul style="list-style-type: none"> - Improving every aspect of operating management, reducing costs and aiming to meet our KPIs. - Process efficiency - Maintain focus on the future
Motivation and playing by the rules:	<ul style="list-style-type: none"> - Reinforcing inclusion and motivation of all resources - Creating a feeling of belonging and appreciating the experience of the group's resources - Defining clear rules of conduct
Promoting a path towards achievement and getting results:	<ul style="list-style-type: none"> - Empowering resources, with clear and specific objectives - Planning and deciding based on analysis - Focus on <<right now>> execution and fast action

The values

Ever since its inception, the Group's DNA has stood out for its profound belief that the people are the fundamental added value for the success of the Landi Renzo Group worldwide. This awareness is borne out by the choice of values that inspire the Group's activities on a daily basis.

- **Reliability:** To provide appropriate guarantees in terms of safety to all stakeholders: from collaborators to customers, suppliers, the distributor network, the installers, right up to partners and investors.
- **Growth:** Thanks to constant training programmes and professional refresher courses capable of improving the skills and culture of our employees, at all levels.
- **Respect:** For work, ideas, the personal development of each individual, for the environment, civil society and laws and regulations.
- **Transparency:** Through a model of governance that promotes and guarantees a solid and concrete basis on which one can build further growth.
- **Innovation:** With a rigorous research activity which, along with the precious experience gained over time, places the company at the forefront in all the business sectors in which it operates.
- **Quality:** By setting itself high standards capable of satisfying the expectations and requirements of each and every customer.

The ecological and economic contribution of gas as a transportation fuel

The use of methane and LPG has considerable advantages from many points of view, over both petrol and diesel fuels.

For example **methane**, in Italy, for the same km travelled, is currently 60% cheaper compared to petrol. Among all fossil fuels, the methane molecule (CH₄) is the simplest and the one with the highest degree of hydrogen. For this reason, for the same amount of energy produced, methane produces approximately 20% less CO₂ than petrol. Plus, a methane fuelled car usually has lower nitrogen oxide, carbon monoxide and unburned hydrocarbon emissions. Thanks to improved combustion, methane fuelled vehicles benefit from an extension in the interval between oil changes up to 40,000 km and it's not unheard of to find methane fuelled cars still in circulation after travelling 350,000-400,000 km, and in some cases even 500,000. Many of these advantages are due to the fact that methane is a gas and it mixes much more efficiently with air in the combustion chamber.

Similar performance levels can also be achieved with LPG, with the sole exception of the CO₂ produced, which is greater than methane though still 11% less compared to petrol. Furthermore, being a gas, both methane and LPG do not pollute the soil, water or groundwater. LPG is a by-product of oil refining, of which it is the lighter fraction. It is mainly made up of propane, the same that is usually used in lighter fuel, which is often referred to as liquid propane gas. At normal environmental temperatures LPG remains in a liquid state if stored under a pressure of a few atmospheres and as such can easily be transported in simply reinforced tanks, in similar quantities to petrol. In Italy the use of LPG instead of petrol allows saving in the order of 60%.

In this context the Landi Renzo Group stands as a concrete solution to environmental problems by providing technologies capable of significantly reducing CO₂ emissions, as well as nitrogen oxides and particulate matter compared to diesel fuelled vehicles, that are the greatest cause of atmospheric pollution and the resulting effects on health that these can have. Methane and LPG are acknowledged as a short and medium term solution in the gradual shift towards the widespread electrification of vehicles, which is not expected to take place before a couple of decades and in any case only for light duty vehicles.

Governance and Sustainability

The stakeholders and relevant issues

The Landi Renzo Group considers Social Responsibility as a true expression of its values and an integral part of its mission and its corporate strategy, as well as the basis on which it builds trust and credibility in its reference stakeholders.

Relationships based on constant interaction and active involvement are essential to the responsibility that the Group feels towards the context in which it operates. The stakeholders represent a broad range of different interests. For this very reason, establishing and maintaining stable and long-lasting relationships is crucial in order to create shared and long term value. In order to achieve this it becomes increasingly important to analyse the requests made by stakeholders in order to set up mutually advantageous relationships, based on transparency, trust and shared decisions.

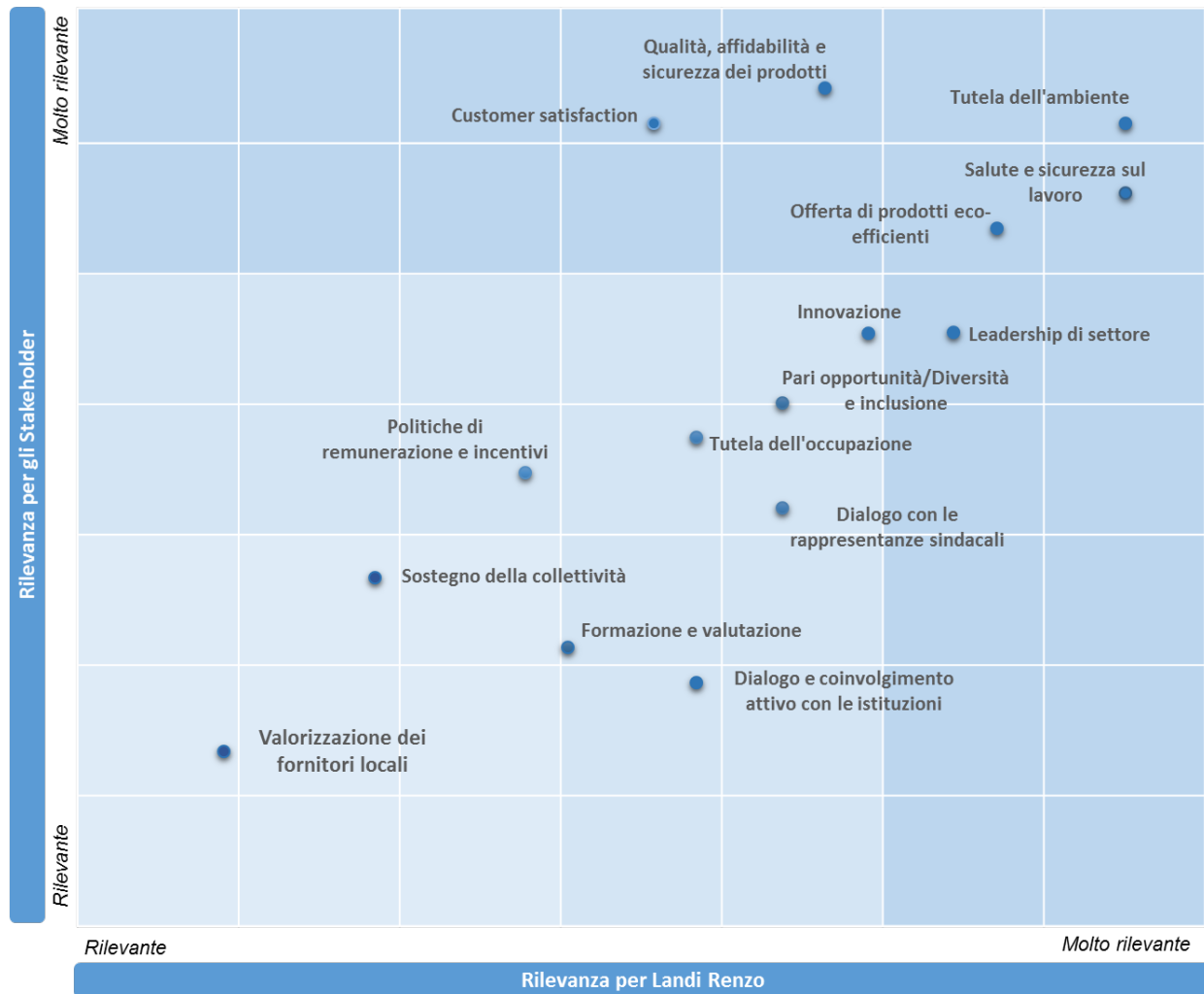


In order to promote the creation of a sustainable corporate project and consistently with what is required by GRI standards, in 2017 Landi Renzo has updated its relevant (material) issues identified during the previous year in order to focus the contents of the Non Financial Statement along the lines of the business strategy, the mission, the company values and the social and environmental strategic priorities.

The issues that are considered relevant, that is to say material, are those issues that have a significant impact on the Group's economic, social and environmental performance and could have a significant influence on stakeholder evaluations and decisions. In this context, the materiality analysis takes into account not just the organisation's point of view, but also that of the stakeholders. The analysis process has involved a first phase for the identification of potentially material sustainability issues for Landi Renzo and its stakeholders (carried out by an analysis of the issues suggested by the GRI in the document: "*Sustainability Topics for Sectors: What do stakeholder want to know?*", the knowledge of the sector and media search activities) and a subsequent assessment by personnel in the various company departments to establish the most relevant issues to be detailed in the Non Financial Report. Subsequently the identified aspects were prioritized based on the relevance for the Group and for the stakeholders, in order to establish a priority ranking for the various issue.

The materiality of the Landi Renzo Group resulting from the prioritisation of the issues is shown in the following matrix which represents the two assessed dimensions:

Materiality matrix



Rilevanza per gli stakeholder: Relevance for stakeholders
Rilevante: Relevant
Molto Rilevante: Very Relevant
Rilevanza per Landi Renzo: Relevance for Landi Renzo
Customer Satisfaction
Qualità, affidabilità e sicurezza dei prodotti: Product quality, reliability and safety
Tutela dell'ambiente: Environmental protection
Offerta di prodotti eco-efficienti: Offer of eco-efficient products
Salute e sicurezza sul lavoro: Health and Safety at the workplace
Innovazione: Innovation
Leadership di settore: Segment leadership
Pari opportunità/Diversità e inclusione: Equal opportunity/ Diversity and inclusion
Politiche di remunerazione e incentivi: Remuneration and incentive policies
Tutela dell'occupazione: Protection of occupation
Dialogo con le rappresentanze sindacali: Dialogue with trade union representatives
Sostegno della collettività: Support for the collectivity
Formazione e valutazione: Training and assessment
Dialogo e coinvolgimento attivo con le istituzioni: Dialogue and active involvement with institutions
Valorizzazione dei fornitori locali: Boosting local suppliers

The matrix also reports all the issues that are considered material for the Landi Renzo Group. In the top right we find the issues that have the greatest relevance for both Landi Renzo and the stakeholders and these are: **Environmental protection; Health and Safety at the workplace; Product quality, reliability and safety; Offer of eco-efficient products; segment leadership and Customer Satisfaction.**

It should also be noted that in the definition of material issues the following aspects were considered **pre-conditions** to operate and are therefore assessed as very relevant for both the Landi Renzo Group and for the stakeholders:

a) creation and distribution of sustainable value over time;

b) a transparent and effective governance system in support of business;

c) constant attention paid to compliance with the law in the performance of one's activities.

The issues of human rights, ethical aspects in the selection of suppliers and the fight against active and passive Corruption, although not reported in the materiality analysis, are considered important issues, for this reason they are also reported on in the document.

A prospectus is provided below correlating the relevant issues and the aspects and indicators foreseen by the *GRI Standards Sustainability Reporting Guidelines* and by the Decree with the relative impact perimeter. The issues identified as the most relevant are reported in the specific sections of the Financial Statements.

ID	Material issue	Links to Aspects of the Gri Standards	Paragraph reference and referral to the relative documents	Links to aspects of Italian Legislative Decree 254/2016**	Internal impacts	External impacts
1	Health and Safety at the workplace	Occupational Health and Safety (403-2)	<ul style="list-style-type: none"> Protection of Health and Safety at the workplace 	Personnel	Group Landi Renzo	Collaborators
2	Professional enhancement, training and competence development	Training and education (404-1;404-3)	<ul style="list-style-type: none"> Training; Assessment of personnel and professional development. 	Personnel	Group Landi Renzo	Collaborators
3	Equal opportunity/ Diversity and inclusion	Diversity and equal opportunity (405-1)	<ul style="list-style-type: none"> Human rights, diversity and Equal opportunity; Report on Corporate governance and Ownership Structure 	Diversity	Group Landi Renzo	Trade union organisations
4	Dialogue with trade union representatives	Labour/ Management Relations (402-1) General disclosures (102-41)	<ul style="list-style-type: none"> Trade union relations and occupation protection. 	Personnel	Group Landi Renzo	Trade union organisations

5	Protection of occupation	Employment (401-1), Labour/Management Relations (402-1)	<ul style="list-style-type: none"> ▪ Personnel composition and management; ▪ Turnover; ▪ Trade union relations and occupation protection. 	Personnel	Group Landi Renzo	Trade union organisations
6	Remuneration and incentive policies	Employment (401-2) General disclosures (102-35)	<ul style="list-style-type: none"> ▪ Report on Corporate governance and Ownership Structure; ▪ Compensation and benefits. 	Personnel	Group Landi Renzo	Collaborators
7	Quality, reliability and safety of products and services offered	Customer Health and Safety (416-1;416-2)	<ul style="list-style-type: none"> ▪ The constant attention paid to quality 	Social	Group Landi Renzo	Customers
8	Technological innovation of processes and/or products	(*)	<ul style="list-style-type: none"> ▪ Innovation in research and development: a model of excellence 	Social	Group Landi Renzo	Customers
9	Listening and satisfying customers	General disclosures (102-43;102-44)	<ul style="list-style-type: none"> ▪ Relations with customers: contact channels, satisfaction monitoring and training 	Social	Group Landi Renzo	Customers
10	Dialogue and active involvement with institutions	General disclosures (102-43;102-44)	<ul style="list-style-type: none"> ▪ The dialogue with the entities and the institutions in the active participation towards sustainable development. 	Social	Group Landi Renzo	Bodies, Institutions and the Public Administration Environment
11	Consolidation of sector leadership / Expansion into international markets	(*)	<ul style="list-style-type: none"> ▪ The Landi Renzo Group worldwide; ▪ Other products and markets in which the Group operates. 	Social	Group Landi Renzo	Customers

12	Support for the collectivity	Economic performance (201-1) General disclosures (102-14;102-44)	<ul style="list-style-type: none"> ▪ The creation and distribution of generated wealth; ▪ The dialogue with the entities and the institutions in the active participation towards sustainable development. 	Social	Group Landi Renzo	Collectivity
13	Boosting local suppliers	Procurement Practices (204-1) General disclosures (102-09)	<ul style="list-style-type: none"> ▪ Enhancing the local economy. 	Supply chain	Group Landi Renzo	Supplier collectivity
14	Environmental protection in terms of the efficient use of resources and the reduction of atmospheric emissions	Energy (302-1), Emissions (305-1; 305-2) Water (303-1)	<ul style="list-style-type: none"> ▪ Environmental performance. 	Environment	Group Landi Renzo	Collectivity Environment
15	Offer of eco-efficient products	Energy (302-5)	<ul style="list-style-type: none"> ▪ Innovation in research and development: a model of excellence 	Environment	Group Landi Renzo	Customers Environment

* In relation to the issue at hand (not directly linked to an Aspect foreseen by the GRI Standard Guidelines), in the document Landi Renzo describes the management approach adopted.

** The contexts of human rights, ethical aspects in the selection of suppliers and fight against active and passive corruption, although outlined in the document, are not considered essential for the Group.

Main non-financial risks

In addition to the risks outlined in the Annual Financial Report in the section entitled Other Information, the Group's business activities are exposed to non-financial risks mainly relating to employee health and safety, personnel management, safeguarding the environment, corruption, human rights and the supply chain. With regard to aspects covered by the certification of management systems adopted, these risks were assessed before adopting these systems, whereas risks relating to aspects not covered by certified management systems were identified by considering the Group's typical business activities and the characteristics of the reference market. An overview of these risks follows, and subsequent sections outline more detailed information and the policies and actions adopted by the Group to manage them.

Health & Safety in the Workplace

The main risks are linked to employees engaged in production activities, as they are exposed to typical industrial risks due to work procedures in engineering companies, in particular processes to design, develop and produce pressure regulators, valves, electronic devices and accessories for fuel gas systems for internal combustion engines. These risks consist of mechanical and chemical risks, in addition to risks due to manually handling loads and those resulting from procedures with electronic equipment and testing.

Personnel management

Given the socio-economic context, the Group focuses on relations with employees and trade unions to reduce risk to employees involved in necessary restructuring activities. Emphasis is also being placed on eliminating risks that may transpire during the personnel selection phase, such as the absence of transparency in the candidate identification process, selected resources failing to have the suitable requisites, non-objective skills assessments, entry levels (role and remuneration) inconsistent with the skills and experience of candidates, and discrimination. There may be additional risks due to the quantitative and qualitative unsuitability of human capital with respect to the business model and the development of strategic business requirements, and unsuitable or insufficient training.

Safeguarding the environment

The main environmental risks for the Group concern the typical activities of an engineering company with a low environmental impact and include:

- emissions into the atmosphere from external traffic, power and production plants, ozone pollutants and greenhouse gases;
- domestic and industrial wastewater, especially rainfall runoff;
- consumption of electricity, methane, groundwater, water supplies or other materials;
- sound pollution caused by vehicular traffic and production plants;
- electromagnetic pollution, pollution of the soil/subsoil from chemicals and potential particulate caused by the presence of asbestos roofing at one site.

All hazards and risks to the environment were identified and assessed in accordance with legislation, and all technical and organisational safety and prevention measures implemented.

Corruption

The company operates in countries with a risk of corruption which is medium-high (Italy, Brazil and Romania) and high (China, India, Iran, Argentina and Pakistan). This risk mainly concerns corruption between private parties as the Group does not usually deal with public organisations. The greatest risk profile in this regard relates to the subsidiary SAFE S.p.A. which also conducts its business by participating in tenders.

Human rights

Some geographical areas where the company carries out its production activities present a potential risk relating to the violation of human rights, such as child labour and exploitation, forced labour, and violation of the rights of employees and individuals in general.

These activities are appropriately governed by company policies. The countries that present the greatest risk in this regard are India, China, Iran, Pakistan and Brazil.

Supply chain

The main environmental risks along the Group supply chain, with particular reference to direct suppliers of materials, concern risks relating to pollution of the soil and water due to the incorrect disposal of water and liquids for machine maintenance and cooling, in addition to atmospheric pollution caused by open dumps with raw materials for steel production and fumes caused by processing plastics and ferrous materials. From a social perspective and in terms of respecting human rights, given that most of the Group's suppliers operate in Italy and Europe the risks relate to suppliers not complying with reference standards.

Corporate Governance

Corporate governance is the set of rules, systems and mechanisms designed to effectively implement the organisation's decision-making processes in the interest of Group stakeholders. The parent company **Landi Renzo S.p.A. complies with the regulatory codes drawn up by the committee for the corporate governance of listed companies** and published in July 2015. A traditional governance system is in place which includes three structures - the Shareholders' Meeting, Board of Directors and Board of Auditors.

Board of Directors

The Board of Directors is the governing body that controls the company with powers allocated in accordance with legislation and statute. It operates to ensure the efficient and effective implementation of its functions. Directors operate and make decisions to achieve the aim of creating value for shareholders, and report on management issues during the Shareholders' Meeting. With regard to appointing and replacing the Board of Directors and/or its members, company statute requires board members to be elected on the basis of candidate lists in accordance with the methods outlined in detail in the *Report on Corporate Governance and Ownership Structure* (attached to this document) and existing legislation on gender representation. On 29 April 2016 during the Shareholders' Meeting, the Board of Directors was appointed with eight members, who will remain in office until the budget is approved on 31 December 2018.

On 28 April 2017 a decision was made during the Shareholders' Meeting to increase the number of board directors from eight to nine. On 17 October 2017 a proposal to reduce the number of board members from nine to eight was approved at the Shareholders' Meeting following the resignation of Claudio Carnevale. The current managing director Cristiano Musi was appointed by the Board of Directors on 28 April 2017.

Committees under the Board of Directors

There are no committees under the Board of Directors other than those stipulated by the regulatory code, with the exception of the Related Party Transactions Committee to comply with the requirements of related party regulations.

The company has not set up any committees that carry out the functions of two or more of the committees set out in the regulatory code, or reserved these functions for the entire Board of Directors under the coordination of the Chairperson, or split these functions differently to the information in the regulatory code.

The following committees are under the Board of Directors:

- The *Remuneration Committee* has the task of formulating proposals for the Board of Directors, in the absence of those concerned when they are part of the Committee, on remuneration for the Managing Director and those directors who hold particular positions, and regularly assesses the criteria adopted for the remuneration of managers with strategic responsibility, supervising their application and providing general recommendations. The Remuneration Committee has three members, the Chairperson and non-executive independent director Mr Ivano Accorsi, the non-executive and independent director Ms Sara Fornasiero, and the non-executive director Mr Angelo Iori. All members have suitable financial and accounting experience and knowledge. With regard to determining

remuneration for board members, an amount is allocated at the Shareholders' Meeting for the duration of the mandate, which may consist of a fixed amount and a variable amount commensurate with set financial results and or/objectives achieved by the company. For the purpose of obtaining STAR qualification, stock exchange regulations require the Remuneration Committee to include a significant part of the variable remuneration element for executive directors and directors to be incentive-linked. Consult the report on remuneration published in accordance with article 123 *ter* of the Consolidated Act for information on general remuneration policy, share-based remuneration plans, the remuneration of executive directors, the general manager and managers with strategic responsibility, and non-executive directors.

- The *Audit and Risk Committee* ensures that assessments and decisions by the Board of Directors regarding internal audit and risk management systems, the approval of budgets and six-monthly reports, and reports between the Issuer and external auditor, are supported by suitable preliminary actions. For this purpose the Audit and Risk Committee has three members with suitable financial and accounting experience and knowledge, Ms Sara Fornasiero as Chairperson and non-executive independent director, Mr Ivano Accorsi as a non-executive and independent director, and Mr Angelo Iori as a non-executive director.
- The *Related Party Transactions Committee* has two independent directors, Sara Fornasiero and Ivano Accorsi. This committee is responsible for ensuring the integrity of transactions with related parties by giving an opinion on the company's interest in completing a specific transaction, and the integrity and benefit of the corresponding conditions.

Board of Auditors

Members of the Board of Auditors are selected on the basis of their ability to meet requirements of professionalism, independence and integrity in accordance with legislation and regulations. The Company Board of Auditors was nominated during the Shareholders' Meeting on 29 April 2016 and will remain in office until the approval of the budget on 31 December 2018.

Internal audit and risk management system

The internal audit and risk management system is the set of rules, procedures and organisational structures designed to enable the company to conduct its business correctly and in line with set objectives, through a suitable risk identification, measurement, management and monitoring process.

The Board of Directors has outlined the nature and level of risk compatible with strategic company objectives in the definition of strategic, industrial and financial plans. Their assessment has included all risks that may be relevant in terms of sustainability in medium to long-term company activities, and the definition of policy guidelines for the internal audit and risk management system.

The policy guidelines for the Landi Renzo Group's internal audit and risk management system have been defined by the Board of Directors with the support of the Audit and Risk Committee, and identify the internal audit and risk management system as an integrated process applied across all company activities which is based on international principles of Enterprise Risk Management (ERM).

The purpose of the internal audit and risk management system is to help the Group achieve its performance and profit objectives, obtain reliable economic/financial information, and ensure compliance with existing legislation, avoiding damage to the company's reputation and financial losses. In this process particular importance is given to the identification of corporate objectives, and the classification and control of corresponding business risks by implementing specific actions to contain such risks.

There are various types of potential business risks - strategic, operational (related to the effectiveness and efficiency of business operations), reporting (related to the reliability of economic/financial information), compliance (related to compliance with existing legislation and regulations to avoid damage to the company's reputation and/or financial losses).

The Board of Directors assesses the effectiveness of the internal audit and risk management system annually, and its suitability with regard to company characteristics on the basis of information and evidence received with the support of preliminary activities implemented by the Audit and Risk Committee, the internal audit manager, and the Supervisory Board as per legislative decree 231/2001.

Governance Model as per Legislative Decree 231/2001, Code of Ethics and Anti-Corruption

The Landi Renzo S.p.A. Board of Directors approved its Governance Model in accordance with Legislative Decree 231/2001 on 20 March 2008.

The Model was drawn up on the basis of guidelines issued by Confindustria (Italian industry confederation) in accordance with the relevant legislation, and sets out standards for behaviour, procedures and management activities, in addition to powers and mandates designed to prevent the offences outlined in legislative decree 231/2001.

It has been updated since it was first adopted following proposals from the Supervisory Board, with subsequent resolutions by the Board of Directors (12 November 2008, 26 August 2010, 28 August 2012, 27 August 2013, and finally 12 November 2015) in order to maintain stability and efficiency in light of the Group's changing business conditions and the most recent legislation. During 2012 the Model was updated to include corporate liability for environmental crimes as per legislative decree 231/2001. The Model was further updated in 2013 when Act 190/2012 (anti-corruption provisions) came into force. The last update in 2015 was included for the new crime of self-laundering (article 648-ter1 of the penal code). The Governance Model was published and communicated to all personnel, third-party contractors, customers, suppliers and partners. A future aim is to include an update relating to whistleblowing to comply with act 179 of 30 November 2017, which protects individuals reporting crimes or causes for concern they become aware of in a private or public work setting.

A Supervisory Board has been set up to ensure the Model is implemented correctly, and, currently consists of Jean-Paule Castagno, Sara Fornasiero and Enrico Gardani (discharged on 31 January 2018), who were appointed for this role until approval of the budget on 31 December 2018. The Supervisory Board sends the Board of Directors a written report every six months on the effective knowledge and implementation of the Governance Model within each company department. The implementation of suitable regular and/or sporadic information flows to the Supervisory Board is another important tool for the Board to

meet its legal monitoring responsibilities, and hence for the effectiveness of the Model in preventing liability.

No breaches of the Model or irregularities have emerged after examining any information received from managers in the various areas of the company and/or obtained autonomously with the support of the internal auditing department, and no acts or conduct have come to light that constitute an infringement of the regulations contained in legislative decree 231/2001. In 2017 no assessments were carried out on processes/companies at risk of corruption as part of the activities requested by the Supervisory Board and implemented by the manager of the internal audit department.

As part of the actions to implement the Model, the Board of Directors adopted the Landi Renzo Group Code of Ethics, which defines the underlying values and principles of the company's business methods, and the rules and standards of good conduct to implement these principles. The Code of Ethics is binding for all of the Group's associates, and was reviewed in 2015 as part of the update to the Governance Model (231) following the introduction of the crime of self-laundering, and is currently being updated in relation to the crime of active and passive corruption. All senior executives were provided with suitable training sessions on the matter as a priority. Other employees in the group were sent the Code of Ethics by e-mail along with a summary of the main principles of the Decree. Each time the Code of Ethics is updated, the chairman sends an e-mail to all employees containing the update. An e-learning training course is also available and is an integral part of the induction programme for new hires. No episodes of corruption were detected in 2017.

Company Performance

Human Resources

Focusing on **people** is key for the Landi Renzo Group in supporting company growth over time. The creation of a stimulating and cooperative work environment that **appreciates individual skills** while encouraging development is crucial in a personnel management policy. As a result, the company is committed to encouraging **respect for company values** geared towards relationships modelled on **integrity, transparency, impartiality and honesty**.

HR management and structure

The Landi Renzo Group is a company with enterprising individuals who are committed to pursuing innovation. The results and success achieved by the Group over the years is due to their commitment and expertise. At the end of 2017 the Landi Renzo Group had 710 employees (599 excluding the 38 employees of Eighteen Sound S.r.l. and the 73 employees of SAFE S.p.A.), with **12.7% less employees** than in 2016. The two-year period saw a decrease in the workforce resulting from the complex market situation the Group was facing. In 2017 the significant drop was mainly due to **redundancy schemes** (short-working and lay-offs) required to achieve cost reduction targets and deal with the unfavourable market situation. The table shows how the reduction concerned the entire group with the exception of the European area.

Number of employees by geographical region and gender

GROUP EMPLOYEES BY GEOGRAPHICAL REGION AND GENDER	2016			2017		
	Male	Female	Total	Male	Female	Total
Italy	374	225	599	326	217	543
Europe (excluding Italy)*	59	19	78	60	19	79
Asia**	49	10	59	39	9	48
America***	27	18	45	29	11	40
Total	509	272	781	454	256	710

* Poland and Romania

** Pakistan, Iran and China

***Argentina, USA and Brazil

Number of employees and collaborators by gender

WORKFORCE BY GENDER - EMPLOYEES AND COLLABORATORS	2016			2017		
	Male	Female	Total	Male	Female	Total
Employees	509	272	781	454	256	710
Temporary staff	55	51	106	70	62	132
Other contract types	1	0	1	3	0	3
Total	565	323	888	527	318	845

Despite the reduction in staff, approximately 86% of employees have a **permanent contract** in line with previous years. Average **length of service** in 2017 was **5.28 years**, slightly longer than the previous year (4.59 years).

Number of employees by contract type and gender

EMPLOYEES BY CONTRACT TYPE AND GENDER	2016			2017		
	Male	Female	Total	Male	Female	Total
Permanent	434	251	685	381	235	616
Fixed term	75	21	96	73	21	94
Total	509	272	781	454	256	710
Contracts that became permanent	1	0	1	1	0	1

In terms of employee categories, office personnel continue to be the main category at roughly 48% of the total, followed by manual workers (roughly 38%). In absolute terms the effect of the redundancy schemes on the aforementioned categories is evident.

Number of employees by professional category and gender

EMPLOYEES BY PROFESSIONAL CATEGORY AND GENDER	2016			2017		
	Male	Female	Total	Male	Female	Total
Senior managers	18	0	18	16	1	17
Middle managers	68	10	78	63	9	72
Office personnel	271	118	389	240	103	343
Manual workers	152	144	296	135	143	278
Total	509	272	781	454	256	710

Employee percentage by level of education and gender

EMPLOYEES BY LEVEL OF EDUCATION AND GENDER	2016			2017		
	Male	Female	Total	Male	Female	Total
Bachelor's Degree/Master's Degree	171	58	229	150	53	203
High school diploma /Qualification	223	104	327	202	94	296
Middle school diploma	115	110	225	102	109	211
Total	509	272	781	454	256	710

The **different professional profiles** and **breadth of skills** in the company are a **distinctive feature** of the Landi Renzo Group. Employee categories in terms of level of education is in line with business requirements, with 41% of employees in possession of an upper middle school diploma, 30% with a lower middle school diploma, and 29% with a university degree.

The more junior categories engage with the company via work experience schemes. 13 work experience schemes were set up in 2017 and mainly implemented at the Group's Italian premises, which was less than previous years.

The average age of employees has not changed significantly and is basically in line with figures for the previous year (38.44 years of age compared with 38.36). It should be noted however that there is a prevalence of staff in the 36-50 age range (57% of total employees).

Number of employees split by age

EMPLOYEES SPLIT BY AGE	2016		2017	
	Male	Female	Male	Female
18-35	181	147	147	147
36-50	460	417	417	417
>50	140	146	146	146
Total	781	710	710	710

Employee turnover

With an awareness that employee satisfaction is essential for company success, the Landi Renzo Group encourages an **increase in skills** and **continuous professional development**. For this reason company **recruitment policy** prioritises the search for **young candidates with significant potential** who are offered stimulating development paths.

The personnel selection process is particularly thorough, and is implemented through methods to evaluate potential, interviews, and technical and aptitude tests. During this phase the opportunities available and company expectations are clarified in the interest of mutual understanding. Recruitment processes are managed by the HR management team, who source potential candidates from lists provided by the main schools and universities, and CVs sent with speculative applications.

As mentioned previously, the Landi Renzo Group was dealing with a **very complex market situation in 2017**. Among the Group's 40 new employees are 12 women and 28 men, 23 of whom are between 18-35 years old, 13 between 36-50 years old, and 4 over 50 years old.

Among the 111 employees who left the Group, there were 31 women and 80 men, 43 of whom between 18-35 years old, 50 between 36-50 years old, and 18 over 50 years old.

Employees recruited by age group, gender and geographical area

EMPLOYEES RECRUITED BY AGE AND GENDER	2016			2017		
	Male	Female	Total	Male	Female	Total
18-35	19	7	26	14	9	23
36-50	12	3	15	10	3	13
>50	6	1	7	4	0	4
Total	37	11	48	28	12	40
EMPLOYEES RECRUITED BY GEOGRAPHICAL AREA AND GENDER	2016			2017		
	Male	Female	Total	Male	Female	Total
Italy	17	3	20	13	3	16
Europe (excluding Italy)*	7	3	10	6	3	9
Asia**	9	3	12	0	5	5
America***	4	2	6	9	1	10

Total	37	11	48	28	12	40
* Poland and Romania						
** Pakistan, Iran and China						
***Argentina, USA and Brazil						

Former employees by age group, gender and geographical area

FORMER EMPLOYEES BY AGE GROUP AND GENDER	2016			2017		
	Male	Female	Total	Male	Female	Total
18-35	32	11	43	26	16	42
36-50	35	11	46	39	12	51
>50	9	5	14	15	3	18
Total	76	27	103	80	31	111
FORMER EMPLOYEES BY GEOGRAPHICAL AREA AND GENDER	2016			2017		
	Male	Female	Total	Male	Female	Total
Italy	48	16	64	58	14	72
Europe (excluding Italy)*	3	3	6	5	3	8
Asia**	16	3	19	10	6	16
America***	9	5	14	7	8	15
Total	76	27	103	80	31	111
* Poland and Romania						
** Pakistan, Iran and China						
***Argentina, USA and Brazil						

Rate of employee turnover increased in the two-year period. This figure was undoubtedly **influenced** by factors relating to the companies abroad, but even more significantly by management decisions implemented in some Italian companies regarding **redundancy schemes (short-working and lay-offs)**.

RATE OF TURNOVER	2016			2017		
	Male	Female	Total	Male	Female	Total
Rate of turnover	14.9	9.9	13.2	17.6	12.1	15.6
Rate of turnover has been calculated as the ratio of terminations in the period to no. of staff at start of period *100						

Trade union relations and employment protection

The management of trade union relations in the Landi Renzo Group is based on consultation and proactive cooperation while respecting reciprocal roles. The National Collective Employment Agreements for industry and SMEs apply at Landi Renzo S.p.A. and Italian subsidiaries respectively, meaning that 100% of employees in all of the Italian companies are covered by this contract. No significant trade union activity has occurred in relation to foreign companies during the three-year period. With regard to notice periods for organisational changes, employee contracts in the Italian companies are in line with the aforementioned collective contracts, whereas the notice periods for the companies Landi Renzo RO S.r.l. and Landi Renzo USA Corporation are 4 and 2 weeks respectively.

Furthermore, a supplementary agreement is in place as a result of second-tier negotiations at the companies Landi Renzo S.p.A., AEB S.p.A., Lovato Gas S.p.A., Eighteen Sound S.r.l. and SAFE S.p.A., which defines conditions that are even more favourable for company employees than the aforementioned collective contract.

In the first 6 months of 2017 a reduced-hours contract was in place which had been agreed in July 2016 between the companies Landi Renzo S.p.A., AEB S.p.A. and the trade unions, which meant there were 4,948 hours of utilisation under this arrangement at AEB S.p.A. and 4,940 hours at Landi Renzo S.p.A.

A general, cohesive principle was applied to the reduced-hours contract, by adopting a standard percentage reduction in hours and carefully managing exceptions and contingencies. Special management procedures were also defined for categories which by law are not included in the scope of reduced-hours contracts.

Following the presentation of the Strategic Plan in September 2017, the companies Landi Renzo S.p.A., AEB S.p.A. and Lovato Gas S.p.A. were involved in trade union negotiations on the Group's restructuring plan. A merger process commenced to incorporate the company AEB S.p.A. into Landi Renzo S.p.A. with the transfer of employees as a result and, in the month of December, redundancy procedures were implemented for 53 employees. Redundancy procedures were implemented for a total of 67 employees in the company Lovato Gas S.p.A. In both cases an agreement was made with the trade unions to ensure the best conditions and support for the employees involved. In particular, over and above the standard support measures, the redundancy procedure involved access to a specialist service with outplacement support consisting of career guidance and coaching.

As a result of the company's difficult economic situation in the last year, trade union activity increased considerably to deal with employee information and support requirements. Most activity corresponds to a percentage increase of hours in meetings, in addition to the use of total permitted union time in companies involved in redundancy schemes. In 2017 hours of absence due to meetings and union activities amounted to 1,676 with a percentage increase of 27.7% compared with 2016.

Hours of absence due to strike action, influenced by company operations and the Group's restructuring plan involving significant personnel cuts, amounted to 6,102 hours out of a total of more than 1.2 million hours worked in the year.

Hours of absence due to meetings, union activities and strikes

PARTICIPATION IN UNION ACTIVITIES (h)	2016	2017
Hours of absence due to meetings and union activities	1,312	1,676
Hours of absence due to strikes	1,253	6,102

One trade union organisation predominates in most of the Group's Italian companies.

Human rights, diversity and equal opportunities

A commitment to human rights when carrying out business activities was established with the adoption of the Group's Code of Ethics. The Group understands that people are essential for business success, and strives to protect human resources and ensure they have job satisfaction by demanding that organisational power and responsibility be practised fairly and with integrity, and punishing any behaviour that could affect the personal and professional dignity of any colleague. The Group is committed to providing a work environment where relationships between colleagues are based on loyalty, integrity, cooperation, honesty, respect and mutual trust, by ensuring the physical and psychological wellbeing of colleagues, decent work

conditions that respect personal dignity, and safe, healthy work environments. The Group therefore takes steps to ensure no acts of violence or physical/psychological coercion exist, or any conduct or behaviour that is detrimental to personal dignity. There are departments within the organisation appointed to gather reports of breaches of human rights, such as the HR department for reports from employees and the purchasing and business departments for reports from customers and suppliers. The activities of these departments are combined with those of the Supervisory Body, which has set up an e-mail address for reporting non-compliance with the Governance Model (231). This reporting channel was communicated to everyone and can be viewed in the section on Investor Relations at www.landirenzogroup.com. In other countries, such as Poland, there is a dedicated telephone line for reports from employees.

Finally, the Group is aware of the effect, even indirect, its business activities may have in the community where it operates, and strives to conduct its business in accordance with universal human rights and with respect for local and national communities. No areas at risk of breaching human rights were identified in 2017 and no reports of cases of discrimination or violation of these rights were received.

Human resource management in the Group is geared towards **integration and respect for diversity**, and focuses on preventing any type of discrimination on the basis of gender, nationality, ethnicity, sexual orientation, class, appearance, religion or political orientation. A work-life balance is promoted through part-time employment contracts mainly accessed by female personnel, who in many cases exceed the percentage of part-time employees set out in the relevant collective contract.

EMPLOYEES BY CONTRACT TYPE (no.)	2016			2017		
	Male	Female	Total	Male	Female	Total
Full-time	508	243	751	449	227	676
Part-time	3	30	33	5	29	34
Total	511	273	784	454	256	710

There are **34** people belonging to **protected categories** within the Landi Renzo Group.

Company policy is to select personnel belonging to these categories according to the roles and skills required by the company through agreements with the relevant organisations, instead of proceeding with exemptions.

Employees belonging to protected categories

EMPLOYEES BELONGING TO PROTECTED CATEGORIES (no.)	2016			2017		
	Male	Female	Total	Male	Female	Total
No. of employees belonging to protected categories	18	15	33	19	15	34

Training

The Landi Renzo Group considers the learning process as an ongoing experience that accompanies people throughout their career. People's knowledge and ability to innovate are critical for success and must be nurtured continuously.

Investing in training is therefore a natural way of increasing company value, by developing, optimising and spreading knowledge and increasingly transferable skills to ensure effectiveness, flexibility and a tendency towards innovation.

The Landi Renzo Corporate University was set up in June 2006 to provide high-profile training geared towards developing research, technological innovation and managerial development.

The **mission** of the Landi Renzo Corporate University has always been to support **knowledge creation and capitalisation among the people** working in the Group and for the Group, spreading a culture of sustainable mobility. This therefore has an essential role in company policy for development and competitiveness, by accompanying and supporting long-term planning, the implementation of strategic company plans, and the consolidation and spread of a culture of sustainable mobility. The Corporate University **plans, designs and manages** professional training for Landi Renzo Group staff and its network of installers. Within this process it focuses on choosing training methods and tools in line with individual requirements and learning styles and professional development goals. In training programmes priority is given to non-traditional methods, which are often more effective in developing a culture of ongoing individual learning. The Corporate University Faculty has external trainers as well as Landi Group experts, whose engagement in education and training activities is deemed crucial for stimulation and personal development, and an asset for capitalising on and spreading key skills developed in the Group.

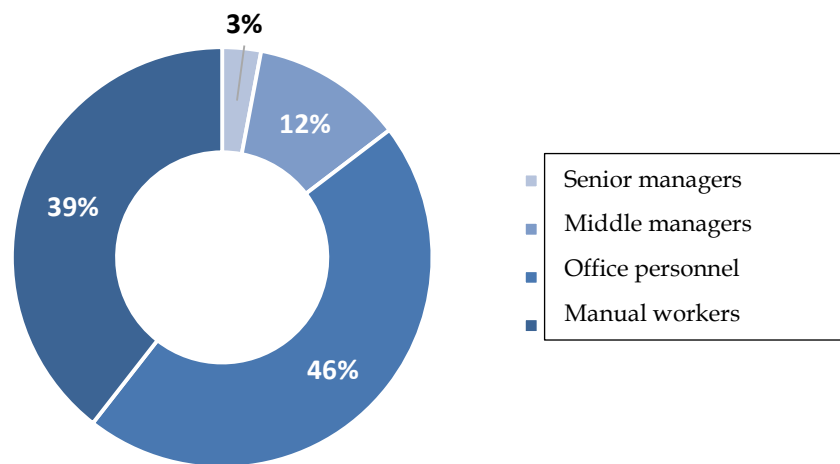
In 2014 a specific procedure was issued to manage the Group's training policy, establishing that management are responsible for defining personnel requirements for each task and identifying the specific skills required, which are then assessed by the HR Department and the management team for each employee. An annual training plan will be arranged on the basis of these assessments and the training requirements identified by departmental managers. The HR Department implements training activities, and monitors and assesses each training course delivered through final assessments with tests or feedback gathered on participant satisfaction, and an assessment of the effectiveness of the course in terms of practical skills required for work activities. The courses delivered throughout 2017 were assessed overall as very satisfactory.

Evidence of the Group's commitment to training was demonstrated throughout 2017, when **9,209 hours of training** were delivered to **403 people**, amounting to a total **investment** of approximately **124,000 euro**.

Employees who received training by professional category

EMPLOYEES WHO RECEIVED TRAINING BY PROFESSIONAL CATEGORY (no.)	2016			2017		
	Male	Female	Total	Male	Female	Total
Senior managers	11	1	12	12	0	12
Middle managers	47	4	51	41	6	47
Office personnel	170	60	230	142	43	185
Manual workers	65	91	156	69	90	159
Total	293	156	449	264	139	403

Employees who received training in 2017 by professional category

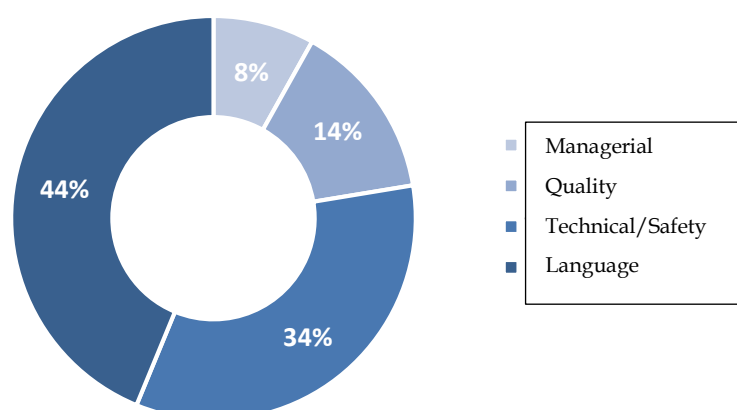


The figures shown demonstrate the Group's commitment to developing skills at all levels, with particular focus on office personnel. Different training activities were implemented during 2017 for Group employees which focused on language and technical areas, and safety in the workplace. Special consideration was also given to training on quality and managerial training as a main tool for improvement and development. The Iranian company organises training courses with the aim of adapting the organisation and training personnel to the requirements of standard IATF 16949 in order to obtain certification.

Hours of training by subject area

HOURS OF TRAINING BY SUBJECT AREA (h)	2016	2017
Language	5,051	4,023
Safety/Technical	3,412	3,108
Quality	1,235	1,313
IT/ Technology	471	-
Managerial	455	745
Other types	765	20
Total	11,389	9,209

Hours of training by subject area in 2017



Hours of training per capita by professional category

HOURS OF TRAINING PER CAPITA (h)	2016			2017		
	Male	Female	Total	Male	Female	Total
Senior managers	21.3	2.0	23.3	16.81	-	15.82
Middle managers	21.7	33.3	55.0	20.94	13.22	19.98
Office personnel	33.6	33.3	67.0	18.81	14.17	17.41
Manual workers	21.1	10.0	31.1	7.22	3.87	5.50
Total	97.7	78.6	176.3	15.59	8.33	12.97

Personnel assessment and professional development

In 2009 the Group introduced the **Management by Objectives (MBO)** system to promote management according to results and **individual performance appraisals**.

In line with the previous two-year period, the percentage of employees in the Landi Renzo Group that underwent regular assessment was approximately 10%.

Assessment outcomes are then used to identify individual development plans for high-potential profiles. Employee performance is also assessed annually in China, the USA and Iran to check set targets are being achieved. In China for example, departmental managers arrange meetings to monitor personnel on work experience schemes. In Iran the company continuously monitors the achievement of individual employee objectives on the basis of indicators linked to standard ISO/TS 16949, efficiency, and the quality of company processes.

2017 was a year of significant change for the Landi Renzo Group, and an incentive scheme was established to involve and motivate individuals and recognise the achievement of shared objectives.

The company also promotes international mobility policies as an opportunity for personal and professional development, which are useful for stimulating cultural synergies that have positive effects on integration and the quality of the work environment. International experience also underpins various development plans for future company managers. Consequently policies to cover all aspects of travel abroad have been set up. By the end of 2017, 9 employees had been involved in international mobility schemes, 5 from Italian companies, 3 from Landi Renzo Pars Private Joint Stock Company and 1 from Landi Renzo RO S.r.l. These figures refer exclusively to expatriated employees who carry out their roles at one of the Group's foreign branches only. Many employees in technical and business departments are also frequent travellers, and the Group's workforce includes employees who are Italian nationals recruited under **local contracts at a branch abroad**.

Remuneration and benefits

The remuneration policy aims to recognise the commitment and contribution of individuals to the success of the company fairly and in concrete terms. Salary scales depend on employee roles and responsibilities, and reflect level of experience and required skills, level of excellence demonstrated, and general contribution to the business without any type of discrimination.

Variable salary elements in the Italian companies consist of results bonuses for all middle managers, office personnel and manual workers, and bonuses linked to performance appraisals and results for roles with responsibility. Various objectives relating to health, safety and the environment are included in the definition of variable remuneration and limitations for specific roles, such as line managers and production plant managers. Furthermore, every year during the budget phase a percentage of total remuneration is allocated to merit-based policies.

There are no salary levels below local minimum salaries for the relevant category of new hires, as shown in the table below.

Ratio of standard salary for new hires to local minimum salary by gender

RATIO OF SALARY FOR NEW HIRES TO LOCAL MINIMUM SALARY	2016		2017	
	Male	Female	Male	Female
AEB America S.R.L.	1.84	1.84	1.75	1.75
Beijing Landi Renzo Autogas System Co. Ltd	2.58	2.67	2.42	3.90
Landi Renzo Polska Sp.Zo.O.	1.42	1.62	1.85	1.76
Landi Renzo RO srl	1.81	1.81	1.79	1.79
Landi Renzo Pars Private Joint Stock Company	1.13	1.13	1.13	1.13
Landi Renzo S.p.A.	1.21	1.21	1.21	1.21
SAFE S.p.A.	1.00	1.00	1.00	1.00
Lovato Gas S.p.A.	1.00	1.00	1.00	1.00
Average Group total	1.25	1.27	1.29	1.35
<p><i>Local minimum salary: refers to salary in accordance with legislation or indicated in the National Collective Contract</i> <i>Salary for new hires: salary offered to a full-time employee in the lowest category.</i></p>				

Supplementary agreements between Landi Renzo S.p.A., Lovato Gas S.p.A., AEB S.p.A., Eighteen Sound S.r.l. and trade union organisations include a results bonus based on company performance indicators. In 2017 a supplementary agreement was signed for SAFE S.p.A. to include a results bonus linked to company results, whereas in the companies Beijing Landi Renzo Autogas System Co. Ltd, Landi Renzo Pars Private Joint Stock Company and L.R. Pak (Pvt) Limited bonuses linked to individual and company performance were arranged.

The Group's focus on its people also means providing advantages through a set of non-financial benefits designed to increase the wellbeing of employees and their families in economic and social terms. These include work equipment such as company cars, laptops and mobile telephones, in addition to resources allocated to meet employee social security and welfare requirements.

In 2017 Landi Renzo S.p.A. supplemented its company welfare policy with a medical insurance plan available for all employees to receive standard medical treatment, and a portal was set up where employees can access various types of support and services (e.g. discount vouchers, reimbursements, medical services). New partnerships were also set up and existing ones re-established at the Group's Italian companies to enable employees to access subsidised services, such as the installation of gas systems in their own vehicles, insurance and welfare schemes, educational and sports activities, diagnostic centres and specialist medical services, and membership to gyms and leisure facilities. SAFE S.p.A. employees can also receive welfare vouchers to purchase various goods and services.

Abroad, the company Landi Renzo Pak (Pvt) Limited provides its employees with maternity leave and medical insurance, Landi Renzo USA Corporation provides full medical insurance which covers eye tests and dental checkups, and Landi Renzo Pars Private Joint Stock Company provides supplementary medical insurance which covers medical treatment for employees and their families, in addition to a transport allowance, meal vouchers, and pension and unemployment benefit for those with a part-time contract on the basis of hours worked.

Health & Safety in the Workplace

Landi Renzo has always focused on people and this commitment is also demonstrated in a focus on employee health and safety in the workplace, and implemented with solid management systems. The companies Landi Renzo S.p.A., Lovato Gas S.p.A. and AEB S.p.A. have adopted a health and safety policy and management system (HSMS) in accordance with the requirements of standard OHSAS 18001:2007, to enable ongoing improvement and maximum performance in relation to safety in the workplace and safeguarding the environment. The other Italian companies are committed to adhering to the policy of the parent company, even if they do not yet have certification.

In accordance with legislative decree 81/2008, the management system consists of the cohesive, detailed collection of operational instructions and procedures on all activities relating to safety (safety training,

work methods, use of personal protective equipment etc.), with additional details on activities involving specific risks. The system is based on accurately mapping risks through a Risk Assessment document. This is completed by employers and Health and Safety Managers, and checked by company doctors to identify the severity and probability of specific risks occurring for each activity and role carried out by Landi Renzo employees.

Over time the HSMS has fostered a veritable culture of safety, which has gradually influenced the habits, awareness and mindset of each employee. This has stressed the importance of ensuring personal and collective safety when working for or with companies in the Landi Renzo Group, and prioritised a proactive approach to prevention with potential issues being raised before they become a fully-fledged incident.

The Landi Renzo Group's focus on health and safety in the workplace is defined in standard principles that all personnel must observe to ensure that policies, procedures, technologies and skills contribute to the awareness and prevention of risks. At Landi Renzo S.p.A. all documentation on accident prevention is available on a Safety portal and an electronic noticeboard on the company Intranet, along with reports on company accident trends. Furthermore, all the Italian companies and the companies Beijing Landi Renzo Autogas System Co. Ltd, Landi Renzo USA Corporation, Landi Renzo Pars Private Joint Stock Company, L.R. Pak (Pvt) Limited and Landi Renzo RO S.r.l. have adopted the operational instructions and procedures on preventing accidents in the workplace and work to maintain the efficiency and operation of safety equipment and systems. In addition to comprehensive information and training on standards OHSAS 18001 and ISO 14001 to inform all personnel at the Italian companies and at Landi Renzo USA Corporation, L.R. Pak (Pvt) Limited and Landi Renzo RO S.r.l. about the main ideas and new aspects regarding safety, performance objectives for safety in the workplace have been defined in relation to specific KPIs for all Italian companies in the Group and at Landi Renzo USA Corporation.

For the purpose of achieving set objectives, the Group has a Health, Safety and Environmental Department, which aims to adopt a standard cohesive approach to OHSAS 18001 certification and assess all work processes managed for risk, regardless of company location.

This structure is based on two levels of action, one of which is entrusted to central departments and establishes policies and guidelines, implements coordination and monitoring, and provides specialist support and technical/operational management in the area. The other level of action is through Safety and Prevention Officers and is entrusted to other local departments or companies in the area, with the implementation of management guidelines on the basis of the specific nature of technical/installation/environmental situations in operations within the remit of the various locations. Planned inspections also contribute to increasing focus on compliance with legislation and consistency with standard OHSAS 18001.

Scheduled audits were carried out regularly throughout the year by internal auditors and the external certification body.

More specifically, two first level audits were carried out for Landi Renzo S.p.A., and one for AEB S.p.A., Lovato Gas S.p.A. and SAFE S.p.A.. A third level audit was carried out for Landi Renzo S.p.A. by the certification agency BUREAU VERITAS recognised by ACCREDIA. Two inspections at the company Società Pakistana L.R. Pak (Pvt) Limited were carried out by government officials to check compliance with the requirements of the Sindh Factories Act of 1975.

Health and safety training

Information and training initiatives involving different levels of the organisation continued throughout 2017, and were also delivered through an e-learning platform. Training was split into compulsory courses required by government agreements, practical technical courses for operators using automatic forklifts, refresher courses for health and safety managers, health and safety officers and worker safety representatives, in addition to training for new emergency and first aid wardens. In particular, new hires are provided with a training package of four hours delivered using blended learning methods on standards, employee rights and responsibilities, general and specific risks and hazards, and first-aid, fire prevention and evacuation procedures. This training is also designed for employees who change role, disabled employees, pregnant women and non-EU citizens. In 2017 the company safety representative completed the in-house training project which guarantees delivery of a comprehensive and meaningful educational approach in relation to safety.

No. of people and hours of training on Health and Safety

HOURS OF TRAINING BY ROLE	2016	2017
Senior managers	0	0
Middle managers	33	68
Office personnel	349	426
Manual workers	1,391	1,771
Total	1,773	2,265
PEOPLE WHO RECEIVED TRAINING BY ROLE	2016	2017
Senior managers	0	0
Middle managers	3	7
Office personnel	45	35
Manual workers	158	135
Total	206	177

A course delivered by e-learning platform was also set up in 2017 for Managers with considerable decision-making autonomy in managing employee safety. This is designed to provide training on how to identify parties involved and their obligations, define and identify risk factors, and identify technical, organisational and procedural prevention and safety measures. The course must be completed by new Managers and a refresher course completed by all company managers every five years. On the basis of the requirements set out in the relevant government agreement, the first type of course contains 16 hours of training and the second course 6 hours of training.

Ongoing monitoring of indicators

Indicator trends for the Group showed good results in 2017 and an improvement in terms of the incidence and frequency of accidents, with accident severity figures remaining unchanged.

These safety key performance indicators are monitored continuously, and are constructed according to a statistical criterion relating to standard UNI 7249:2007 on the statistics of accidents at work. During 2017 there were 5 non-serious accidents at work out of more than 1.2 million hours worked, which occurred in accidental circumstances and did not require any particular corrective action. Of these 3 were in Italian companies and 1 occurred for the first time in the Polish company Landi Renzo Polska Sp.Zo.O.

No. of accidents split by geographical area

NO. OF ACCIDENTS (no.)	2016			2017		
	Male	Female	Total	Male	Female	Total
Italy	3	2	5	4	0	4
Europe (excluding Italy)*	0	0	0	1	0	1
Asia**	0	0	0	0	0	0
America***	0	0	0	0	0	0
Total	3	2	5	5	0	5

* Poland and Romania

** Pakistan, Iran and China

***USA

The annual trend for safety key performance indicators demonstrates the Group's strong commitment to health, safety and the environment. A key factor in preventing accidents is the ability to report, gather and analyse information on accidents and near misses. The companies Landi Renzo S.p.A. and Lovato Gas S.p.A. have a near miss information gathering system where they are logged, monitored and analysed regularly to check for compliance with specific targets assigned to different management teams. In 2017 there were 4 near misses at Landi Renzo S.p.A. and 2 at Lovato Gas, the causes of which were analysed and the necessary countermeasures put in place. During 2017 no accidents at work occurred during activities carried out by contractors, there were no reported cases of industrial illness or deaths relating to work activities by employees, and no reports were made against the companies themselves in relation to industrial illness suffered by employees or ex-employees.

Accident figures split by geographical area

FREQUENCY RATE	2016		2017	
	Male	Female	Male	Female
Italy	4.94	6.25	5.84	0
Europe (excluding Italy)*	0	0	11.04	0
Asia**	0	0	0	0
America***	0	0	0	0
SEVERITY RATE	2016		2017	
	Male	Female	Male	Female
Italy	0.02	0.08	0.05	0
Europe (excluding Italy)*	0	0	0.10	0
Asia**	0	0	0	0
America***	0	0	0	0
INCIDENCE RATE	2016		2017	
	Male	Female	Male	Female
Italy	0.80	0.89	1.23	0
Europe (excluding Italy)*	0	0	1.67	0
Asia**	0	0	0	0
America***	0	0	0	0

Incidence rate: no. of accidents/no. of employees *100

Severity rate: no. of days of absence/no. of hours worked *1,000

Frequency rate: (no. of accidents at work/total no. of hours worked) *1,000,000

Incidence, severity and frequency rates exclude commuting accidents.

* Poland and Romania

** Pakistan, Iran and China

***USA

Group accident figures

ACCIDENT FIGURES	2016			2017		
	Male	Female	Total	Male	Female	Total
No. of accidents	3	2	5	5	0	5
Frequency rate	3.41	4.85	3.87	5.89	0	4.05
Severity rate	0.01	0.06	0.03	0.05	0	0.03
Incidence rate	0.59	0.74	0.64	1.10	0	0.70

Incidence rate: no. of accidents/no. of employees *100

Severity rate: no. of days of absence/no. of hours worked *1,000

Frequency rate: (no. of accidents at work/total no. of hours worked) *1,000,000

Incidence, severity and frequency rates exclude commuting accidents.

Internal communication activities

The Landi Renzo Group uses various internal communication channels to interact continuously with employees and increase their involvement in the business. The **company Intranet** enables everyone in the Group to access official information and initiatives, facilitating company processes, communication between departments and internal communication. **Company notice boards** and **monitors** are used to notify employees of official communications. Policies, agreements, internal procedures, company indicators and figures are just some of the content available via conventional internal communication channels. During the year, **WE DRIVE OUR FUTURE** posters were circulated and displayed in company

meeting rooms and communal areas to communicate and share the Group's values. In 2017 activities continued relating to Landi News and departmental meetings that were deemed useful for completing the information process on new products and business strategies, improving internal communication flows and streamlining everyone's day-to-day activities.

Landi News aims to stimulate the flow of information in the Group, by encouraging each person to share their skills with others. It is a tool that enables company knowledge to be developed and circulated, and makes all activities, people and new features characterising the life of the Group known to everyone, to foster a sense of belonging and share additional sales principles.

Departmental meetings involve all staff and meet the requirement to share and communicate information on the most important projects that are under way and the actions implemented, encouraging the cooperation and involvement of everyone. In 2017 an R & D Day, Operations Day and Sales & Marketing Meetings were organised.

Finally, the new Strategic Plan for 2018-2022 was presented during the month of November with the aim of sharing and involving everyone in the new company strategies and medium to long-term objectives.

Customers

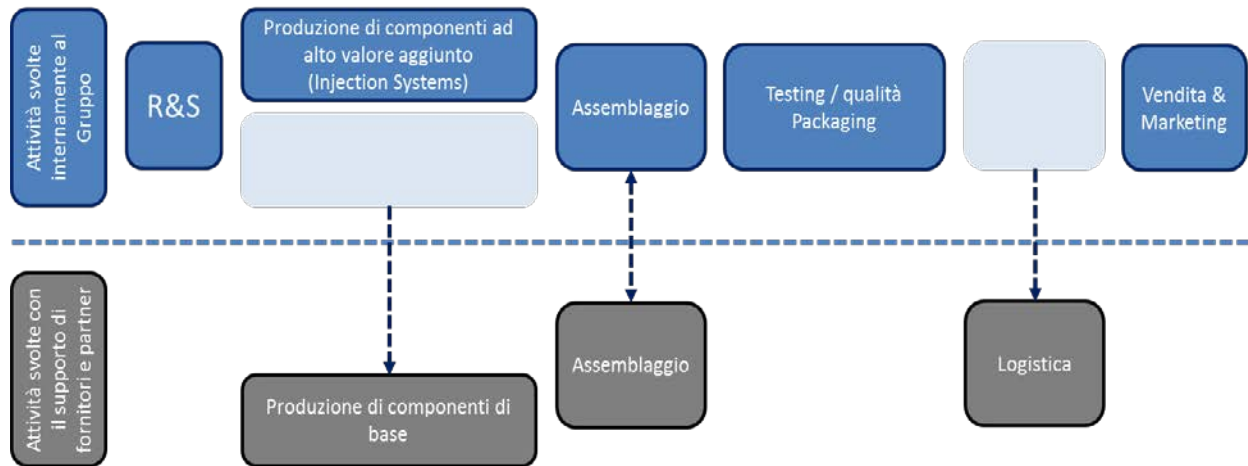
The products manufactured by the Landi Renzo Group, an international leader in technologies for **sustainable mobility**, enable vehicles to be powered with alternative fuels such as methane and LPG to **reduce the emission of pollutants and greenhouse gases**. The Group strives to generate financial and environmental benefits while producing positive spin-offs for end clients.

The value chain - research, innovation and customer satisfaction

The business model for automotive systems in the Landi Renzo Group is based on numerous phases, such as research and development, planning and procurement, production and assembly of components and systems, quality control, marketing, distribution, and the sale of systems and components.

Although activities are mainly implemented with the support of partners and suppliers, the production of components with high added value, such as control units and injection systems, is carried out internally by the Group.

Value chain for automotive systems



Attività svolte internamente al Gruppo: Activities implemented internally by the Group

R&S: R&D

Produzione di componenti ad alto valore aggiunto (Injection Systems): Production of components with high added value (Injection Systems)

Attività svolte con il supporto di fornitori e partner: Activities implemented with the support of partners and suppliers

Produzione di componenti di base: Production of standard components

Assemblaggio: Assembly

Testing/qualità Packaging: Packaging quality/Testing

Vendita&Marketing: Sales & Marketing

Logistica: Logistics

This model enables continuous monitoring of product quality and their compliance with the quality standards adopted by the Group, in addition to flexible production and distribution to meet different market requirements and fluctuating demand. Within the Group a team of expert technicians and engineers focus on **research and development** on power systems and components and the design of new products.

CNG and LPG components and systems are assembled internally by the Landi Renzo Group, using sub-components produced by carefully-selected third parties that have well-established and longstanding relationships with the Group. **The production process is organised to ensure the ongoing control and monitoring of third-party activities**, and the quality of products and their compliance with the quality standards adopted by the Group.

Finally, **purchase planning** is implemented every week by the Business Management team in conjunction with the Operation and Supply Chain Management team on the basis of quantities required to meet production requirements. Materials or semi-finished products purchased undergo initial **quality control** procedures during the acceptance phase, and a final check on completion of the assembly phase to ensure end product quality.

Innovation and Research & Development - a model of excellence

The **Landi Renzo Group** is firmly convinced that the success of automotive companies depends on an **ability to innovate**, especially in relation to environmental sustainability and reducing reliance on crude oil products, and the introduction of enabling technologies with significant impact on products. Consequently numerous engineers and researchers are employed in test activities and collaboration with leading national and international specialist centres and universities is ongoing, in addition to partnerships with the largest automotive manufacturers.

Activities are based on numerous lines of research, including the ongoing optimisation of LPG and methane plants, and studies on fuel systems for innovative combustibles such as hydrogen.

In particular, the Strategic Plan developed by company management puts CNG and LNG (liquefied methane) components for medium and heavy-duty vehicles at the centre of forthcoming developments.

The Group's commitment is demonstrated with over **165 patents filed** over the years, which have contributed to opening up new avenues and outlining important targets for the entire industry. In particular, a patent was filed by AEB S.p.A. in the past year relating to innovative electronics systems for the automotive industry to manage safety when refuelling with fuel gases, preventing potentially hazardous situations such as cylinders that have not been serviced or enabled for refuelling.

The aim of the Group is to develop increasingly innovative products for automotive manufacturers and end clients while meeting targets to **safeguard the environment**. An effective product on the market is one that enables the original fuel to be replaced totally

Approximately **227 thousand tonnes of CO₂** saved in a year by using methane systems and **67 thousand tonnes of CO₂** with LPG fuel systems.

by an alternative fuel. This leads to **the maximum reduction in greenhouse gases** and often the maximum reduction in pollutants. R & D activities specifically aim to identify technological solutions that improve these aspects, through targeted component research and development.

Moreover, Landi Renzo systems can already use methane from renewable sources (e.g. biomass), further reducing impact on the production of greenhouse gases. It is therefore very important for the Group to keep pace with new technologies to be able to meet market requirements for cutting-edge solutions.

Consequently, plans for **new gas system self-calibration strategies** were initiated in 2017, to enable easier installation and optimisation while minimising human error, **new modular control units** that are more adaptable to different vehicle requirements, and a new line of modular pressure reducers for passenger cars and medium and heavy-duty vehicles, with the possibility of controlling output pressure and adapting it to different conditions of use.

Maintaining traditional technological leadership, which has always characterised the company and its gas conversion systems, is based on **continuously reviewing processes and sharing ideas and experience**. As a result activities to continuously improve gas control components already in production (e.g. reducers,

injectors, control units, valves) have continued, capitalising on existing expertise in the company and test equipment available at the research and development centre.

Analysis and design activities have also continued in partnership with European automotive manufacturers, with the aim of creating new gas systems for models complying with Euro 6 emission standards. Partnerships are also ongoing with leading automotive manufacturers in Iran, Russia and China. In the USA, activities designed to make conversion kits approved by automotive manufacturers holding QVM (qualified vehicle modifiers) certification have continued. Procedures were initiated for these kits to obtain important **EPA** (Environmental Protection Agency) and **CARB** (California Air Resources Board) certification, for the USA and Californian areas respectively.

The range of LPG and methane conversion kits **was extended**, with different systems being provided for installers that ensure conversion to an alternative fuel for all cars on the market.

Furthermore, considering the increasing use of turbocharged direct injection engines, applications suited to these models have been developed and have received considerable market recognition.

The new generation of more compact and higher performing components, such as injectors, reducers and electronic control units, has facilitated the kit installation phase and system optimisation.

With regard to diesel engine conversion systems (**Diesel Dual Fuel**), the application of various systems in the field continued throughout the year and Euro 5 approval was obtained for heavy duty (HD) vehicles. This innovative and environmentally-friendly technological solution can reduce the particulate emissions typical of diesel fuel, and is especially beneficial in financial terms on long journeys. The project will continue to extend the use of this solution to as many types of vehicle as possible.

Finally, during 2017 the Landi Renzo Group, parent company of several organisations, obtained funding relating to the European LIFE programme with the project **Hysolar Solar Aided Vehicle Electrification**. This three-year project involves using photovoltaic solar panels in conjunction with the Landi Renzo Hybrid Electric Retrofit System (HERS). The aim of the project is to **reduce vehicle carbon dioxide emissions** thanks to the production of energy from solar panels, and the recovery of kinetic braking energy from HERS wheel drive units. In addition to internal coordination and liaison with the authorities, the role of Landi Renzo is to integrate the system of HERS wheel drive units with the Hysolar system, manage bench and road testing, and prepare for putting the product on the market.

This project was classed as **innovative** by the European Commission and joins numerous other research and development activities carried out in the past by the Landi Renzo Group.

The Research & Development centre

The Group's research and development activities are mainly carried out on the premises of Landi Renzo S.p.A. In 2017 a partnership was agreed with the AVL group, world leader in the construction of measurement systems for vehicle tests and emissions, to better support Group activities aimed at developing new products. At the start of 2017 AVL took over the Landi Group Research and Development Centre, a facility designed in accordance with the **most recent guidelines on environmental sustainability**.

The partnership with AVL involves testing LPG and methane systems using engine test benches, and facilities with roller simulators to study new technologies that enable a reduction in pollutants released from exhausts. Modern plants enable test vehicles to be powered with all fuels available for automotives - diesel, petrol and all fuel gases including hydrogen.

Mechanical and electronic components are tested internally at the Landi Renzo laboratory. Test methods and parameters are developed by a dedicated team in accordance with the strictest automotive standards.

Dual fuel technology

Thanks to its research laboratories, Landi Renzo has been developing **dual fuel** technology since 2008.

This technology makes it possible to use a **mix of diesel and methane**, which is known for its low environmental impact, simultaneously via an additional fuel system that does not jeopardise operation in the original mode (diesel), but exploits its efficiency by reducing more **CO₂ emissions** than is possible with any other internal combustion engine.

In practice the system makes it possible to reduce operating costs and pollutant emissions into the atmosphere, by drastically **cutting emissions of fine particles and CO₂**, currently the focus of environmental policies in the main European government departments and institutions.

This technology benefits Euro 3 and Euro 4 vehicles with no particulate filter that are often subject to traffic restrictions, in addition to vehicles with a particulate filter requiring less regeneration with lower maintenance costs.

Liquefied Natural Gas

Liquefied natural gas (LNG) is a product mainly consisting of methane with **low environmental impact** as it eliminates emissions of particulate and reduces CO₂ emissions considerably compared with conventional fuels. It is liquefied through a series of cooling and condensation processes. Under suitable conditions, at around -160°C, it can be stored in a liquid state in suitable containers and **transported anywhere**, even to areas where methane is not available. During the liquefaction process its volume reduces by approximately 600 times and this enables large quantities of energy to be stored in restricted spaces. Landi Renzo has produced a heavy-duty vehicle with a diesel dual fuel engine that uses liquid methane, thanks to the presence of specific components that can manage methane in this form.

Landi Renzo Connect Technology

The main objectives of Landi Renzo systems have always been to reduce operating costs, fuel consumption and CO₂ emissions. As a result of extremely innovative Machine-to-Machine technology, the Landi Renzo Connect system provides drivers with important information on gas system facilities:

- map of LPG and methane distributors and the nearest authorised Landi Renzo garages in the event of vehicle breakdown or maintenance requirements;
- data and statistics on vehicle consumption, general autonomy, amount of gas in the tank, and ecological benefits in terms of CO₂ emissions prevented;
- suggestions for cost-effective and environmentally-friendly driving.

By installing the Landi Renzo Connect device on vehicles powered by gas with a Landi Renzo system, wireless communication between the electronic control unit of the gas system and a smartphone or tablet is possible, with all real-time information displayed via an APP available free of charge from all online app stores for iOS and Android.

Ongoing focus on quality

The Landi Renzo Group has always viewed quality as essential for market success. The parent company Landi Renzo S.p.A decided to adopt an ISO 9001:2008 quality system as early as 1994, to ensure design, production, sales and customer support systems met market requirements.

Currently all **Italian companies in the Landi Renzo Group, Landi Renzo Polska S.p.Z.o.o. and Landi Renzo Pars Private Joint Stock Company** have ISO/TS 16949 certification, and IATF 16949 certification is scheduled for these companies in 2018, which is already held by Indiana Krishna Landi Renzo India Private and the production plants at Landi Renzo S.p.A. The company Pakistana L.R. Pak (Pvt) Limited has ISO 9001 certification whereas Landi Renzo USA Corporation has QVM (Qualified Vehicle Modifiers) certification.

The IATF 16949:2016 standard from the International Automotive Task Force (IATF) replaces the old ISO/TS 16949 standard. Besides placing significant emphasis on preventing defects due to product design and planning to meet customer requirements, this certification has new features, including greater emphasis on corporate social responsibility, product safety requirements, and greater clarification in supplier management processes.

In 2017 company processes were audited in all departments of the Landi Renzo Corporation to improve product and service quality, as set out in the annual plan created in accordance with ISO 9001:2008 and IATF 16949 guidelines and customer requirements stipulated by OEMs (original equipment manufacturers). Audit compliance results anticipated a total positive value (95.7%) which is higher than the previous year (93.7%).

Furthermore, Continuous Improvement Plans were set up at all the Group's premises to implement corrective actions identified following customer complaints, and monitor their progress to increase process efficiency measured on the basis of three overall equipment effectiveness (OEE) indicators - availability, efficiency and quality rating.

To achieve these objectives the organisation cannot operate without responsible personnel management. As a result, activities of fundamental importance have been set up, with the implementation of incentive schemes and professional development and training courses. Documentation on Health, Safety and Quality is always available for personnel.

Product implementation is planned using an integrated project management approach, with a Chief Engineer and Project Manager appointed, in addition to a multidisciplinary team who are assigned specific resources and responsibilities. Quality plans are prepared using the Advanced Product Quality Planning (APQP) framework to meet established requirements when creating products. The apparatus, equipment, resources and necessary personnel skills to achieve the required quality are then identified, and tests and validation activities (according to the PPAP (Production Part Approval Process) method) are carried out and reported in Quality documentation. Furthermore, quality control and test techniques are constantly being updated.

As testimony to the Group's focus on striving for quality, the main reference indicators are improving compared with previous years, showing that the Group is on the right track.

Consumer health and safety

One of the Company's objectives is to manage any risk that could jeopardise the **safety of products for end consumers**. For this reason, failure mode and effects analysis (FMEA) is used systematically in the Group's manufacturing companies in product definition and development phases and production processes. This enables the achievement of excellent results in terms of reducing risk and producing effective action for customers, and all products undergo test and approval procedures in accordance with R10 requirements to check electromagnetic compatibility. Additionally, all methane products must be R110-approved and LPG products must be R69-approved.

The Landi Renzo Group provides access to its facilities and organisation to ensure the necessary technical support is available to anyone with a requirement, with the direct involvement of specially trained personnel and the use of technical manuals and installation instructions available in various languages. Internal and external support centres continually feed back product information on reliability, maintainability and ease of installation, and monitor the progress of anomalies detected to ensure ongoing improvement.

Furthermore, information resulting from company processes that affect product quality and customer relationships is used to prevent non-compliance. Preventative actions are identified following this analysis, which are assessed on the basis of the effects of the potential issues to be resolved. A documented procedure was put in place for this purpose, which outlines the requirements for identifying potential non-compliance issues and their cause, the assessment of the requirement to implement actions to prevent non-compliance issues from transpiring, and if necessary, the identification and implementation of required actions, with their results and review logged.

No cases of non-compliance with regulations or voluntary codes relating to health and product safety were logged in the Landi Renzo Group in 2017.

Customer relationships - contact channels, satisfaction monitoring and training

The Group is committed to customer satisfaction, and has therefore adopted a transparent business policy geared towards creating long-term relationships, fruitful collaboration, rapid troubleshooting and maximum professionalism.

On this basis, the companies Landi Renzo S.p.A., Landi Renzo Polska Sp.Zo.O. and Landi Renzo RO S.r.l. provide a dedicated team for each customer that is an original equipment manufacturer (OEM), which is made up of business, technical and quality personnel who customers can consult for technical, logistics and quality requirements.

With regard to the aftermarket, the Landi Renzo Group has set up a special communication channel with a landline number, e-mail address and two mobile phone numbers to ensure the best technical support is provided for dealers and garages in the area.

The same level of service is guaranteed in all countries by official importers or branches, in order to provide good technical support and accelerate the management of procedures to ensure customers are without their vehicles for as short a time as possible.

The Landi Renzo Group has also set up a series of communication channels for end clients to request information on products and purchasing options, report after-sales issues, and make complaints. In addition to the usual methods such as e-mail, fax, post, branch telephone number and the Landi Renzo freephone number, end clients can now also contact the company directly via social media channels such as Facebook, Twitter and YouTube, which are also useful for publishing information and knowledge on topics such as the environment and sustainability, and providing details on events and initiatives organised by the Group.

Furthermore, by visiting <http://preventivo.landi.it> end clients can also clearly identify the best LPG or methane system that could be fitted to their vehicle, including an indication of tank capacity, price for a turnkey solution, and a local garage that can ensure correct installation.

Marketing and communication are also crucial for raising awareness of the Group's brands among business customers and end clients, with participation in trade fairs, international fora, and specific local events run by dealers and importers.

It also involves the creation and organisation of information and advertising material in industry publications and web campaigns mainly developed on social media networks and Google.

These activities are managed to ensure transparency for end clients. During 2017, no instances of incorrect labelling were reported at Landi Renzo S.p.A., AEB S.p.A. and Lovato Gas S.p.A.

Label content is defined in the design phase and reported on documents shared with customers. Labels are also checked thoroughly in the shipment phase.

Monitoring customer satisfaction

Customer satisfaction is monitored using two different methods depending on customer type.

With customers that are original equipment manufacturers (OEM), satisfaction is continuously monitored through specific indicators on automotive manufacturer portals. These indicators concern defect rates under guarantee and defect rate at 0 km, in addition to the punctuality of deliveries.

Automotive manufacturers compile a 'bid list' showing the company service level compliance and any areas for improvement.

With regard to garages and end clients, customer satisfaction is managed directly online by dealers and garages on the basis of Landi Renzo ISO 9001 certification for the Italian network.

Surveys are carried out every year and operate on two levels - dealers gather data on garage satisfaction and garages gather customer satisfaction data from their customers (end clients).

Garages analyse the traceability and availability of dealers, technical ability and helpfulness, material delivery times, speed and reliability when providing information (e.g. delivery estimates, delays), and availability and efficiency in replacing faulty materials.

End clients consider various aspects including waiting times and installation punctuality, clarity in quotes, consistency between quotes and amounts charged, helpfulness and courtesy, technical support and warranties. They also analyse vehicle performance (such as speed and acceleration), the driving experience (or continual progression without losing power), consumption levels and system reliability.

The results obtained in 2017 show a high level of satisfaction among garages and end clients. In particular, the average system evaluation by end clients is equivalent to 4.5 (on a scale of 1-5), slightly higher than in 2016 when it was 4.4, and the average garage evaluation by end clients is 4.7, higher than in 2016 when it was 4.6. This result is undoubtedly linked to the participation of garages in training days provided over recent years, which are designed to improve garage service levels in terms of operations and sales consultations. In 2017, 122 garages attended refresher courses on the 2015 version of ISO 9001, and 106 garages attended refresher courses on technical product characteristics.

The Group also continuously monitors and manages complaints made by OEM customers and end clients. Customer management has always been structured with the use of complaints management procedures (procedure 13.1 Managing Non-Compliance), and in 2017 additional progress was made on standardising management in foreign branches. Customer requirements or complaints are always managed by a multidisciplinary team who deal with complete customer satisfaction in technical, logistics and qualitative terms.

With regard to OEM customers, the number of complaints decreased by 19% compared with 2016 thanks to a structured quality development process and the support of the purchasing department, which improved supply activities and enabled a clear improvement in the quality of the end product.

Complaint response times are managed automatically by customer portals and provide a rapid customer response. This is typically 48 hours to manage action to contain the problem and 5 days to identify the root cause of the problem and implement corrective action.

With regard to end clients, complaints are managed by the Technical Support department along with the garage that carried out the installation, and with the supervision of the local dealer.

The management system is set up to provide end clients with prompt feedback in the case of a system malfunction, and in the rare cases where vehicular damage or an accident is reported as potentially due to the installation of a Landi Renzo LPG or methane system. The process to manage and monitor complaints involves gathering information on the incident, analysing the event and the system components, and informing end clients or garages of the results of the analysis.

For completeness of information it should be noted that no complaints regarding confidentiality were received.

In the OEM customer category, the Group set up important partnerships with leading international automotive manufacturers some time ago. The electronic complexity of newly-manufactured vehicles means steady and ongoing mutual cooperation is essential for designing and constructing systems that are fully compatible with the mechanical and electronic design of vehicles. Consequently Landi Renzo set up an initiative with various automotive manufacturers with the aim of supporting customers in the early diagnosis and resolution of issues raised by end clients.

The **quality** of the installation process, system **safety and performance levels**, and **customer satisfaction** are **possible thanks to the network of garages** that are a crucial asset for the success of the Landi Group. **Training** and **up-to-date information** are the main tools for the Group to pursue these objectives.

Training for the Italian network is managed and coordinated by the Customer Care department in conjunction with local dealers, whereas training is provided directly by dealers or branches for the foreign network, except in particular cases where the specific contribution of specialist engineers is requested. **The training programme** includes **technical courses** and **non-technical courses covering a range of skills applicable across the board**. The former are strictly related to new products and technologies offered, whereas the latter have strategic/business aims or are designed to obtain or maintain ISO 9001 certification.

Suppliers

The Landi Renzo Group deals with its suppliers according to principles based on **transparency, cooperation, compliance with legislation, and a focus on the other party's requirements**, and strives to establish **relationships founded on shared values**, in order to create stability and mutual benefit over time. The Landi Renzo Group reference market requires the selection of suppliers who can guarantee the high quality of components and services purchased, and are financially sound with a company reputation in line with that of the Group.

Suppliers are selected via an assessment and qualification process established by the relevant procedure, which involves verifying possession of the necessary requisites, and continuously monitoring performance levels and the improvement process once the supply contract is in place. The companies AEB America S.r.l., Beijing Landi Renzo Autogas System Co. LTD, Landi Renzo USA Corporation and the Brazilian company LR Industria e Comercio Ltda are excluded from this process, which commences with the pre-qualification of suppliers by the purchasing department and checks on their financial stability and ability to provide ongoing service in the medium to long-term. An analysis is carried out which considers various economic indicators (relating to the last three financial years), including revenue or turnover, sales profits, stock turnover and net financial position. Suppliers that pass this first assessment proceed to the qualification phase and are asked to complete form FA50, which allocates a score on the basis of economic/financial indicators, insurance cover, compliance with quality, social and environmental requirements, or possession of relevant certification in addition to factors linked to organisation/business dimensions and logistics capacities. Also considered are performance indicators such as on-time deliveries, audit results, number of compliant batches, price competitiveness and quality aspects. Once the completed form has been received, the purchasing department carries out the assessment with the support of R&D and the supplier quality department. In accordance with the procedure, the necessary requisites depend on the type of goods to be purchased from the supplier being assessed. The minimum level of certification required for goods destined for production or distribution processes for original equipment manufacturers (automotive manufacturers) is ISO 9001. In the absence of the certification, Landi Renzo may choose to work with a supplier following at least one audit to ascertain compliance with ISO 9001. If the result of the audit is not satisfactory the supplier is excluded. If the supplier meets the criteria a supply contract is agreed, and the requisites are monitored every three years via a supplier re-qualification process. In 2017 this process also made it possible to monitor the performance of existing suppliers and to select potential new partners, without identifying significant economic/financial, environmental or social risks.

SUPPLIER CERTIFICATION	Certified suppliers
	2017
ISO 9001 certification	87.3%
ISO TS 16949 certification (Automotive)	35.2%
ISO 14001 certification	24.7%

OHSAS 18001 certification	4.7%
SA8000 certification	2.1%
EMAS certification	1.5%
No certification	12.6%
<i>The percentage is calculated on the total number of suppliers.</i>	
<i>* The figures do not include SAFE S.p.A. and AEB America S.r.l.</i>	

By observing the supplier certification table and considering that 12.6% of suppliers have no certification, it is evident that the most common certification relates to **quality management systems**. It is understood that **ethics, social responsibility, safety in the workplace and safeguarding the environment** are important elements in assessing and choosing suppliers, and are referred to in Supply Contracts and General Purchasing Conditions sent to all suppliers.

Given the business model adopted by the Landi Renzo Group and the prevalence of Italian suppliers, the remaining companies have been given the possibility of using different supplier evaluation and selection tools, while still applying parent company guidelines and supplementing them with local conditions.

Promoting local economies

The business model adopted by the Landi Renzo Group involves close, well-established relationships with carefully selected suppliers and third parties. Suppliers are selected on the basis of specific skills and area of specialisation. Many components required to make products have characteristics (types of work procedure, technical specifications, dimensions and weight, type of applied technology etc.) that often lead to choosing geographical locations near specialist industrial areas that are not too far from the factories using the components themselves. Considering that almost all of the Group's production takes place in Italy, it is preferable to maintain a mainly Italian pool of suppliers with extensive experience in the industry and a high-level of specialisation, a focus on quality, and lower transport costs for components with a fairly high unit weight. A different approach is used for components or products that are easier to make, where foreign supplies ensure greater competitiveness.

Supply figures by geographical area

SUPPLY FIGURES BY GEOGRAPHICAL AREA	2016	2017
Italy	75%	77%
Europe (excluding Italy)	16%	16%
Asia and rest of the world	7%	5%
America	2%	2%
Total (€/000)	136,343	155,066
<i>The figures only include suppliers with annual turnover greater than € 5,000 and the companies AEB America S.r.l., Beijing Landi Renzo Autogas System Co. LTD, Landi Renzo USA Corporation and Landi Renzo Pars Private Joint Stock Company are excluded</i>		

No. of active suppliers

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ACTIVE SUPPLIERS (no.)	2016	2017
No. of suppliers	1,274	1,110
The figures only include suppliers with annual turnover greater than € 5,000 and the companies AEB America S.r.l., Beijing Landi Renzo Autogas System Co. LTD, Landi Renzo USA Corporation and Landi Renzo Pars Private Joint Stock Company are excluded		

Supplier involvement and communication

Given the importance of suppliers to the Landi Renzo Group, the initiatives set up in recent years have been geared towards mutual growth. By monitoring logistics and quality performance levels, there is an incentive for suppliers to constantly strive to improve through technical and organisational development. During phases to develop new products suppliers are involved in co-design activities, and Group personnel are always in contact with partners to support them in all required activities, the use of procedures and methods, and in validation processes.

Up to the end of 2016, some of the Group's suppliers were facing difficulty due to the economic situation. In such cases support was provided in the form of extended payment terms, and where possible, a guarantee of minimum orders, in addition to collaboration to improve processes and increase efficiency.

The local community and area

Despite being an international organisation, the Landi Renzo Group remains closely linked to local values wherever the company is operating. For this reason the Group is committed to proactively supporting events and initiatives promoted by associations and organisations that are longstanding partners. The company also takes this approach to the promotion and support of development projects in social, educational, cultural and sporting contexts.

Communication with authorities and institutions and active participation in sustainable development

Given the reference market, the Group is frequently in contact with national and international authorities and institutions, especially the **Ministry of Transport, the Ministry of Economic Development, the Ministry for the Environment, and Parliamentary Commissions**.

These relationships mainly concern two areas:

- patents and approvals, generally involving the Ministry of Transport;
- actions to raise awareness of broader issues in the automotive industry and environmental issues.

In recent years communication has intensified with regard to environmental sustainability and safeguarding the environment, with experts from various Ministries and the Parliamentary Commissions interested in understanding viewpoints and sharing expertise gained by the Group. Furthermore, given the Group's role as an **international leader** representing the **best of Italian production in automotive gas systems**, effort has been put into developing and maintaining **relationships with institutions** in connection with these topics.

Landi Renzo is also an active member of **Italy 2020**, a **cluster of the Ministry of Education, Universities and Research** making use of European funding and able to summarise the main skills in the national vehicle manufacturing industry in a coordinated manner.

The Group also actively participates in the operation of various associations to monitor and guide potential standards or legislation that could affect the industry, which has typically been heavily influenced by these. As a result of its membership in industry associations, the Group takes part in work groups in many organisations. The most significant include:

- **Consorzio Ecogas**, which concerns the LPG and methane industry, represents most manufacturers of conversion systems, material wholesalers, installers, hauliers, owners and operators of roadside filling stations and storage facilities. Landi Renzo is represented on the Governing Council and the Shareholders' Assembly.
- **NGV Italy** is a consortium that brings together the main industrial players in the Italian methane industry for automotives. Landi Renzo has a representative on the Board of Directors responsible for promoting the Consortium's relationships with institutions, including participation in the operations of the Automotive Council at the Ministry of Economic Development. Landi Renzo is

also involved in **NGVA Europe**, the European counterpart of NGV Italy. Landi Renzo USA has also been a member of **NGV America** and **NGV Global** since 2011, with the aim of promoting the development and growth of vehicles powered by natural gas or biomethane for a sustainable market.

- **Anfia** (National Automobile Association in Italy) is the main Italian automobile association and is very active in institutional relationships. Landi Renzo continually participates in consultations carried out by the association's General Management with the aim of summarising shared positions to propose to institutions.
- **Assogasliquidi** is the Federchimica association that represents companies in the LPG sector. The aims of the Association are to represent the industry at a national and international level, work with local government and public bodies to improve the definition of industry reference standards, inform and advise operators in relation to legislative/technical innovation and its implementation, and promote the sector's image among users and end clients. Landi Renzo has a representative on the Automotive Steering Committee.
- **Clepa** is the European association of component suppliers. Through the Association the Group participates in the decision-making processes of European institutions that affect the industry.
- **ANGVA** (Asia-Pacific Natural Gas Vehicles Association) was established in 2002 and is a trade association for the natural gas vehicles industry in the Asia Pacific region. It promotes the use of natural gas as a fuel for transport, defining standards and guidelines for the industry and organising training activities.

Landi Renzo S.p.A. is an industry member of the Steering Committee for the High-Technology Materials Engineering Platform in Emilia Romagna and a member of the Mechatronics Club Steering Committee. The latter organisation arranges an Italian mechatronics award every year which promotes national companies making a major contribution to the field of mechatronics technology by developing innovative products at an international level.

The Group also interfaces with international authorities and institutions, especially in countries with large reserves of natural gas, presenting specific business cases designed to highlight the environmental and economic benefits of gas-powered vehicles. Furthermore, the Research & Development department actively participates in international work groups that report to the European Commission, to define future legislation on alternative fuels.

In 2015 the Landi Group became a Gold Corporate Partner of the Institute of the Environment and Sustainability at the University of California, Los Angeles, joining prestigious supporters of the initiative such as Bayer, Boeing, Deloitte, Goldman Sachs, Sony and Toyota. This agreement was possible due to the combined action of Landi Renzo Corporate University, a high-profile company academy that aims to spread a culture of sustainable mobility and Landi Renzo USA Corporate, the USA subsidiary based in Los Angeles. This initiative is part of the Corporate Partners Program promoted by UCLA, which is designed to encourage interactive relationships between companies and lecturers, researchers and students at the American university, in order to explore green business opportunities. The initiative also supports the high quality of research and education provided by the IoES (Institute of Environment and

Sustainability), creating links with professionals and organisations with shared objectives and interests. The Landi Renzo Group places significant importance on nurturing relationships with the academic world. The Group has collaborated with leading Italian universities for years to spread a culture of sustainability and facilitate research and development. The Group's engineers and technicians actively participate in training activities, making their specialist expertise available to students.

The following initiatives have been implemented in recent years:

- Advanced Course in Engine Calibration organised in conjunction with university partners and local companies. The Department of Engineering at the University of Modena & Reggio Emilia, Landi Renzo technicians and other company partners have supported this initiative with teaching days delivered to new graduates with significant interest in the automobile industry;
- The Uninauto Master's course offered by the University of Naples and the Vehicle Master's course offered by the Department of Engineering at the University of Modena & Reggio Emilia, to enable young engineers to specialise in the automotive industry.
- Advanced Technical Course in Mechatronics Systems and Advanced Technical Course in Vehicles offered by the ITS Maker Foundation, with the aim of training engineers for mechanical and electronic production industries, and the field of new vehicular control and management technologies.

To foster good relations with the education sector, presentations are regularly given in schools and students can participate in career guidance initiatives. Involving young people in the business world and making them aware of sustainable mobility is the main aim of the Landi Renzo Corporate University and the reason why visits to the company are organised regularly for high school students. Various educational establishments in the area visited the company in 2017.

Finally, various items of equipment and electronic components no longer in use by the company but still very useful in education were donated to the N. Mandela Technical College in Castelnovo ne' Monti.

Dialogue with providers of risk and debt capital

Investor relations focus on compulsory and voluntary communication and dialogue with two important stakeholders - shareholders and debtors.

Compulsory communication activities involve legislative requirements or unforeseeable company events, and concern anything which has a potential impact on share price or anything else listed by the issuer. These events are communicated via press releases, regular financial reports and presentations for investors.

Voluntary communication activities include financial marketing activities such as roadshows, reverse roadshows and conference calls and occur more regularly. These types of activities are useful for further explaining anything outlined in compulsory communications, and enable more interaction between investors and the company.

Stakeholders can contact the investor relations department via e-mail or telephone any time to answer various queries. The main aim of these communication activities is transparency for the Group's investors,

while ensuring compliance with legislation for listed companies and the reporting of privileged information.

Environmental Performance

Environmental policy and management system

In July 2013 Landi Renzo S.p.A. set up an Environmental Management System (EMS) in accordance with the requirements set out in standard UNI EN ISO 14001:2004, which ensures continual focus on environmental performance and contributes to using resources more efficiently.

The EMS provides guidelines for the entire Group, and more specifically for all activities implemented on the premises at Via Nobel and Via dell'Industria belonging to Landi Renzo S.p.A. and has been continually monitored and updated. The EMS is a voluntary tool to enable environmental performance to improve continuously, manage environmental aspects, and monitor compliance with the requirements of standards. It defines methods for identifying responsibilities, procedures, processes and resources within the company's organisational structure to implement the company's prevention and protection policy in accordance with environmental standards.

All activities set out in the EMS were also implemented in 2017, such as the identification and evaluation of significant environmental aspects, the definition of objectives and improvement programmes, the monitoring and supervision of environmental parameters and plant operation, personnel training, the identification, update and observation of applicable legal requirements, the management of emergencies, the management of internal audits, and the regular review of the EMS by management.

All these activities are outlined in a cohesive set of documents consisting of the environmental policy, an environmental analysis and declaration, the EMS manual, and instructions on operational and management procedures.

Senior management reviews the environmental management system at scheduled intervals to ensure it continues to operate in a suitable, effective and efficient manner. Reviews include the assessment of opportunities for improvement and the need to change the EMS in terms of policy, objectives and environmental targets. During these sessions an Environmental Improvement Plan is defined, which allocates specific objectives to individual departments/units, with regular monitoring of activities identified to assess progress and the effectiveness of the actions implemented.

Environmental Management System managers work with other company managers and are aware of the need to establish and update specific procedures or operational instructions to regulate work activities, including maintenance operations, which may present particular situations of risk. The Italian companies adhere to the policy of the parent company.

This management system meant that no punishment or fine was applied by the authorities or other organisations throughout 2017.

Environmental performance

Energy consumption, emissions and initiatives to increase efficiency

The Landi Group places particular focus on checking energy is used correctly in the Group's companies, in particular:

- by checking energy bills to check compliance with supply contract conditions and, in the case of electricity, any reactive power charges;
- by checking energy and water consumption monthly to detect irregularities with respect to past figures or unexplained figures immediately (faults or water leaks, nil consumption etc.), promptly implementing checks as required;
- by checking ON/OFF functions on heating and air conditioning systems in relation to seasonal variations.

All Italian companies in the Landi Renzo Group can access the **open market for the purchase of gas and electricity**, and after analysing and assessing all types of contract on the market have selected RENERGY (industrial energy association in the province of Reggio Emilia) for their energy supplies. RENERGY is a non-profit purchasing group which operates on the energy and telecommunications markets on behalf of companies, agreeing supply contracts with the best conditions and offering companies competitive advantages with the purchase of electricity and gas. The organisation also supports companies in negotiating and agreeing supply contracts, complying with administrative and management requirements, routinely checking billing information, and guaranteeing regular information on market trends and new industry standards.

Environmental procedures for the strict control of environmental aspects are also established and maintained. With regard to the use of company vehicles, the Group purchases technologically-advanced vehicles powered by fuels with less environmental impact to replace obsolete vehicles, or installs an LPG or methane system on petrol or diesel vehicles they own or hire over long periods.

All vehicles comply with the latest standards on Euro 6 emissions and the average age of the vehicle fleet at Landi Renzo S.p.A. is roughly 4 years.

Moreover, video-conferencing facilities, conference calls and Skype calls are available at the company to reduce business trips and travel between the Group's companies as much as possible, and the booking of company cars has been centralised, so it is possible to know when parties are making trips on the same day to the same destination and less vehicles can be used

Direct energy consumption by offices and systems

DIRECT ENERGY CONSUMPTION (offices and systems)	2016	2017
ITALIAN COMPANIES		
Methane (m3)	442,794	395,103
FOREIGN COMPANIES*		
Methane (m3)	48,942	47,942

Total	491,736	443,045
The method used for the calculation involves gathering data from automatic consumption monitoring systems, or in certain cases estimates based on expenditure for energy consumption.		
* The figure excludes Landi Renzo Polska Sp.Zo.O., AEB America S.p.A., L.R. Pak (Pot) Limited, Beijing Landi Renzo Autogas System Co. Ltd and LR Industria e comercio Ltda as the information is not available.		

Direct energy consumption due to personnel travel

DIRECT ENERGY CONSUMPTION (company cars)	2016	2017
ITALIAN COMPANIES		
Petrol (l)	100,613	90,256
Diesel (l)	30,430	39,707
LPG (l)	109,334	97,807
Methane (kg)	17,115	11,872
FOREIGN COMPANIES*		
Petrol (l)	40,434	43,743
Diesel (l)	54,459	51,748
LPG (l)	100,459	105,417
Methane (kg)	8,968	11,425
The method used for the calculation involves gathering data from invoices sent by suppliers.		
* The 2016 figure excludes L.R. Pak (Pot) Limited and Beijing Landi Renzo Autogas System Co. Ltd; the 2017 figure excludes AEB America S.p.A. as the information is not available.		

In 2017 the Italian companies in the group saw a decrease in consumption due to the transfer of the Landi Renzo S.p.A. company division. In the foreign companies direct energy consumption is mainly for domestic use. The trend of reduced fuel consumption and corresponding CO₂ emissions was basically stable.

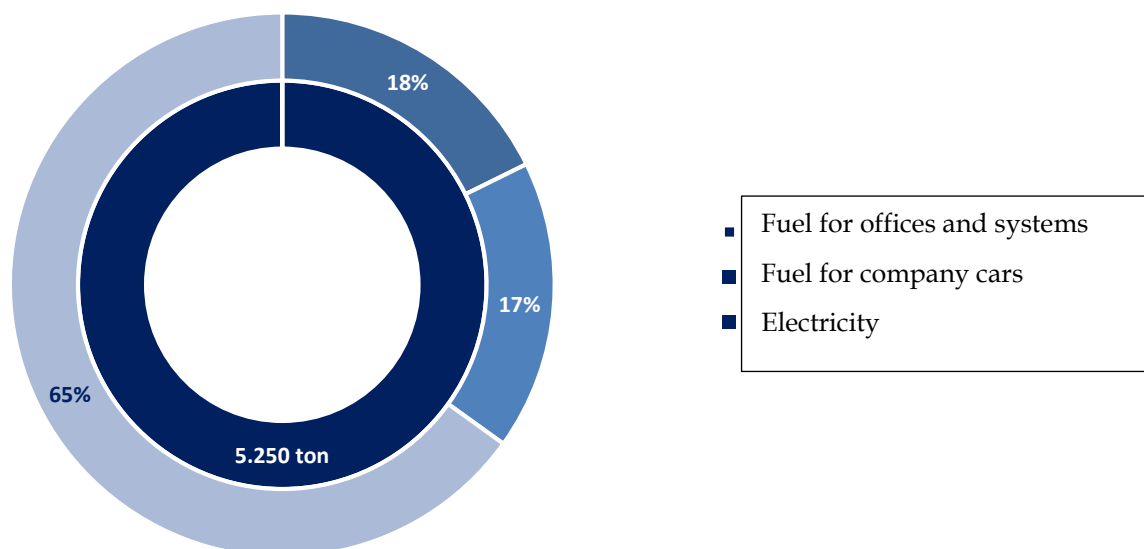
Indirect electricity consumption

INDIRECT ELECTRICITY CONSUMPTION	2016	2017
ITALIAN COMPANIES		
Electricity (kWh)	8,851,094	9,092,034
<i>amount from renewable sources</i>	<i>1,598,468</i>	<i>2,031,650</i>
FOREIGN COMPANIES*		
Electricity (kWh)	551,395	627,282
The method used for the calculation involves gathering data from automatic consumption monitoring systems, or in certain cases estimates based on expenditure for energy consumption. To calculate the percentage of renewable sources for 2017 the average percentage between 2016 and 2015 of the energy mix communicated by service suppliers was considered, as the percentage for 2017 was not yet available.		
* The 2016 figure excludes L.R. Pak (Pot) Limited and Beijing Landi Renzo Autogas System Co. Ltd; the 2017 figure excludes AEB America S.p.A. as the information is not available.		

In 2017 electricity consumption measured at the Group's Italian companies was higher than in previous years. This was mainly due to the cleanroom commencing operation at AEB S.p.A. which requires a constant temperature of 22 degrees and humidity level of 50% 24 hours a day. This is also highlighted by the slight increase in emissions resulting from electricity consumption. Overall the intensity of emissions,

calculated as the ratio between the total value of CO₂ emissions and the total number of employees, was equivalent to 7,410 (an increase of 11% compared with 2016).

Breakdown of CO₂ emissions by consumption type



Direct and indirect emissions into the atmosphere

DIRECT CO ₂ EMISSIONS (offices and systems)	2016	2017
ITALIAN COMPANIES		
Emissions due to methane consumption (kg CO ₂ e)	928,417	828,422
FOREIGN COMPANIES*		
Emissions due to methane consumption (kg CO ₂ e)	102,582	100,521
Total	1,030,999	928,943

The method used to calculate the emissions involves the use of emission factors published in 2017 by the Department for Environment, Food & Rural Affairs in the UK.

* The figure excludes Landi Renzo Polska Sp.Zo.O., AEB America S.p.A., L.R. Pak (Pot) Limited, Beijing Landi Renzo Autogas System Co. Ltd and LR Industria e comercio Ltda as the information is not available.

DIRECT CO ₂ EMISSIONS (company cars)	2016	2017
ITALIAN COMPANIES		
Total emissions (kg CO ₂ e)	513,356	482,775
FOREIGN COMPANIES*		
Total emissions (kg CO ₂ e)	407,227	421,845
Total	920,583	904,621

The method used to calculate the emissions involves the use of emission factors published in 2017 by the Department for Environment, Food & Rural Affairs in the UK.

* The figure excludes Landi Renzo Polska Sp.Zo.O., AEB America S.p.A., L.R. Pak (Pot) Limited, Beijing Landi Renzo Autogas System Co. Ltd and LR Industria e comercio Ltda as the information is not available.

INDIRECT CO ₂ EMISSIONS	2016	2017
ITALIAN COMPANIES		
Emissions due to electricity consumption	3,111,690	3,196,396
FOREIGN COMPANIES*		
Emissions due to electricity consumption	193,848	220,527
Total	3,305,538	3,416,923

The method used to calculate the emissions involves the use of emission factors published in 2017 by the Department for Environment, Food & Rural Affairs in the UK.

* The 2016 figure excludes L.R. Pak (Pot) Limited and Beijing Landi Renzo Autogas System Co. Ltd; the 2017 figure excludes AEB America S.p.A. as the information is not available.

Energy production from renewable sources is among the energy strategies implemented by the Landi Renzo Group. Significant primary energy savings have been obtained thanks to the photovoltaic plant installed on the roof of the new Landi Renzo S.p.A. research and development centre and a photovoltaic plant installed at the headquarters of AEB S.p.A. In 2017 the **production of electricity from photovoltaic systems** increased slightly due to favourable weather conditions compared with the previous year. The Landi Renzo S.p.A. plant produced **208,085 kWh** and the plant at AEB S.p.A. produced **116,959 kWh**, and both these amounts were fed back into the network. This made it possible to prevent **CO₂ emissions equivalent to 114,272 kg**.

Emissions of volatile organic compounds (VOCs) due to manufacturing extraction systems at Landi Renzo S.p.A., AEB S.p.A. and Eighteen Sound S.r.l. have been declared as required, and regularly monitored with samples taken by external qualified technicians that have been shown to comply consistently with legal limits. They have increased for the AEB S.p.A. and Eighteen Sound S.r.l plants despite production having decreased, as test results depend on plant production levels when tests are carried out. It should be noted that the premises in Via Nobel also produces VOC emissions, but they were assessed as having low environmental impact and therefore not requiring measurement.

Other emissions into the atmosphere

OTHER EMISSIONS INTO THE ATMOSPHERE (kg)	2016	2017
NO _x *	344	155
SO _x *	34	16
VOCs (Volatile Organic Compounds)**	195	247

The method used to calculate NO_x and SO_x emissions from heating systems in m³ of methane consumed overall requires multiplication by the emission limit stipulated by legislation (350 mg/m³ for NO_x and 35 mg/m³ for SO_x) and then divided by 1,000,000.

With regard to VOCs, the figure is calculated as the average of the analyses (measurements) taken during the year and multiplied by 8h working days *220 working days in a year/1000.

* The figure excludes Landi Renzo Polska Sp.Zo.O., AEB America S.p.A., L.R. Pak (Pot) Limited, Beijing Landi Renzo Autogas System Co. Ltd

** The figure includes Landi Renzo S.p.A., AEB S.p.A. and Eighteen Sound S.r.l.

NO_x and SO_x emissions decreased due to lower methane consumption. Furthermore, with regard to **HFCs** in air cooling systems only, in **2017** a gas refill was necessary after losing **277 kg of HFCs** due to cooling machine faults on the premises at Via Nobel and AEB S.p.A. Gas has always been recovered when old plants are decommissioned.

Emissions of ozone-depleting substances

EMISSIONS of ODSs (kg CO ₂ e)	2016	2017
HFCs and F-gas mixtures	251,227	581,038
The method used to calculate the emissions is based on data entered in plant logbooks. The figure includes Landi Renzo S.p.A. and AEB S.p.A.		

Water

Water is a key factor in the Group's focus on the environment. The company is convinced of the need to manage water resources responsibly. The idea underpinning this company policy is that using water is not just an environmental issue. Consequently, water occupies a primary position among the natural resources considered in the Group's policy to contain consumption. These results are achieved through a desire for continuous improvement, which takes shape in audits and monitoring activities that highlight critical points and implement corrective actions. Change in the consumption of water for domestic use is mainly due to the number of people in the company, and the supply of water for cooling towers for technological systems on the premises in Via Nobel. At Landi Renzo S.p.A. the production processes involving considerable water consumption concern refills for evaporation towers in test rooms and water used for humidifiers for air processing units. In 2017 groundwater supplies were only used for irrigation during the summer months. Waste water produced was mainly from toilet facilities and condensation from fridge units, classed and considered as industrial waste comparable to domestic waste. Both types were discharged into public sewers.

Water consumption and collection by source

WATER COLLECTION BY SOURCE (m ³)	2016	2017
ITALIAN COMPANIES		
Water supply*	10,143	15,535
Groundwater for irrigation	2,958	3,315
Total water collected	13,101	18,850
FOREIGN COMPANIES**		
Water supply	5,865	26,301
Groundwater for irrigation	-	-
Total water collected	5,865	26,301
WATER CONSUMPTION (m³)		
Total water consumption	18,966	45,151
The method used for the calculation involves gathering data from automatic consumption monitoring systems, or in certain cases estimates based on expenditure for water consumption.		

*The figure includes Landi Renzo S.p.A. and AEB S.p.A. only.

** The 2016 figure excludes Landi Renzo RO srl, AEB America S.p.A., L.R. Pak (Pot) Limited and Beijing Landi Renzo Autogas System Co. Ltd; the 2017 figure excludes AEB America S.p.A. and Beijing Landi Renzo Autogas System Co. Ltd as the information is not yet available.

The **increase in water consumption** compared with previous years is linked to environmental factors. A greater amount of water was required for evaporation towers due to the temperatures reached in the summer months.

Waste management

The Landi Group has set up a waste management process designed to reduce waste, in order to ensure the sustainable management of environmental resources used in the company's industrial activities.

The Group produces waste from service/production activities, and some products are classed as special waste and given a six-figure EWC (European Waste Catalogue) code and managed differently.

Companies in the Group have introduced special containers for collecting and recycling this waste on the basis of EWC information.

Waste management is split into three separate disposal groups:

- Recyclable waste and materials;
- Municipal solid waste and similar, and special non-hazardous waste;
- Hazardous waste subject to regulations regarding storage and transport due to their composition.

Furthermore, handling and mixing hazardous waste is prohibited given that fire or dangerous reactions could be produced.

Other special waste is collected and disposed of directly by external service contractors. The company holds the documentation for this waste, and deals with declarations to be made to the relevant authorities and any other matters concerning compliance with standards.

Since 2013 the Italian companies in the Landi Renzo Group have **sorted waste according to type**, separating paper, aluminium, ferrous materials, polystyrene, polyethylene for packaging, adhesives, solvents etc. to facilitate recycling.

Furthermore, Landi Renzo S.p.A., AEB S.p.A. and Eighteen Sound S.r.l have introduced **cardboard compactors** to help safeguard the environment which, in addition to compacting, also protect cardboard to be recycled from bad weather, providing certainty in terms of amounts of cardboard produced and destined for recycling, and a financial return from selling recycled material. The use of these compactors enables the efficient management of two separated products without waste and needless bulk.

The total amount of **waste produced in 2017** was equivalent to **338 tonnes**, with **177 tonnes** of this classed as non-hazardous.

WASTE PRODUCED (tonnes)	2016	Total waste produced
		2017
ITALIAN COMPANIES		
Total waste produced	239	200
FOREIGN COMPANIES*		
Total waste produced	137	138

The method used for the calculation involves gathering data from waste logs and disposal forms.

* The figures exclude AEB America S.p.A., Landi Renzo USA Corporation, L.R. Pak (Pvt) Limited and Beijing Landi Renzo Autogas System Co. Ltd. as the information is not yet available.

The reduction in waste produced in the last two years is mainly due to a reduction in production.

WASTE DISPOSED OF BY TYPE (tonnes)	2016	Waste disposed of by type
		2017
ITALIAN COMPANIES		
Total waste disposed of	242	198
<i>amount disposed off/treated</i>	21	13
Non-hazardous	11	4
Hazardous.	11	9
<i>amount recovered/recycled</i>	221	185
Non-hazardous	214	173
Hazardous.	7	12
FOREIGN COMPANIES		
Total waste disposed of	137	138

The difference between total waste disposed of compared with waste produced is due to the disposal of some waste produced by Eighteen Sound S.r.l. in 2018.

With regards to spills, at Italian production sites spillage risk was not significant. However, emergency teams, tools and special equipment to contain any spills were made available. No risk of spills was highlighted at any of the foreign companies either.

Noise emissions

All Italian companies in the Landi Renzo Group monitor noise emissions through specific sound measurements to assess noise level in the surrounding environment. The noise measurement points were located on minor roads adjacent to site boundaries. The sound measurements showed that the premises generate a steady, constant noise level. Noise fluctuations are affected by noise due to vehicular traffic or other noise extraneous to production activity.

The Landi Renzo Group's concern with noise is not just limited to measurements taken outside its sites. Sound measurements for the complete sound mapping of sites have been implemented as planned, in

accordance with the framework of actions to protect against physical agents (section VIII of legislative decree 81/2008).

The aims of this mapping are as follows:

- to accurately define the noise levels to which employees are exposed;
- to identify places of major risk and define suitable prevention and protection measures;
- to select appropriate personal protective equipment and identify potential actions to contain sources of significant noise.

Processing sound data has enabled the potential effects of noise in the workplace under normal operational conditions to be quantified, and values below threshold limits which fully comply with existing legislation have been noted.

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Independent Auditor's Report on the Consolidated Non-Financial Statements

pursuant to article 3, paragraph 10, of Legislative Decree No. 254/2016 and article 5 of CONSOB Regulation No. 20267

To the Board of Directors of Landi Renzo SpA

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016 (the "Decree") and article 5 of CONSOB Regulation No. 20267, we have performed a limited assurance engagement on the consolidated non-financial statement of Landi Renzo SpA and its subsidiaries (hereafter the "Landi Renzo Group") for the year ended 31 December 2017 prepared in accordance with article 4 of the Decree and approved by the Board of Directors on 15 March 2018 (hereafter the "NFS").

Responsibility of the Directors and of the Board of Statutory Auditors on the NFS

Directors are responsible for the preparation of the NFS in accordance with article 3 and 4 of the Decree and with the "Global Reporting Initiative Sustainability Reporting Standards" defined in 2016 by the GRI - Global Reporting Initiative ("GRI Standards"), identified by them as the reporting standard.

Directors are responsible, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of a NFS that is free from material misstatement, whether due to fraud or error.

Directors are responsible for identifying the content of the NFS, within the matters mentioned in article 3, paragraph 1, of the Decree, considering the activities and characteristics of the group and to the extent necessary to ensure an understanding of the group's activities, its performance, its results and related impacts.

Directors are responsible for defining the business and organisational model of the group and, with reference to the matters identified and reported in the NFS, for the policies adopted by the group and for the identification and management of risks generated and/or faced by the group.

The Board of Statutory Auditors is responsible for overseeing, in the terms prescribed by law, compliance with the Decree.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhler 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

www.pwc.com/it



Auditor's Independence and Quality Control

We are independent in accordance with the principles of ethics and independence set out in the Code of Ethics for Professional Accountants published by the International Ethics Standards Board for Accountants, which are based on the fundamental principles of integrity, objectivity, competence and professional diligence, confidentiality and professional behaviour. Our audit firm adopts International Standard on Quality Control 1 (ISQC Italy 1) and, accordingly, maintains an overall quality control system which includes processes and procedures for compliance with ethical and professional principles and with applicable laws and regulations.

Auditor's responsibilities

We are responsible for expressing a conclusion, on the basis of the work performed, regarding the compliance of the NFS with the Decree and with the GRI Standards. We conducted our engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) – Assurance Engagements Other than Audits or Reviews of Historical Financial Information (hereafter “ISAE 3000 Revised”), issued by the International Auditing and Assurance Standards Board (IAASB) for limited assurance engagements. The standard requires that we plan and apply procedures in order to obtain limited assurance that the NFS is free of material misstatement. The procedures performed in a limited assurance engagement are less in scope than those performed in a reasonable assurance engagement in accordance with ISAE 3000 Revised, and, therefore, do not provide us with a sufficient level of assurance that we have become aware of all significant facts and circumstances that might be identified in a reasonable assurance engagement.

The procedures performed on the NFS were based on our professional judgement and consisted in interviews, primarily of company personnel responsible for the preparation of the information presented in the NFS, analyses of documents, recalculations and other procedures designed to obtain evidence considered useful.

In particular, we performed the following procedures:

1. analysis of the relevant matters reported in the NFS relating to the activities and characteristics of the Landi Renzo Group, in order to assess the reasonableness of the selection process used, in accordance with article 3 of the Decree and the with the reporting standard adopted;
2. analysis and assessment of the criteria used to identify the consolidation area, in order to assess their compliance with the Decree;
3. comparison of the financial information reported in the NFS with the information reported in the Landi Renzo Group's consolidated financial statements;
4. understanding of the following matters:
 - business and organisational model of the Landi Renzo Group, with reference to the management of the matters specified by article 3 of the Decree;
 - policies adopted by the Landi Renzo Group with reference to the matters specified in article 3 of the Decree, actual results and related key performance indicators;
 - main risks, generated and/or faced by the group, with reference to the matters specified in article 3 of the Decree.

- With reference to those matters, we compared the information obtained with the information presented in the NFS and carried out the procedures described under point 5 a) below;
5. understanding of the processes underlying the preparation, collection and management of the significant qualitative and quantitative information included in the NFS.

In particular, we held meetings and interviews with the management and personnel of Landi Renzo SpA, and we performed limited analyses of documentary evidence, to gather information about the processes and procedures for the collection, consolidation, processing and submission of the non-financial information to the function responsible for the preparation of the NFS.

Moreover, for material information, considering the activities and characteristics of the Landi Renzo Group:

- at a group level,
 - a) with reference to the qualitative information included in the NFS, and in particular to the business model, the policies adopted and the main risks, we carried out interviews and acquired supporting documentation to verify their consistency with available evidence;
 - b) with reference to quantitative information, we performed analytical procedures as well as limited tests, in order to assess, on a sample basis, the accuracy of consolidation of the information;
- for the following companies, Landi Renzo SpA and AEB SpA, Corte Tegge, Cavriago (RE), and Eighteen Sound Srl, Reggio nell'Emilia (RE), which were selected on the basis of their activities, their contribution to the performance indicators at a consolidated level and their location, we carried out site visits during which we met local management and gathered supporting documentation regarding the correct application of the procedures and calculation methods used for the key performance indicators.

Conclusions

Based on the work performed, nothing has come to our attention that causes us to believe that the NFS of Landi Renzo Group as of 31 December 2017 has not been prepared, in all material respects, in compliance with articles 3 and 4 of the Decree and with the GRI Standards.



Other aspects

The comparative information presented in the NFS relating to the financial year ended 31 December 2016, has not been subjected to any procedures.

Parma, 30 March 2018

PricewaterhouseCoopers SpA

Signed by

Massimo Rota
(Partner)

Paolo Bersani
(Authorized signatory)

This report has been translated from the Italian original solely for the convenience of international readers.

Significant events after the reporting period and business outlook

Following the company reporting period an agreement was signed on 15 January at the Veneto Region's Employment Office on the reorganisation of Lovato Gas S.p.A., as set out in the Strategic Plan for 2018-2022. The agreement confirms the desire of Landi Renzo to maintain and protect local expertise such as Lovato Gas, which will become a hub of business activity and an R&D centre of excellence. With regard to production, the plan is to retain a dedicated line for LPG reducers, the company's main product, to be able to meet the demands of an LPG market effectively, with stable prospects in Europe and the Italian market. After reorganisation Lovato Gas S.p.A. will have reduced its number of employees from 90 to 23, in line with the activities to be implemented. The arrangement also enables an important aim in the Strategic Plan to be achieved, relating to the restructuring of the Group as part of the Excellence project, with a reduction in cost structure, and a redesign of manufacturing footprint at a global level, well in advance of planned timescales.

Business outlook

Considering the progress of the reference market and the order book, in addition to actions implemented after the approval of the Strategic Plan for 2018-2022, the Group is expecting a growth in proceeds in the automotive industry between Euro 165 million and Euro 170 million, with an adjusted EBITDA margin of roughly Euro 25 million, equivalent to 15% of proceeds. The proceeds from the joint venture of the Gas Distribution and Compressed Natural Gas division (established in 2018 with the equity method) are expected to be between Euro 57 million and Euro 60 million with an adjusted EBITDA margin of roughly Euro 5 million, equivalent to 8% of proceeds.

Chief Executive Officer
Cristiano Musi

Proposal for budget approval and profit allocation

Dear Shareholders,

Concluding our report we are proposing:

- the approval of the Financial Statement as at 31 December 2017;
- the approval at the Shareholders' Meeting of the allocation of profit equivalent to Euro 1,938,986.13 made by Landi Renzo S.p.A. to an Optional Reserve given that the Legal Reserve has already reached one fifth of share capital

Cavriago (RE), 15 March 2018

For the Board of Directors

The Chairman

Stefano Landi

Contact details

Landi Renzo S.p.A.

Via Nobel 2/4/6

42025 Corte Tegge - Cavriago (RE) - Italy

Tel. +39 0522 9433

Fax +39 0522 944044

Share capital: Euro 11,250,000

Tax Code and VAT Reg. No. IT00523300358

This document is available on the Internet at
www.landirenzogroup.com

Further information:

Paolo Cilloni

e-mail: ir@landi.it

APPENDIX

**Report on Corporate
Governance and
Ownership Structure**



LANDI RENZO S.p.A.

REPORT

ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE

pursuant to article 123-*bis* of the Consolidated Finance Act

(traditional administration and control model)

Issuer: Landi Renzo S.p.A.

Web Site: www.landirenzogroup.com

Financial period covered by the Report: year ended 31 December 2017

Date of approval of the Report: 15 March 2018

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GLOSSARY

Board or Board of Directors: the Issuer's Board of Directors.

Board of Statutory Auditors: the Issuer's Board of Statutory Auditors.

Borsa Italiana: Borsa Italiana S.p.A.

Civil Code: the Italian Civil Code.

Issuers' Regulations: the regulations issued by Consob by virtue of Resolution 11971/1999 (and subsequent amendments) regarding legislation for issuers.

Consob Market Regulations: the regulations issued by Consob by virtue of Resolution 20249 of 2017 regarding legislation for the stock markets.

Consolidated Finance Act: Legislative Decree 58 of 24 February 1998 (the Italian Consolidated Finance Act), as amended.

Instructions to the Stock Market Regulations: the instructions to the regulations of Borsa Italiana.

Issuer, Landi Renzo or the Company: Landi Renzo S.p.A.

Period: the financial period covered by the Report, i.e. the financial year ended on 31 December 2017.

Related Party Transactions Regulations: the Regulations issued by Consob by virtue of Resolution 17221 of 12 March 2010 (and subsequent amendments) regarding transactions with related parties.

Report: the report on corporate governance and the structure of ownership that companies are obliged to prepare in accordance with Article 123-bis of the Consolidated Finance Act for the reference Period.

Self-Regulatory Code: the self-regulatory code for listed companies approved by the Corporate Governance Committee in March 2006 (and subsequent amendments) and promoted by Borsa Italiana, Abi, Ania, Assogestioni, Assonime and Confindustria, publicly available on the Corporate Governance Committee website at <http://www.borsaitaliana.it/comitato-corporate-governance/codice/codice.htm>.

Stock Market Regulations: the regulations of the stock markets organised and managed by Borsa Italiana.

1. ISSUER PROFILE

The Issuer has adopted a traditional system of governance based on the presence of three bodies: the Shareholders' Meeting, the Board of Directors and the Board of Auditors. The auditing of the accounts is entrusted by law to an auditing firm. The Issuer adheres to the Self-Regulatory Code in accordance with the method described below.

The following sections provide information regarding the ownership structure and describe the relative and actual methods of implementation that the Company has already adopted, namely the changes that the Company is pursuing with respect to the compliance model outlined in the Self-Regulatory Code.

This Report, prepared in accordance with the regulatory requirements laid down for companies listed on the screen-based equity market (*Mercato Telematico Azionario*) organised and managed by Borsa Italiana, together with all the documents referred to herein, may be downloaded from the Company's website www.landirenzogroup.com/it/, Investors section.

2. INFORMATION ON THE OWNERSHIP STRUCTURE (PURSUANT TO ARTICLE 123-BIS, SUBSECTION 1, OF THE CONSOLIDATED FINANCE ACT) AS AT 31 DECEMBER 2017

This section 2 has been prepared pursuant to the terms and effects of Article 123-bis, subsection 1, of the Consolidated Finance Act. Any information (i) required by the aforesaid Article 123-bis, subsection 1, letter i) of the Consolidated Finance Act is provided in the Report on remuneration published pursuant to Article 123-ter of the Consolidated Finance Act, (ii) the information required by the aforesaid Article 123-bis, subsection 1, letter l) of the Consolidated Finance Act is provided in the chapter of the Report dealing with the Board of Directors (Section 4.1), and finally, (iii) the other information required by article 123-bis of the Consolidated Finance Act that is not mentioned in this section 2, is to be understood as not applicable to the Company.

(a) Shareholding structure (pursuant to article 123-bis, subsection 1, letter a) of the Consolidated Finance Act)

Landi Renzo's share capital is equal to Euro 11,250,000, fully subscribed and paid up, and consists of 112,500,000 ordinary shares with a nominal value of Euro 0.10 each (the "**Shares**"), traded on the screen-based equity market (*Mercato Telematico Azionario*) organised and managed by Borsa Italiana. This information is also shown in table 1 attached to the Report.

As of the date of this Report, no special classes of shares have been issued, such as shares without voting rights or with limited voting rights, nor other securities granting the right to subscribe newly issued shares.

On 9 April 2015, Landi Renzo's Board of Directors approved by resolution the issue of a bond called "LANDI RENZO 6.10% 2015-2020", in the amount of Euro 34 million, having a term of five years and paying a gross fixed interest rate of 6.10%, with a coupon paid every six months in arrears, as provided under the rules approved on 9 April 2015 and subsequently amended on 7 March 2016, 30 December 2016 and, most recently, on 30 March 2017. In such context, the Shareholders' Meeting approved, among other things, the postponement of the maturity date of the notes from 15 May

2020 to 31 December 2022, consequently renaming the notes "LANDI RENZO 6,10% 2015-2022".

On 14 May 2015, the security was admitted for trading on the Extra MOT PRO Segment of Borsa Italiana S.p.A. and was subscribed for and placed by Banca Popolare di Vicenza SCpA and KNG Securities LLP with primary Italian and European institutional investors.

Further details are available on the Company's website at <http://www.landirenzogroup.com/it/3>.

(b) Restrictions on the transfer of securities (pursuant to article 123-bis, subsection 1, letter b) of the Consolidated Finance Act)

As of the date of this Report, the Shares are freely transferable by deed *inter vivos* and/or by succession *mortis causa* and are subject to the circulation regime envisaged for shares issued by listed companies registered under Italian law.

(c) Significant shareholdings (pursuant to article 123-bis, subsection 1, letter c) of the Consolidated Finance Act)

As of the date of this Report, on the basis of the records in the shareholders' book and in the light of the notifications received under Article 120 of the Consolidated Text, the following parties, directly or indirectly, own more than 5% of the Company shares (this information is also presented in table 1, attached to this Report).

Declarant	Direct shareholder	% of issued shares	% of shares with voting rights
Trust Landi (trust regulated by Jersey law, in which trustee is Stefano Landi)	Girefin S.p.A.	54.662	68.712
	Gireimm S.r.l.	4.444	5.587
Aerius Investment Holding AG	Aerius Investment Holding AG	8.356	8.356

(d) Securities to which special rights are attached (pursuant to article 123-bis, subsection 1, letter d) of the Consolidated Finance Act)

As of the date of this Report, the Company's Shares are registered, freely transferable and indivisible. Without prejudice to the provisions below on loyalty shares' increased voting rights, each share confers the same proprietary and administrative rights in accordance with the applicable provisions of law and of the articles of association.

On 24 April 2015, Landi Renzo's Shareholders' Meeting amended the Company's articles of association in order to introduce a loyalty shares mechanism giving rise to increased voting rights for such shares (as provided by article 20, first paragraph, of law decree no. 91 of 24 June 2014, converted by law no. 116 of 11 August 2014), whereby, if a shareholder is registered in the specific register kept by the Company for a certain number of shares, after a vesting period of 24 months, the shareholder will be entitled to a double vote in relation to such shares.

At the following meeting held on 27 August 2015, the Company's Board of Directors approved the Rules on loyalty shares giving rise to increased voting rights which govern, *inter alia*, the procedures for requesting registration in the dedicated special list provided under art. 127-*quinquies*, paragraph 2, of the Consolidated Finance Act. Further details are available on the Company's website http://www.landirenzogroup.com/it/maggiorazione_del_voto.

It should be noted that, on 7 November 2017, increased voting rights were granted in relation to 61,495,130 and 5,000,000 ordinary shares of Landi Renzo, owned respectively by Girefin S.p.A. and by Gireimm S.r.l., and, on 8 January 2018, in relation to additional 700 ordinary shares of Landi Renzo, pursuant to art. 127-*quinquies* of the Consolidated Finance Act, and implementing the provisions of the Company's articles of association.

Pursuant to Art. 6-*ter* of the Company's articles of association, increased voting rights do not affect any other right other than voting rights, to which shareholders are entitled and may exercise by virtue of their ownership in the corporate capital, and similarly, among other things, they do not affect the calculation of the percentage of corporate capital owned for the submission of slates of candidates for membership in the company's bodies, for exercise of liability actions pursuant to Article 2393-*bis* of the Civil Code, and the percentage of corporate capital required to challenge, for any reason, the resolutions of the Shareholders' Meeting.

As of the date of this Report, the number of Landi Renzo's shares is 112,500,000, corresponding to 178,995,830.00 voting rights at the Company's ordinary and extraordinary Shareholders' Meeting.

(e) **Employees' shareholdings: mechanism for the exercise of voting rights (pursuant to article 123-*bis*, subsection 1, letter e) of the Consolidated Finance Act)**

As of the date of this Report, there are no arrangements for employees to hold shares in the Company.

(f) **Restrictions on voting rights (pursuant to article 123-*bis*, subsection 1, letter f) of the Consolidated Finance Act)**

As of the date of this Report, there are no restrictions on voting rights.

(g) **Shareholders' agreements (pursuant to article 123-*bis*, subsection 1, letter g) of the Consolidated Finance Act)**

As of the date of this Report, the Company is not aware of any agreements among Shareholders as per Article 122 of the Consolidated Finance Act.

(h) **Change of control clauses (pursuant to article 123-*bis*, subsection 1, letter h) of the Consolidated Finance Act)**

As of the date of this Report, neither the Company nor its subsidiaries have stipulated any important agreements that take effect, are amended or are terminated in the event of any change in the Issuer's major shareholder, with the exception of the agreement

to optimise the Group's financial structure, executed on 27 March 2017 by the Company and its subsidiaries A.E.B. S.p.A. (later merged by absorption into Landi Renzo effective as from 21 December 2017), Eighteen Sound S.r.l. and Sound&Vision S.r.l. (later transferred to B&C Speakers S.p.A. on 11 December 2017, and which therefore are no longer parties to the agreement, given they are no longer Group companies), SAFE S.p.A., Lovato Gas S.p.A., and Emmegas S.r.l., with banking institutions ("**Optimisation Agreement**"). The Optimisation Agreement, provides for, *inter alia*, the postponement to 2022 of the maturity date of the indebtedness of the Company and the other Group companies signatories to the agreement, changes in the amount of the instalment repayments, providing for ascending amounts consistently with the cash flow objectives under the Business Plan, the amendment of the financial covenants, so as to be more aligned with the Group's business prospects and profit forecast, and the confirmation of the short-term facilities on the terms and conditions agreed in the Optimisation Agreement and for amounts coherent with the needs described in the Business Plan.

The terms of the Optimisation Agreement call for termination of the agreement pursuant to article 1353 of the Civil Code in case (i) Stefano Landi, Giovannina Domenichini and Silvia Landi together cease to hold -- directly or indirectly (also through fiduciary companies, trusts or similar vehicles) – 66.7% of the voting share capital in Girefin S.p.A., or, although holding at least 66.7% in Girefin S.p.A.'s corporate capital, they cease to exercise control over Girefin S.p.A. within the meaning of article 93 of the Consolidated Finance Act; and/or (ii) Girefin S.p.A. ceases to hold – directly or indirectly – 66.7% of the voting share capital in Gireimm S.r.l., or, although holding at least 66.7% (sixty-six point seven) of Gireimm S.r.l.'s share capital, it ceases to exercise control over Gireimm S.r.l. within the meaning of article 93 of the Consolidated Finance Act; and/or (iii) Stefano Landi ceases to hold – directly or indirectly – at least 50.1% of the Company's shares with voting rights, or, although holding at least 50.1% of the Company's shares with voting rights, he ceases to exercise control over the Company within the meaning of article 93 of the Consolidated Finance Act.

(i) **Delegated powers to increase share capital, and authorisations to purchase treasury shares (pursuant to article 123-bis, subsection 1, letter m) of the Consolidated Finance Act)**

The Shareholders' Meeting of 28 April 2017, after it revoked the resolution it had approved on 29 April 2016 to the extent not yet implemented, authorised the Board of Directors, and the Managing Director acting on behalf of the said Board, also through its own attorneys appointed for this purpose, pursuant to, and for the purposes of, article 2357 of the Civil Code, to purchase Company's treasury shares, in quantities, at the price, and under the terms and conditions reported below:

- the shares may be purchased on one or more occasions, within the 18 months following the date of the shareholders' meeting's resolution, within the limits of the reserves available and profit available for distribution shown in the last approved financial statements, and will be recorded in the accounts in accordance with the legislative provisions and accounting principles applicable to listed companies, that is, in accordance with the provisions of article 144-bis of the Issuers' Regulations and article 132 of the Consolidated Finance Act, and in accordance with the provisions of the Stock Market

Regulations and of all other applicable regulations, including those established by Regulation (EU) No. 596/2014 of the European Parliament and the Council of 16 April 2014 and its EU and national implementing regulations, including among others the assignment to the shareholders, proportionally to shares owned by each, of a put option to be exercised within a term to be set in the resolution of the Shareholders' Meeting that approves the purchase plan;

- the purchase price of each share shall be no more than 20% higher or lower than the reference price recorded by the securities on the Stock Market in the session preceding each transaction and in any event shall not exceed the higher of the price of the last independent transaction and the price of the highest current, independent purchase offer in the trading venue where the purchase is made, even when the shares are traded in various trading venues;
- the maximum number of shares purchased may not have an aggregate nominal value, including any shares held by the subsidiaries, higher than one-fifth of the share capital.

On the same occasion the Shareholders' Meeting also resolved:

- under Article 2357-*ter*, subsection 1, of the Civil Code, to authorise the Board of Directors to dispose, in whole or in part, without any time limits, of its treasury shares purchased even before having completed the purchases, where permitted under applicable EU and national law and regulations; shares may be sold, on one or more occasions, also through offerings to the public and/or the Shareholders, on regulated markets and/or unregulated markets, or off-market, also by offering them to the public and/or to Shareholders, by institutional placement, by placement of purchase coupons and/or warrants or as a consideration for acquisitions or public swap offers at a price that must not be more than 20% lower or higher than the reference price recorded by the security on the Stock Market in the session preceding each transaction; nevertheless, these price limits will not apply if the shares are sold to employees, including executives, executive directors or collaborators of Landi Renzo and its subsidiaries within the framework of stock option incentive plans intended for such persons;
- under Article 2357-*ter*, subsection 3, of the Civil Code, to authorise the Board of Directors to make all the accounting entries necessary or opportune, as regards transactions involving treasury shares, in compliance with those legal provisions in force and with the applicable accounting principles.

As of the date of this Report, the Company has neither purchased nor disposed of any treasury shares.

The Board of Directors' meeting of 15 March 2018 resolved to submit to the Shareholders' Meeting a proposal to extend the power to purchase and dispose of treasury shares under the same terms and conditions as approved by the previous

shareholders' meeting, subject to withdrawal of the previous authorisation to the extent not used.

(j) **Management and coordination (pursuant to articles 2497 et seq. of the Civil Code)**

Landi Renzo deems that Girefin S.p.A. does not carry out management and coordination activities, operating as the former does completely free of any entrepreneurial or corporate control by the latter controlling company. For example, Landi Renzo independently manages its treasury and business relations with customers and suppliers, and independently establishes its own industrial plans and/or budgets.

The information requested by article 123-*bis*, first paragraph, letter i), of the Consolidated Financial Act (benefits for directors in case of resignation, dismissal or termination of employment following public tender offers) are described in the report on remuneration published pursuant to article 123-*ter* of the Consolidated Finance Act.

The information requested under article 123-*bis*, first paragraph, letter l) of the Consolidated Finance Act (appointment and replacement of directors and changes to the articles of association other than those required under the laws and regulations) are described in the section of the Report devoted to the Board of Directors.

3. COMPLIANCE

Landi Renzo has complied with the provisions and recommendations of the Self-Regulatory Code drafted by the Listed Companies' Corporate Governance Committee and published in March 2006, as amended (the "**Self-Regulatory Code**"), publicly available on the Corporate Governance Committee website at page <http://www.borsaitaliana.it/comitato-corporate-governance/codice/codice.htm>.

Neither the Issuer nor its subsidiaries of strategic importance, are subject to provisions of any laws other than Italian law affecting the Issuer's corporate governance structure.

4. BOARD OF DIRECTORS

4.1 APPOINTMENT AND REPLACEMENT OF DIRECTORS, AND AMENDMENTS TO THE ARTICLES OF ASSOCIATION (PURSUANT TO ARTICLE 123-BIS, SUBSECTION 1, LETTER L) OF THE CONSOLIDATED FINANCE ACT)

The Shareholders' Meeting establishes the number of members of the Board of Directors, at the time of their appointment, within those limits set out in subsection 4.2 below. The directors shall hold office for a period of no more than three financial years, and they may be re-elected.

Under Article 14 of the Company's articles of association, regarding the appointment and replacement of the Board of Directors and/or its members, establishes that the members of the Board of Directors are elected from lists of candidates according to the following procedures, in compliance with legislation, including regulatory, on gender balance in force at the time. Shareholders holding, even jointly, at least 2.5% of the share capital representing shares that

confer voting rights at shareholders' meetings held to deliberate the appointment of the members of the governing body, or such other proportion of the share capital as may be determined at any one time by Consob, in accordance with the rules applicable to the Company, may present a list of candidates, the number of which shall not be greater than the number of directors to be elected, where candidates are listed in a progressive order. This level of ownership is consistent with that determined by Article 144-*quater* of the Issuers' Regulations for companies with a market capitalisation of up to Euro 1 billion. The notice calling the shareholders' meeting will state the level of ownership required to present a list of candidates.

Each shareholder, the shareholders adhering to a shareholders' agreement relevant under Article 122 of the Consolidated Finance Act, the parent company, the subsidiary companies and companies subject to joint control, may not present or join in the presentation of more than one list, not even through a third party or a trust company, nor may they vote for different lists, and each candidate may only stand in one list, otherwise they will be adjudged ineligible. Candidatures and votes expressed in breach of this restriction shall not be attributed to any list.

Lists must be deposited at the Company's registered office at least 25 (twenty-five) days prior to the date scheduled for the Shareholders' Meeting, without prejudice to other forms of publicity provided for by law, including regulatory provisions, in force at the time. The notice calling the shareholders' meeting will provide instructions to allow remote deposit of the list by distance communication. Ownership of the amount of shares required to present a list must be proven with the methods and at the terms required under the law and regulatory provisions in force at the time. Should mandatory gender allocation criteria be applicable, each list that presents at least 3 (three) candidates shall include a number of candidates of the least represented gender equal to the minimum requested by applicable law and regulatory provisions in force at the time. Those documents provided for by article 14 of the Issuer's articles of association and by the applicable provisions of law and regulations shall be presented together with each list.

Within the above terms, the following must be deposited together with each list: (i) information regarding the identity of the shareholders that presented the list and the percentage of ownership they hold in the aggregate; (ii) the declarations whereby each candidate accepts to be a candidate and attests, under his or her own responsibility, that no circumstances giving rise to his or her ineligibility or incompatibility exist and that he or she meets all the requisites under the law to accept the office; (iii) any candidate's declaration whereby the candidate attests, under his or her own responsibility, that he or she meets the independence requirements in accordance with applicable laws and regulations; and (iv) the *curricula vitae* of each candidate, containing exhaustive information on the candidate's personal and professional background, and listing any offices held by the candidate on the governing or supervisory bodies of other companies. Those lists presented without observing the aforesaid provisions shall be deemed as not presented.

Each eligible person has the right to vote for one list. When voting has been completed, those candidates from the two lists who have obtained the greatest number of votes shall be elected, according to the following principles:

- a) from the list that has obtained the highest number of votes (the "**Majority List**"), the same number of directors shall be elected as make up the Board of Directors, as established beforehand by the Shareholders' Meeting, minus; members are taken, in accordance with the said numerical limitation, on the basis of the numerical order in which they appear in the list;

- b) from the list that has obtained the second largest number of votes, provided that it is not connected in any manner, even indirectly, in accordance with the applicable laws and regulations, with the shareholders that presented or voted for the Majority List (the "**Minority List**"), one Director is taken, and that Director shall be the one who appears first, in numerical order, on that list.

The candidate chosen as number one candidate on the Majority List shall be elected Chairperson of the Board of Directors.

Unless otherwise provided for, in the event of parity of votes, the senior candidate shall be elected.

In the event that following the election of candidates in the aforesaid manner, a number of independent directors have not been appointed, in accordance with the provisions of the law governing auditors, equal to the minimum number established by law in relation to the overall number of members of the Board of Directors, then the first non-independent candidate elected in numerical order from the Majority List, shall be replaced by the first independent candidate (in numerical order) not elected taken from the same list, or in the absence thereof, by the first independent candidate (in numerical order) not elected taken from the other lists, according to the number of votes that each candidate has obtained. This replacement procedure shall be followed until the independent directors – pursuant to the legal provisions governing statutory auditors - elected to the Board of Directors is at least equal to the legal minimum. Finally, should this procedure fail to provide the aforesaid result, then replacement shall be established by a resolution passed by the relative majority of the Shareholders' Meeting, subject to the presentation of candidates possessing the aforesaid requirements.

In addition, in the event that following the election of candidates in the aforesaid manner, a composition of the Board of Directors has not been reached in accordance with the provisions of the law on gender balance in force at the time, then the last candidate of the less represented gender elected in a numerical order from the Majority List shall be replaced by the first candidate of the less represented gender (in numerical order) not elected taken from the same list, or in the absence thereof, by the first candidate of the less represented gender (in numerical order) not elected from the other lists, according to the number of votes that each candidate has obtained. This replacement procedure shall be followed until a composition of the Board of Directors is reached which complies with the laws on gender balance in force at the time. Finally, should this procedure fail to provide the aforesaid result, then replacement shall be established by a resolution passed by the relative majority of the Shareholders' Meeting, subject to the presentation of candidates belonging to the less represented gender.

Should the first two or more lists obtain the same number of votes, then the shareholders' Meeting shall vote again, this time for those lists only. The same rule shall apply in the event of parity between those lists coming second in terms of numbers of votes that are not connected, directly or indirectly, with those shareholders who have presented or voted for the competing list.

In the event of further parity between lists, the list presented by shareholders possessing the majority shareholding, or subordinately by the list presented by the greatest number of shareholders, shall prevail. In all aforementioned cases, the composition of directors shall secure compliance with the aforesaid requirement of gender balance, where so required by law provisions and regulations in force at the time.

In the event of only one list, or no list, being presented, the Shareholders' Meeting shall decide according to the majorities established by law, without having to observe the abovementioned procedure, without prejudice for compliance with the gender balance requirement specified above, where required by law provisions and regulations in force.

For the purpose of the division of those directors to be elected, no account shall be taken of lists that have failed to gain a percentage of votes at least equal to one half of the number required by the present articles of association, or by Consob, for the presentation thereof.

If, during the course of the year, one or more Directors are missing, then in order to ensure that the majority continues to be constituted by directors appointed by the Shareholders' Meeting, the following procedure shall be followed, in accordance with article 2386 of the Civil Code:

- (a) the Board of Directors shall arrange for the replacement of the missing director from among those belonging to the same list as the latter, and the Shareholders' Meeting shall vote, in accordance with the legally-required majorities, in observance of the same principle;
- (b) in the event that the aforesaid list does not contain candidates not previously elected, or candidates with the called-for requirements, or for any reason it is not possible to observe (a) above, then the Board of Directors shall arrange for the replacement, and the Shareholders' Meeting shall vote for said replacement, in accordance with the legal majorities of those without a list vote.

In any case, the Board of Directors and the Shareholders' Meeting shall proceed to make the appointment in order to ensure the minimum number of independent directors required by the law in force at the time, subject to compliance with the aforementioned gender balance requirement, where so prescribed by law and regulatory provisions in force at the time.

However, should the majority of directors cease to exist, then the entire Board of Directors shall be deemed as having resigned, with effect from its reconstitution.

At least one of the members of the Board of Directors, or two if the Board is composed of more than seven members (or of a different minimum number required by the applicable regulation), shall satisfy the criteria of independence called for in the case of statutory auditors by the law and regulatory provisions in force at the time.

The independent director, pursuant to the provisions of the law governing statutory auditors, who subsequent to his/her appointment, no longer satisfies the requirements of independence, shall immediately notify the Board of Directors of this circumstance, and shall no longer hold office. A director's loss of independence, as defined above, shall not automatically lead to loss of office if the said requirement is satisfied by the minimum number of directors as established by the laws in force, or by the codes of conduct that the Company has declared it abides by.

It should be noted that the Board of Directors, having considered the structure and the size of the Group, has not adopted any succession plan for executive directors as it deems that the replacement procedures adopted are adequate to guarantee the continuity and certainty of corporate governance.

4.2 COMPOSITION (PURSUANT TO ARTICLE 123-BIS, SUBSECTION 2, LETTERS D) AND D-BIS) OF THE CONSOLIDATED FINANCE ACT)

Under Article 14 of the articles of association, the Company is governed by a Board of Directors comprised of five to nine members, who need not be shareholders, as previously decided by the Shareholders' Meeting at the times of the appointment of the Board of Directors.

On 29 April 2016 the Shareholders' Meeting appointed the Board of Directors, setting the number of its members at eight. The Directors will serve until the approval of the financial statements for the period ending on 31 December 2018.

On 28 April 2017, upon proposal by the Board of Directors, the Shareholders' Meeting resolved to increase the number of members of the Board of Directors from eight to nine and to appoint a new Director, Cristiano Musi – who previously served as general manager – for a term of office ending concurrently with the term of the other Directors in office, i.e., on the date of approval of the financial statements for the year ending 31 December 2018. After this appointment by the Shareholders' Meeting, on 28 April 2017, the Board of Directors appointed Cristiano Musi as Managing Director of the Company.

As announced by way of press release on 1 August 2017, at the end of July 2017 Claudio Carnevale tendered his resignation from office as Director of Landi Renzo, to pursue other professional opportunities. As of the date he resigned, Claudio Carnevale served as a non-executive member of the Board of Directors and held no office within any of Landi Renzo's internal committees.

Moreover, on 17 October 2017, upon proposal by the Board of Directors, the Shareholders' Meeting decreased the number of members of the Board of Directors from nine to eight, so as to allow the Board of Directors to have the most efficient operating structure, considering also that traditionally the Company's Board of Directors had been composed by eight members (with such number always having been deemed adequate in light of the company's size and business), and that the number was increased for the sole purpose of allowing then-general manager Cristiano Musi, now Managing Director, to join the Board of Directors.

The members of the Board of Directors in office have been elected from two different lists: (a) seven Directors were elected from list number 1), presented jointly by the majority Shareholders Girefin S.p.A. and Gireimm S.r.l., while (b) one Director was elected from list number 2), presented by the minority Shareholders Aeriis Investment Holding AG.

List number 1) set out the following candidates:

- Stefano Landi, born in Reggio Emilia, on 30 June 1958, Chairman;
- Giovannina Domenichini, born in Casina (Reggio Emilia), on 6 August 1934, Director;
- Claudio Carnevale, born in Nole Canavese (Turin), on 5 April 1961, Director;
- Angelo Iori, born in Reggio Emilia, on 11 December 1954, Director;
- Sara Fornasiero, born in Merate (Lecco), on 9 September 1968, Independent Director;

- Ivano Accorsi, born in Correggio (Reggio Emilia), on 14 July 1938, Independent Director;
- Silvia Landi, born in Reggio Emilia, on 8 June 1960, Director;
- Elisa Talignani Landi, born in Scandiano (Reggio Emilia), on 11 March 1984, Director.

List number 2) sets out the following candidates:

- Anton Karl, born in Mistelbach (Austria), on 16 March 1976, Director;
- Mark Kerekes, born in Lienz (Austria), on 30 May 1976, Director;
- Herbert Paierl, born in Prebensdorf (Austria), on 26 May 1952, Director.

As specified in the press release issued by the Issuer on 8 April 2016, the above-mentioned list included a number of candidates belonging to the less represented gender lower than the minimum number provided by the Issuer's articles of association. However, on 8 April 2016 a notice was received containing Herbert Paierl's waiver to nomination as director due to unexpected professional commitments. As a result of such waiver, the list included therefore two candidates: Anton Karl, born in Mistelbach (Austria), on 16 March 1976, and Mark Kerekes, born in Lienz (Austria), on 30 May 1976.

The candidates from list number 1) were elected with the favourable vote of 66,498,130 shares whilst candidate from list number 2) was elected with the favourable vote of 11,449,418 shares. With regard to the proposed lists, 10 dissenting votes were cast. Voting share capital in attendance at the shareholders' meeting was 69.29% of the share capital.

Directors Sara Fornasiero, Ivano Accorsi and Anton Karl stated that they met the qualifications required for Independent Directors at the time of their appointment, in accordance with Article 148 of the Consolidated Finance Act and Article 3 of the Self-Regulatory Code.

The Board of Directors is obliged, on a yearly basis, to consider whether Directors described as "independent" at the time of their appointment still satisfy the independence criteria laid down in the laws and regulations applicable at the time.

The purpose of the presence of three Independent Directors is to provide further safeguards of good corporate governance by means of discussion and debate among all the Directors. The contribution made by the Independent Directors also allows the Board to verify that cases of potential conflict between the interests of the Company and its majority shareholder are evaluated with an appropriate degree of independent judgment.

The members of the Board of Directors serving as of the date of this Report are shown in the table below (for additional information, see table 2, attached to this Report).

Full surname	Title	Place and date of birth	Director Type	Audit and Risk Committee	Remuneration Committee
Giovannina Domenichini	Honorary Chairman	Casina (Reggio Emilia), 6 August 1934	Non-Executive		
Cristiano Musi	Managing Director	Parma, 27 April 1974	Executive		

Stefano Landi	Chairman of the Board of Directors	Reggio Emilia, 30 June 1958	Executive		
Silvia Landi	Director	Reggio Emilia, 8 June 1960	Non-Executive		
Angelo Iori	Director	Reggio Emilia, 11 December 1954	Non-Executive	Member	Member
Anton Karl	Director	Mistelbach (Austria), 16 March 1976	Non-Executive and Independent ¹		
Sara Fornasiero	Director	Merate (Lecco), 9 September 1968	Non-Executive and Independent ¹	Chairman	Member
Ivano Accorsi	Director	Correggio (Reggio Emilia), 14 July 1938	Non-Executive and Independent ¹	Member	Chairman

All members of the Board of Directors are domiciled at the Company's registered office by virtue of their office. There is a family relationship between Directors Giovannina Domenichini, Stefano Landi and Silvia Landi, in that Stefano Landi and Silvia Landi are Giovannina Domenichini's children.

Each Director's personal and professional history are briefly set out below in accordance with Article 144-*decies* of the Issuers' Regulations.

Giovannina Domenichini. In 1954 Giovannina Domenichini founded Officine Renzo Landi together with her husband. Subsequently, following the Issuer's incorporation, she took on the position of Sole Director and in 1987 became the Chairman of the Board of Directors. On 22 April 2010 she became, and to date still is, non-executive Honorary Chairman. In 1990 she was awarded the honour of *Commendatore dell'ordine al merito della Repubblica Italiana* and, on 19 October 2011, the honour of *Cavaliere del Lavoro*.

Cristiano Musi. Was awarded a degree in law by the University of Parma and later earned an MBA from the Business School of the Milan Politecnico University. He started his professional career in marketing, working in several companies, and then joining an international investment bank after his MBA. From 2005 to 2011, Mr. Musi worked for international and national banks, progressing in his profession, which focused mainly on business finance and structured finance. In 2012 he was appointed general manager of Dulevo International S.p.A. and Lampogas S.p.A., where he was responsible for coordinating the first phase of the reorganisation until the change of control caused by the purchase by a leading international private equity fund. Following this change of control, Mr. Musi became a member of the board of directors of Lampogas' holding company and general manager of the group, serving as Chairman, Managing Director, and Director of several of the group subsidiaries. Furthermore, he is Director of Lampogas S.p.A and of Dulevo International S.p.A., Sole Director of Emmegas S.r.l. and of Lovato Gas S.p.A., and Managing Director of Safe S.p.A. and of Safe&Cec S.r.l.

Stefano Landi. A founder member of the Issuer, he has been Managing Director from 1987 to 2010. From 24 April 2013 until 28 April 2017 he held the office both of Managing Director and of Chairman, in addition to positions in other companies of the Landi Renzo group and since April 2017 he has served as Chairman of the Board of Directors. In 2006 the specialised press included Landi among the top ten managers in the automotive sector and in December 2010

¹ Independent as per Article 148 of the Consolidated Finance Act and Article 3 of the Self-Regulatory Code.

he received the award of "Entrepreneur of the Year" E&Y. Since July 2010 he holds the office of President of the Industrial Association of the Province of Reggio Emilia, which expired in 2013 and in the month of January 2014 he was appointed Chairman of the Provincial Chamber of Commerce. He also holds the office of director in Best Union Company S.p.A. and Safe&Cec S.r.l.

Angelo Iori. After completing his studies in accounting in 1974, he began his professional career with the Issuer in the administrative and commercial area in the automotive and car LPG and CNG systems industry. In 1979 it continued his activity at Autosonik S.p.A. and in 1985 he re-joined the Company as sales and marketing manager until 2003. In 2004 he was appointed CEO of MED S.p.A., a company of Landi Renzo Group incorporated in 2010. From 2010 to 2013 he dealt with activities in the field of operations for both the Issuer and Lovato Gas S.p.A., also holding the position of director of operations of Landi Renzo Group. From 2014 to 2016 he was Sales and Marketing Aftermarket Director at the Issuer and at Lovato Gas S.p.A., A.E.B. S.p.A. and Emmegas S.r.l.

Sara Fornasiero. Graduated in Economics at *Università Cattolica del Sacro Cuore* in Milan, she began her work experience in KPMG S.p.A. in 1993 as statutory auditor; from 1995 to 1998 in the due diligence field; from 1998 to 2001 in the Forensic Accounting department; from 2001 in the Corporate Responsibility/Sustainability department; and from 2004 in the Risk & Compliance department. From 2006 to 2015 she joined KPMG Quality & Risk Management function as Senior Manager. In 2016, she started her private practice, working on corporate governance, risk management, anti-bribery and corruption, and sustainability projects for listed and unlisted companies. Since 1995 she has been enrolled in the Register of Auditors and since 1996 she has been enrolled in the National Register of Certified Chartered Accountants and Auditors in Milan. At present, she is a member of the Supervisory Board of Abbot Medical Italia S.p.A., BT Enia Telecomunicazioni S.p.A., Philips S.p.A. and Philips SAECO S.p.A., and a member of the Italian Association of Internal Auditors and of the "Governance of Listed Companies" and "Compliance and Organisational Models" committees of the Board of Certified Chartered Accountants and Auditors of Milan. In the past, she had been a member of the "Equal Opportunities" and "Corporate Financial Statements" committees.

Ivano Accorsi. He earned his diploma as accountant and commercial expert in 1957 and he has been registered in the Register of Financial Advisors since 1999. From 1957 to 1969 he held increasingly important administrative roles - including as deputy director of finance - in Cemental S.r.l., and from 1969 to 2004 he held several positions at BPER, including as executive manager from 1994. From 1990 to 2011 (with short intervals) he became a member of Sofiser S.r.l. Board of Directors, including as deputy chair. From 1996 to 2005 he held the position of vice-president of the Board of directors of Leasinvest S.p.A. From 1999 to 2005 he held the position of Unicarni S.c.a.r.l. Board member. From March 2004 to March 2016 he held the position of director in the Board of Directors of Emak S.p.A., as well as of Chairman of the Control and Risk Committee, the Remuneration Committee and the Independent Directors Committee. From 2004 to 16 December 2016 he acted as Treasurer of the Committee for the Restoration of the Reggio Emilia Cathedral.

Silvia Landi. She was employed at the Issuer in 1978 and since 1987 she has held the position of public relations officer. Since 2002, she has held the position of Girefin S.p.A. Board member.

Anton Karl. He graduated in Law at the University of Salzburg (Austria) and continued his studies at Rice University in Houston, where he earned a Business Administration Master

degree. From 2002 to 2008 he held the position of Associate and then of Vice President at Lehman Brothers International, moving from New York to London and later to Frankfurt and Zurich. From 2008 to 2012 he held the position of executive director at Nomura Bank (Switzerland) in Zurich. Since 2013 he has been a member of Aerius Holding AG Board of Directors and since 2014 has been a member of Brustorm SA and Elbogross SA Boards of Directors in Zurich. He is also a Director of Mira SA.

As announced by way of a press release issued on 1 August 2017, at the end of July 2017 Claudio Carnevale tendered his resignation from office as Director of Landi Renzo; until the date of his resignation, he served as non-executive Director.

From the closing date of the financial year there have been no further changes in the membership of the Company's Board of Directors.

The table below shows the managerial and auditing positions held in listed and unlisted companies by member of the Company's Board of Directors as of 31 December 2017.

Full name	Company in which an external position is held	Title
Giovannina Domenichini	Girefin S.p.A.	Chairman of the Board of Directors
	Immobiliare L.D. Parma S.r.l.	Sole Director
Stefano Landi	Girefin S.p.A.	Managing Director
	Gireimm S.r.l.	Sole Director
	Best Union Company S.p.A.	Director
	Esselle S.r.l.	Sole Director
	Società Agricola BIOGUSS S.r.l.	Chairman of the Board of Directors
	Società Agricola C.E.D.R.O – Centro	Chairman of the Board of Directors
	Energie da Rinnovabili S.r.l.	
	Trust Landi	Trustee
	Co.Mark S.p.A.	Director
	Fondazione Museo Antonio Ligabue	Director
	Safe&Cec S.p.A.	Director
Cristiano Musi	Lampogas S.p.A.	Director
	Duelvo International S.p.A.	Director
	Emmegas S.r.l.	Sole Director
	Lovato Gas S.p.A.	Sole Director
	Safe S.p.A.	Managing Director
	Safe&Cec S.r.l.	Managing Director
	Gasimex S.r.l. in liquidazione	Liquidator
	Lampodata S.r.l. in liquidazione	Liquidator
	Lampogas Ligure S.r.l. in liquidazione	Liquidator
	Eighteen Sound S.r.l.	Chairman of the Board of Directors ²
Silvia Landi	Girefin S.p.A.	Director
Anton Karl	Brustorm SA (Zurich)	Director
	Elbogross SA (Zurich)	Director
	Aerius Holding AG, Zug	Director
	Mira SA	Director

² It should be noted that, starting from 11 December 2017, Mr. Cristiano Musi ceased to hold the office of Chairman of the Board of Directors of Eighteen Sound S.r.l.

Sara Fornasiero	Abbott Medical Italia S.p.A.	Member of the Supervisory Board
	BT Enia Telecomunicazioni S.p.A.	Member of the Supervisory Board
	Philips S.p.A.	Member of the Supervisory Board
	Philips SAECO S.p.A.	Member of the Supervisory Board

It should be noted that, having regard to article 1.C.3 of the Self-Regulatory Code, which provides that that Board of Directors issues guidance regarding the maximum number of positions as director and auditor in listed companies, finance, banking and insurance houses or large-size companies, the Board of Directors, in the meeting of 13 November 2014 adopted the following general criteria also confirmed in the meetings held on 12 November 2015, 10 November 2016, and most recently on 14 November 2017:

1. an executive director shall not hold (a) the office of executive director in another Italian or foreign listed company, banking or finance house; or (b) the office of non-executive director or auditor (or member of other control bodies) in more than three of the aforesaid companies; and
2. a non-executive director should not hold, in addition to the office held in the Company: (a) the office of executive director in more than one of the aforesaid companies and the office of non-executive director or auditor (or member of other control bodies) in more than three of the aforesaid companies; or (b) the office of non-executive director or auditor in more than six of the aforesaid companies.

It should be also noted that the limitation on the number of offices does not apply to offices held in companies of the Landi Renzo group.

In accordance with Art. 123-*bis*, paragraph 2, letter d-*bis*), of the Consolidated Finance Act, the Board of Directors intends to adopt – on or before the expiry of the three-year term for the corporate bodies, which will occur upon approval of the financial statements for the year ending on 31 December 2018 – diversity policies in relation to the membership of the administrative, management and supervisory bodies in terms of age, gender and educational and professional background.

Should the aforesaid limit be exceeded, the directors shall inform the Board of Directors forthwith, which shall assess the situation in light of the interests of the Company and shall invite the Director to take any decision stemming therefrom.

In order to maintain adequate knowledge of the business segment in which the company is active, the directors receive, information and updates, periodically or at any time as necessary, on the business segment in which the Issuer operates, on the principles for proper risk management, and reference regulations, including through documents prepared by the Company or on the initiative of internal departments or functions. In particular, on 14 November 2017, during a meeting of the Board of Directors, attended by members of the Board of Directors and the Statutory Auditors, a session was held where Attorneys Alberta Figari and Francesca Casini, advisors to the Company, described the newly applicable legislation implementing Regulation (EU) No. 596/2014 of the European Parliament and the Council on market abuse (i.e. MAR) and the consequent changes made to the Consolidated Finance Act and other national laws and regulations.

4.3 ROLE OF THE BOARD OF DIRECTORS (PURSUANT TO ARTICLE 123-BIS, SUBSECTION 2, LETTER D) OF THE CONSOLIDATED FINANCE ACT)

The Board of Directors is the corporate body responsible for the governance of the Company and has the powers assigned to it by law and by the articles of association. It is organised and operates in such a way as to ensure the effective and efficient performance of its functions. Its Directors act and adopt resolutions knowledgeably and autonomously, pursuing the objective of creating value for the Company's Shareholders and reporting management performance at Shareholders' Meetings.

In accordance with article 18 of the Company articles of association, the Board of Directors is vested with the widest powers for the day-to-day and extraordinary management of the Company and has the power to carry out all the acts it considers expedient or helpful for the achievement of its corporate purpose, only excluding those for which the Shareholders' Meeting is solely responsible by law or under the articles of association.

The Board of Directors is also vested with responsibility for the following:

- (i) merger resolutions in the cases contemplated in Articles 2505 and 2505-*bis* of the Civil Code, including those mentioned for demergers in Article 2506-*ter* of the Civil Code;
- (ii) opening and closing secondary offices;
- (iii) reducing the share capital in the event of the withdrawal of a shareholder;
- (iv) adapting the articles of association in accordance with new provisions of law;
- (v) identifying the Directors with the power to represent the Company;
- (vi) moving the registered office within the country;
- (vii) appointing and discharging the executive in charge of preparing corporate accounting documents.

The Board of Directors must ensure that the executive in charge of preparing corporate accounting documents has sufficient powers and resources to perform the duties assigned to him by law and that administrative and accounting procedures are observed in actual practice.

In urgent circumstances relating to transactions with related parties that are not under the responsibility, or subject to the authorisation, of the shareholders' meeting, the Board of Directors will have the right to approve these transactions even where they are implemented through subsidiaries, departing from the customary provisions of the internal guidelines for related-party transactions adopted by the Company, subject to compliance with and at the conditions set out in the guidelines.

For the matters specified in article 1.C.1 of the Self-Regulatory Code no powers have been granted to the Managing Director and they must therefore be considered to be the sole responsibility of the Board of Directors. For example, it must be deemed that the Board is responsible for considering and approving:

- (a) the Issuer's strategic, business and financial plans, as well for periodically monitoring their implementation;
- (b) the strategic, business and financial plans of the Group that the Issuer leads as well for periodically monitoring their implementation;
- (c) ;the Issuer's system of corporate governance;
- (d) the structure of the Group.

In carrying out their duties, Directors examine the information they receive from the delegated bodies, also asking these bodies for clarification, further details or additional data that they consider necessary or appropriate. To this end, at least quarterly, the Managing Director provides the Board of Directors with adequate information regarding general management performance and its foreseeable prospects and on the most significant transactions carried out by the Company or its subsidiaries.

Although the Articles of association do not stipulate a minimum frequency of meetings, it is now the practice for the Board of Directors to meet at least once a quarter on the occasion of the approval of the interim financial statements. Board Meetings are scheduled on the basis of a calendar approved at the beginning of the year in order to help to ensure that as many members as possible attend. The corporate calendar may be consulted on the Company's website, in the *Investors* section.

During the Period, the Board of Directors held 15 meetings, each lasting 86 minutes on average, attended by all directors; indeed, the overall attendance was equal to 93.2%. The attendance percentage regarding each Director is specified in the table reported at the end of the Report. The members of the Board of Statutory Auditors took part in all meetings of the Board of Directors, with the exception of three meetings where Eleonora Briolini was excused absent, two board meetings where Diana Rizzo was excused absent, one board meeting where Massimiliano Folloni was excused absent and one board meeting where Domenico Sardano was excused absent.

At least five meetings are scheduled for the current financial period, of which one was held on 15 March 2018.

The meetings of the Board of Directors can be attended also by non-members of the Board of Directors, upon invitation. Specifically, they are regularly attended by executives of the Issuer and the Landi Renzo group, whose attendance provides a contribution to the necessary in-depth review of the items on the agenda. All the meetings held during the financial period were attended by executives of the Issuer.

Directors and Auditors receive the papers and information necessary to enable them to express themselves knowledgeably on the subjects submitted for their examination and approval, with a suitable amount of time in advance of the meeting. The work of the Board of Directors is organised by the Chairman, who ensures that each item on the agenda is given the time necessary for a constructive debate.

The Company generally deems sufficient that the documentation be sent three days in advance and this term was complied with during the Period.

In order to implement article 1 and the relative criteria for the application of the Self-Regulatory Code, the Board of Directors, in its meeting held on 14 November 2017, completed a successful review of the size, composition and workings of the Board of Directors, of the Audit and Risk Committee and of the Remuneration Committee, including in relation to the independent directors. Moreover, on the same date, the Board of Directors, also on the basis of reports from the executive manager in charge of supervising the internal audit system and risk management and from the Chairman of the Audit and Risk Committee, reviewed the adequacy of the general organisational, administrative and accounting structure of the Issuer and that of its strategically relevant subsidiaries, in relation to the internal audit system and the management of conflicts of interest and has approved the Company's overall system of governance. In addition to the delegation of powers and functions, including provision for the formation of committees within the Board of Directors, of which further mention will be made below, this system also includes rules of procedure governing transactions with related parties and transactions in which a Director has an interest.

The Issuer's Board of Directors has also identified the subsidiaries that are strategically relevant based on criteria which take into account the revenues, independence of production, research, development and innovation of products, as well as the range of products, the positioning of the product and of the brand. In light of the above-mentioned criteria, the Board of Directors has confirmed the identification of A.E.B. S.p.A. (later merged by absorption into Landi Renzo effective as from 21 December 2017), Lovato Gas S.p.A. and Safe S.p.A. (which, starting from 29 December 2017, following the merger with Clean Energy Compression, is no longer in full within the Company's consolidation perimeter).

The Board of Directors evaluated the general performance of operations, with regard in particular to the information received from the Company's delegated bodies and periodically comparing the results achieved with those forecasted.

The Board of Directors examined and approved in advance the transactions of significant strategic, economic and financial importance for the Issuer carried out by the Issuer and its subsidiaries.

Section 11 below includes information regarding the procedure followed by the Board in carrying out intra-group transactions and transactions with other related parties.

The Board of Directors adopted qualitative and quantitative criteria to identify own and its subsidiaries' significant transactions. Qualitative criteria refer to transactions concerning the acquisition or disposal of holdings, the setting up of new companies and/or joint ventures, of business units, assets and contributions in kind, corporate investments and/or divestiture, the raising of loans, the entry into and/or exit from geographical markets and/or strategic types of business. Quantitative criteria refer to transactions other than those described above, whose value exceeds the quantitative limit of the powers conferred to the Managing Director.

The Board of Directors adopts resolutions on the significant transactions identified as above, both of a qualitative and quantitative nature, based on the information and reports provided from time to time by the Managing Director.

In light of the structure of the Landi Renzo Group, the Company's shareholding structure and composition of the lists of candidates proposed by Shareholders under the articles of

association, the Board of Directors did not provide specific guidance on membership of executives and professionals regarded as appropriate.

Article 14 of the articles of association of the Company states that the Directors are subject to the non-competition rule laid down in Article 2390 of the Civil Code unless they are exonerated from this rule by the Shareholders' Meeting. As of the date of this Report, the Shareholders' Meeting has not given permission for any exceptions to the non-competition rule.

4.4 DELEGATED BODIES

Managing Directors

The Board of Directors' Meeting of 28 April 2017 vested the Managing Director, Cristiano Musi, with the powers necessary for the day-to-day management of the Company.

The following are Cristiano Musi's principal duties, together with the ceilings for the amounts and issues in respect of the powers bestowed:

- a) the preparation of suitable proposals relating to strategy, budgets, business plan and organisational structure to be submitted to the Board of Directors, after review by the Chairman;
- b) the supervision, subject to his full decisional power and responsibility, directly and/or indirectly through chosen collaborators, without prejudice to the personal responsibility of the latter, of the Company's productive sector, in all its direct and indirect aspects, and marketing and financial sectors;
- c) purchases, sales, permutations and all other transactions involving the acquisition or sale of machinery, plant, equipment, vehicles, company products and movable property in general, including those recorded in public registers, for a sum of up to Euro 5,000,000 per transaction, agreeing upon the conditions, prices and terms of payment;
- d) the acquisition of services, stocks, basic components and raw materials, semi-finished goods and materials required by the Company for its production;
- e) the handling of all bureaucracy and procedures concerning the importation of basic components and raw materials,
- f) the handling of the implementation and completion of all related measures, including those related to manufacturing and consumer taxes, inland revenue and state monopoly duties;
- g) the stipulation, amendment and termination of leasehold agreements with terms of less than 9 years, of leasing agreements including those for real estate, of rental and gratuitous loan agreements for moveable properties and real estate, for a sum of no more than Euro 5,000,000 per agreement with powers to sign the same agreements with the terms and conditions that will be established; the payment and collection of the agreed prices, and the receipting and completion of any other related procedures;
- h) the stipulation, amendment and termination of agency, distribution, representation, brokerage and business procurement agreements, including those subject to sole agency, for the best possible placing of the Company's products;

- i) the stipulation, amendment and termination of contracts for industrial and commercial services, works, hire, supply, transport, storage and shipping, for a sum of no more than Euro 5,000,000 per transaction;
- j) the stipulation, amendment and termination of (i) contracts for professional and consultancy service with a value of up to Euro 1,000,000, after review with the Chairman; and (ii) mandates for professional services for the litigation and arbitration matters described below at (cc) and (dd), for maximum fees of Euro 50,000 per each proceeding;
- k) purchases and sales, and foreign currency transactions in general, within the framework of the currency regulations in force at the time;
- l) the purchase, subscription for, transfer or swapping of shares, quotas, bonds or other financial instruments and holdings in other companies up to Euro 5,000,000 per transaction, jointly with the Chairman;
- m) the purchase, subscription for, transfer or swapping of shares, quotas, bonds or other financial instruments of other companies exclusively as part of the ordinary management of the Company's financial liquidity;
- n) the registration of trademarks and patents, the utilisation of industrial property rights, and all those measures required by the patenting procedure, such as the submission of applications for corrections, amendments, extensions of confidentiality and divisions; the submission, and the defending against, administrative actions, interferences and administrative appeals; and in general, any actions required in order to apply for, obtain and preserve patents; the signature of any documents required in order to exercise the abovementioned powers granted; the appointment, for such purpose, of patent representatives in Italy and abroad, bestowing upon said persons the respective powers;
- o) the purchase and sale of the title of ownership and/or licences and/or granting the right to use pertaining to patents, trademarks, models and any intellectual property rights related to the corporate purpose, jointly with the Chairman of the Board of Directors;
- p) the performance of any actions and operations, vis-à-vis public administrations, public authorities and offices, required in order to obtain concessions, licences, permits and authorisations of any kind in general;
- q) any receipt and collection in any form, also by means of endorsement, of amounts, claims, payment orders, security deposits both from the issuing institution, public savings and loan bank, treasuries, the railway, post and telegraph offices, and any Italian or foreign public or private body, issuing valid receipts and releases;
- r) the performance of all banking transactions – including the taking out of new credit lines and short, medium and long-term loans, obtaining credit in a current account, credit requests in general, even in the form of debenture loans, the constitution of deposits of securities for custody or administration – for an amount no greater than Euro 10,000,000 per single transaction. The Managing Director may carry out transactions on the credit lines within the above limits per transaction and may also terminate relations;
- s) the endorsement, also for discounting and collection, receipt of payment and issuance of receipts in respect of bills of exchange, cheques and money orders, including payment

orders of the state treasury, regions, provinces, municipalities and any other public entity or any public fund; issuance of cheques on bank accounts, including liability accounts, of the Company within the credit limits granted by the bank to the Company;

- t) the payment or receipt of sums, receivables, interest, dividends, cheques and payment orders from whoever issues them in favour of the Company, including the sales and advance receipts, also in continuation, of receivables to financial institutions;
- u) the receipt from post and telegraph, customs, railway, shipping and transport companies and, generally, from any public office, any company or premise, of money orders, parcels, letters, including registered and insured letters with declarations of value, goods, money, etc., issuing receipts and releases;
- v) the stipulation and termination of insurance contracts of any kind, execution of relevant policies with powers to settle and request, in the case of a claim, the relevant indemnity, the issue of receipts to payors, settlement and payment of any other indemnities due to third parties in respect of any claim;
- w) the hiring and firing of executives (excluding the general manager (*direttore generale*)), middle managers and office staff, and the establishment of their duties and remuneration in accordance with the legal and regulatory provisions in force at the time;
- x) the signing of correspondence and any other document requiring the Company's signature and with regard to any business coming within the delegated powers;
- y) the management of (i) institutional and other communication; and (ii) institutional investor relations, in each case for the Company as well as for the Group;
- z) the representation of the Company vis-à-vis Health and Social Insurance Bodies, and the fulfilment of those obligations arising from the labour law provisions in force at the time, in particular as far as regards insurance, benefit and other contributions;
- aa) the representation of the Company vis-à-vis trade union and business organisations, and before employment offices and arbitration boards, with the power to reach settlements;
- bb) the representation of the Company in legal proceedings (either as plaintiff or defendant), at any level or stage of judgement (for or against), before any Court in Italy or abroad, including the Supreme Court of Cassation, the Court of Auditors, the Council of State, the Constitutional Court, the Court of Appeal, the Courts, the Office of the Justice of the Peace, and for any civil, criminal and/or administrative proceedings;
- cc) the representation of the Company before all levels of tax court, and any Jurisdictional Tax Authority, together with the appointment of duly qualified lawyers, accountants, attorneys as required by law, subject to the limitations set out in (j) above;
- dd) the submission of protests and the application for injunctions; bringing preventive and enforcement proceedings; participation in bankruptcy and insolvency proceedings, lodging claims and declaring the truthfulness thereof; proposing and accepting real offers; bringing administrative and judicial proceedings before any level and kind of court, including the Court of Cassation and Appeal; submissions to arbitration and the reaching of friendly settlements; the appointment of lawyers, arbitrators, barristers and experts, the revocation

of their powers, and their replacement, subject to the limitations set out in (j) above; replying to questioning, deferring, referring and responding to oaths; the submission and signing of any claims, briefs or documents; agreeing, settling and mediating legal dispute; discontinuing legal proceedings and accepting discontinuance thereof; the performance of anything else required – all powers deemed duly conferred for such purpose – in order to fully represent the Company before the court;

- ee) the signing of declarations in respect of direct and indirect taxes, and taxes generally, forms and questionnaires, the acceptance and rejection of assessments, conclusion of agreements and settlements, the challenge of actions, presentation of applications, appeals, complaints, briefs and documents before any tax office or commission, of any kind or level;
- ff) the execution of any necessary formalities before the Companies' Register and any other competent office;
- gg) the making of decisions regarding the exercise of voting rights in meetings of the shareholders of subsidiaries and/or part-owned companies;
- hh) the delegation, by granting specific powers of attorney, of any and all of the above-attributed powers to the person(s) deemed most appropriate based on professional skill and capability;
- ii) the management, guidance, organisation and the control of all aspects pertaining to workplace health and safety, in all of the productive units and in other places of work of the Company, and for this purpose, is considered an "Employer" within the meaning of Legislative Decree 81/2008 as subsequently amended and supplemented, with powers to execute, in this capacity, any document, carry out any formalities or any action necessary to comply with the above-mentioned legislative decree and all of the regulations and provisions regarding workplace health and hygiene and safety, the prevention, protection and safeguard with respect to workers' psychological and physical well-being, and the protection of the environment, with full financial independence and independent spending authority in executing these powers. More specifically, by way of example, but not limited thereto, the Managing Director has the following powers:
 - the implementation, also through the competent internal and external advisory bodies, of any additional, amending, supplementing laws and regulations adopted, or which may be adopted, regarding the safety of workers, prevention of accidents and protection of hygiene in the workplace, and performance of any obligations envisaged under the above-mentioned laws and regulations;
 - the assessment of risks, drafting of the relevant risk assessment document (DVR), and appointment of risk prevention and protection department (RSPP) manager;
 - the delegation, by granting specific powers of attorney, of the functions and powers attributed under this power of attorney, which may be delegated under Legislative Decree 81/2008, to the person(s) deemed most appropriate based on professional skill and capacity to ensure the prompt and constant performance, using the utmost diligence, of the workplace health and safety obligations envisaged, granting them spending authority and the management,

- organisation and control powers required by the nature of the duties, and authorising, as appropriate, the sub-delegation of specific duties by them to other persons;
- the revocation of the powers of attorney described at the above di paragraph;
 - to ensure financial coverage for all activities which exceed the managerial and financial independence of the delegates pursuant to the above sub-paragraphs and which are deemed necessary and appropriate to comply with laws and regulations, and oversee the delegates in terms of their capabilities and correct performance of the duties assigned to them, also by adopting and effectively implementing the verification and control model under article 30 of Legislative Decree 81/2008 and Legislative Decree 231/2001;
 - the representation of the Company before Public Administrations, public and private offices and entities to carry out any actions and operations necessary to obtain permits, licences, and other authorisations generally related to the performance of the Company's business, and in particular, related to the health and safety of workers;
- jj) in performing the functions in subparagraph (ii) above, the decision and implementation of organisational choices and expenses with full powers and discretion, including of a financial nature and with independent spending authority, with the Managing Director or his delegates or any sub-delegates assuming, each within the limits of his/her functions and powers, any criminal liability arising from any breach of the applicable obligations with regard to the health and safety of workers, the protection and safeguard of the environment, and the protection of personal data, and conferred with the relative resolution;
- kk) the power, in exercising the functions in subparagraph (ii) above, to revoke powers of attorney, proxies, and generally any other appointment granted by the Company within its organisational structure, pertaining to functions and powers in relation to worker health and safety, environmental safeguard and protection, and protection of personal information;
- ll) the power to commit the company – in relation to the parties that may be delegated by him and any sub-delegates, to the maximum extent permitted under the law -- to indemnify each of them regarding any cost or expense that they may incur as a consequence of taking on the responsibilities regarding the health and safety of the workers, the safeguarding of the environment and of personal data, except for cases of fraud (*dolo*) and/or gross negligence (*colpa grave*);
- mm) the office of director charged with the system of internal audit and risk management.

By virtue of the powers vested upon him by the Board of Directors, the Managing Director, Cristiano Musi, qualifies as the person mainly responsible for corporate governance. It should also be noted that no interlocking situation occurs with regard to Cristiano Musi.

The legal representation of the Company, before any authority with respect to, and to independently sign, any document or declaration pursuant to article 21 of the Company articles of association, without restriction other than pursuant to the articles of association or law, pertains to the Managing Director Cristiano Musi.

Chairman of the Board of Directors

The Chairman of the Board of Directors Mr Stefano Landi, who holds the position of trustee of the Landi Trust, which indirectly exercises control over the Issuer, is vested with the legal representation, severally, of the company.

The following are the management powers granted on 28 April 2017 by the Board of Directors to Stefano Landi, in his capacity as Chairman of the Board of Directors, together with the ceilings for the amounts and issues in respect of the powers bestowed:

- a) the calling of the meetings of the Board of Directors and procuring that, reasonably in advance of the meeting (except in cases of urgency), the members of the Board of Directors are provided with the documents and the information necessary to allow the Board of Directors to knowledgeably discuss the issues submitted to the Board of Directors for review and approval;
- b) the coordination of the activities of the Board of Directors and the leadership at its meetings;
- c) the receipt of the proposals prepared by the Managing Director and the authority to express to the Board of Directors his opinion in terms of the Company's and the Group's objectives, strategies, policies and macro-organisational choices;
- d) the coordination of the Company's and the Group's growth strategy, both organically and externally, on the basis of the proposals submitted by the Managing Director;
- e) the monitoring the implementation of the resolutions approved by the Board of Directors;
- f) the coordination of the institutional communication activities for the Company and for the Group;
- g) the stipulation, amendment and termination of leasehold agreements with terms of less than 9 years, of leasing agreements including those for real estate, of rental and gratuitous loan agreements for moveable properties and real estate, each for a sum of no more than Euro 5,000,000 per agreement with powers to sign the same agreements with the terms and conditions that will be established;
- h) the purchase, subscription for, transfer or swapping of shares, quotas, bonds or other financial instruments and holdings in other companies up to Euro 5,000,000 per transaction, jointly with the Managing Director;
- i) the purchase and sale of the title of ownership and/or licences and/or granting the right to use pertaining to patents, trademarks, models and any intellectual property rights related to the corporate purpose, jointly with the Managing Director;
- j) the performance of all banking transactions – including the taking out of new credit lines and short, medium and long-term loans, obtaining credit in a current account, credit requests in general, even in the form of debenture loans, the constitution of deposits of securities for custody or administration – for an amount no greater than Euro 10,000,000 per single transaction. The Chairman of the Board of Directors may carry out transactions on the credit lines within the above limits per transaction and may also terminate relations;

- k) the issue of sureties, guarantees and patronage letters to subsidiaries, for sums of up to Euro 10,000,000 per transaction;
- l) the signing of correspondence and any other document requiring the Company's signature and with regard to any business coming within the delegated powers;
- m) the delegation, by granting specific powers of attorney, of any and all of the above-attributed powers to the person(s) he deems most appropriate based on professional skill and capability;
- n) the power to commit the company, regarding the parties that may be delegated by him and any sub-delegates, to the maximum extent permitted under the law, to indemnify each of them regarding any cost or expense that they may incur as a consequence of taking on the responsibilities regarding the health and safety of the workers, the safeguarding of the environment and of personal data, except for cases of fraud (*dolo*) and/or gross negligence (*colpa grave*).

Reporting to the Board of Directors

At least every quarter, the Managing Director provides the Board of Directors with adequate information regarding general management performance and its foreseeable prospects, as well as regarding the transactions carried out by the Company and its subsidiaries that are of the greatest importance by size and characteristics.

The Directors report to the Board of Auditors in good time, and in any event at least every quarter, at Board of Directors' Meetings or meetings of the Executive Committee, if one has been appointed, or also in the form of a written memorandum to the Chairman of the Board of Auditors, on the activities performed and the transactions carried out by the Company and its subsidiaries that are of the greatest economic and financial importance and of the greatest significance for the Company's assets, in order to enable the Landi Renzo Board of Auditors to assess whether the transactions that have been resolved and implemented comply with the law and the articles of association or are not, on the other hand, clearly imprudent and in conflict with the resolutions passed by the Shareholders' Meeting, or are such as to impair the integrity of the Company's assets.

In particular, Directors report on transactions in which they have an interest, either on their own account or on behalf of third parties, and on any atypical or unusual transactions or any transactions with related parties.

4.5 OTHER EXECUTIVE DIRECTORS

Other than Managing Director Cristiano Musi and the Chairman of the Board of Directors Stefano Landi, no members of the Board of Directors are executive directors.

4.6 INDEPENDENT DIRECTORS

The Self-Regulatory Code recommends the election to the Board of Directors of a suitable number of independent directors. On the basis of the guidelines set out in the Self-Regulatory Code, a director shall not be considered independent if he/she:

- a) controls the issuer, either directly or indirectly through subsidiaries, trust companies or intermediaries, or is capable of exercising considerable influence over the Issuer, or is party to any shareholders' agreement whereby one or more subjects may exercise control or a considerable influence over the Issuer;
- b) is, or was during the previous three financial years, an important member of the Issuer, or of a strategically-important subsidiary of the latter, or of a company subject to joint control together with the Issuer, or of a company or body that, also together with others through a shareholders' agreement, controls the issuer or is capable of exercising considerable influence over it;
- c) directly or indirectly (for example, through subsidiaries or through companies in which he/she is an important member, or as partner of a professional firm or consultancy firm) has, or had during the previous year, important commercial, financial or professional relations:
 - with the Issuer, a subsidiary thereof, or any of the important figures within the said companies;
 - with a person that, also together with others pursuant to a shareholders' agreement, controls the Issuer, or – in the case of a company or entity – with the relevant top managers;

or is, or was during the previous three years, an employee of one of the aforesaid subjects;
- d) receives, or during the previous three financial years received, from the Issuer or from a subsidiary or parent company, a significant additional payment on top of the "set" remuneration as non-executive director of the Issuer and the fee for participating in the committees recommended by the Self-Regulatory Code, including participation in incentive plans linked to the company performance, including share plans;
- e) was a director of the Issuer for more than nine of the last twelve years;
- f) holds the position of executive director on the board of another company in which the issuer's managing director also holds the position of director;
- g) is a shareholder or director of a company or an entity belonging to the network of the company appointed to perform legal audit of the Issuer;
- h) is a close relative of a person in one of the situations described in the previous points.

The current Board of Directors includes three directors, Sara Fornasiero, Ivano Accorsi, and Anton Karl, who meet the independence requirements provided for by Stock Market Regulations and the Self-Regulatory code. Said directors meet the requirements set out in article 148, paragraph 3, of the Consolidated Finance Act. The number of independent directors, given the total number of members of the Board of Directors, is in line with both the provisions of article 148 of the Consolidated Finance Act and the Instructions to the Stock Market Regulations (article I.A.2.10.6).

The Board of Directors and the Board of Statutory Auditors verified the possession by Sara Fornasiero and Ivano Accorsi of the requirements of independence, on the first available occasion after their appointment, on the basis of the declarations these directors themselves made to this end pursuant to article 148 of the Consolidated Finance Act and to article 2.2.3.,

subsection three, letter l) of the Stock Market Regulations, applying *inter alia* the criteria set out in the Self-Regulatory Code.

In particular, at the meeting of 29 April 2016, the Board of Directors had carried out the due checks on compliance of non-executive directors Sara Fornasiero and Ivano Accorsi with the aforesaid criteria of independence, based on the information provided by them. During the meeting, the Board of Statutory Auditors confirmed it had performed all necessary checks as to the proper application by the Board of Directors of the criteria and the procedures adopted to assess the independence of its members.

During the Period, on 27 March 2017, the Board of Directors also assessed whether each of the non-executive Directors, Sara Fornasiero, Ivano Accorsi, and Anton Karl, met the independence valuation requirements following, *inter alia*, the criteria provided for in the Self-Regulatory Code. During the meeting, the Board of Statutory Auditors confirmed that it had performed all necessary checks as to the proper application by the Board of Directors of the criteria and the procedures adopted to assess the independence of its members.

During the Period, the independent directors meet once without the other Directors of the Company.

The independent Directors had provided evidence of their eligibility as independent directors in the lists for the appointment of the Board of Directors and, as far as the Issuer is aware, they committed themselves to preserving their independence during the term of their office.

4.7 LEAD INDEPENDENT DIRECTOR

On 29 April 2016, the Board of Directors meeting appointed independent director Ms Sara Fornasiero as lead independent director in accordance with article 2 of the Self-Regulatory Code. Non-executive directors and, specifically, independent directors, shall report to her for a better contribution to the activities and coordination of the Board of Directors.

The Board of Directors has considered it opportune to maintain the position of lead independent director, also at the time of the renewal of the company bodies, which you are reminded took place with the approval of the financial statements closed at 31 December 2015, because the Chairman was the trustee of the Landi Trust, governed by Jersey Law, which is the main shareholder of the company.

The lead independent director represents a point of reference and coordination for the applications and contributions of the non-executive Directors to improve the functioning of the Board of Directors, co-operates with the Chairman of the Board of Directors to ensure that directors receive complete and timely flows of information, and has powers to convene specific meetings of the independent directors to discuss matters considered to be of interest to the functioning of the Board of Directors and management of the company.

During the Period, the lead independent director actively participated to the meetings of the Board of Directors, coordinating as necessary and suitable, the requests and the contributions of the non-executive directors, and especially those of the independent directors.

4.8 GENERAL MANAGER

From 12 December 2016 to 28 April 2017, the current Managing Director, Cristiano Musi, served as general manager of the Company and, by virtue of this role, had been granted specific powers relating to the ordinary management of the Company.

On 28 April 2017, after Cristiano Musi was appointed Managing Director of the Issuer, Mr. Musi ceased to serve as general manager. The management powers granted to Cristiano Musi, in his capacity as Managing Director of the Company, are described above under paragraph "Managing Directors."

As of the date of this Report, no one is serving as general manager of the Company.

5. HANDLING OF CORPORATE INFORMATION

The Company launched a procedure for the internal management and the public disclosure of inside information, implementing the provisions laid down in market abuse legislation, including the new provisions set out in Regulation (EU) No. 596/2014 of the European Parliament and the Council of 16 April 2014 on market abuse, Commission Delegated Regulation 2016/522 of 17 December 2015, and Commission Delegated Regulation 2016/523 of 10 March 2016, also establishing procedures for the registration of persons with access to inside information, last updated on 14 November 2017 by the Board of Directors.

In general terms, the procedure vests the Managing Director, with the support of the executive in charge of preparing corporate accounting documents and of the Investor Relations Manager, with responsibility for the internal handling and the public disclosure of inside information. It provides specific sections devoted to the definition of inside information and the recipients of said procedure, the relevant methods of handling inside information, the obligations in terms of conduct of recipients, the identification of bodies in charge for managing and disclosing inside information to the public, the methods for disclosing inside information to the public and the approval process for press releases, the methods of handling market rumours, the rules to be applied in the event of late disclosure to the market or in the event of disclosure of inside information to third parties, the instructions for meetings with the media and the financial community, the rules to be adopted in market surveys, and the creation of a register of persons with access to inside information, the persons authorised to conduct relations with the public and the persons bound by confidentiality obligations.

In compliance with the provisions of market abuse law, the Company has adopted an Internal Dealing Code, drafted pursuant to Regulation (EU) No. 596/2014 of the European Parliament and the Council of 16 April 2014 and Articles 152-*sexies* et seq. of the Issuers' Regulations, lastly amended by the Board of Directors on 14 November 2017.

In accordance with this Code, a number of key personnel, understood as those with normal access to inside information and with the power to take management decisions that may affect the Company's trend and prospects, as well as the persons closely connected to them, are under an obligation to make disclosures to the market regarding transactions carried out on the listed securities issued by the Company.

The Internal Dealing Code provides for ceilings and deadlines for market disclosures, with relative sanctions in line with the relevant Consob provisions. Said Code also contains clauses governing the black-out period.

During the Period, the Company issued one announcement concerning insider dealing, available on the Company's internet site at <http://www.landirenzogroup.com/it/>, under section *Investors*, following receipt of relevant notices on significant transactions pursuant to Regulation (EU) No. 596/2014 of the European Parliament and the Council of 16 April 2014 and Articles 152-*sexies* et seq. of the Issuer's Regulations.

6. COMMITTEES WITHIN THE BOARD OF DIRECTORS (PURSUANT TO ARTICLE 123-BIS, SUBSECTION 2(D), OF THE CONSOLIDATED FINANCE ACT)

The Board of Directors has not set up any internal committees other than those provided for by the Self-Regulatory Code, other than the Committee for Related-Party Transactions, in compliance with the provisions of the Related Party Transactions Regulations. Details of any said committees under the Self-Regulatory Code are given in the following chapters of this Report. Details of the Committee for Related-Party Transactions are given in section 12 of this Report.

The Company has not created any committee that performs the duties of two or more of the committees under the Self-Regulatory Code, nor has it reserved such duties to the Board of Directors as a whole, under the co-ordination of the Chairman, or divided these duties inconsistently with the provisions of Self-Regulatory Code.

7. APPOINTMENT COMMITTEE

The Board of Directors has decided not to set up an internal committee to manage proposals of appointments because, as of the date hereof, it has not yet deemed it necessary, especially taking into account the Landi Renzo group structure and the Company's ownership structure.

8. REMUNERATION COMMITTEE

Composition and functioning of the Remuneration Committee (pursuant to article 123-bis, subsection 2, letter d) of the Consolidated Finance Act)

As of the date of this Report, the Remuneration Committee is comprised of three directors: Ivano Accorsi as Chairman and Sara Fornasiero, both of whom are Non-Executive and Independent Directors, and Angelo Iorio, Non-Executive Director. Ivano Accorsi, Sara Fornasiero and Angelo Iorio have suitable knowledge of and experience in accounting and financial matters. The members of the Remuneration Committee receive an annual gross remuneration for their work, as resolved by the Board of Directors on 29 April 2016.

The Remuneration Committee has its own internal rules, which provide, among other things, for the Managing Director to attend Committee Meetings without the right to vote, provided that the discussions and relative resolutions do not involve proposals concerning his remuneration.

The Directors are required to abstain from participating to meetings of the Board of Directors when proposals relating to their compensation are being discussed.

During the Period, 5 meetings of the Remuneration Committee were held, each lasting on average 29 minutes. During the Period, Ivano Accorsi, Sara Fornasiero and Angelo Iorio attended 100% of the meetings. Two of the meetings were attended, without the right to vote, by Enrico Gardani, in his capacity as head of internal audit and member of the Supervisory

Body. Two of the meetings were attended, without the right to vote, by Cristiano Musi, in his capacity as Managing Director, and by Paolo Cilloni, in his capacity as the Company's Chief Financial Officer.

The meetings of the Remuneration Committee were attended also by the members of the Board of Statutory Auditors.

Considering the nature of the activity carried out by the Remuneration Committee, the Company elected not to provide the Committee with any predetermined spending amount, and to consider any spending requirements as they arise.

At least two meetings of the Remuneration Committee are planned for the current year, of which one was already held on 15 March 2018. Minutes of the Remuneration Committee's meetings have been duly kept and the Chairman of the Committee reported thereon during the first following meeting of the Board of Directors.

Duties of the Remuneration Committee

The duty of the Remuneration Committee is to formulate proposals to the Board of Directors, in the absence of those directly concerned if these are members of the Committee, regarding the remuneration of the Managing Director and those directors who hold particular positions; it also periodically appraises the criteria adopted for the remuneration of key executives, supervising their application and making general recommendations on the matter.

For additional information on the duties of the Remuneration Committee, see the relevant sections of the report on remuneration published pursuant to Article 123-*ter* of the Consolidated Finance Act.

9. DIRECTORS' REMUNERATION

As regards remuneration, under the articles of association the Shareholders' Meeting assigns the Board of Directors emoluments that may consist of a fixed and a variable portion throughout the term of its mandate. The variable portion is commensurate to the achievement of certain objectives and/or to the economic results attained by the Company.

As regards the variable portion of the remuneration, under Italian Stock Market Regulations, in order to enter the STAR segment, the Company is required to appoint an internal Remuneration Committee and to provide that a significant part of the remuneration of Executive Directors and other top executives be calculated on an incentive basis.

See the report on remuneration, published pursuant to Article 123-*ter* of the Consolidated Finance Act for information regarding the remuneration policy generally, stock option incentive plans, and the compensation of executive directors, the general manager and managers with strategic responsibilities, and non-executive directors.

Directors' indemnity in the event of their resignation, dismissal or termination of employment following a takeover bid (pursuant to article 123-*bis*, subsection 1, letter i) of the Consolidated Finance Act)

As of the date of this Report, there are no agreements between the Company and the members of its Board of Directors that envisage the payment of indemnity in the event of their resignation, dismissal and/or termination of employment without due cause, or in any case of termination of employment following a takeover bid.

10. AUDIT AND RISK COMMITTEE

Composition and working of the Audit and Risk Committee (pursuant to article 123-bis, subsection 2, letter d) of the Consolidated Finance Act)

As of the date of this Report, the Audit and Risk Committee is comprised of three directors: Sara Fornasiero as Chairman and Ivano Accorsi, both Non-Executive and Independent Directors, and Angelo Iorio, Non-Executive Director. Sara Fornasiero, Ivano Accorsi and Angelo Iorio have suitable knowledge of and experience in accounting and financial matters.

The members of the Audit and Risk Committee receive an annual gross remuneration for their work, as resolved by the Board of Directors on 29 April 2016.

The Audit and Risk Committee has its own set of regulations. During the course of the Period, the Committee examined, *inter alia*, those activities pertaining to the internal audit system and risks management and the organisational Model provided for by Italian Legislative Decree 231/2001, and it provided the Board of Directors with assistance when called upon to do so.

During the Period, 9 meetings of the Audit and Risk Committee were held, lasting on average 99 minutes each. During the Period, Sara Fornasiero, Ivano Accorsi and Angelo Iorio took part to 100% of the meetings. Five meetings were attended, without the right to vote, by Paolo Cilloni, as Chief Financial Officer of the Company and by Enrico Gardani, as head of internal audit and member of the Supervisory Body. Four meetings were attended, without voting rights, by Cristiano Musi, in his capacity as general manager at one meeting, and the other three as Managing Director. Three meetings were attended, without the right to vote, by Fiorenzo Oliva, in his capacity as consultant to the Company. One meeting was attended, without the right to vote, by Massimo Rota and Giuseppe Ermocida, as representatives of the auditing firm. In addition, one meeting was attended, without the right to vote, by Attorney Francesca Casini and Pietro Bancalari, as the Company's legal advisors. Meetings of the Audit and Risk Committee were also attended by the members of the Board of Statutory Auditors.

At least five meetings of the Audit and Risk Committee are planned for the current year and two of these were already held on 12 March and 15 March 2018. Minutes of the Audit and Risk Committee's meetings have been duly kept and the Chairman of the Committee reported thereon during the first following meeting of the Board of Directors.

Duties and powers of the Audit and Risk Committee

The Board of Directors ensures that its appraisals and decisions with regard to the internal audit system and risks management, the approval of the financial statements and half-year reports and the relations between the Issuer and the auditing firm are supported by satisfactory preliminary work. To this end, the Board of Directors set up an Audit and Risk Committee composed of Non-Executive Directors, the majority of whom are Independent Directors. At least one member of the Audit and Risk Committee should have satisfactory experience in accounting and financial matters, to be assessed by the Board of Directors at the time of his appointment.

Upon receiving prior opinion of the Audit and Risk Committee, the Board of Directors:

- a) sets down the guidelines for the internal audit and risk management system so that the main risks faced by the Issuer and its subsidiaries are correctly identified and properly measured, managed and monitored, also deciding on the degree of compatibility of these risks with a corporate governance in line with the strategic objectives set;
- b) at least once a year assesses the adequacy of the internal audit and risk management systems in consideration of the characteristics of the company and its risk profile, as well as effectiveness of the same;
- c) at least once a year, approves the working plan prepared by the head of internal audit, having heard the Board of Statutory Auditors and the director in charge of the internal audit and risk management system;
- d) in its corporate governance report, describes the main features of the internal audit and risk management system and the procedures of coordination among the persons involved, expressing its opinion on the adequacy of the same;
- e) having heard the Board of Statutory Auditors, assesses the results laid down by the legal auditor in the letter of recommendations and in the report on the fundamental issues highlighted by the legal audit.

Moreover, the Board of Directors, at the proposal of the Director in charge of the internal audit and risk management system, having received the preliminary favourable opinion of the Audit and Risk Committee, and having heard the Board of Statutory Auditors:

- appoints or discharges the head of internal audit;
- ensure that he/she is endowed with resources adequate for the performance of his/her duties;
- sets his/her remuneration in line with the policies of the Company.

In addition to assisting the Board of Directors in the performance of the above duties, the Audit and Risk Committee:

- a) with the executive in charge of the preparation of the corporate accounting records and having heard the legal auditor and the Board of Statutory Auditors, verifies that accounting principles have been correctly followed and, in the case of groups, that they are consistent for the purposes of the consolidated financial statements;
- b) expresses opinions regarding specific aspects involving the identification of the main corporate risks;
- c) reviews periodic reports concerning the assessment of the internal control and risk management system, and periodic reports of particular relevance prepared by the internal audit function;

- d) monitors the independence, adequacy, effectiveness and efficiency of the internal audit function;
- e) may request the internal audit function to perform controls on specific operational areas, concurrently notifying the chairman of the Board of Statutory Auditors thereof;
- f) reports to the Board of Directors at least every six months on the occasions of the approval of the annual and half-year reports regarding the activities carried out and the adequacy of the internal audit and risk management system;
- g) supports, with adequate activity, the evaluations and decisions of the Board of Directors relating to the management of risks resulting from prejudicial facts that the Board of Directors has come to know.

During performance of its duties, the Audit and Risk Committee has the authority to access the company information and functions as necessary for it to perform its duties.

In the meetings held during the Period, the Committee focused in particular on the following:

- the criteria and findings relating to the application of impairment testing process to the value of equity investments in subsidiary companies;
- the quarterly and annual results in order to assess the proper application of accounting principles and consistency of the same for the purpose of drawing up the consolidated financial statements;
- the corporate governance report for 2017;
- periodic reports and the working plan prepared by the head of internal audit;
- periodic reports of the Supervisory Body pursuant to Legislative Decree 231/2001;
- updates of the Organizational, Management and Control Model pursuant to Legislative Decree 231/2001;
- reports on activities prepared by the Director in charge of the internal audit and risk management system; and
- assessment of the adequacy of the internal audit and corporate risk management system;
- resolutions of the bondholders' meeting held on 30 March 2017;
- attribution of powers to the Chairman of the Board of Directors and to the Managing Director;
- the Group's economic and financial condition, holding meetings and consultations with the Managing Director and the Chief Financial Officer and other management and supervisory corporate bodies;
- the transaction for the sale of Eighteen Sound S.r.l. and its subsidiary Sound & Vision S.r.l.; and

- the transaction for the merger of the subsidiary SAFE S.p.A. with the companies of the US-Canadian group headed by Clean Energy Fuels Corporations.

In the exercise of its duties, the Audit and Risk Committee has the right to avail itself of external consultants and to have access to the corporate information and functions it needs to perform its duties.

Considering the nature of the activities of the Audit and Risk Committee, the Company has decided not to grant the committee a predefined expense limit, preferring to consider on a case by case basis the expenses that may be needed from time to time.

11. INTERNAL AUDIT AND RISK MANAGEMENT SYSTEM

The internal audit system and risk management is the collection of rules, procedures and organisational structures designed to allow proper management of the company, in line with the set objectives, through the identification, measurement, management and monitoring of the principal risks involved.

The Board of Directors assesses the effectiveness of internal audit and risk management system and its adequacy in consideration of the characteristics of the company on a yearly basis. As a result of the analysis performed during the Period, the internal audit and risk management system was found to be effective and adequate in consideration of the characteristics of the company and the risk profile assumed.

In defining strategic, business and financial plans, the Board of Directors defined the nature and level of risk as compatible with the strategic objectives of the Issuer, including in its assessments all risks which may acquire relevance for sustainability of the Company's business in the medium-long term, and determined the guidelines for the internal audit and risk management system.

The guidelines provided by the Landi Renzo group's internal audit system, as established by the company's Board of Directors with the aid of the Audit and Risk Committee, perceive the internal audit system and risk management as a transversal process integrated with all corporate activities, based upon the international principles of Enterprise Risk Management (ERM). The internal audit system and risk management is designed to help the group achieve its own performance and profitability targets, obtain reliable economic-financial information and ensure conformity with the laws and regulations in force, thus avoiding damage to the company's image and financial losses. Within the framework of this process, particular importance is given to the identification of company objectives and to the classifications and management of those risks associated with these objectives, through the implementation of specific actions designed to contain such risks. Corporate risks may be of various kinds: strategic risks, operating risks (associated with the efficacy and efficiency of corporate operations), reporting risks (associated with the reliability of economic-financial information), and finally, compliance risks (concerning observance of the laws and regulations in force, thus avoiding financial losses and/or damage to the company's image). All risks may also be of an exogenous or endogenous nature vis-à-vis the Landi Renzo group.

The persons in charge of the various company departments identify and assess their respective risks, and see to identifying risk containment and reduction measures (so-called "primary line control").

The above activities are supplemented by the controls carried out by the Manager responsible for the preparation of corporate documents and his/her staff (the so-called "second-level control") and by the head of internal audit (the so-called "third-level control"), who assess, on an on-going basis, the effectiveness and efficiency of the internal audit system and risk management, through risk assessment, cyclical audit and follow-up management.

The following are details of the main structural elements on which the Company's internal audit system and risk management is based.

The structural features of the control environment

- Code of Ethics – The Landi Group's Code of Ethics, approved in March 2008, sets out the principles and values underlying its way of doing business, together with the rules of conduct and implementation rules pertaining to said principles. The Code of Ethics is an integral part of the Organizational, Management and Control Model pursuant to Italian Legislative Decree 231/2001. The Code of Ethics, which is binding on the conduct of all the employees of the Group, has been revised within the framework of the programme for the updating of 231 Model, following the introduction of the new crime of self-money laundering (art. 648-ter, 1, c.p.). The new Code of Ethics is in force from 12 November 2015.
- Organisational structure - The Landi Renzo group's general organisational arrangements are defined by a series of internal organisational communications issued by the Human Resources Department, as recommended by the Managing Director. The Landi Renzo group's structure, the organisational charts and the organisational measures can be consulted by all employees on the Company's Intranet site;
- Powers and powers of attorney – The internal system to grant powers and powers of attorney ensures compliance with the principle of segregation of duties.
- Human Resources – The Landi Renzo group possesses a formal procedure for the selection and hiring of personnel, and the planning and management of training. Pay policy, in keeping with best practices and the market, envisage a share of variable remuneration for senior managers and executives.

Instruments designed to safeguard operating targets

- Strategic planning, management control and reporting – During the Period, the Landi Renzo group utilised a reporting instrument aimed at tracking the accounting figures and comparing them to the budget and forecasting figures. This reporting instrument also supports processing of "what if analysis" at a high degree of detail, processing different hypothetical scenarios on main items of the profit and loss accounts on a rolling basis over 12 months.
- Enterprise Risk Management (ERM) – On the basis of a project that was started and completed in 2008, those companies within the Landi Renzo group deemed to be of importance for this purpose were the beneficiaries of a newly-created risk management system based on the principles of ERM. This system includes management of risks relating to the financial data disclosure process pursuant to Article 123-bis, subsection 2(b) of the Consolidated Finance Act, the main characteristics of which are described in a separate paragraph below. This system has led to the identification of the risks

related to the performance of the main corporate processes and the control actions to be undertaken in order to contain residual risks. The Landi Renzo group's main risks and uncertainties are listed in a special chapter of the Management Report;

- Company operating procedures system – The administrative procedure manuals, drawn up in accordance with Italian Law 262/2005 on the safeguarding of savings, together with the working procedures and instructions issued by the Quality System, and finally the organisational guidelines issued by the Human Resources department, ensure the correct implementation of corporate guidelines, and thus the reduction of risks associated with the achievement of company objectives;
- Information systems – The Landi Renzo group's information system has been created using the very latest technologies and packages. Use of the system is governed by a series of internal procedures that help improve safety and safeguard data, privacy and the correct utilisation of the system by users.

Instruments designed to safeguard compliance targets

- Corporate Ethics and Compliance Model pursuant to Italian Legislative Decree 231/2001 – See section 11.3 below.
- Accounting control model pursuant to Italian Law 262/2005 regarding the protection of savings – during the course of 2008, the Landi Renzo group began, and completed, a project designed to conform the system to the requirements of Italian Law 262/2005. This project was conducted in the following stages:
 - identification of the Landi Renzo group's entities constituting the subject-matter of the analysis (scoping);
 - determination of the relevant accounting items, of the processes that feed said items, and of the respective process owners;
 - overview of the existing control system through an interview with the head of administration;
 - scheduling and conducting of interviews with the process owners in order to identify the following for each process: the activities (objectives) and their respective product inputs and outputs, the risks inherent in each activity, the existing controls aimed at containing said risks, the controls suggested by best practices, and in the case of gaps, the corrective measures to be taken in order to manage the residual risk;
 - drafting of the Manuals of administrative procedures pursuant to Italian Law 262/2005 (hereinafter "**Manuals**") for the validation of the process owners and the subsequent issue of the final version of said Manuals, approved by the latter and by the executive appointed to edit accounting and corporate documents.

The Manuals of administrative procedures are available for all the employees on the Company's intranet. Any significant procedural discrepancies, differences and/or departures are promptly notified to the executive appointed to draft corporate accounting documents, in order that the due corrective measures be taken.

Instruments designed to safeguard reporting targets

- Accounting information and financial reporting – The aforesaid Manuals of administrative procedures pursuant to Italian Law 262/2005, together with the Landi Renzo group's Accounting Manual, safeguard the correct drafting and reporting of accounts and of statutory and consolidated financial statements;
- Inside information – The procedures for the internal handling, and the communication to the outside world, of inside information are constantly updated, in order to maintain said procedures in line with Community directives on market abuse;
- Internal communications – The head of internal audit has easy and direct access to all information which is expedient for the performance of his/her duties. This aids the prompt acquisition of information concerning company management which, at the same time, is promptly analysed in order to identify the associated risks and, where deemed opportune, included in the economic-financial reporting.

Instruments for monitoring the internal audit system and risk management

The abovementioned instruments of control are monitored not only by those persons in charge of the various company departments, but also independently by the head of internal audit, who shall constantly monitor the effectiveness and efficacy of the internal audit system and risk management, through risk assessment, the performance of audits, and the subsequent management of the follow up.

Principal characteristics of the risk management system and internal audit system in relation to the financial reporting process pursuant to 123-bis, subsection 2(b) of the Consolidated Finance Act

In relation to the financial reporting process, the risk management system should not be considered separately from the internal audit system, because they are both elements of the same system.

The aim of the risk management and internal audit system in relation to the financial reporting process is to guarantee the reliability, accuracy and timeliness of the same.

Risks connected to the performance of the main corporate processes, including in terms of potential impact on financial reporting, controls in place to prevent them, controls suggested by best practices and, where gaps exist, remedial actions to be implemented to manage residual risk have been identified.

The monitoring and control activities are carried out on three levels:

- first-level control (the so-called "primary line control") inherent in the performance of operating processes and assigned on an on-going basis by the operating management/process owner;
- second-level control, i.e., those checks performed by the manager in charge of the preparation of corporate accounting documents and his/her team, to monitor the risk management and control process in relation to the financial reporting process, securing consistency of the same with the company objectives;

- third-level control, i.e. on-going independent monitoring by the head of internal audit in relation to the effectiveness and efficiency of the internal audit system and risk management with respect to financial reporting process, through risk assessment, the conduct of audits and follow-up management.

Overall assessment of the suitability of the internal audit system and risk management

On the basis of the information and findings received with the support of investigations carried out by the Audit and Risk Committee, the head of internal audit, and the Supervisory Body pursuant to Italian Legislative Decree 231/2001, the Board of Directors believes that the Landi Renzo group's internal audit system and risk management is suitable and efficient and effectively operational, and thus apt to secure an acceptable level of overall risk in consideration of the business carried out by the company, the company's characteristics and the market in which it operates.

11.1 DIRECTOR IN CHARGE OF SUPERVISING THE OPERATION OF THE INTERNAL AUDIT AND RISK MANAGEMENT SYSTEM

At the 28 April 2017 meeting, the Board of Directors, with the approval of the Audit and Risk Committee, selected Executive Director in charge of supervising the operation of the internal audit system and risk management as being the Managing Director Cristiano Musi, vesting him with the functions set forth by the Self-Regulatory Code.

The director in charge of the internal audit and risk management system: (a) identifies the major corporate risks, bearing in mind the nature of the business carried out by the Issuer and its subsidiaries, and submits them periodically for review to the Board of Directors; (b) implements the guidelines set by the Board of Directors, and sees to the planning, establishment and management of the internal audit and risk management system, and verifies on an on-going basis its overall suitability, effectiveness and efficiency; (c) procures that the system be adapted to the dynamics of operating conditions and to the legislative and regulatory framework; (d) may request the internal audit function to carry out controls on specific operational areas and on the compliance of corporate operations with internal policies and procedures, concurrently notifying thereof the Chairman of the Board of Directors, the Chairman of the Audit and Risk Committee and the Chairman of the Board of Statutory Auditors; and (e) promptly notifies the Audit and Risk Committee (or the Board of Directors) of any issues or problems found in performing its tasks or learnt in any way whatsoever, so that the Committee (or the Board of Directors) may take appropriate measures.

During the period, the director in charge of supervising the operation of the internal audit and risk management system did not submit any proposal to the Board of Directors for the appointment or revocation of the head of the internal audit function, as he deemed it as not necessary to appoint other heads of the internal audit functions or revoke the head of the internal audit function in charge.

11.2 HEAD OF THE INTERNAL AUDIT FUNCTION

The Board of Directors, in the meeting of 14 February 2008, appointed Mr Enrico Gardani as the Internal Audit Manager, stating that Gardani is not responsible for any area of operations and is not hierarchically under any operations area manager, including the Administration, Finance and Control department.

Moreover, on 13 May 2008, upon proposal by the executive manager responsible for the supervision of the functioning of the internal audit system, and having obtained the opinion of the Audit and Risk Committee, the Board of Directors set the compensation for Mr Enrico Gardani consistently with company policies.

The Board of Directors' meeting of 14 November 2012 confirmed the appointment in line with the changes made to the Self-Regulatory Code in force.

The head of the internal audit function has, *inter alia*, the duty to verify that the internal audit system and risk management is always adequate, fully operational and functional and reports on his work to the Audit and Risk Committee, the Board of Auditors and the Director in charge of supervising the operation of the internal audit and risk management system.

The head of the internal audit function has had direct access to all the information required for the performance of his duties, and has been provided with sufficient funds, for each year of his appointment, up to a maximum gross sum of Euro 50,000.

The Issuer has formed an internal audit office entirely composed of in-house personnel, headed by the head of the internal audit function.

The activities of the head of the internal audit function, consistently with the Landi Renzo group's audit plan approved at the beginning of each year by the Board of Directors, and defined following a risk-based approach, have focused on the following areas:

- Operational audit – regarding the company's basic objectives, including performance, profitability and conservation of resources;
- Reporting audit – refers to the preparation and publication of reliable financial statements, including interim reports, summary financial statements and the economic and financial figures shown therein, and publication of results disclosed to the public;
- Compliance audit – regarding compliance of the above-mentioned activities with laws and regulations which the company is subject to including analyses and adjustments pursuant to Italian Law 262/2005 on the protection of savings, and under Italian Legislative Decree 231/2001 on the responsibility of entities;
- other activities of the internal audit areas; drafting and provision of documents in support of the workings of the Audit and Risk Committee and the Supervisory Body, including the audit plan of which the Supervisory Programme, pursuant to Italian Legislative Decree 231/2001, is an integral part.

The head of the internal audit function:

- verifies, on an on-going basis as well as in relation to specific needs and in compliance with International standards, the operations and the suitability of the internal audit and risk management system, through an audit programme approved by the Board of Directors and based on a process for the structured analysis and prioritisation of the main risks;
- prepares the periodic reports setting forth adequate information on its activities, on the methods used to manage risks, on compliance with the predefined plans to contain

risks, as well as a valuation of the suitability of the internal audit and risk management system, and submits them to the Chairmen of the Board of Statutory Auditors, Internal Audit and Risk Committee, and Board of Directors as well as the Director in charge of the internal audit and risk management system;

- prepares promptly reports on significant events, and submits them to the Chairmen of the Board of Statutory Auditors, Internal Audit and Risk Committee, and Board of Directors as well as the Director in charge of the internal audit and risk management system;
- verifies, in the context of the audit plan, the reliability of the information technology systems, including the accounting systems.

11.3 COMPLIANCE MODEL PURSUANT TO LEGISLATIVE DECREE 231/2001

The Board of Directors, in compliance with the terms laid down in Article 2.2.3, paragraph 3 (j) of the Stock Market Regulations, approved its Corporate Ethics and Compliance Model in accordance with Article 6 of Legislative Decree 231/2001 (the "**Model**"), as subsequently amended. The Model was drafted on the basis of the guidelines of the Italian Confederation of Industrialists' and in compliance with applicable legislation.

With the adoption and effective implementation of the Model, the Company will not be liable for offences committed by "top" managers and persons subject to their supervision and instructions.

The Model lays down a series of rules of conduct, procedures and control activities as well as a system of powers and delegated responsibilities whose purpose is to prevent the occurrence of the criminal offences expressly listed in Legislative Decree 231/2001. A disciplinary system has also been introduced to be applied in the event of breaches of the provisions of the Model.

In order to implement the Model, a supervisory body (the "**Supervisory Body**") was set up, with the functions contemplated in Article 6, subsection 1(b) of Legislative Decree 231/2001. The Supervisory Body is composed of Messrs Jean-Paul Castagno, as chairman, Sara Fornasiero and Enrico Gardani, who have been appointed for a term of office ending upon approval of the financial statements for the period ending on 31 December 2018.

Every six months, the Supervisory Body informs the Board of Directors in writing on the implementation and actual awareness of the Corporate Ethics and Compliance Model within each Company department.

The Model has been updated over the years in order to take into account changes introduced from time to time by lawmakers. In particular, at the meeting held on 28 August 2012, the Board of Directors acknowledged and approved a number of amendments to the Model aimed at including environmental crimes among conditions of corporate liability pursuant to Legislative Decree 231/2001; later, on 27 August 2013, the Model was again updated following the entry into force of Law 190/2012 ("Measures for the repression of corruption"). Lastly, the most recent update to the Model was approved by the Company's Board of Directors on 12 November 2015 in order to include the new criminal offence of self-money laundering (art. 648-ter of the Italian Penal Code).

The Model has been published and circulated to all personnel, outside collaborators, customers, suppliers and partners in the form required by law.

Finally, again in the framework of the activities to be carried out in order to implement the Model, the Board of Directors adopted the Landi Renzo group's Code of Ethics, as changed on 12 November 2015. In fact, as specified in the Italian Confederation of Industries guidelines, the adoption of ethical principles that have a role to play in the prevention of criminal offences is an essential element in a preventive control system. Specifically, the Landi Renzo Code of Ethics sets out corporate values and the combination of rights, duties and responsibilities of its addressees and provides for the imposing of sanctions, independently and autonomously of those laid down in the national collective labour agreement.

Pursuant to article IA.2.10.2, subsection 2, of the Instructions to the Stock Exchange Regulations of, on 14 June 2017 the representative Mr Stefano Landi duly certified the Company's approval on 20 March 2008 of the Organizational, Management and Control Model pursuant to article 6 of Legislative Decree 231/2001 and the composition of the Supervisory Body. Said certification is part of the documentation requested annually by Borsa Italiana from those companies listed in the STAR segment, in order that they may remain listed as such.

During the Period, the Supervisory Body met three times. As of the date hereof, the Board of Directors did not deem it necessary to vest the Board of Statutory Auditors with the functions of supervisory body.

11.4 AUDITING FIRM

On 29 April 2016, at the reasoned proposal of the Board of Auditors, the Shareholders' Meeting appointed the PriceWaterhouseCoopers S.p.A. firm of auditors, with head office at Via Monte Rosa 91, Milan, as the Company's auditors of the statutory and consolidated financial statements for the period 2016-2024 and to carry out limited audits of the Landi Renzo group's consolidated half-year reports during the same period.

On 16 October 2017, auditing firm PriceWaterhouseCoopers S.p.A. was also granted a mandate for a limited review, i.e., limited assurance, for the non-financial consolidated report pursuant to Legislative Decree 254/16 for the financial years from 2017 to 2024.

11.5 EXECUTIVE IN CHARGE OF PREPARING CORPORATE ACCOUNTING DOCUMENTS

Chief Financial Officer Paolo Cilloni, executive in charge of the Issuer's administration, finance and control department, was appointed, pursuant to article 154-*bis* of the Consolidated Finance Act, by the Board of Directors of the Company on 29 April 2016, with the approval of the Board of Auditors, as the Executive in charge of preparing corporate accounting documents, as he satisfies the requirements for the appointment and, in particular, has a proven expertise in accounting and finance, in line with the requirements of Article 24 of the articles of association.

The Board of Directors' meeting of 29 April 2016 granted the Executive in charge of preparing corporate accounting documents, Mr Paolo Cilloni, sufficient resources and powers for him to perform his assigned duties, it being understood that the Managing Director is obliged to report on the matter to the Board of Directors and to ensure that such means and resources are provided and that administrative and accounting procedures are actually observed. In addition,

the Board of Directors decided the remuneration the Executive concerned should receive for the performance of these duties.

11.6 CO-ORDINATION OF PERSONS INVOLVED IN THE INTERNAL AUDIT AND RISK MANAGEMENT SYSTEM

As of the date hereof, the Issuer has not considered the adoption of any specific procedure to co-ordinate the various persons involved in the internal audit and risk management system, as it deems that the bodies and various functions are adequately and efficiently integrated with one another, without duplicating any activity.

12. DIRECTORS' INTERESTS AND TRANSACTIONS WITH RELATED PARTIES

In compliance with the Related Party Transactions Regulations and its successive interpretation communications, on 29 November 2010, the Board of Directors has (i) adopted a new internal procedure setting forth the rules and principles to follow to ensure the transparency and fairness, in substance and procedure, of transactions with related parties entered into by Landi Renzo, directly, or through or its direct or indirect subsidiaries, and (ii) on 29 April 2016 also appointed a Committee for Related Party Transactions composed of two independent directors (Sara Fornasiero and Ivano Accorsi). In accordance with the Related Parties Regulation, the internal procedure was approved by the Board of Directors with the approval of the Committee for Related Party Transactions. During the Period, 4 meetings of the Committee for Related Party Transactions were held, on 18 January 2017, 19 April 2017, 31 July 2017 and 15 September 2017. Three meetings were attended, without the right to vote, by Paolo Cilloni, in his capacity as the Company's Chief Financial Officer. One meeting was attended, without the right to vote, by Cristiano Musi, in his capacity as Managing Director and by Attorney Alberta Figari, in her capacity as consultant for the Company. Two meetings were attended, without the right to vote, by Attorney Francesca Casini, in her capacity as consultant for the Company.

In compliance with the suggestions under Consob Communication DEM/10078683 of 24 September 2010, the above procedure was subject to verification by the Board of Directors on 13 March 2015. As a result of such verification, the Board of Directors has deemed the procedure is adequate and functional in consideration of the operational needs of the Company, and that no amendments were necessary.

The following are the most significant aspects of the procedure:

- (a) the classification of "Related Party Transactions" as transactions of Greater Importance (transactions with a counter value or asset or liability relevance index that exceeds the 5% threshold), Negligible Value (transactions with such a low value as not to involve any prima facie material risk to investor protection and are therefore excluded from the scope of application of the new procedure, identified by the Company as transactions with a value not exceeding Euro 200,000), and Lesser Importance (residual category including Related Party Transactions other than those of Greater Importance or of a Negligible Value)
- (b) the rules on transparency and communications to the market have become stricter in the case of transactions of Greater Importance, requiring publication of a specific information sheet;

- (c) the particularly important role attributed to the Committee for Related Party Transactions in the procedure to evaluate and approve transactions;

This Committee is responsible for ensuring the substantial fairness of transactions with related parties and issuing an opinion on the interests of the company in carrying out the transaction as well as the financial appropriateness (*convenienza*) and fairness of the relevant conditions. In the case of transactions classified as having Lesser Importance, the Company may in any case precede with the transaction despite an unfavourable opinion of the Committee for Related Party Transactions. In this event, information regarding the transactions approved in the relevant quarter must be provided to the public within fifteen days of the close of each financial quarter, despite the unfavourable opinion, specifying the reasons why the Company did not agree with the opinion of the Committee for Related Party Transactions.

The Board of Directors is exclusively responsible for the approval of Transactions of Greater Importance and the Committee has a broader role. The Committee takes part in the negotiations phase of the transaction, during which it receives full and timely information from the delegated bodies and parties responsible for conducting the negotiations and may request additional information and provide any considerations. In addition, if the Committee for Related Party transactions gives an unfavourable opinion, the Board of Directors cannot approve the Transactions of Greater Importance.

In urgent circumstances relating to transactions with related parties that are not under the responsibility, or subject to the authorisation, of the shareholders' meeting, the Board of Directors will have the right to approve these transactions with related parties, even where they are implemented through subsidiaries, in derogation of the customary provisions of the internal procedure for related-party transactions adopted by the Company, subject to compliance with and at the conditions set out in the procedure.

The above procedure applicable to related party transactions is available on the Company's website at www.landirenzogroup.com/it/, in the Investors section.

Considering the limited number of circumstances in which a Director has an interest, for his or her account or on behalf of a third party, and because of the adequate functioning of the procedure for related party transactions, the Board of Directors has determined it is not necessary to adopt additional operating solutions to define and to manage circumstances where a Director has an own or third-party interest, which circumstances will be analysed on a case-by-case basis by the Managing Director.

13. APPOINTMENT OF STATUTORY AUDITORS

Under Article 22 of the Company's articles of association, the Board of Auditors is composed of three Statutory and two Alternate Auditors, who can be re-elected.

The Board's functions, duties and term are as laid down by law. When the members of the Board are appointed, the Shareholders' Meeting determines their remuneration, also in the light of their participation in any internal committees. Auditors are entitled to the refund of the expenses they incur in the exercise of their functions.

The members of the Board of Auditors must satisfy the requisites of good character, professionalism and independence required under the law and regulations.

The members of the Board of Auditors are elected, in compliance with gender-balance law in force at the time, from lists presented by the shareholders, in which the candidates must be listed in progressive number order, so that the minority is assured the appointment of one Statutory and one Alternate Auditor. The lists must not contain a higher number of candidates than those to be elected.

In addition, where mandatory gender allocation criteria apply, each list with at least three candidates (considering both sections) shall include a number of candidates of the less represented gender equal at least to the minimum number envisaged under applicable law and regulations in force at the time. Should the section of alternate auditors of these lists have at least two candidates, they shall be of different genders.

Shareholders holding, even jointly, at least 2.5% of the share capital representing shares that confer voting rights at shareholders' meetings held to deliberate the appointment of the members of the governing body, or such other proportion of the share capital as may be determined from time to time by Consob, in accordance with the rules applicable to the Company, may present a list of candidates. The notice calling the shareholders' meeting will state the level of ownership required to present a list of candidates. Such percentage of ownership is consistent with that provided under Article 144-*quater* of the Issuers' Regulations for companies with market capitalisation of up to Euro 1 billion.

Each shareholder, the shareholders adhering to a shareholders' agreement relevant under Article 122 of the Consolidated Text, the parent company, the subsidiary companies and companies subject to joint control may not present or join in the presentation of more than one list, not even through a third party or a trust company, nor may they vote for different lists, and each candidate may only stand in one list, on pain of ineligibility. Candidatures and votes expressed in breach of this prohibition shall not be attributed to any list.

Lists must be deposited at the Company's registered office at least 25 days prior to the date scheduled as prescribed by law, including regulatory provisions, applicable at the time. The notice calling the shareholders' meeting will provide instructions to allow remote deposit of the list by distance communication. Ownership of the amount of shares required to present a list must be proven with the methods and at the terms required under the law and regulatory provisions in force at the time.

In the event that upon expiry of the term for the presentation of lists only one list has been presented, or only lists presented by shareholders connected with each other under the laws and regulations in force have been presented, it will be possible to present lists until the third day after that date of expiry. In this case, shareholders that, alone or with other shareholders, own overall treasury shares representing half of the share capital threshold specified in the above provisions, may present lists.

If no list is presented, the Shareholders' Meeting adopt resolutions by the statutory majority without observing the procedure described below, provided it complies with the gender-balance requirement specified above, where so required by law and regulatory provisions in force at the time.

In all cases, the following documents must be deposited together with each list and within the times specified above: (i) information regarding the shareholders presenting the list and the total number of shares they hold; (ii) declarations from the individual candidates to the effect

that they agree to stand for election and that they certify, on their own responsibility, that there are no causes of their incompatibility or ineligibility, including the accumulation of positions in accordance with the applicable laws and regulations, and also that they satisfy any requirements that may be laid down for the positions involved; and (iii) CVs with full information regarding the personal and professional characteristics of each candidate, specifying the administration and auditing functions exercised in other companies. Lists presented by shareholders other than those holding, even jointly, a controlling or relative majority shareholding must also attach a certificate to the effect that there are no relationships connecting them with controlling or relative majority shareholders in accordance with the regulation in force. Lists presented that do not comply with these provisions shall be considered as not having been presented.

The procedure for the election of the Auditors is as follows:

- (a) from the list that has obtained the highest number of votes (the "**Majority List**"), two Statutory and one Alternate Auditor are taken on the basis of the numerical order in which they appear in the list;
- (b) from the list that has obtained the second highest number of votes, provided that it is not connected in any manner, even indirectly, in accordance with the applicable laws and regulations, with the shareholders that presented or voted for the Majority List (the "**Minority List**"), the remaining Statutory and the other Alternate Auditor are taken on the basis of the numerical order in which they appear in the list.

If the first two, or more than two, lists obtain an equal number of votes, a further ballot by the Shareholders' Meeting will take place, whereby only such lists will be voted for. The same rule applies in the event of an equal number of votes being cast for lists in second place, provided that they are not connected, even indirectly, in accordance with the laws and regulations in force.

In the event that the lists continue to obtain an equal number of votes, the list will prevail that is presented by the shareholders with more equity in the company, or, subordinately, the list that is presented by the greater number of shareholders. In all the events specified above, the composition of statutory auditors shall satisfy the aforementioned gender balance requirements, if so required by the law and regulatory provisions in force at the time.

If the above procedure does not ensure a composition of the Board of Statutory Auditors, in terms of standing members, which complies with the law on gender balance in force at the time, the last elected candidate of the most represented gender (in numerical order) in the Majority List shall be replaced by the first non-elected candidate of the less represented gender (in numerical order) of the same list, or in the absence thereof, by the first non-elected candidate of the less represented gender (in numerical order) of the other lists, based on the number of votes obtained by each of them. This procedure shall apply until a composition of the Board of Statutory Auditors is reached which complies with the law on gender balance in force at the time. Should this procedure not lead to the results specified above, the replacement will be made according to a resolution adopted by the Shareholders' meeting with the relative majority, subject to the presentation of candidates of the less represented gender.

The candidate elected in first place in the Minority List is appointed as the Chairman of the Board of Auditors.

Auditors lose office if they cease to satisfy the requirements laid down by law and in the articles of association.

In the event of the replacement of an Auditor elected from the Majority List, his place is taken by the first Alternate Auditor belonging to the same list as the replaced Auditor, or, if this does not secure compliance with the aforementioned gender balance requirement, the first alternate auditor who, following the numerical order in which the alternate auditors are listed, satisfies such requirement. Should the preceding provisions of this clause be not applicable, the replacement shall be made by the Shareholders' Meeting, which shall adopt resolutions with the majorities set forth by applicable law provisions, subject to the presentation of candidates of the less represented gender.

If Statutory and/or Alternate Auditors need to be appointed to make up the number of members of the Board after the replacement of a Statutory and/or Alternate Auditor elected in the Majority List, the Shareholders' Meeting adopts a resolution by the statutory majority, should the application of the criteria set out in the preceding paragraph not result in the integration of the number of members of the Board, without prejudice to the aforementioned gender balance requirement, where so required by law and regulatory provisions in force at the time.

In the event of the replacement of an Auditor elected from the Minority List, his place is taken by the alternate auditor belonging to the same list of the replaced Auditor, or subordinately, by the candidate immediately following in the same list as that of the replaced Auditor, or, again subordinately, by the first candidate in the minority list that obtained the second highest number of votes, without prejudice to the aforementioned gender balance requirement, where so required by law and regulatory provisions in force at the time. In the absence thereof, the replacement shall be made by the Shareholders' meeting, which shall adopt resolutions with the relative majority and in compliance with the above requirements. This does not affect the fact that the Chairman of the Board of Auditors remains the Auditor from the Minority List.

If Statutory and/or Alternate Auditors need to be appointed to make up the number of members of the Board after the replacement of a Statutory and/or Alternate Auditor elected in the Minority List, the Shareholders' Meeting adopts a resolution by the statutory relative majority, choosing from the candidates appearing in the list to which the Auditor to be replaced belonged, or appearing in the minority list that obtained the second highest number of votes, without prejudice to the aforementioned gender balance requirement, where so required by law and regulatory provisions in force at the time. In the absence thereof, the replacement shall be made by the Shareholders' meeting, which shall adopt resolutions with the relative majority and in compliance with the above requirements.

When the Shareholders' Meeting is called upon, in accordance with Article 2401, paragraph 1, of the Civil Code, to appoint or replace one of the Auditors elected from the Minority List, any votes cast by shareholders that hold a controlling or relative majority interest, even jointly, are not taken into consideration.

Board of Statutory Auditors' meetings may also be held by audio and video link in accordance with the procedures set forth in the Company Articles of association.

14. COMPOSITION AND ACTIVITY OF THE BOARD OF STATUTORY AUDITORS (PURSUANT TO ARTICLE 123-BIS, SUBSECTIONS 2, LETTER D) AND D-BIS) OF THE CONSOLIDATED FINANCE ACT)

The Ordinary Shareholders' Meeting on 29 April 2016 appointed the Company's Board of Statutory Auditors, whose term will expire upon the approval of the financial statements at 31 December 2018.

The members of the Board of Statutory Auditors were elected on the basis of two different lists: (a) two Statutory Auditors and one Alternate Auditor were elected from list number 1), presented jointly by the majority shareholders Girefin S.p.A. and Gireimm S.r.l., whilst (b) one Statutory Auditor and one Alternate Auditor were elected from list number 2) presented by the minority shareholder Aerius Investment Holding AG.

List number 1) included the following candidates:

- Massimiliano Folloni, born in Novellara (Reggio Emilia), on 30 March 1950, Statutory Auditor;
- Diana Rizzo, born in Bologna, on 21 July 1959, Statutory Auditor;
- Fabrizio Lotti, born in Modena, on 14 January 1964, Statutory Auditor;
- Filomena Napolitano, born in Nola (Napoli), on 10 March 1970, Alternate Auditor;
- Francesca Folloni, born at Correggio (Reggio Emilia), on 16 December 1979.

List number 2) included the following candidates:

- Eleonora Briolini, born in Pescara on 8 December 1971, Statutory Auditor
- Andreas Angelillis, born in Milan on 21 June 1977, Alternate Auditor.

The candidates from the list number 1) were elected with the favourable vote of 66,498,130 shares. The candidates from the list number 2) were elected with the favourable vote of 11,449,418 shares. 10 dissenting votes were cast in respect of the proposed lists. The voting share capital attending the meeting represented 66.29% of the share capital.

On 19 May 2017, Massimiliano Folloni, a standing member of the Board of Statutory Auditors passed. Following his death, alternate member of the Board of Statutory Auditors Filomena Napolitano temporarily replaced him as standing member of the Board of Statutory Auditors. In light of the above, and to ensure that the membership of the Board of Statutory Auditors is consistent with the gender requirements set out in the applicable laws and regulations, on 17 October 2017, the Shareholders' Meeting appointed Domenico Sardano as standing auditor and confirmed Filomena Napolitano as alternate auditor.

As of the date of this Report, the Board of Statutory Auditors is composed as follows:

Full name	Title	Serving since	% attendance at Board of Auditors' Meetings
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Eleonora Briolini	Chairman of the Board of Auditors	29 April 2016	89%
Diana Rizzo	Statutory Auditor	29 April 2016	100%
Domenico Sardano	Statutory Auditor	17 October 2017	100%
Andreas Angelillis	Alternate Auditor	29 April 2016	-
Filomena Napolitano	Alternate Auditor	29 April 2016	-

The personal and professional history of each Auditor is briefly set out below, in accordance with Article 144-*decies* of the Issuers' Regulations.

Eleonora Briolini. Graduate in Economics and Commerce and registered in the Certified Public Accountants Register of Milan since 2002. From 1998 to 2011 she has been part of the Rax and Company Office in partnership with Deloitte and Touche S.p.A. where she dealt with tax consultancy both national and international. She was in charge of the tax department in law firm Bird & Bird of Milan and currently has the same role in BDO Italia.

Diana Rizzo. Graduate in Economics and Commerce at the University of Modena, she has been practicing as Chartered Accountant since 1983, specialising in the economic, business, and corporate tax fields. She acted as Official Auditor and at present she works as Auditor enrolled in the relevant Register - in which she has been registered since its creation - and as Auditor for Local Public Authorities. Since over 30 years, she has collaborating with the Courts of Modena and Bologna as expert witness in civil and criminal matters and as expert evaluator, and she also acts as receiver and judicial commissioner. He holds the office as statutory auditor in industrial companies and financial holding companies.

Domenico Sardano. Graduate in Economics and Commerce at the University of Genova, he worked from 1996 to 1997 as an auditor with the auditing firm of PriceWaterhouseCoopers. Since 1997 he performs his professional activity with the accounting firm Studio Sardano in Genova and in 2000 he became a Chartered Accountant, registering with the Board of Chartered Accountants of Genova. Mr. Sardano acts as Bankruptcy Trustee, Judicial Commissioner and Judicial Liquidator in various insolvency proceedings and often acts as Court-appointed Technical Expert for the Court of Genova. He has worked with a number of private equity funds and since 2011 he has been a partner and member of the Steering Committee of the Professional Association ANT – Advisory Network Team. From 2013 to 2016 he held office as a member of the Council of the Board of Chartered Accountants of Genova. Mr. Sardano currently holds office on the boards of statutory auditors of several companies.

Andrea Angelillis. Graduated in Law at the Luiss University in Rome, he continued his studies at the *Université Libre de Bruxelles* and the University LIUC, where he attended a master's degree in economics and business law. From 2003 to 2007 he attended a research doctorate in corporate law at the Bocconi University in Milan. From 2001 to 2003 he worked for a law firm in Treviso. From 2003 to 2008 he worked as associate at Law Firm Lombardi Molinari. Since 2008 he has worked as senior associate at Law Firm Bird & Bird. At present he does not hold any administration and control office in any company.

Filomena Napolitano. Filomena Napolitano has been on the Reggio Emilia Register of Accountants since 1998 and on the Register of Auditors since 1999. She has performed institutional assignments for the Court of Reggio Emilia as a Receiver in Bankruptcy. She is an Auditor in some industrial and commercial companies.

From the close of the financial year there have been no changes in the membership of the Board of Statutory Auditors.

The table below shows the administrative and auditing positions held in listed and unlisted companies by members of the Company's Board of Auditors as of 31 December 2017 (for additional information, see table 3, attached to this Report).

Full name	Company for which the external work is carried out	Title
Eleonora Briolini	Tekfor S.p.A.	Statutory Auditor
	SCL Italia S.p.A. with sole shareholder	Statutory Auditor
	Reggiani Macchine S.p.A.	Chairman of the Board of Auditors
	Unicom S.r.l.	Chairman of Board of Statutory Auditors
	BPER Banca S.p.A.	Statutory Auditor
	Caolino Panciera S.p.A.	Statutory Auditor
	Carimonte Holding S.p.A.	Statutory Auditor
	Kerakoll S.p.A.	Chairman of Board of Statutory Auditors
	Ceramiche Speranza S.p.A.	Statutory Auditor
	I.S. Holding S.p.A.	Statutory Auditor
Domenico Sardano	Kronos 2 Ceramiche S.p.A.	Statutory Auditor
	Sitma Machinery S.p.A.	Chairman of Board of Statutory Auditors
	Sitma S.p.A.	Chairman of Board of Statutory Auditors
	Speranza S.p.A.	Statutory Auditor
	Finferel S.p.A.	Chairman of Board of Statutory Auditors
	Finoil S.p.A.	Statutory Auditor
	Iplom S.p.A.	Statutory Auditor
	Lampogas S.p.A.	Statutory Auditor
	Dulevo International S.p.A.	Statutory Auditor and member of the Supervisory Board
	AVM Energia S.p.A. in liquidazione	Statutory Auditor
Filomena Napolitano	Settala Gas S.p.A.	Statutory Auditor
	Safe S.p.A.	Statutory Auditor
	Safe & CEC	Statutory Auditor
	A.N.T. Advisory Network Team – Associazione Professionale	Member of the Steering Committee
	T.I.E. S.p.A.	Statutory Auditor
	Girefin S.p.A.	Statutory Auditor
	I Tulipani S.r.l.	Sole Auditor and member of the Supervisory Board
	Lovato Gas S.p.A.	Statutory Auditor
	Medo S.r.l.	Bankruptcy Trustee
	I Ciclamini S.r.l.	Member of the Supervisory Board
Filomena Napolitano	I Girasoli S.r.l.	Member of the Supervisory Board
	Welfare S.p.A.	Member of the Supervisory Board
	Carpenfer S.p.A.	Statutory Auditor
	Cooperativa sociale Il Bettolino	Chairman of the Board of Auditors

Nine meetings of the Board of Statutory Auditors were held during the Period, lasting in average 129 minutes each. At least six meetings of the Board of Auditors are planned for the current year, of which two were already held on 19 February 2018 and 15 March 2018. Percentages of attendance of individual Statutory Auditors are reported on the table at the end of the Report.

In order to maintain an adequate knowledge of the segment in which the Company is active, periodically and at any time as necessary, the auditors receive information and updates on the segment in which the Issuer operates, on proper risk management criteria and on reference legislation, including through documents prepared by the Company.

The Chairman of the Board of Directors, also through the internal functions of the Company, ensures that the statutory auditors are able to participate to initiatives to allow them to acquire adequate knowledge of the sector in which the Company operates, of the company's dynamics and their evolution, and of the legislative and self-regulatory applicable frameworks.

With regard to the diversity policy governing the Board of Auditors, see paragraph 4.2 above of this Report (*Composition of the Board of Directors*).

On being appointed, the members of the Board of Auditors declared, on their own responsibility, that they satisfied the independence criteria laid down in applicable laws and regulations.

The Board of Statutory Auditors, both during the Period and at the first meeting after the appointment of the Board of Statutory Auditors, verified continuing compliance of its members with independence requirements, in line with the criteria set out in the Self-Regulatory Code, and submitted the results of its assessment to the Board of Directors.

The remuneration of Auditors is commensurate to the requisite commitment, the relevance of their function and the Company's characteristics in terms of size and business segment.

Under paragraph 8.C.4 of the Self-Regulatory Code, Auditors that have an interest, either on their own account or on behalf of third parties, in a certain transaction to be carried out by the Issuer must give the other Auditors and the Chairman of the Board of Directors prompt and full information regarding the nature, the terms, the origin and the scope of their interest.

The Board of Auditors satisfied itself concerning the independence of the auditing firm, verifying both compliance with the regulatory provisions governing the matter and the nature and extent of the services other than accounts audit provided to the Issuer and its subsidiaries by the auditing firm and the offices belonging to its network.

In carrying out its business, the Board of Auditors cooperated with the Audit and Risk Committee, the Supervisory Body and the head of the internal audit.

15. RELATIONS WITH SHAREHOLDERS

The Issuer has set up a special section called "Investors" in its website, easily identifiable and accessible, which provides the information regarding the Issuer that is of importance to its Shareholders in order to enable them to exercise their rights knowledgeably.

Mr Pierpaolo Marziali has been made responsible for the management of relations with Shareholders, acting as Investor Relations Manager.

In view of the Issuer's organisational structure, it was decided not to set up a separate Company office for the management of relations with Shareholders.

16. SHAREHOLDERS' MEETINGS (PURSUANT TO ARTICLE 123-BIS, SUBSECTION 2(C) OF THE CONSOLIDATED FINANCE ACT)

With regard to Shareholders' participation in Shareholders' Meetings, Article 11 of the Issuer's articles of association states: "*Shareholders with voting rights may take part in Shareholders' Meetings if an attestation confirming their right to participate is provided in accordance with the terms and conditions set out the laws and regulations from time to time applicable. Each person entitled to vote may be represented at Shareholders' Meetings by third parties by issuing a written proxy in conformity to and within the limits laid down by law. Notice of the proxy can be given to the company electronically, via certified e-mail sent to the company e-mail address set out in the notice calling the shareholders' meeting. The company does not designate a representative to whom to confer proxies from the shareholders*".

The Company has decided not to adopt rules for Shareholders' Meetings since it considers that the powers vested by the articles of association in the Chairman of the Meeting, who is responsible for directing the proceedings, including the determination of the order and system of voting, enable the Chairman to ensure that the Meeting takes place in an orderly manner, moreover averting the risks and problems that could arise from a failure on the part of the Meeting to comply with regulatory provisions.

The Board of Directors calls an Ordinary Shareholders' Meeting at least once a year within 120 days after the end of the financial period, or within 180 days if the conditions required under the law are met.

The governing body also calls a Shareholders' Meeting with a single call, either Ordinary or Extraordinary, whenever it deems it appropriate to do so or as required by law, or at the request of at least two members of the Board of Statutory Auditors in accordance with the provisions of current legislation.

Shareholders' Meetings are called by means of a notice specifying the day, hour and venue of the meeting, a list of the items on the agenda, and the other information as required under the applicable law and regulations. The Meeting notice must be published, within the times laid down by the provisions of the applicable legislation, on the website of the Company and as may otherwise be required by the laws and regulations applicable from time to time.

Shareholders that, even jointly, represent at least one-fortieth of the share capital may request items to be added to the agenda, specifying in their request the additional subjects that they propose, or submit proposals on subjects already reflected in the items on the agenda, to the extent permitted, and at the terms and conditions, under the law. Persons entitled to vote may individually submit proposals to be resolved upon by the Shareholders' Meeting.

Requests to add items to the agenda as per the paragraph above, however, are not allowed with regard to matters on which the Shareholders' Meeting, by law, deliberates at the request of the Company Directors or on the basis of a project or report prepared by same, different than the report on the items on the agenda.

Within the terms set forth in the notice of a meeting, those entitled to vote can submit questions relating to the items on the agenda by certified electronic mail, using the specific company address set out for this purpose in the notice calling the Shareholders' Meeting.

The Company is not required to provide an answer if the relevant information is on the company website in a "question and answer format", or if it is so necessary to safeguard confidentiality and the interests of the company.

Both Ordinary and Extraordinary Shareholders' Meetings are at a single convening and are constituted and adopt valid resolutions by the statutory majorities.

The Chairman of the Shareholders' Meeting will ensure that each shareholder has the right to take the floor in relation to the items being discussed by coordinating speakers and managing the evolution of the meeting.

During the Shareholders' meeting, the Board of Directors reported on activities carried out and planned for the future, and took all the necessary steps to ensure that Shareholders were duly provided with the information required in order that they might knowingly take the decisions they were entitled to take. During the Period, four Directors took part in the Shareholders' Meeting.

During the course of the Period there were no significant variations in the composition of the Issuer's shareholding structure; the Board of Directors therefore deemed it unnecessary to consider proposing to the Shareholders' Meeting any amendments to the articles of association regarding the percentages established for the exercise of actions and of the prerogatives safeguarding minority shareholders' interests.

17. FURTHER CORPORATE GOVERNANCE PRACTICES (PURSUANT TO ART. 123-BIS, SUBSECTION 2(A) OF THE CONSOLIDATED FINANCE ACT)

The Issuer has decided not to apply any practice for its corporate governance other than those described in the paragraphs above, and set forth as specific obligations by provisions of laws and/or regulations.

18. CHANGES SINCE THE CLOSING OF THE REFERENCE PERIOD

Effective from 1 February 2018, Enrico Gardani resigned from the role as Manager of Internal Audit and as member of the Supervisory Body, and also tendered his resignation as employee of the Company.

The Company is in the process of formalising the appointment as manager of Internal Audit of an external entity expert in the field, to whom the Internal Audit activities will be outsourced.

Furthermore, it should be noted that, on 15 March 2018, the Board of Directors of the Company appointed Domenico Sardano as a new member of the Supervisory Body, and established his term of office equal to the term of office of the other members of the Supervisory Body.

Moreover, also in light of the organizational restructuring of the Group and of the internal functions, the Company decided to vest Mr Paolo Cilloni, with the role of investor relator manager as, in his role as Chief Financial Officer, disposes directly of the data and information to be disclosed to the market and to the shareholders in accordance with the provisions of law and regulations in force.

The Company, even in light of the organizational restructuring, is also in the process of updating the entire internal audit system and the functions assigned to it.

Save for the above, no further changes to the structure of corporate governance have been made since the closing of the Period.

19. CONSIDERATIONS ON THE LETTER DATED 13 DECEMBER 2017 FROM THE PRESIDENT OF THE CORPORATE GOVERNANCE COMMITTEE

The recommendations set out in the letter dated 13 December 2017 from the President of the Corporate Governance Committee – which the Company received when the self-evaluation process of the Board of Directors was already concluded, performed in November 2017 – were submitted to the attention of the Board of Directors on 15 March 2018. In the same occasion, the Board of Directors, having acknowledged the recommendations expressed by the Corporate Governance Committee, decided to postpone any evaluation in respect of the potential governance evolutions to the current financial year and, more specifically, to next self-evaluation process.

TABLES

TABLE 1: INFORMATION ON OWNERSHIP STRUCTURE

SHARE CAPITAL STRUCTURE

	No. of shares	% of share capital	Listed (specify markets)/ not listed	Rights and obligations
Ordinary shares	112,500,000	100%	Listed (MTA)	As per Civil Code and regulations
Shares with limited voting rights	-	-	-	-
Shares with no voting rights	-	-	-	-

MAJOR HOLDINGS

Declarant	Direct shareholder	% of issued shares	% of voting capital
Landi Trust (trust regulated by Jersey law, with Stefano Landi as trustee)	Girefin S.p.A.	54.662	68.712
	Gireimm S.r.l.	4.444	5.587
Aerius Investment Holding AG	Aerius Investment Holding AG	8.356	8.356

TABLE 2: STRUCTURE OF THE BOARD OF DIRECTORS AND OF THE COMMITTEES

BOARD OF DIRECTORS													AUDIT AND RISK COMMITTEE		REMUNER. COMMITTEE		RELATED PARTY TRANSACTIONS COMMITTEE			
Office	Members	Year of birth	In office since	In office until	First appointed on	List (M/m) *	Exec.	Non exec.	Indip. under Self Reg. Code.	Indip. under Self Reg. Code.	** (%)	No. Of other offices held ***	****	**	****	**	****	**		
Honorary Chairman	Giovannina Domenichini	1934	Ord. meeting of 29 April 2016	Appr. of FS as at 31 December 2018	16/05/2007	M		x			60%	2								
Managing Director	Cristiano Musi	1974	Ord. meeting of 28 April 2017		28/04/2017	M	x				100%	10								
Chairman	Stefano Landi	1958	Ord. meeting of 29 April 2016		16/05/2007	M	x				100%	10								
Director	Silvia Landi	1960			16/05/2007	M		x				100%	1							
Director	Angelo Iori	1954			29/04/2016	M		x				100%	0	x	100%	x	100%			
Director	Anton Karl	1976			29/04/2016	m		x	x			93%	4							
Director	Sara Fornasiero	1968			29/04/2016	M		x	x	x		100%	4	x	100%	x	100%	x	100%	
Director	Ivano Accorsi	1938			29/04/2016	M		x	x	x		100%	0	x	100%	x	100%	x	100%	
DIRECTORS WHO CEASED OFFICE DURING REFERENCE PERIOD																				
Director	Claudio Carnevale	1961	Ord. meeting of 29	End of July 2017	24/04/2009	M	x				86%	-								

			April 2016														
		Ownership required to present a list of candidates at the last election: 2.5%															
		Number of meetings held during the period					BoD: 15			Audit and Risk Cmt: 9		Remun. Cmt: 5		RPT Cmt: 3			
		<p>NOTE</p> <p>* This column shows whether member was elected from the majority shareholder list (M) or the minority shareholder list (m).</p> <p>** This column shows the percentage of (Board of Directors' and each committee's) meetings attended by the Director (number of attendances/number of meetings held during actual period of office of the person involved).</p> <p>*** This column shows the number of offices held as Director or Auditor by the person concerned in other companies listed on regulated markets, including foreign markets, in financial companies, banks, insurance firms or large companies.</p> <p>**** This column shows with an "X" which Director is a member of this Committee.</p>															

TABLE 3: STRUCTURE OF THE BOARD OF STATUTORY AUDITORS

BOARD OF STATUTORY AUDITORS									
Office	Members	Year of Birth	In office since	In office until	First appointed on	List (M/m) *	Independence under Self-Reg. code	** (%)	Number of other offices held***
Chairman	Eleonora Briolini	1971	Ordinary meeting of 29 April 2016	Approval of financial statements as at 31 December 2018	24/04/2013	m	x	89%	3
Statutory Auditor	Diana Rizzo	1959			29/04/2016	M	x	100%	12
Statutory Auditor	Domenico Sardano	1970	17 October 2017		17/10/2017	M	x	100 ³ %	9
Alternate Auditor	Filomena Napolitano	1970	Ordinary meeting of 29 April 2016		29/04/2016	M	x	100 ⁴ %	10
Alternate Auditor	Andrea Angelillis	1977			16/05/2007	Mm	x	N/A	0
AUDITORS WHO CEASED OFFICE DURING REFERENCE PERIOD									
Statutory Auditor	Massimiliano Folloni	1950	Ordinary meeting of 29 April 2016	19 May 2017	16/05/2007	M	x	100%	
		Ownership required to present a list of candidates at the last election: 2.5%							
		Number of meetings held during the period: 9							
		<p>NOTE</p> <p>* This column shows whether member was elected from the majority shareholder list (M) or the minority shareholder list (m).</p> <p>** This column shows the percentage of Board of Statutory Auditors' meetings attended by the Auditor (number of attendances/number of meetings held during actual period of office of the person involved).</p> <p>*** This column shows the number of offices held as Director or Auditor by the person concerned bearing relevance for the purpose of Art. 148-bis of consolidated finance act.</p>							

³ The percentage of attendance of the Statutory Auditor Domenico Sardano is referred to the period from 17 October 2017 (date of his appointment) to 31 December 2017.

⁴ The percentage of attendance of the Alternate Auditor Filomena Napolitano is referred to the period in which she temporarily replaced as standing member of the Board of Statutory Auditors Massimiliano Folloni, who passed on 19 May 2017



Consolidated Financial Statements at 31 december 2017

Landi Renzo Group

Consolidated statement of
financial position

Consolidated income
statement

Consolidated statement of
comprehensive position

Consolidated statement of
cash flow

Explanatory notes

APPENDIX

Statement of related parties
Statement of consolidated financial statement
accordingly to Art. 154-bis of
D.Lgs.58/98
Report of the Auditing Company

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *

(Thousands of Euro)

ASSETS	Notes	31/12/2017	31/12/2016
Non-current assets			
Land, property, plant, machinery and equipment	2	14,583	30,500
Development expenditure	3	5,401	8,420
Goodwill	4	30,094	30,094
Other intangible assets with finite useful lives	5	15,769	20,359
Equity investments valued using the equity method	6	24,301	43
Other non-current financial assets	7	428	664
Other non-current assets	8	4,560	0
Deferred tax assets	9	8,016	6,887
Total non-current assets		103,152	96,967
Current assets			
Trade receivables	10	29,118	37,551
Inventories	11	36,562	49,872
Work in progress on orders	12	0	1,281
Other receivables and current assets	13	7,529	10,082
Cash and cash equivalents	14	17,779	16,484
Total current assets		90,988	115,270
TOTAL ASSETS		194,140	212,237

(Thousands of Euro)

SHAREHOLDERS' EQUITY AND LIABILITIES	Notes	31/12/2017	31/12/2016
Equity			
Share capital	15	11,250	11,250
Other reserves	15	41,983	59,400
Profit (loss) for the period	15	4,139	-25,245
Total Shareholders' Equity attributable to the Group		57,372	45,405
Minority interests		-669	-323
TOTAL SHAREHOLDERS' EQUITY		56,703	45,082
Non-current liabilities			
Non-current bank loans	16	26,906	18,687
Other non-current financial liabilities	17	29,308	22,812
Provisions for risks and charges	18	11,891	8,973
Defined benefit plans for employees	19	2,446	3,124
Deferred tax liabilities	20	423	514
Total non-current liabilities		70,974	54,110
Current liabilities			
Bank financing and short-term loans	21	7,741	40,662
Other current financial liabilities	22	2,792	10,039
Trade payables	23	47,829	53,090
Tax liabilities	24	3,003	2,604
Other current liabilities	25	5,098	6,650
Total current liabilities		66,463	113,045
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		194,140	212,237

* Pursuant to Consob resolution no. 15519 dated 27 July 2006, the effects of relations with related parties on the consolidated statement of financial position are shown in a specific table in the annex.

CONSOLIDATED INCOME STATEMENT *

(Thousands of Euro)

	Notes	31/12/2017	31/12/2016
Revenues from sales and services	26	206,294	184,242
Other revenue and income	27	4,222	1,217
Costs of raw materials, consumables and goods and change in inventories	28	-100,527	-94,236
Costs for services and use of third party assets	29	-57,307	-51,601
Personnel cost	30	-43,181	-36,364
Provisions, provision for bad debts and other operating expenses	31	-4,802	-6,160
Gross Operating Profit		4,699	-2,902
Amortization, depreciation and impairment	32	-16,189	-16,018
Net Operating Profit		-11,490	-18,920
Financial income	33	91	117
Financial expenses	34	-4,396	-5,161
Exchange gains (losses)	35	-1,873	904
Profit (loss) attributable to investments	36	21,142	-66
Profit (Loss) before tax		3,474	-23,126
Current and deferred taxes	37	228	-2,878
Net profit (loss) for the Group and minority interests, including:		3,702	-26,004
Minority interests		-437	-759
Net profit (loss) for the Group		4,139	-25,245
Basic earnings (loss) per share (calculated on 112,500,000 shares)	38	0.0368	-0.2244
Diluted earnings (loss) per share		0.0368	-0.2244

* Pursuant to Consob resolution no. 15519 dated 27 July 2006, the effects of relations with related parties on the consolidated statement of comprehensive income are shown in a specific table in Annex 1.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Thousands of Euro)

	Notes	31/12/2017	31/12/2016
Net profit (loss) for the Group and minority interests:		3,702	-26,004
<i>Gains/losses that will not be subsequently reclassified in the income statement</i>			
Remeasurement of defined employee benefit plans (IAS 19)	19	-70	-127
Total gains/losses that will not be subsequently reclassified on the income statement		-70	-127
<i>Profits/losses that could subsequently be reclassified on the Income Statement</i>			
Exchange rate differences from conversion of foreign operations		-701	-1,020
Total profits/losses that could subsequently be reclassified on the Income Statement		-701	-1,020
Profits/Losses recorded directly to Shareholders' Equity net of tax effects		-771	-1,147
Total Consolidated Statement of Comprehensive Income for the period		2,931	-27,151
Profit (loss) for Shareholders of the Parent Company		3,277	-26,354
Minority interests		-345	-797

CONSOLIDATED STATEMENT OF CASH FLOW

(Thousands of Euro)		
CONSOLIDATED STATEMENT OF CASH FLOW	31/12/2017	31/12/2016
Financial flows deriving from operating activities		
Profit (loss) for the period	3,702	-26,004
<i>Adjustments for:</i>		
Net capital losses from disposal of a business unit	1,984	0
Depreciation of property, plant and equipment	7,115	8,522
Amortization of intangible assets	7,090	7,191
Loss (Profit) from disposal of tangible and intangible assets	-2,953	305
Impairment loss on receivables	632	1,985
Net financial expenses	6,178	4,140
Profit (loss) attributable to investments	-21,142	0
Income tax for the year	-228	2,878
	2,378	-983
<i>Changes in:</i>		
Inventories and contract work in progress	4,310	9,279
Trade receivables and other receivables	-1,694	1,717
Trade payables and other payables	5,641	-10,900
Provisions and employee benefits	3,036	598
Cash generated from operations	13,671	-289
Interest paid	-4,195	-4,754
Interest received	55	56
Income taxes paid	-577	-1,117
Net cash generated from operating activities	8,954	-6,104
Financial flows from investments		
Proceeds from the sale of property, plant and equipment	4,724	166
Disposal of operations and variations in consolidation area	3,948	0
Increase in capital of subsidiary companies	-204	66
Purchase of property, plant and equipment	-2,479	-4,412
Purchase of intangible assets	-370	-418
Development expenditure	-2,300	-4,546
Net cash absorbed by investment activities	3,319	-9,144
Financial flows from financing activities		
Future share capital increase contributions	8,867	0
Bond repayments	0	-2,040
Disbursements (reimbursements) of medium/long-term loans	-755	-17,320
Change in short-term bank debts	-18,390	13,837
Net cash generated (absorbed) by financing activities	-10,278	-5,523
Net increase (decrease) in cash and cash equivalents	1,995	-20,771
Cash and cash equivalents as at 1 January	16,484	38,264
Effect of exchange rate fluctuation on cash and cash equivalents	-700	-1,009
Closing cash and cash equivalents	17,779	16,484
Other information	31/12/2017	31/12/2016
(Increase)/Decrease in trade receivables and other receivables from related parties	323	426
Increase/(Decrease) in trade payables and other payables to related parties	493	2,080

Consistently with the provisions of IAS 7, the flows generated by the operations were determined net of the variations of the consolidation area and the disposals in the year in order to represent the effective cash flows for the period.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Thousands of Euro)

	Share capital	Legal Reserve	Extraordinary and Other Reserves	Share Premium Reserve	Future share capital increase contribution	Result for the year	Group Shareholders' Equity	Profit (Loss) attributable to minority interests	Capital and reserves attributable to minority interests	Total Shareholders' Equity
Balance as at 31 December 2015	11,250	2,250	46,580	46,598	0	-35,288	71,390	-299	724	71,815
Result for the year						-25,245	-25,245	-759		-26,004
Actuarial profits/losses (IAS 19)			-127				-127			-127
Translation difference			-982				-982		-38	-1,020
Total comprehensive profits/losses	0	0	-1,109	0	0	-25,245	-26,354	-759	-38	-27,151
Other changes			369				369		49	418
Allocation of profit			-35,288			35,288	0	299	-299	0
Balance as at 31 December 2016	11,250	2,250	10,552	46,598	0	-25,245	45,405	-759	436	45,082
Result for the year						4,139	4,139	-437		3,702
Actuarial profits/losses (IAS 19)			-70				-70			-70
Translation difference			-792				-792		92	-701
Total comprehensive profits/losses	0	0	-862	0	0	4,139	3,277	-437	92	2,931
Other changes			-177		8,867		8,690			8,690
Allocation of profit			-9,365	-15,880		25,245	0	759	-759	0
Balance as at 31 December 2017	11,250	2,250	148	30,718	8,867	4,139	57,372	-437	-232	56,703

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 December 2017 LANDI RENZO GROUP

A) GENERAL INFORMATION AND SIGNIFICANT EVENTS IN THE YEAR

The LANDI RENZO Group (also “the Group”) has been active in the motor propulsion fuel supply system sector for more than sixty years, designing, producing, installing and selling environmentally-friendly LPG and CNG fuel supply systems (Automotive segment), compressors for fuel stations through the SAFE trademark (“*Gas Distribution and Compressed Natural Gas systems*” segment), and, as a secondary business, audio systems through the subsidiaries Eighteen Sound S.r.l. (“Sound” segment), the latter disposed of in early December 2017. The Group manages all the phases of the process leading to the production and sale of motor propulsion fuel supply systems. The Group sells both to the main car manufacturers at a world-wide level (OEM customers) and to independent retailers and importers (After Market customers).

The parent company of the Landi Renzo Group is Landi Renzo S.p.A. with its registered office in Cavriago (RE), hereinafter the “Parent Company” or the “Company”. The company is listed on the Milan Stock Exchange in the FTSE Italy STAR segment.

These financial statements are submitted to auditing carried out by the auditing firm PricewaterhouseCoopers S.p.A.

Significant events in the financial year

In 2017, following the approval of the Strategic Plan 2018-2022, the Group completed some extraordinary operations provided for in the Strategic Plan, with consequent effect, as illustrated in detail in these Explanatory Notes, in the area of consolidation and on the Group’s consolidated financial statements. These extraordinary operations are described below.

Disposal of the Sound segment

As of early December 2017, the subsidiary Eighteen Sound S.r.l. (Sound segment) was sold to B&C Speakers S.p.A., a company listed in the STAR segment of the Italian Stock Exchange specialized in the design, production, distribution and sale of electroacoustic transducers for professional use, for an *enterprise value* of Euro 7,400 thousand net of the financial position on the date of sale. Consequently, the subsidiaries Eighteen Sound S.r.l. and its subsidiary Sound & Vision Srl were excluded from the consolidation.

This disposal falls within the provisions of the 2018-2022 strategic plan, which calls for focusing on relaunching core Group activities with the resulting disposal of non-strategic activities.

Aggregation of SAFE & CEC

On 29 December 2017, the strategic agreement was concluded for the industrial aggregation of the subsidiary SAFE S.p.A., company of Landi Group operating in the production and installation of gas treatment compressors for many applications, and Clean Energy Compression Ltd (today called "IMW Industries Ltd"), a company specialized in compressed natural gas (CNG) supply systems including compressors, distributors, gas control systems and storage systems for various forms of transport, company fully owned by the US group Clean Energy Fuels Corp, consequently creating the world's second largest group in this sector in terms of turnover.

SAFE S.p.A., with headquarters in San Giovanni in Persiceto (BO), has been part of the Landi Renzo Group since 2012 and employees over 70 staff, specializing in the production of compressors for motor propulsion compressed natural gas (CNG), Oil&Gas (above all gas recovery) and Biogas (RNG) stations. The company already has a sales network in Europe, America, Asia and the Middle East with a total turnover for 2017 of approximately Euro 28 million.

Clean Energy Compression Ltd, with headquarters in Chilliwack in Canada, employs around 180 staff with a high-quality, highly efficient and standardized product portfolio for CNG supply systems. Its geographical presence includes a large share of the market in the United States, as well as in South America and, more marginally, in Europe, Asia and the Middle East. In 2016 the turnover of Clean Energy Compression was USD 34.8 million.

The focus of the new joint-venture business will be on compressors for motor propulsion compressed natural gas (CNG) stations and Renewable Natural Gas (RNG) worldwide, with a market share in Europe and the United States of over 15%.

The aim of the company aggregation is to strengthen business competitiveness to gain a leader position in this sector in Europe and the American continent, also seeking new geographical areas in particular the Middle East and Asia, laying the foundations for an acceleration of this business development. With a worldwide presence and a broad range of advanced products, excellent service and the far-reaching sales network, the new group can respond to the growing demands of customers in a sector that is expected to expand rapidly in the coming years, considering the increasingly strict global environmental protection policies demanding the progressive adoption of alternative fuels.

The new group created through this aggregation is characterized by a global sales network, deriving from the integration of the two current networks, which do not have any significant overlaps. As regards the product range, the range of medium-power compressors, the area in which Clean Energy Compression Ltd has already completed the standardization process, is to be optimized, with a better range of low-power compressors, dryers and integrated solutions, the historical strength of SAFE S.p.A., for the Clean Energy Compression Ltd customers. The new group also aims to enhance the SAFE range in RNG, completing the range of Clean Energy Compression Ltd in North America, one of the most promising markets for RNG, due to the green house emission regulations.

The aggregation was based on the establishment of a newco called SAFE & CEC S.r.l. and subsequent contribution of 100% of SAFE S.p.A. by the Landi Group and 100% of Clean Energy Compressor Ltd by Clean Energy Fuels Corp. Landi Renzo S.p.A. has a majority share of 51% in SAFE & CEC S.r.l. while Clean Energy Fuels Corp. holds the remaining 49%. As explained in detail below, following the contractually required governance system which reflects the joint control agreement between the two shareholders, the Group ownership is classified as a “joint venture” pursuant to international accounting standards (IFRS 11).

In this specific case, the main balances of *governance* according to the *joint venture* agreement, such as to reflect a joint arrangement, are the following:

- The Board of Directors of the company has 7 members, 4 appointed by Landi Renzo S.p.A. and 3 appointed by Clean Energy. The Board of Directors has powers of ordinary and extraordinary administration and resolutions are taken by simple majority of the attendees of the meeting, with the exception of some key matters for which the favourable vote of at least 5 directors is required, in particular:
 - approval of the budget, the effective management instrument of the Newco;
 - approval of expenses not included in the budget for amounts above set thresholds;
 - decisions concerning the hiring and firing of Top Management;
 - decisions concerning the sale of key assets.
- The shareholders’ meeting takes decisions with the favourable vote of a percentage which complies with legal requirements, with the exception of some matters for which a greater majority is required, i.e. the favourable vote of both the Landi Group and Clean Energy Fuel Corp, in particular:
 - Distribution of dividends
 - Extraordinary operations (mergers/spin-offs/transformations);
 - Capital increases;
 - Modifications to the business in which the NewCo works.
- The Chief Executive Officer must be appointed from among the members of the board of directors chosen by Landi Renzo S.p.A., while the chairman is chosen from among the members of the board of directors chosen by Clean Energy Fuels Corp. The powers of the Chief Executive Officer are defined, with clear limits, and with a range of action exercised exclusively within those defined by the Board of Directors.

Moreover, in the event of an impasse, the shareholders and directors appointed by them must act in good faith to resolve the dispute.

To determine any loss of control over a subsidiary, an investor must assess whether he holds the power over the invested entity, i.e. if he holds valid rights ensuring the current capacity to manage key activities, i.e. activities with a significant impact on the performance of the invested entity. According to what explained

above, given the need for greater majorities for decisions relating to key activities, required to manage the company business and the distribution of dividends, the management has considered that the Group is no longer in the condition to exercise sole control over the Newco. This is also confirmed by the fact that the powers conferred to the CEO do not ensure a situation in which he is able to autonomously manage the key activities; his powers are rather set within the field of ordinary administration, with clearly defined limits and a range of action exercised exclusively within the limits defined by the Board of Directors.

According to the provisions of IFRS 10 paragraph 25, in the event of loss of control over a subsidiary, the following must be done:

- a) derecognise the assets and liabilities of the ex-subsiary from the consolidated statement of financial position;
- b) recognise any shares held in the ex-subsiary at the respective fair value on the date of loss of control;
- c) recognise the profit or loss related to the loss of control attributable to the ex-controlling shares.

The fair value of 51% held by the Group in the newco SAFE & CEC S.r.l. was determined by an independent primary expert, applying the discounted cash flow method, deriving from the 2018-2022 business plan of SAFE & CEC S.r.l. approved on 29 December 2017 by the Boards of Directors of the respective conferring companies and annexed to the agreement undersigned by the parties. The evaluator also applied the comparable transactions method and multiples method as control methods of the fair value determined as described above. Following the application of these accounting methods, the consolidated balance sheets of the Group at 31 December 2017 shows a capital gains of approximately Euro 21.8 million, the difference between the fair value of the 51% share in SAFE & CEC S.r.l. on the date of loss of control in SAFE S.p.A. (Euro 24.2 million) and the net value of the net assets of the subsidiary SAFE S.p.A. on the date of deconsolidation (Euro 1.6 million) and related costs of the transaction. The conclusions of the management outlined above relating to the situation of a joint venture according to the provisions of IFRS 11 and the relative accounting of the loss of control according to IFRS 10, were also supported by the technical opinion of a primary accounts expert.

The transaction also took place thanks to the granting of waivers by banks and the Meeting of Bondholders which unanimously (the meeting was attended by bondholders representing 67.059% of the loan) approved the proposal of the Board of Directors concerning some provisions of the Loan Regulations, waiving the compliance with the Issuer's Commitments (as defined in the Regulation itself) in relation to the aggregation of SAFE S.p.A. and Clean Energy Compression Ltd.

Following the extraordinary operations described above, the Income Statement in the consolidated Group accounts is essentially comparable with the previous financial year as it includes economic data relating to the Sound segment for 11 months and of SAFE S.p.A. for 12 months. The consolidated balance sheet figures

on the other hand are not directly comparable as the above operations were completed prior to the closure of the financial year.

Merger of AEB S.p.A.

It is also reported that, although with no effects on the consolidated balance sheets, with accounting and fiscal effects back-dated to 1 January 2017, the subsidiary AEB S.p.A. was merged by incorporation into the Parent Company Landi Renzo S.p.A.

B) GENERAL CRITERIA FOR PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND DECLARATION OF CONFORMITY

Declaration of conformity with international accounting standards and basis of presentation

The consolidated financial statements were prepared in accordance with the IFRS-EU, i.e., all International Financial Reporting Standards, all International Accounting Standards (IAS) and all interpretations of the International Reporting Interpretations Committee (IFRIC), previously called the Standard Interpretations Committee (SIC), which, at the reporting date, had been endorsed by the European Union in accordance with the procedure laid out in Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002. The IFRSs were applied uniformly to all periods presented.

The consolidated financial statements of Landi Renzo S.p.A. as of 31 December 2017 were approved and authorised for publication by the Board of Directors on 15 March 2018.

The consolidated financial statements were drafted in Euro, which is the currency of the primary economic environment in which the Group operates. The figures in the consolidated Statement of Financial Position, the consolidated Income Statement and the consolidated Statement of Comprehensive Income for the period are expressed in Euro, the functional currency of the Company, while the data contained in the consolidated Statement of Cash Flows, the consolidated Table of Changes in Equity and in these Explanatory Notes are expressed in thousands of Euro. Rounding up is performed on each individual account.

The financial statement layouts and the relative classification criteria adopted by the Group, from amongst the options laid out in IAS 1 - Presentation of Financial Statements, are specified below:

- The consolidated Statement of Financial Position was prepared by classifying assets and liabilities based on whether they are current or non-current;
- the consolidated Income Statement was prepared separately from the consolidated Statement of Comprehensive Income, and shows operating costs divided by nature, as this is considered more representative than the format showing said items by destination, since it complies with the internal reporting methods and international sector practices;
- the consolidated Statement of Comprehensive Income includes, aside from the profit (loss) for the year, the other changes in consolidated equity items associated with transactions not carried out with Company shareholders;
- the consolidated Statement of Cash Flows was prepared by showing cash flows deriving from operations in accordance with the "indirect method".

Recently issued accounting standards

The accounting standards adopted in preparing the consolidated financial statements are consistent with those adopted for the preparation of the consolidated financial statements for the year ending on 31 December 2016, with the exception of the adoption of the new accounting standards, improvements and interpretations applicable as of 1 January 2017 listed below.

EU endorsement regulation	Description
Regulation (EU) 2016/1703	Modifications to IFRS 10, IFRS 12 and IAS 28: issued by the IASB on 18 December 2014. This amendment mainly envisages that an investment entity that draws up financial statements in which all of its subsidiaries are measured at fair value through profit or loss must provide the disclosure set forth for investment entities on the basis of IFRS 12. The application of this standard had no impacts on the Group.

Accounting standards, amendments and interpretations not yet applicable and not adopted in advance by the Company

The following table lists the new international accounting standards, or the amendments of standards and interpretations already in force, which must begin being applied from 1 January 2018 or thereafter. The Group did not exercise the option to apply them early.

EU endorsement regulation	Description
Regulation (EU) 2017/1989	IAS 12 Income tax – Recognition of deferred tax assets for unrealised losses, the modification aims to clarify how to account for deferred tax assets relating to debt instruments measured at fair value.
Regulation (EU) 2017/1990	IAS 7 Cash Flow Statement – Disclosure initiative, the change aims to improve disclosures about an entity’s financing activities provided to balance sheet users.
Regulation (EU) 2016/2067	IFRS 9 Financial instruments, the standard aims to improve financial disclosure of financial instruments, tackling the related problems arising during the financial crisis. In particular, IFRS 9 responds to the recommendation of the G20 to transition to a more forward-looking model for the recognition of expected losses on financial assets. Companies are required to apply the standard, at the latest, starting in annual periods beginning on or after 1 January 2018.
Regulation (EU) 2016/1905	IFRS 15 - Revenue from Contracts with Customers, aims to improve the quality and consistency of revenue recognition and to define the moment of transfer as an

	<p>element for the recognition of revenue and the amount that the company is entitled to receive.</p> <p>The following process is to be followed for the recognition of revenue:</p> <ol style="list-style-type: none"> 1) Identify the contract(s) with a customer; 2) Identify the performance obligations; 3) Determine the transaction price; 4) Allocate the transaction price to the performance obligations in the contract; 5) Recognize revenue when (or as) the entity satisfies a performance obligation. <p>Companies are required to apply the standard, at the latest, starting in annual periods beginning on or after 1 January 2018.</p>
Regulation (EU) 2016/1905	<p>The amendment to IFRS 4 deals with concerns that arose in the application of IFRS 9 on financial instruments before the introduction of the new insurance contract standards. In addition, two options are provided for companies that issue insurance contracts with reference to IFRS 4: i) one option that allows companies to reclassify certain revenue or costs arising from designated financial assets from the income statement to the statement of comprehensive income; ii) a temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4.</p> <p>The amendment does not apply to the Company.</p>
Regulation (EU) 2017/1986	<p>IFRS 16 Leases, replacing IAS 17, is applicable from 1 January 2019. Early application is permitted for entities which also apply IFRS 15 - Revenue from contracts with customers.</p>
Regulation (EU) 2018/289	<p>IFRS 2 Classification and Measurement of Share-based Payment Transactions aims to clarify the accounting of certain types of share-based payment transactions. The amendments apply as of 1 January 2018. However, early application is permitted.</p>
Regulation (EU) 2018/182	<p>The IASB published the Annual Improvements to IFRS Standards 2014-2016 Cycle, amending IFRS 1, IFRS 12 and IAS 28.</p> <p>This amendment will come into force on 1 January 2018.</p>

As stated above, from 1 January 2018 the new accounting standard IFRS 15 on the recognition of revenues and IFRS 9 on financial instruments must be applied.

From the preliminary analysis performed on contracts with its own customers, the Group does not consider that there will be any significant impacts deriving from the application of IFRS 15.

With reference to IFRS 9 our analyses showed a potential impact, in any case not significant, linked to the provisions of paragraph B.5.4.6 of the standard, governing the impact on the amortized cost of financial liabilities deriving from a change in the related financial flow plan, due both to a revised estimate or a contractual amendment. Substantially this paragraph requires that, if the estimates of payments relating to financial liabilities are revised, the company must discount future cash flows at the original internal rate of

yield and must account for the difference between the current value of future cash flows determined with that rate and the book value of the liability entered in the accounts. The application of IFRS 9 will therefore affect the value of some financial liabilities (convertible bonds and medium and long-term bank loans) renegotiated by the Parent Company during the year. The Group is defining the impact of this amendment on the next financial year.

From 1 January 2019 the Group must apply IFRS 16, which replaces IAS 17, approved in November 2017 by the EFRAG. The Group is still performing an analysis to estimate the impacts arising from the application of this standard, particularly with reference to lease agreements payable on non-owned buildings.

Please note that accounting standards and/or interpretations whose application would be compulsory for periods that begin subsequent to 1 January 2018 were not applied early.

During the year, the IASB made amendments to several IAS/IFRSs issued previously and published new international accounting standards, for which the approval process has not yet been completed.

Date	IAS Publications
30 January 2014	<p>IFRS 14 entered into force on 1 January 2016, but the European Commission decided to suspend the endorsement process pending the new accounting standard on rate-regulated activities.</p> <p>IFRS 14 allows only entities which adopt IFRS for the first time to continue to recognize regulatory deferral account balances in accordance with the previous accounting standards adopted. To improve comparability with entities that already apply IFRS and do not recognize such balances, the standard requires the effect of rate regulation to be presented separately from other items.</p>
08 December 2016	<p>IFRIC 22 – Foreign Currency Transactions and Advance Consideration. The interpretation (effective as of 1 January 2018) covers foreign currency transactions if an entity recognizes a non-monetary asset or liability from the payment or receipt of an advance before the entity recognizes the relative asset, cost or revenue. The provision must not be applied to taxes, insurance or reinsurance contracts. This IFRIC does not apply to the Group’s consolidated financial statements.</p>
08 December 2016	<p>Amendments to IAS 40 regarding transfers of investment property. The amendment (effective from 1 January 2018) covers the following:</p> <ul style="list-style-type: none"> <li data-bbox="405 1738 1391 1872">i) paragraph 57 of IAS 40 is amended to state that an entity must transfer a property from, or to, the real estate investment category only when there is evidence of a change in use. <li data-bbox="405 1890 1391 2024">ii) The list of examples indicated in paragraph 57 (a) – (d) is redefined as a non-exhaustive list. These amendments do not apply to the Group’s consolidated financial statements.

18 May 2017	<p>The IASB published IFRS 17 Insurance Contracts. The standard aims to improve understanding by investors, and others, of the exposure to risk, profitability and the financial position of insurers. IFRS 17 replaces IFRS 4, issued in 2004 as an interim Standard. It will come into force on 1 January 2021, but prior application is permitted.</p> <p>This standard is not applicable to the Group.</p>
07 June 2017	<p>The IASB published the interpretation IFRIC 23 Uncertainty over Income Tax Treatments, providing indications on how to present uncertainty of the tax treatment of a given phenomenon in accounting for income tax. IFRIC 23 comes into force on 1 January 2019.</p>
12 October 2017	<p>The IASB published amendments to IFRS 9 Financial Instruments and IAS 28 Investments in Associates and Joint Ventures to facilitate their implementation.</p> <p>The amendments to IFRS 9 Prepayment Features with Negative Compensation aims to allow the measuring at the amortized cost or fair value through other comprehensive income (OCI) of financial assets characterised by an early repayment option with the so-called “negative compensation”.</p> <p>The amendments to IAS 28 Long-term Interests in Associates and Joint Ventures aim to clarify that IFRS 9 applies to long-term receivables from an associate company or joint venture which, substantially, are part of the net investment in the associate company or joint venture .</p>
12 December 2017	<p>The IASB published the Annual Improvements to IFRSs 2015-2017 Cycle, including amendments to IAS 12 Income Taxes, IAS 23 Borrowing Costs, IFRS 3 Business Combination and IFRS 11 Joint Arrangements.</p> <p>The amendments will come into force on 1 January 2019. However, early application is in any case permitted.</p>

The Group is evaluating the effects that the application of such standards may have on its financial statements.

C) CONSOLIDATION PRINCIPLES AND VALUATION CRITERIA

The accounting standards described hereafter were applied uniformly for all the periods included in these consolidated financial statements and by all the entities of the Group.

CONSOLIDATION PRINCIPLES

The Consolidated Financial Statements include the separate financial statements of the Company and the subsidiaries approved by the Boards of Directors of the individual companies, adjusted accordingly, when required, to bring them into line with the accounting standards adopted by the Company. It is reported that

all companies in the Group close their financial year on 31 December with the exception of the Indian company Officine Lovato Private Limited which closes the financial year on 31 March, for which an asset and income statement was prepared at 31 December 2017, and used to prepare these consolidated financial statements. The consolidated companies are listed in the “Consolidation scope” section below.

Subsidiary companies

Subsidiaries are the companies in which the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The existence of control is checked every time facts and circumstances point to a change in one or more of the three elements constituting control. Generally, the existence of control is assumed when the Group directly or indirectly holds more than half of the voting rights, also taking into consideration potential rights which are immediately exercisable or convertible.

Assets and liabilities and income and expenses of the subsidiaries are consolidated line-by-line, from the date on which the Parent Company gains direct or indirect (i.e., through one or more other subsidiaries) control over them until the date on which that control no longer exists, attributing, when applicable, the applicable portion of equity and net profit (loss) for the period to the minority shareholders and highlighting these separately in dedicated items of equity and the consolidated statement of comprehensive income. If shareholdings are acquired subsequent to the assumption of control (acquisition of minority interests), any positive difference between the purchase cost and the corresponding portion of equity acquired is recognized in the equity attributable to the Group; likewise, the effects arising from the transfer of minority interests with no loss of control are recognized in equity.

However, disposals of shares entailing the loss of control results in the recognition in the income statement:

- of any capital gain/loss calculated as the difference between the consideration received and the corresponding portion of consolidated equity transferred;
- of the effect of remeasuring any remaining investment to align it with its fair value;
- of any values recognized in other comprehensive income relating to the former subsidiary for which transfer to the income statement is permitted, or if transfer to the income statement is not permitted, in profit (loss) carried forward.

The value of any remaining equity investment, aligned with its fair value at the date of loss of control, represents the new carrying amount of the investment and therefore the reference value for the subsequent measurement of the investment in accordance with applicable valuation criteria.

The portion of capital and reserves attributable to minority interests in subsidiaries and the portion attributable to minority interests of the value of profit or loss for the year of consolidated subsidiaries are identified separately on the Statement of Financial Position, the Income Statement and the Statement of

Comprehensive Income. Changes in stakes of the Group in a subsidiary company which do not lead to a loss of control are stated as transactions performed between shareholders, as such.

Investments in subsidiary companies that have not been consolidated due to their limited significance are stated at the fair value, represented substantially by the value calculated by applying the equity method.

Intercompany transactions

Profits arising from transactions between companies consolidated on a line-by-line basis, not yet realized with respect to third parties, are eliminated, as are the receivables, payables, income and expenses, guarantees, commitments and risks between consolidated companies.

In particular, profits not yet realized with third parties deriving from transactions between companies of the Group, including those deriving from the valuation of inventories at the date of the Financial Statements, were eliminated.

Profits and losses not yet realized with regard to third parties deriving from transactions with companies measured using the equity method are eliminated to the extent of the share pertaining to the Group.

Associates

Associates are companies in which the Group, even though it does not hold control or joint control, exercises significant influence over administrative and management decisions. Generally, the existence of significant influence is assumed when the Group directly or indirectly holds 20% to 50% of the voting rights.

Equity investments in associates are valued using the equity method.

The methodology for the application of the equity method is described below:

- (i) the carrying amount of the equity investments is aligned with the equity of the investee company adjusted, when necessary, to reflect the application of accounting standards compliant with those applied by the Group and includes, when applicable, any goodwill identified at the moment of acquisition;
- (ii) profit or loss attributable to the Group is accounted for in the consolidated income statement from the date on which significant influence begins until the date on which it ends. If, due to losses, the company's equity is negative, the carrying amount of the equity investment is cancelled out and any excess pertaining to the Group is recognized in a dedicated provision only when the Group has committed to meeting legal or implicit obligations of the investee or in any event to cover its losses. Changes in the equity of investees not resulting from profit and loss are accounted for as a direct adjustment of the Group's equity reserves;

- (iii) unrealized gains generated on transactions between the Company and subsidiaries or investees are eliminated on the basis of the value of the Group's shareholding in the investee companies. Unrealized losses are eliminated, except when they represent impairment losses.
- (iv) if an associate recognizes an adjustment directly in equity, also in this case the Group recognizes its share and presents it when applicable in the statement of changes in equity.

Joint ventures

Joint ventures are companies in which the Group exercises joint control, based on exercisable voting rights, in compliance with contractual agreements, shareholders' agreements or the companies' Articles of Association.

Investments in joint ventures are consolidated with the equity method, as described in the "Associates" section above, from the date on which joint control begins to the date on which it ends.

The Group had three joint ventures at 31 December 2017, of which one was not consolidated as it is of minor importance. We refer to what explained above concerning the new *joint venture* SAFE & CEC S.r.l, established during the year.

Conversion of the financial statements of foreign companies

Financial Statements drawn up in the currency of the foreign subsidiaries are converted into the accounting currency of the consolidated financial statements, adopting the year end exchange rate for the Statement of Financial Position and the average exchange rate over the year for the Income Statement. The consequent exchange differences are stated under other items on the Statement of Comprehensive Income and included in the conversion reserve.

The rules for translating the financial statements of companies in currencies other than Euro are listed below:

- (i) assets and liabilities are converted at the exchange rates in force on the reporting date;
- (ii) costs and revenues are converted at the average exchange rate for the period;
- (iii) the "conversion reserve" includes the exchange differences generated from the conversion of economic figures at a different exchange rate to that at the end of the period as well as those generated from the translation of equity at the start of the period at an exchange rate different to that in force at the end of the period;
- (iv) goodwill and fair value adjustments correlated with the acquisition of an entity abroad are accounted for as assets and liabilities of the entity abroad and translated at the end of period exchange rate.

Exchange gains and losses deriving from foreign receivables or payables, collection or payment of which is neither planned nor probable in the near future, are considered as part of the net investment in foreign

operations and are stated under other items on the Statement of Comprehensive Income and stated under equity in the conversion reserves.

The following table specifies the exchange rates used for the conversion of financial statements expressed in currencies other than the Euro.

Exchange rate (Value against €)	At 31/12/2017	Average 2017	At 31/12/2016	Average 2016
Real – Brazil	3.973	3.605	3.431	3.856
Renminbi – China	7.804	7.629	7.320	7.352
Rial - Iran	43,264.000	37,550.600	34,127.500	34,213.690
Rupee - Pakistan	132.721	118.991	110.470	115.916
Zloty – Poland	4.177	4.257	4.410	4.363
Leu - Romania	4.659	4.569	4.539	4.490
Dollar - USA	1.199	1.130	1.054	1.107
Peso - Argentina	22.931	18.741	16.749	16.342
Rupee - India	76.606	73.532	71.594	74.372
Dollar - Singapore	1.602	1.559	1.523	1.528

NON-CURRENT ASSETS

LAND, PROPERTY, PLANT, MACHINERY AND OTHER EQUIPMENT

Tangible assets were recognized in accordance with the cost criterion at the purchase price or the production cost inclusive of directly attributable accessory costs necessary to make the assets ready for use.

The carrying amount of tangible assets is subsequently adjusted for systematic depreciation, calculated on a straight-line basis from the moment in which the asset is available and ready for use, based on its useful life, understood as the estimated period in which the asset will be used by the company, and any accumulated loss for impairment.

When the asset to be depreciated consists of distinctly identifiable elements whose useful life differs significantly from that of the other parts of the asset, each of those parts are depreciated separately in application of the component approach method.

Any financial expense directly attributable to the purchase and production of tangible assets is capitalized and depreciated on the basis of the useful life of the asset to which it refers.

The following annual depreciation rates are used:

Categories	Depreciation period	Depreciation rates
Land		Indefinite useful life
Buildings	Straight-line basis	3 - 20%
Plant and machinery	Straight-line basis	10 - 20%
Industrial and commercial equipment	Straight-line basis	10 - 25%
Other assets	Straight-line basis	12 - 33%

The residual value and the useful life of tangible assets are reviewed at least annually and updated, when applicable, at the end of each year. Based on the analysis performed by the management it was not necessary to amend the useful life compared to those applied in the previous financial year.

Costs incurred for maintenance and repairs are charged in their entirety to the income statement for the year in which they are incurred. Costs for improvements, upgrades and transformation having an incremental nature are attributed to the tangible assets to which they refer, when it is probable that they will increase the future economic benefits expected from the use or the sale of the asset, and depreciated based on the remaining useful life of the assets.

Costs capitalized for leasehold improvements are classified under property and depreciated at the lower of the residual economic usefulness of the improvement and the residual duration of the underlying contract.

The financial expenses directly attributable to the acquisition, construction or production of a tangible asset are recognized in the income statement at the moment at which they are incurred, in accordance with the appropriate accounting treatment provided for by IAS 23.

The book value of tangible assets is subjected to verification in order to discover any possible impairment, using the methods described in the paragraph “Impairment of assets”.

At the moment of sale or when no future economic benefits are expected from the use of an asset, it is eliminated from the financial statements and any loss or profit (calculated as the difference between the sale value and the book value) is recognized in the income statement in the year of the aforementioned elimination.

INTANGIBLE FIXED ASSETS

Intangible assets consist of identifiable non-monetary elements with no physical consistency, which can be controlled and can generate future economic benefits. These elements are initially recognized at purchase and/or production cost, inclusive of expenses directly attributable to make the asset ready for use. Intangible assets are amortized on a straight-line basis throughout their estimated useful life; amortization rates are reviewed on an annual basis and are amended if the current useful life differs from that estimated previously. The useful life estimated by the Group for the various categories of intangible assets, valid for all periods presented, is shown below.

Categories	Useful Life
Development expenditure	3 years
Industrial patents and rights to use intellectual property	from 3 to 10 years
Software, licenses and others	from 3 to 5 years
Trademarks	from 7 to 18 years

DEVELOPMENT EXPENDITURE

Research and development costs are recognized in the Income Statement for the year in which they are incurred, with the exception of development expenditure recognized under intangible assets if the conditions established in IAS 38, reported below, are satisfied:

- the project is clearly identified and the costs relating to it are identifiable and can be measured reliably;
- the technical feasibility of the product is demonstrated;
- there is evidence of the Group's intention to complete the development project and to sell the intangible assets generated by the project;
- there is a potential market or, in the case of internal use, the utility of the intangible asset for the production of intangible assets generated by the project can be demonstrated;
- the technical and financial resources required to complete the project are available.

The amortization period starts only when the development phase is completed and the result generated by the project can be marketed, and is usually three years, based on the estimated duration of the benefits linked with the product developed. Capitalized development expenditure is stated at cost, minus accumulated amortization and any accumulated losses from impairment.

GOODWILL

The goodwill deriving from business combination transactions after 1st January 2005 is initially entered at cost, and represents the excess of the purchase cost over the purchaser's share of the net *fair value* referring to the identifiable values of existing and potential assets and liabilities.

Goodwill deriving from acquisitions made prior to 1 January 2005 is entered at the value recorded for that purpose in the last Financial Statements prepared according to the previous accounting standards (31 December 2004), subject to verification and recognition of any possible impairment.

When the IFRS were initially adopted, as permitted by IFRS 1, acquisition transactions performed prior to 1 January 2005 were not reconsidered.

At the acquisition date, any goodwill emerging is allocated to each of the *cash generating units* (or "CGUs") that are expected to benefit from the synergistic effects deriving from the acquisition. Taking into account the Group organizational structure and the methods in which control of operations is exercised, the CGU are identified as the individual legal entities forming the Group. After the initial recognition, since goodwill is regarded as an intangible asset with an indefinite life, it is no longer amortized and is decreased by any accumulated losses in value, determined as described below.

Goodwill is subjected to an analysis of recoverability on at least an annual basis, or even more frequently if events or changes in circumstances arise that could result in possible losses of value, identifying the CGUs which benefit from acquisition synergies. Cash flows are discounted to the cost of capital as a function of

the specific risks of the unit concerned. Impairment is stated when it emerges from the check on discounted cash flows that the recoverable value of the CGU is less than the book value and is stated as a priority under goodwill.

Any loss in value is identified through valuations that take as a reference the ability of each CGU to produce financial flows capable of recovering the portion of goodwill allocated to it. If the value recoverable by the CGU is less than the book value attributed, the corresponding loss in value is recognized. Such loss of value is restored if the reasons that generated it cease to exist.

Any losses in value of goodwill stated on the Income Statement are not restored if the reasons that generated them cease to exist.

OTHER INTANGIBLE FIXED ASSETS

Other intangible assets with finite useful life, acquired or self-created, are capitalized when it is probable that use of the asset will generate future economic benefits and its cost can be measured reliably. These assets are initially recognized at purchase or development cost.

Costs incurred subsequently relating to intangible assets are capitalized only if they increase the future economic benefits of the specific asset capitalized and they are amortized on the basis of the aforementioned criteria according to the assets to which they refer.

LEASING

Financial leasing contracts are accounted for according to the provisions of IAS 17.

This accounting treatment implies that:

- the cost of the assets that are the subject of the financial leasing is entered under tangible assets and amortized on a straight-line basis according to the estimated useful life; a financial debt to the lessor for an amount equal to the value of the leased asset is entered in a matching entry;
- the leasing fees are accounted for in such a way as to separate the financial element from the capital portion, to be considered as a repayment of the recorded debt to the lessor.

Those *leasing* contracts in which the lessor substantially maintains all the risks and benefits of ownership are classified as operational *leasing* and the corresponding fees are recorded in the Income Statement on a straight-line basis, distributed according to the duration of the contract.

IMPAIRMENT OF ASSETS

At each reporting date, tangible and intangible assets with a finite useful life are analysed in order to identify the existence of any indicators of impairment originating from sources external or internal to the Group. When these indicators are identified, the recoverable value of the above-mentioned assets is estimated, and any impairment loss is recognized in the Income Statement.

A tangible or intangible asset suffers a reduction in value if it is not possible to recover, either through use or sale, the book value at which said asset is recorded in the financial statements. Therefore, the aim of the test (*impairment test*) provided for by IAS 36 is to assure that tangible and intangible fixed assets are not entered at a value greater than their recoverable value, which is the greater of the net sale price and the value of use.

The value of use is the current value of future financial flows that are expected to be generated by the asset or by the cash generating unit to which the asset belongs. The expected cash flows are discounted using a discount rate that reflects the current estimate of the market of reference referring to the cost of the money in proportion to the time and risks specific to the asset.

Management uses various assumptions in applying this method, including estimates of changes in revenues, the gross profit margin, operating costs, the growth rate of terminal values, investments, changes in operating capital and the weighted average cost of capital (discount rate) which combine in defining a medium-term plan, specifically aimed at performing an impairment test, revised at least annually and approved by the Board of Directors of the Parent Company. The principal hypotheses formulated in relation to the plans of CGUs relevant for the impairment test are indicated in note 4 of these financial statements, to which reference should be made for further details.

If the book value exceeds the recovery value, the assets or the cash generating units to which they belong are written down until they reflect the recovery value. Such losses are accounted for on the Income Statement.

The impairment test is carried out when conditions occur inside or outside the company that suggest that the assets have suffered a reduction in value. In the case of goodwill or other intangible assets with an indefinite useful life, the impairment test is carried out at least annually. If the conditions that resulted in the loss of value cease to exist, the same value is restored proportionally on the previously devalued assets until it reaches, at most, the value that such goods would have had, net of amortization calculated on the historical cost, in the absence of a prior loss of value. Restorations of value are recognized in the income statement.

The value of previously devalued goodwill is not restored, as provided for by the international accounting standards.

EQUITY INVESTMENTS IN SUBSIDIARY AND ASSOCIATED COMPANIES AND JOINT VENTURES

Investments in subsidiary companies, not consolidated due to their negligible importance, are evaluated using the cost method including directly related costs, adjusted according to impairment losses. Applying

the cost method, the parent company states income on the investment solely if the subsidiary has resolved to pay out dividends.

In the case where there is evidence of events indicative of long term impairment, the value of the investments is subjected to an impairment test according to the provisions of IAS 36. The original value is restored in subsequent years if the reasons for write-down cease to exist.

The risk deriving from any losses exceeding the cost is recorded under provisions, to the extent to which the Company is obliged or intends to be responsible for it.

Equity investments in joint ventures are companies for which an agreement existed at the date when the financial statements were prepared, whereby Landi Renzo S.p.A. has similar rights on net assets, rather than rights on assets, and accepts obligations for liabilities.

Equity investments in *joint ventures* are valued using the equity method.

OTHER NON-CURRENT FINANCIAL ASSETS

This category includes loans granted to Group companies which are due for repayment beyond 12 months and equity investments in other ventures.

Non-current financial assets are initially stated at their fair value at the date of negotiation (which is the purchase cost), minus the costs of the transaction directly attributable to purchase.

After the initial recognition, financial instruments held until they fall due are measured at amortized cost, using the effective interest method.

The effective interest rate is the rate which discounts future cash flows precisely, estimated for the entire expected life of the instrument, at its net book value.

An impairment test is performed at the date of the financial statements to ascertain whether there is any objective evidence of a loss in value of each non-current financial asset.

If there is objective evidence of this impairment, the amount of the loss is measured as the difference between the book value of the investment held until maturity and the discounted future cash flows, estimated as discounted to the original effective interest rate of the financial asset.

Any impairment is stated immediately on the income statement.

If total impairment decreases in subsequent years and said decrease is linked to an event occurring after the loss in value has been stated, said loss is reversed and the value is restored on the Income Statement.

OTHER RECEIVABLES AND OTHER NON-CURRENT ASSETS

Loans and receivables are recognized when they occur. All other financial assets are recognized for the first time when the Group companies become a party to the contractual provisions of the instrument.

Financial assets are initially measured at cost, which corresponds to their fair value increased by ancillary charges.

After the initial recognition, assets held for trading are classified under current financial assets and measured at fair value; gains or losses from this measurement are stated on the income statement.

Assets possessed with the intention to keep them until expiry are classified among the current financial assets if the expiry date is within less than one year, and non-current if greater, and are subsequently valued with the principle of amortized cost. Consequently, the initial value is then adjusted to take into account repayments of capital, any write-downs and amortization of the difference between the repayment amount and the initial book value. Amortization is performed on the basis of the internal effective interest rate, represented by the interest rate that aligns, on initial recognition, the present value of expected cash flows and the initial value (so-called amortized cost method). If there is objective evidence indicating impairment, the asset value is decreased to the discounted value of the future flows obtainable from it. Such losses are recognized on the Income Statement. If, in subsequent periods, the reasons for the preceding write-down no longer exist, the value of the asset is restored to the amount that would have derived from applying the amortized cost without write-down.

CURRENT ASSETS

INVENTORIES

The item inventories includes raw materials and materials used in the production process, semi-finished products, spare parts and finished products.

Inventories are stated at the lower value between purchase or manufacturing cost, inclusive of accessory costs, measured according to the FIFO method, and the realization value that can be inferred from market performance.

The measurement of inventories includes the direct costs of materials and labour and the indirect costs of production (variable and fixed), determined on the basis of normal production capacity.

Where necessary, depreciation funds are calculated for obsolete stocks or those with a slow turnaround taking account of their future possibility of use or recovery.

CONTRACT WORK IN PROGRESS

Work in progress on orders, with annual and multi-year performance times, is stated on a percentage of completion basis, which includes costs, revenues and the profit margin based on the state of progress of production activity, according to the best estimate at the date of the financial statements, determined with reference to the ratio between costs incurred and total expected costs on the contract. If there are contracts for which a final loss is expected, said loss is fully recognized in the period in which it becomes known.

Amounts paid by customers on the basis of state-of-progress reports on contracts which are still not completed are stated minus closing inventories.

TRADE RECEIVABLES AND OTHER RECEIVABLES

Receivables are initially recognized at fair value. The initial value is subsequently adjusted to take into account repayments of capital, any write-downs and the amortization of the difference between repayment amount and initial value. Amortization is performed on the basis of the internal effective interest rate, represented by the interest rate that aligns, on initial recognition, the present value of expected cash flows and the initial value (so-called amortized cost method). If there is objective evidence indicating impairment, the asset value is decreased to the discounted value of the future flows obtainable from it. Such losses are recognized on the Income Statement. If, in subsequent periods, the reasons for the preceding write-down no longer exist, the value of the asset is restored to the amount that would have derived from applying the amortized cost without write-down.

The provision for bad debts, determined in order to measure receivables at their effective realization value, includes write-downs recognized in order to take account of objective indications that trade receivables are impaired. Write-downs, which are based on the most recent information available and management's best estimate, are recognized in such a way as to decrease impaired assets to the present value of future cash flows obtainable from them.

The provision for bad debts is classified in the reduction of the item "Trade receivables".

Allocations made to the provision for bad debts are classified in the Income Statement under the item "Accruals, write-downs and other operating expenses"; the same classification was used for any utilizations and permanent losses of trade receivables.

OTHER RECEIVABLES AND OTHER CURRENT ASSETS

Other receivables and other current financial assets are initially recognized at fair value. Subsequently, the receivables are measured with the amortized cost method on the basis of the internal effective interest rate, represented by the interest rate that aligns, on initial recognition, the present value of expected cash flows and the initial value.

If there is objective evidence indicating impairment, the asset value is decreased to the discounted value of the future flows obtainable from it. Such losses are recognized on the Income Statement. If, in subsequent

periods, the reasons for the preceding write-down no longer exist, the value of the asset is restored to the amount that would have derived from applying the amortized cost without write-down.

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES FROM THE BALANCE SHEET ASSETS AND LIABILITIES

Financial assets are derecognized when one of the following conditions is met:

- the contractual right to receive cash flows from the asset has expired;
- the Group Company has substantially transferred all risks and benefits connected with the asset, transferring its rights to receive cash flows from the asset or assuming a contractual obligation to transfer the cash flows received to one or more beneficiaries by virtue of a contract that meets the requirements of IAS 39 ("pass through test");
- the Group Company has not substantially transferred or maintained all risks and benefits connected to the financial asset, but it has transferred control over it.

Financial liabilities are derecognized when they are settled and when the Group Company has transferred all risks and charges relating to the instrument.

ASSIGNMENT OF RECEIVABLES

The Group is permitted to assign part of its trade receivables through factoring transactions. The operations for assignment of receivables can be with or without recourse; some non-recourse assignments include deferred payment clauses (for example, the payment by the factor of a minority part of the purchase price is subordinate to the total collection of receivables), requiring an exemption on the part of the assignor or implying the maintenance of significant exposure to the progress of the financial flows deriving from the receivables assigned.

This type of operation does not meet the requirements laid down by IAS 39 for eliminating assets from the balance sheet, since the associated benefits and risks have not been transferred substantially.

Consequently, all the receivables assigned through factoring operations that do not meet the requirements for elimination established by IAS 39 continue to be recorded in the Financial Statements of the Group, although they have been legally assigned; a financial liability for the same amount is recorded in the financial statements as Payables for Advances on Assignment of Receivables. Profits and losses related to the assignment such assets are recorded only when the same assets are removed from Statement of Financial Position of the Group.

At 31 December 2017, the Group companies had only performed assignments of trade receivables without recourse that meet all the requirements established by IAS 39 for the derecognition of such receivables.

CASH AND CASH EQUIVALENTS

The item relating to cash and cash equivalents includes, primarily, bank deposits repayable on demand, as well as cash on hand and other short-term investments that are highly convertible (convertible into cash and cash equivalents within ninety days). Cash and cash equivalents are valued at fair value, which usually coincides with their nominal value; any changes are recognized on the Income Statement. The current account overdraft, if utilized, is shown among the “Short-term financial liabilities”.

For the purposes of representing cash flows for the period, when drawing up the Statement of Cash Flow, short-term bank debts are represented among the cash flows of the financing activities, since they are for the most part attributable to bank advances and short term bank loans.

SHARE CAPITAL AND OTHER EQUITY ITEMS

(i) Share capital

The share capital is made up of the ordinary shares of the Parent Company in circulation.

The costs relating to the issue of new shares or options are classified in equity (net of the associated tax benefit) as a deduction of the income deriving from the issue of such instruments.

As provided for by IAS 32, if equity instruments are repurchased, such instruments (treasury shares) are recognized as a direct deduction from Equity under the item “Other Reserves”. Gains or losses are not recognized on the Income Statement when treasury shares are purchased, sold or cancelled.

The consideration paid or received, including any cost directly incurred and attributable to the capital transaction, net of any related tax benefit, is directly recognized as an Equity transaction.

(ii) Statutory reserve and other reserves

The statutory reserve is formed from the allocation of part of the Group companies’ profit for the year (5% each year until it has reached 20% of the share capital) and may be used exclusively to cover losses. The other reserves include the reserves of profits and capital for a specific use, the profit (loss) of previous years not distributed or allocated to a reserve, as well as the reserve generated upon first-time application of IFRS.

CURRENT AND NON-CURRENT LIABILITIES

PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges are set aside to cover current obligations - legal or implicit - deriving from past events, for which a reliable estimate of the amount required to settle the obligation can be made at the end of the year. Provisions for risks and charges are stated if said charges are likely to be incurred. Any change in the estimate of provisions is reflected on the Income Statement in the period when it occurs.

If a liability is regarded as merely potential, no allocation to provisions for risk and charges is made and only adequate information is provided in these notes to the financial statements.

When the financial effect of time is significant and the date of cash outflows associated with the obligation can be reliably determined, the estimated cost is discounted to the present value using a rate reflecting the current market values and includes the additional effects relating to the specific risk that may be associated with each liability. After discounting, the increase in the provision due to the passage of time is recognized as a financial charge.

The product warranty provision is stated on sale of the underlying goods or supply of the underlying services. The provision is determined using historical information on warranties and by weighting the probability associated with possible results.

The provisions are periodically updated to reflect changes in estimated costs, realization timing and the discount rate; revisions of the estimated provisions are recognized in the same item of the Income Statement which previously included the provision or, when the liability relates to an asset, as a matching entry to the asset to which it refers.

EMPLOYEE BENEFITS

Short-term benefits are represented by salaries, wages, the relative social security contributions, compensation in lieu of holidays and incentives provided in the form of a bonus payable in twelve months after the reporting date. These benefits are accounted for as components of personnel cost in the period in which the work activity is provided.

Post-employment benefits are broken down into two types: defined contribution plans and defined benefit plans.

In defined contribution plans, social security contributions are recognized in the Income Statement when they are incurred, based on the relative nominal value.

Defined benefit plans

Defined benefit plans are represented by the TFR (employee severance indemnity) contributions accrued up to 31 December 2006 for the employees of the Group. These are valued in accordance with IAS 19 by independent actuaries, using the projected unit funding method.

This calculation consists in estimating the amount of benefit that an employee will receive at the expected retirement date, using demographic assumptions (such as, for example, death rate and personnel turnover rate) and financial assumptions (such as, for example, discount rate and future salary increases). The amount thus determined is discounted to the present value and re-proportioned based on the accrued length of service compared to the total length of service and represents a reasonable estimate of the benefits that each employee has already accrued because of his/her service. The discount rate used derives from the curve of rates on Markit iBoxx € Corporate AA 10+ bonds at year's end, with a similar maturity date to the bond held for employees.

Actuarial profits and losses emerging following the revaluations of net liabilities for defined benefit plans were immediately entered in the other items of the Statement of Comprehensive Income. Net interest and other costs of defined benefit plans are stated under profit/(loss) for the year.

Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the entity pays fixed contributions into a separate entity and has no legal or implicit obligation to pay further contributions. The contributions to defined contribution plans are recognized as an expense in profit or loss in the periods in which the employees provide their work. Contributions paid in advance are recorded as assets to the extent that the advance payment will result in a reduction in future payments or a refund.

TRADE PAYABLES

Trade payables are stated at the fair value of the initial consideration received in exchange and subsequently measured at amortized cost, using the effective interest method. Trade payables with due dates that fall under normal sales terms are not discounted to the present value.

CURRENT AND NON-CURRENT FINANCIAL LIABILITIES, TAX LIABILITIES AND OTHER LIABILITIES

Short- and long-term financial payables and other short- and long-term liabilities are initially recognized at fair value. The initial value is subsequently adjusted to take into account repayments of principal and the amortization of the difference between repayment amount and initial value. Amortization is performed on the basis of the internal effective interest rate, represented by the interest rate that aligns, on initial recognition, the present value of cash flows connected to the liability and the initial value (so-called amortized cost method). When there is a change in cash flows and it is possible to estimate them reliably, the value of payables is recalculated to reflect that change on the basis of the present value of the new cash flows and the internal rate of return initially determined.

The item "Tax liabilities" includes all liabilities to the Tax Authorities payable or offsettable in the short-term connected with direct and indirect taxes. Payables to employees and social security institutes, as well as payments on account from customers and accrued expenses and deferred income are classified under "Other current liabilities".

RECOGNITION OF REVENUES

Revenues are recognized at the fair value of the consideration received for the sale of products and services relating to the Group's ordinary operations.

Revenues are recognized to the extent that it is probable that the economic benefits will be achieved and the relative amount can be reliably determined. Revenues and income are entered in the financial statements net of returns, allowances, discounts and premiums, as well as the taxes directly connected with the sale of products or performance of services.

Revenues are accounted for as follows:

- a) Revenues from the sale of products are recognized when the risks and benefits connected with ownership of the assets are transferred to the purchaser; this moment generally coincides with the shipment date.
- b) revenues from services rendered (generally consisting of technical consultancy provided to third parties) are accounted for in the income statement on the basis of the percentage of completion at the date of the financial statements;
- c) revenues related to contract work in progress are recognized using the percentage of completion criterion. The percentage of completion is determined using the cost to cost method, calculated multiplying the total revenue expected by the percentage of progress, as a ratio between costs incurred and expected total costs. If the expected costs for the completion of the work exceed the total expected revenue, the final loss is fully recognized in the period in which it arises.

Revenues are recorded in the Income Statement only if it is likely that the Group will benefit from the cash flows associated with the transaction.

GRANTS

Grants from public and private bodies are recognized at fair value when it is reasonably certain that they will be received and the conditions for receiving them will be met.

Grants related to income (provided as immediate financial assistance to an entity or to cover expenses and losses incurred in a previous year) are fully recognized in the Income Statement when the above-mentioned conditions, necessary for their recognition, are met.

No capital contributions were obtained in the year in question.

COSTS

Costs are recognized in so far as it is possible to reliably determine that economic benefits will flow to the Group. Costs for services are recognized for the year in question at the moment when they are received.

For accounting purposes, leases and hire contracts are classified as operational if:

- the lessor retains a significant share of the risks and the benefits associated with the property,
- there are no purchase options at prices that do not reflect the presumable market value of the rented asset at the end of the period,
- the duration of the contract does not represent the greater part of the useful life of the leased or hired asset.

The related charges are stated on the Income statement on a straight-line basis distributed according to the duration of the underlying contracts.

DIVIDENDS

Dividends to be received by the Group from companies which are not subject to full consolidation are recognized on the Income Statement on the date on which the right to receive them matures.

FINANCIAL INCOME AND CHARGES

Income and charges of a financial nature are recognized on an accrual basis, on the basis of the interest accrued on the net value of the related financial assets and liabilities, using the effective interest method.

TAXES

Income taxes include current and deferred taxes. Income taxes are generally stated on the Income Statement, except when they refer to items directly accounted for in equity or in the general Income Statement. Current taxes are income taxes expected to be paid or received, calculated by applying the rate applicable at the date of the financial statements to the taxable income or tax losses for the year.

Deferred taxes are calculated using the so-called liability method on the temporary differences between the book values of assets and liabilities in the financial statements and their corresponding tax values. Deferred tax assets and liabilities are not stated on goodwill and on assets and liabilities which do not influence taxable income. Deferred taxes are calculated on the basis of the tax rate that is expected to be in force when the asset is realized or the liability is settled. Deferred tax assets (hereafter also called "prepaid taxes") are recognized only when it is likely that taxable profits sufficient to realize these assets will be generated in future years. Deferred tax assets and liabilities are offset only for homogeneous expiry dates, when there is a legal right to offset and when they refer to recoverable taxes due to the same tax authority. Income tax deriving from distribution of dividends is stated when the liability relating to their payment is recognized. Recoverability of deferred tax assets is checked at the end of each period, on the basis of plans duly approved by the Board of Directors and taking the tax consolidation indicated below into account, and any part for which recovery is unlikely is stated on the Income Statement.

The Italian companies of the Group have adhered to the national consolidation tax scheme pursuant to articles 117 to 129 of the Italian Consolidated Income Tax Act (T.U.I.R), with consolidation by the Parent Company. The adhesion was renewed in 2017 and is valid for the next three-year period.

CONVERSION OF ENTRIES INTO FOREIGN CURRENCY

The functional and presentation currency of Landi Renzo S.p.A. is the Euro (€). As required by IAS 21, transactions in foreign currency of each Group entity are initially recognized at the exchange rate in place on the date of the transaction. Monetary assets and liabilities in foreign currency are reconverted to the functional currency at the exchange rate in place on the closing date of the Financial Statements.

Non-monetary items valued at historical cost in foreign currency are converted using the exchange rate in force on the initial date that the transaction was recognized.

Non-monetary items measured at fair value are converted using the exchange rates at the date when fair value was determined.

The exchange differences realized at the time of collecting from debtors and paying creditors in foreign currency are entered in the income statement in the item exchange gain/losses.

EARNINGS PER SHARE

The Group determines the earnings per share based on IAS 33 - Earnings per share.

(a) Basic earnings per share

The basic earnings per share is calculated by dividing the profit (loss) pertaining to the Group shareholders by the weighted average of ordinary shares in circulation during the year, excluding treasury shares.

(b) Diluted earnings per share

The diluted earnings per share is calculated by dividing the profit (loss) pertaining to the Group shareholders by the weighted average of ordinary shares in circulation during the year, excluding treasury shares. To calculate the diluted earnings per share, the weighted average of shares in circulation is modified assuming the exercise by all assignees of rights with a potentially dilutive effect, while the profit (loss) pertaining to Group shareholders is adjusted to take into account any effects, net of taxes, of the exercise of such rights.

COMMUNICATION ON FINANCIAL INSTRUMENTS

In accordance with the provisions of Accounting Standard IFRS 7, supplementary information is supplied on the financial instruments in order to evaluate:

- the impact of the financial instruments on the statement of financial position, on the economic result and on the financial flows of the company;
- the nature and size of the risks deriving from financial instruments to which the company is exposed, as well as the methodologies with which such risks are managed.

USE OF ESTIMATES AND ASSESSMENTS

The preparation of Financial Statements in accordance with the IFRS (International Financial Reporting Standards) requires application of accounting standards and methods that are sometimes based on subjective assessments and estimates based, in turn, on past experience and assumptions that are considered reasonable and realistic given the circumstances. Application of these estimates and assumptions affects the amounts presented in the financial statements, such as the Statement of Financial Position, the Income Statement and the Statement of Cash Flows, and in disclosures provided.

Please note that the situation caused by the current economic and financial scenario has resulted in the necessity to make assumptions on future performance that are characterized by significant uncertainty. Therefore it cannot be excluded that results different to those estimated may be realized in the coming years. Such results could therefore require adjustments, that may even be considerable, which cannot obviously be either estimated or predicted at this stage, to the book value of the relative items.

The items on the financial statements that most require greater subjectivity on the part of the directors in producing the estimates and for which a change in the conditions underlying the assumptions used can have a significant impact on the financial statements are listed below:

- Valuation of fixed assets including shares in *joint ventures* and goodwill;

- Recoverability of development expenditure;
- Valuation of deferred tax assets;
- Valuation of provisions for bad debts and obsolete inventories;
- Valuation of employee benefits;
- Valuation of provisions for risks and charges.

The estimates and assumptions are reviewed periodically and the effects of each variation are immediately reflected on the Income Statement.

MOST IMPORTANT ACCOUNTING STANDARDS THAT REQUIRE A GREATER DEGREE OF SUBJECTIVITY

A description is provided below of the most significant accounting standards that require, more than the others, greater subjectivity on the part of the directors in producing the estimates and for which a change in the conditions underlying the assumption used may have a significant impact on the financial data of the Group.

Valuation of receivables

Trade receivables are adjusted with the relevant write-down fund in order to take account of their effective recoverable value. The determination of the amount of depreciation carried out requires the directors to make subjective evaluations based on the documentation and on the information available, also in relation to the solvency of the customer, as well as on experience and historical trends.

The continuation of the current economic and financial situation and its possible aggravation could lead to further deterioration in the financial conditions of the Group's debtors beyond that already taken into consideration prudentially in quantifying the write-downs recorded in the financial statements.

Valuation of goodwill and intangible assets in progress

In accordance with the accounting standards applied by the Group, goodwill and intangible assets in progress are subjected to annual verification (impairment test) in order to assess whether they have suffered a reduction in value, which is stated through a write-down, when the net book value of the CGU to which these items are allocated appears to be greater than its recoverable value (defined as the greater value between the value of use and the fair value of the same). The above mentioned value confirmation check necessarily requires subjective evaluations to be made based on the information available within the Group, and on the reference market outlook and historical trends. In addition, whenever it is supposed that a potential reduction in value could be generated, the Group determines said reduction using those evaluation techniques considered suitable. The same value tests and evaluation techniques are applied to intangible and tangible assets with a defined useful life when indicators exist that predict difficulties in recovering the corresponding net book value. The correct identification of elements indicative of the existence of a potential reduction in value as well as the estimates for determination of the reduction depend principally on factors

that can vary over time, even significantly, therefore influencing the evaluations and estimates made by the directors.

Provisions for risks

Establishing whether or not a current obligation (legal or implied) exists is in some cases difficult to determine. The directors assess such phenomena on a case by case basis, together with an estimate of the amount of the economic resources required in order to meet that obligation. When the directors consider that is merely possible that liabilities may arise, the risks are indicated in the appropriate information section on commitments and risks, without resulting in any allocation in the financial statements.

Defined benefit plans

The Group offers defined benefit plans to some of its employees. Using the services of experts and actuaries, management used various statistical assumptions and evaluation factors to calculate the charges and the current value of assets and liabilities relating to these plans. The assumptions relate to the discount rate, the expected return on the assets servicing the plan, the rates of future salary increases, demographic trends, the inflation rate and expected health costs. The actuaries consulted also use subjective factors, such as mortality and resignation rates.

Provision for product warranties

Based on product sales, the Group allocates provisions according to the costs estimated as likely to be incurred for product warranties. Management establishes the value of such provisions on the basis of historical information on the nature, frequency and average cost of operations carried out under warranty and on the basis of specific contractual agreements.

The Group constantly strives to improve the quality of its products and to minimize the burden deriving from operations under warranty.

Potential liabilities

The Group is subject to lawsuits regarding a number of disputes that were submitted to the jurisdiction of various States. Given the inherent uncertainty of these disputes, it is difficult to predict with certainty the resulting financial cost, or the time frame within which it will arise. The lawsuits and disputes against the Group derive primarily from complex legal problems, that are subject to varying degrees of uncertainty, considering the facts and circumstances involved in each dispute and the different laws applicable. To assess the risks deriving from potential liabilities of a legal nature correctly and prudentially, management periodically obtains information on the situation from its legal advisers. The Group establishes a liability in relation to such disputes when it considers it likely that a financial cost will occur and when the amount of the resulting losses can be reasonably estimated.

Valuation of closing inventories

Closing inventories of products with characteristics of obsolescence or slow turnaround are periodically subjected to tests for their correct valuation and are written down where the recoverable value thereof is less than the book value. The write-downs carried out are based, primarily, on assumptions and estimates of management deriving from its experience and the historical results achieved.

Valuation of deferred tax assets

The valuation of deferred tax assets is made on the basis of taxable income expected in future years and expected tax rates at the date when the temporary differences are expected to occur, insofar as they are considered applicable in the future. The measurement of such expected profits depends on factors that may change over time and have a significant impact, therefore, on the valuation of deferred tax assets.

Transactions with related parties

The Group deals with related parties under contractual conditions considered to reflect the arm's length conditions on the markets in question, taking account of the characteristics of the goods and services supplied and received.

D) RISK ANALYSIS

In accordance with the requirements of Accounting Standard IFRS 7, the following analysis is provided regarding the nature and extent of risks deriving from financial instruments to which the Group is exposed, as well as the methodologies with which such risks are managed.

The main risks are reported and discussed at the *Top Management* level of the Group in order to create the prerequisites for their hedging, and insurance and assessment of the residual risk.

Interest rate risk

The Group is exposed to the interest rate risk associated with both cash at hand and with medium to long term financing. The exposure refers mainly to the Euro zone. As regards exposure to the risk of interest rate volatility, note that the financial indebtedness with banks is regulated primarily by variable interest rates. Therefore, the financial management of the Group remains exposed to fluctuations in interest rates, not having, at the date of the present financial statements, subscribed to instruments covering the variability of the interest rates on loans contracted with the banks.

The recent economic and financial performance of the Group led to a reduction in the credit rating assigned by financial institutions, which limited access to sources of funding, as well as increased financial charges. Interest rate risks were measured using *sensitivity analysis* and the potential impacts of Euribor interest rate fluctuations on the financial statements at 31 December 2017 were analyzed with particular reference to cash and cash equivalents and to loans. The increase of 50 basis points on the Euribor, with all other variables remaining the same, would have produced an increase in financial costs for the Group of Euro 266 thousand in comparison to an increase in financial income equal to Euro 31 thousand.

Exchange risk

The Group sells part of its production and, although to a much lesser degree, also purchases some components also in Countries outside the Euro zone.

In relation to the exchange risk, it is reported that the amount of accounting balances expressed in currency other than the Euro is not considered significant compared to the total revenue of the Group, therefore the sensitivity analysis required by IFRS 7 is not provided as it is considered non-significant. The Group has not subscribed to instruments to cover exchange rate fluctuations and, in accordance with the company's policy up to this moment, no derivatives are subscribed solely for trading purposes. Therefore, the Group remains exposed to the exchange rate risk on the balances of the assets and liabilities in foreign currency at year end.

Credit risk

Credit risk is the risk that a customer or one of counterparts of a financial instrument causes a financial loss through failure to fulfil an obligation and derives primarily from trade receivables, from other financial assets and from guarantees that may have been given by the Group.

Trade receivables and other receivables

The Group normally deals with known and reliable customers. It is the Group's policy to subject customers requesting extended payment conditions to procedures for checking their credit class. This check also includes external assessments when available. Sales limits are established for each customer, which represent the maximum line of credit, beyond which direct approval by management is required. The credit limits are reviewed periodically and the customers who do not satisfy the creditworthiness conditions established by the Group can then make purchases only by payment in advance. In addition, the balance of the receivables is monitored on a fortnightly basis over the period, in order to minimize exposure to the risk of losses. Finally, regarding new customers and those not operating in EU countries, a letter of credit to guarantee successful collection is normally used, where possible.

The Parent Company uses non-recourse assignment of debts.

The Group allocates a provision for loss of value that reflects the estimated losses on trade receivables and on other creditors, made up primarily of individual write-downs of significant exposures.

Other financial assets

The credit risk regarding the other financial assets of the Group, including cash and cash equivalents, presents a maximum risk equal to the book value of these assets in the case of insolvency of the counterpart.

Guarantees

When required, the policies of the Group provide for the issue of financial guarantees in favour of subsidiary companies, but not for Joint Ventures. At 31 December 2017, the Group did not have any financial guarantees to third parties for a significant amount in place.

Liquidity risk

The liquidity risk is the risk that the Group may have difficulty in meeting obligations associated with financial liabilities.

On 27 March 2017, to cope with the economic and financial situation and the reduced liquidity levels, as highlighted in the Financial Report 2016, the Parent Company undersigned a financial structure Optimization Agreement for the whole Group, the guidelines of which were developed with the support of the Financial Advisor Mediobanca – Banca di Credito Finanziario S.p.A. In particular, this agreement regards the entire financial debt of the Company and the entire Group (i.e., that represented by the bond component and that represented by the bank component) and calls for, inter alia:

- (i) The movement of the maturity date of the debt of the Parent Company signatory to the agreement to 2022;
- (ii) The rescheduling of the debt of the Group, on the basis of repayment instalments of increasing amounts in line with the cash generation objectives laid out in the Business Plan;
- (iii) The review of financial covenants consistent with the performance laid out in the Business Plan;
- (iv) The maintenance of short-term lines in an amount consistent with the needs laid out in the Business Plan.

The agreement was also prepared in light of and consistent with the Group's Business Plan, the update of which was approved by the Board of Directors on 30 December 2016. The Business Plan was subject to an independent business review by KPMG Advisory S.p.A. in the capacity of independent third-party business advisor, and the results of that analysis and the relative documentation were considered by the Parent Company's management in developing and finalizing the Financial Optimization Project.

See the Directors' Report for all further information on risk factor analysis pursuant to art. 154-ter TUF (Finance Consolidation Act).

E) CONSOLIDATION SCOPE

The consolidation scope includes the Parent Company Landi Renzo S.p.A. and the companies in which it holds a direct or indirect controlling stake according to IFRS.

The list of equity investments included in the consolidation scope and the relative consolidation method is provided below.

Companies consolidated using the line-by-line method

Company Name	Registered Office	Currency	Shareholders' Funds as at 31 December 2017 (in units of currency)	% stake at 31 December 2017		% stake at 31 December 2016		Notes
				Direct investment	Indirect investment	Direct investment	Indirect investment	
Parent Company								
Landi Renzo S.p.A.	Caviago (RE) - Italy	EUR	11,250,000	Parent Company		Parent Company		
Companies consolidated using the line-by-line method								
Landi International B.V.	Utrecht (The Netherlands)	EUR	18,151	100.00%		100.00%		
Eurogas Utrecht B.V.	Utrecht (The Netherlands)	EUR	36,800				100.00%	(1)
Landi Renzo Polska Sp.Zo.O.	Warsaw (Poland)	PLN	50,000		100.00%		100.00%	(2)
LR Industria e Comercio Ltda	Espirito Santo (Brazil)	BRL	4,320,000	99.99%		99.99%		
Beijing Landi Renzo Autogas System Co. Ltd	Beijing (China)	USD	2,600,000	100.00%		100.00%		
L.R. Pak (Pvt) Limited	Karachi (Pakistan)	PKR	75,000,000	70.00%		70.00%		
Landi Renzo Pars Private Joint Stock Company	Tehran (Iran)	IRR	55,914,800,000	99.99%		99.99%		
Landi Renzo RO srl	Bucharest (Romania)	RON	20,890	100.00%		100.00%		
Landi Renzo USA Corporation	Wilmington - DE (USA)	USD	3,067,131	100.00%		100.00%		
AEB S.p.A.	Caviago (RE) - Italy	EUR	2,800,000			100.00%		(3)
AEB America s.r.l.	Buenos Aires (Argentina)	ARS	2,030,220	96.00%			96.00%	
Eighteen Sound S.r.l.	Reggio Emilia (Italy)	EUR	100,000				100.00%	(4)
Lovato Gas S.p.A.	Vicenza (Italy)	EUR	120,000	100.00%		100.00%		
Officine Lovato Private Limited	Mumbai (India)	INR	19,091,430		74.00%		74.00%	(5)
SAFE S.p.A.	San Giovanni in Persiceto (BO)	EUR	2,500,000			100.00%		(6)
Emmegas S.r.l.	Caviago (RE) - Italy	EUR	60,000	100.00%		100.00%		
Associates and subsidiaries consolidated using the equity method								
SAFE&CEC S.r.l.	San Giovanni in Persiceto (BO)	EUR	2,500,000	51.00%				(7)
Krishna Landi Renzo India Private Ltd Held	Gurgaon - Haryana (India)	INR	118,000,000	51.00%		51.00%		(7)

Detailed notes on investments:

(1) liquidated in January 2017

(2) held indirectly by Landi International B.V.

(3) merged in Landi Renzo S.p.A.

(4) sold in early December 2017

(5) held by Lovato Gas S.p.A.

(6) conferred into SAFE&CEC S.r.l. on 29 December 2017

(7) Company Joint Venture

Krishna Landi Renzo India Private LTD Held was consolidated using the equity method, due to the current system of governance of the company, which reflects a joint control agreement classifiable as a “joint venture” according to international accounting standards (IFRS 11).

Moreover, subsidiary Eurogas Utrecht B.V. was liquidated in January 2017, with no significant effects on the Group's consolidated balance sheets.

As explained above, the Group holds a 51% stake in the newco SAFE & CEC S.r.l., company born from the aggregation of SAFE S.p.A., previously owned 100% by the Group, and Clean Energy Compressor Ltd, parent company of the US group Clean Energy Fuels Corp. Although the Group holds the majority of the shares, by virtue of the company *governance* agreements the company is classifiable as a “*joint venture*” pursuant to international accounting standards (IFRS 11). For more details on this extraordinary transaction and the related accounting aspects refer to paragraph “General information and significant events in the year”.

Non consolidated companies

Taking into consideration their low degree of significance, the following companies were not consolidated:

- EFI Avtosanoat - Landi Renzo LLC *joint venture*, in which a 50% stake is held;
- Landi Renzo Venezuela CA., in which a 100% stake is held;
- Lovato do Brasil Ind Com de Equipamentos para Gas Ltda, in which a 100% stake is held.

F) EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The changes reported hereafter were calculated with reference to the equity and economic balances of the previous year. Following the above-mentioned sale of Eighteen Sound S.r.l. and its subsidiary Sound & Vision S.r.l., in early December 2017, and the transfer of the subsidiary SAFE S.p.A. to the newco SAFE & CEC S.r.l., on 29 December 2017, the data in the consolidated income statement is essentially comparable to that of the financial year closed on 31 December 2016 as respectively eleven months of the income statement of Eighteen Sound S.r. and its subsidiary and twelve months of SAFE S.p.A. were consolidated. The consolidated statement of financial position is on the other hand affected by these transactions and is not fully comparable to that of the previous financial year. To allow adequate comparability of the values, the most significant effects of these transactions on the financial statement items are indicated below.

1. SEGMENT REPORTING

Since the financial statements for the year closed at 31 December 2008, the Landi Renzo Group has adopted Accounting Standard IFRS 8 – Operating Segments. According to this Accounting Standard, the segments must be identified using the same procedures with which the internal management reporting is prepared for Top Management. Please see the “Segment Reporting” section of this Report for information by activity segment and by geographical area.

It is also reported that with the appointment of the new Chief Executive Officer, in the first half of 2017, the Group has engaged in an organizational evolution which has entailed the reorganization of activities into the following segments, previously considered on a unitary basis as a business segment for the manufacture of car systems and distribution:

- *Automotive;*
- *Gas Distribution and Compressed Natural Gas systems;*
- *Sound.*

As explained above, the Sound segment was sold in December 2017 while the Gas Distribution and Compressed Natural Gas systems sector was subject to company aggregation, completed on 29 December 2017, leading to the birth of the joint venture SAFE & CEC S.r.l. and consequent deconsolidation of the subsidiary SAFE S.p.A. For more details on these extraordinary transactions and the related accounting aspects refer to paragraph “General information and significant events in the year”.

For the purpose of data comparability, it is acknowledged that the economic data by segment include the contribution of 12 months of the Gas Distribution and Compressed Natural Gas Systems and 11 months of the Sound segment.

The following table provides an analysis of consolidated revenues by activity segment in comparison to 2016:

(Thousands of Euro)						
Distribution of revenues by segment	At 31/12/2017	% of revenues	At 31/12/2016 (*)	% of revenues	Change	%
Automotive segment	167,144	81.0%	145,325	78.8%	21,819	15.0%
Gas Distribution and Compressed Natural Gas segment	28,137	13.7%	26,269	14.3%	1,868	7.1%
Sound segment (**)	11,013	5.3%	12,648	6.9%	-1,635	-12.9%
Total revenues	206,294	100%	184,242	100%	22,052	12.0%

(*) The values at 31 December 2016 have been reclassified based on the segment Reporting adopted starting in the first half of 2017.

(**) data relating to the period January-November 2017

The revenues of the Landi Renzo Group have also been divided by geographical area, with reference to the location of the customers, while the value of the assets and investments is broken down by geographical area based on the location of the actual assets.

Consolidated revenues recorded in 2017 by the Landi Renzo Group are divided by geographical area as follows:

(Thousands of Euro)						
Geographical distribution of revenues	At 31/12/2017	% of revenues	At 31/12/2016	% of revenues	Change	%
Italy	40,441	19.6%	38,467	20.9%	1,974	5.1%
Europe (excluding Italy)	96,875	47.0%	83,508	45.3%	13,367	16.0%
America	31,847	15.4%	30,834	16.7%	1,013	3.3%
Asia and Rest of the World	37,131	18.0%	31,433	17.1%	5,698	18.1%
Total revenues	206,294	100%	184,242	100%	22,052	12.0%

As regards the geographical distribution of revenues, during the year the Landi Group realized 80.4% (79.1% in 2016) of its consolidated revenues abroad (47% in Europe and 33.4% outside Europe), confirming the strong international vocation that has distinguished it historically.

For a more detailed analysis of the revenues by geographical area, please refer to the section "Consolidated Results" in the Report on Operating Performance

The following table shows the values (in thousands of Euro) relating to assets divided by geographical area:

(Thousands of Euro)			
Total Assets	31/12/2017	31/12/2016	Change
Italy	151,300	174,137	-22,837
Europe (excluding Italy)	13,600	11,298	2,302
America	13,712	14,729	-1,017
Asia and the rest of the world	15,528	12,073	3,455
Total ASSETS	194,140	212,237	-18,097

The values (in thousands of Euro) relating to investments are shown below divided by geographical area:

(Thousands of Euro)			
Investments in Fixed Assets	31/12/2017	31/12/2016	Change
Italy	4,563	8,306	-3,743
Europe (excluding Italy)	297	528	-231
America	208	95	113
Asia and rest of the world	81	447	-366
Total	5,149	9,376	-4,227

NON-CURRENT ASSETS

2. LAND, PROPERTY, PLANT, MACHINERY AND OTHER EQUIPMENT

Tangible assets showed a total net decrease of Euro 15,917 thousand, from Euro 30,500 thousand at 31 December 2016 to Euro 14,583 thousand at 31 December 2017.

The changes in net tangible assets during the financial year 2016 are shown in detail below:

(Thousands of Euro)							
Net value	31/12/2015	Acquisitions	(Disposals)	Amortization amounts	Other changes	Variation in the consolidation area	31/12/2016
Land and buildings	2,546	315	0	-374	-32	0	2,455
Plant and machinery	15,036	1,422	-371	-3,282	1,461	0	14,266
Industrial and commercial equipment	11,928	1,820	-20	-3,934	568	0	10,362
Other tangible assets	2,964	480	-261	-932	960	0	3,211
Assets in progress and payments on account	2,890	375	0	0	-3,059	0	206
Total	35,364	4,412	-652	-8,522	-102	0	30,500

The changes in net tangible assets during the financial year 2017 are shown in detail below:

(Thousands of Euro)							
Net value	31/12/2016	Acquisitions	(Disposals)	Amortization amounts	Other changes	Variations in the consolidation area	31/12/2017
Land and buildings	2,455	42	-1,332	-395	-13	-34	723
Plant and machinery	14,266	438	-3,219	-2,943	-251	-792	7,499
Industrial and commercial equipment	10,362	1,286	-4,304	-2,868	-59	-469	3,948
Other tangible assets	3,211	500	-300	-909	-71	-191	2,240
Assets in progress and payments on account	206	213	-21	0	33	-192	173
Total	30,500	2,479	-9,176	-7,115	-427	-1,678	14,583

Significant decreases for the period relate primarily to:

- sale on 31 July 2017 with effect from 1 August 2017, of the company branch relating to the part of the Technical Centre destined to laboratory management to the company AVL Italia S.r.l., primary

world leader in the development of *powertrains*. This transaction, which led to the disposal of fixed assets worth Euro 7.7 million, was carried out at a sale price of Euro 5.7 million consequently determining the entry of net capital losses of Euro 2.0 million;

- sale of the building located in China owned by the subsidiary Beijing Landi Renzo Autogas System Co. Ltd, for a total of RMB 35 million, equal to Euro 4.5 million. The transaction led to a capital gains entry net of the relative ownership transfer tax equal to a counter-value of Euro 2.9 million.

The item Fixed Assets in Progress and Payments on Account includes some production plants still to be completed (Euro 173 thousand).

The column "Variation in the consolidation area" gives the effects on the item in question deriving from the sale of the Sound segment and the deconsolidation of the subsidiary SAFE S.p.A., transactions which are described above.

The column "Other Changes" includes mainly the accounting entries for industrial plant and machinery and equipment already in progress at 31 December 2016 and completed during the year and also, to a lesser extent, exchange differences in the period.

The main increases in tangible assets during the period in question relate to:

- Purchases and improvements to specific plants and machinery for Euro 438 thousand referring primarily to the Parent Company (Euro 265 thousand) and relating to new production lines;
- Purchase of new moulds and templates for Euro 578 thousand;
- Purchase of equipment for Euro 112 thousand;
- Purchase of testing and control instruments for Euro 592 thousand, relating primarily to functional component testing.

3. DEVELOPMENT EXPENDITURE

Changes in development expenditure during 2016 are shown in detail below:

(Thousands of Euro)						
	31/12/2015	Increases	Amortization and write-downs	Other changes	Variation in the consolidation area	31/12/2016
Development expenditure	8,404	4,546	-4,530	0	0	8,420

Changes in development expenditure during 2017 are shown in detail below:

(Thousands of Euro)

	31/12/2016	Increases	Amortization and write-downs	Other changes	Variation in the consolidation area	31/12/2017
Development expenditure	8,420	2,300	-4,602	153	-870	5,401

At 31 December 2017, development expenditure totalled Euro 5,401 thousand (Euro 8,420 thousand at 31 December 2016) and includes the costs incurred by the Group, for internal personnel, services rendered by third parties, the use of test rooms and prototype materials, for projects meeting the requirements of IAS 38 in order to be capitalized. In particular, costs capitalized during the financial year closed on 31 December 2017, for a total of Euro 2,300 thousand, refer to innovative projects not previously realized and aimed at new market segments, capable of expanding and optimizing the product range. The reduction of Euro 3,019 thousand is attributable to the amortizations of the period totalling Euro 4,602 thousand, only partially compensated by increases for new capitalizations for the period totalling Euro 2,300 thousand. Compared to the previous financial year, the increases for new capitalizations have decreased by Euro 2,246 thousand. Among these, the following main projects were developed by the parent company:

1. After Market Evolution Project (LPG and CNG) for development of new kits and components, including new reducers and new software for direct injection engines, and also adaptation of the product range to the new vehicle and engine models;
2. OEM Market Evolution Project (LPG and CNG) for development of new kits and components, including new reducers and injectors, and also adaptation of the product range to the new vehicle and engine models;
3. new (CNG) reducers project for heavy-goods vehicles;
4. project for a new range of self-calibrating Multipoint electronic control units.

New development activities began during the initial months of 2018 and they are expected to continue for the rest of the current year.

4. GOODWILL AND IMPAIRMENT TEST FOR CASH GENERATING UNITS TO WHICH IT WAS ALLOCATED

The item Goodwill totalled Euro 30,094 thousand, unchanged compared with 31 December 2016.

The following table analyses this amount broken down by CGU (cash generating unit):

(Thousands of Euro)

CGU	2017	2016	Change
Lovato Gas S.p.A.	27,721	27,721	0

Landi Renzo S.p.A. (ex-AEB S.p.A.)	2,373	2,373	0
Total	30,094	30,094	0

Impairment tests were carried out on both items of goodwill at 31 December 2017 and the results were approved by the Board of Directors of the Parent Company on 15 March 2018.

The recoverable value of goodwill was defined with respect to the value in use, intended as the current net value of operating cash flows (discounted accordingly using the DCF – Discounted Cash Flow method) deriving from the update of the 2018-2022 Strategic Plan approved by the Board of Directors on 13 September 2017.

The forecasts for 2018-2022 were prepared and approved by the governing bodies of the respective subsidiaries on the basis of the results achieved in previous years, management expectations on market trends and the operating costs rationalization dynamics envisaged by the group industrial plan approved by the Board of Directors of the Parent Company. For said impairment test, at the end of the period considered in the plan, a terminal value was estimated which reflects the value of the goodwill beyond the specific period, on the assumption that the companies will continue as a going concern.

Expected cash flows refer to current operating conditions and therefore do not include cash flows linked with intervening extraordinary events.

The discount rate was calculated as the weighted average cost of capital (“W.A.C.C.”), before tax, determined as the weighted average between the cost of equity, calculated using the CAPM (Capital Asset Pricing Model) method, and the cost of debt. The rate, as required by IAS 36, was determined with reference to the operating risk of the sector and the financial structure of a sample of listed companies comparable to the Group in terms of risk profile and sector of activity. The methods for calculating the main variables used to determine the value in use of the CGUs are described below.

Lovato Gas S.p.A. CGU

As the Company operates primarily abroad, the discount rate was calculated while taking into consideration the risks associated with the Company’s cash flows generated in the various geographical areas. In particular, the following geographical areas were considered: “East Europe”, “Asia and Middle East”, “South America”; “West Europe”, “Africa”, “North America” and “Rest of the World”. The following aspects were taken into consideration to determine the discount rate:

- The risk-free rate was constructed indirectly, i.e., based on the US ten-year Treasury Bond, to which the risk premium relating to those geographical areas was added; this value is equal to 2.3%;
- The unlevered beta parameter and the market target financial structure used for the releveraging of that parameter were identified on the basis of the same panel of comparable companies used for the other Cash Generating Units;

On the other hand, to determine the cost of debt, considering that the subsidiary company obtains funding exclusively in Italy, it was deemed reasonable to calculate that rate on the basis of parameters referring to the Italian market.

On the basis of the parameters set forth above, the weighted average cost of capital (W.A.C.C.) relating to Lovato Gas S.p.A. is therefore equal to roughly 10.7%.

Likewise, in order to reflect growth prospects in the different geographical areas in which Lovato Gas S.p.A. operates, the “g” growth rate was determined as the weighted average of the long-term inflation rates estimated by the International Monetary Fund for the individual geographical areas, resulting in a value of 3.9%.

CGU Landi Renzo S.p.A.

It is acknowledged that with accounting and tax effects at 1 January 2017, the subsidiary AEB S.p.A. was merged by incorporation into the Parent Company Landi Renzo S.p.A., consequently the goodwill linked to the AEB business was allocated to the latter. Given the full integration of the AEB business and its products in those of the parent company, the management has identified the parent company as CGU.

The following aspects were taken into consideration to determine the discount rate:

- The approach which considers the country risk implicit in the risk free rate was used in determining the discount rate;
- The risk free rate was determined using as a reference the average return on 10-year Italian government bonds for the period January - December 2017, equal to 2.3%;
- The unlevered beta parameter and the market target financial structure used for the releveraging of that parameter were identified on the basis of the same panel of comparable companies used for the other Cash Generating Units;

On the basis of the parameters set forth above, the weighted average cost of capital (W.A.C.C.) relating to Landi Renzo S.p.A. is therefore equal to roughly 9.5%.

The “g” growth rate was determined by taking as a reference the long-term inflation rate estimated by the International Monetary Fund (“World Economic Outlook”, October 2017) for Italy, resulting in a value of 3.0%.

The results of these tests did not bring to light any impairment of the goodwill of the Lovato Gas S.p.A. and Landi Renzo S.p.A. CGUs. (ex AEB).

The changes in the basic assumptions which make the recoverable value equal to the book value are shown below:

(Thousands of Euro)

Subsidiary company	Surplus of recoverable value over book value	Terminal value growth rate %	Discount rate including tax %
Lovato Gas S.p.A.	5,281	2.7	11.5
Landi Renzo S.p.A. (ex-AEB S.p.A.)	140,101	negative	33.8

5. OTHER INTANGIBLE ASSETS WITH FINITE USEFUL LIVES

Changes in other intangible assets with finite useful lives that occurred during 2016 are shown in detail below:

(Thousands of Euro)

	Net Value at 31/12/2015	Acquisitions	Amortization amounts	Other changes	Variation in the consolidation area	Net Value at 31/12/2016
Patents and intellectual property rights	1,086	234	-623	-52	0	645
Concessions and trademarks	21,610	184	-2,038	-42	0	19,714
Total	22,696	418	-2,661	-94	0	20,359

Changes in other intangible assets with finite useful lives that occurred during 2017 are shown in detail below:

(Thousands of Euro)

	Net Value at 31/12/2016	Acquisitions	Amortization amounts	Other changes	Variation in the consolidation area	Net Value at 31/12/2017
Patents and intellectual property rights	645	347	-528	-34	0	430
Concessions and trademarks	19,714	23	-1,596	-112	-2,690	15,339
Total	20,359	370	-2,124	-146	-2,690	15,769

Intangible assets decreased from Euro 20,359 thousand at 31 December 2016 to Euro 15,769 thousand at 31 December 2017, and include:

- under Patent Rights, the purchase of licenses for specific applications and supporting software for research and development activities, as well as the costs incurred for the purchase of SAP management software licenses;
- in the item Concessions and Trademarks, the net value of the trademarks owned by the Group. The item is represented mainly by the Lovato brand, for Euro 8,215 thousand, and AEB, for Euro 5,892 thousand,

in addition to other minor trade marks. These trade marks are entered in the accounts according to the *fair value* at the time of purchase according to evaluations made by independent professionals, net of the accumulated amortizations. These values are amortized over 18 years, the period deemed to represent the useful lifetime of the trademarks, with the exception of the minor trademarks, which are amortized over a useful lifetime of seven years.

The decrease in trade marks compared to the previous financial year is attributable not only to the amortizations in the year worth Euro 2,124 thousand, but also to the sale of Eighteen Sound S.r.l., the trade mark of which was entered in the accounts at a net accounting value on the date of sale of Euro 1.7 million, in addition to the deconsolidation of SAFE S.p.A., the trade mark of which was entered at the date of conferral at a net accounting value of Euro 390 thousand.

6. EQUITY INVESTMENTS CONSOLIDATED USING THE EQUITY METHOD

This item includes the value of the share belonging to the Landi Renzo Group, determined by the application of the net equity method, in the following *joint ventures*:

- Krishna Landi Renzo Prv Ltd, for Euro 76 thousand (Euro 43 thousand at 31 December 2016);
- SAFE & CEC S.r.l, for Euro 24,225 thousand, corresponding to 51% of the *fair value* of SAFE&CEC S.r.l. at the date of loss of control over SAFE S.p.A., as the initial entry value of the investment in the new joint venture.

The significant variation on the previous financial year is due to the establishment of the joint venture SAFE & CEC S.r.l., in which the Group holds a 51% stake following the conferral of 100% of SAFE S.p.A., aggregation transaction which took place on 29 December 2017 as described above.

7. OTHER NON-CURRENT FINANCIAL ASSETS

Other non-current financial liabilities totalled Euro 428 thousand (Euro 664 thousand at 31 December 2017) and include mainly:

- the share in the Joint Ventures EFI Avtosanoat Landi Renzo LLC in Uzbekistan and Landi Renzo Argentina S.r.l., not consolidated due to the negligible value and valued at purchase cost, rectified for any lasting loss in value, deemed representative of their *fair value*;
- some security deposits (totalling Euro 239 thousand);

8. OTHER NON-CURRENT ASSETS

Other non-current assets, totalling Euro 4,560 thousand at 31 December 2017 include the portion beyond the

financial year of the receivables from AVL Italia S.r.l. relative to the sale of the company branch relating to the part of the Technical Centre destined to laboratory management, the contract of which stipulates the receipt of 10 annual instalments and the charging of interests on the residual receivables at the end of each financial year.

9. DEFERRED TAX ASSETS

In application of IAS 12, deferred tax assets were offset with deferred tax liabilities as:

- (i) the entity has a right to set off current tax assets against current tax liabilities; and
- (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

This item is shown in detail below (thousands of Euro):

Deferred tax assets and liabilities	31/12/2017	31/12/2016	Change
Deferred tax assets	12,087	12,467	-380
Deferred tax liabilities	-4,071	-5,580	1,509
Total net deferred tax assets	8,016	6,887	1,129

The following table shows the values of the offsettable prepaid and deferred taxes and their movements from 31 December 2016 to 31 December 2017 (in thousands of Euro):

Deferred tax assets	Deferred tax assets 31/12/2016	Uses	Devaluation	Temporary changes	Other changes	Variation in the consolidation area	Deferred tax assets 31/12/2017
Goodwill and flat-rate tax	2,178	-626	0	23	0	-110	1,465
Temporary changes	4,535	-1,074	0	2,006	21	-568	4,920
Other deferred tax assets	768	0	0	3	0	-55	716
Tax losses	4,985	0	0	0	0	0	4,985
a) Total deferred tax assets	12,467	-1,700	0	2,032	21	-733	12,087
Offsettable deferred tax liabilities	Deferred tax liabilities 31/12/2016	Uses	Devaluation	Temporary changes	Other changes	Variation in the consolidation area	Deferred tax liabilities 31/12/2017
Adjustments for consolidation and IFRS compliance	146	-131	0	0	0	0	15
Contract completion evaluation	86	-86	0	0	0	0	0
Other temporary changes	410	-331	0	46	1	-13	113
Intangible assets	4,938	-475	0	0	0	-520	3,943
b) Total deferred tax liabilities	5,580	-1,023	0	46	1	-533	4,071
a-b) Total net deferred tax assets	6,887	-677	0	1,986	20	-200	8,016

In particular, prepaid net tax assets, totalling Euro 8,016 thousand (Euro 6,887 thousand at 31 December 2016), related both to temporary differences between the book values of assets and liabilities on the balance sheet and the corresponding tax values recognized and to the losses from the national consolidation tax scheme of years prior to 2017, totalling Euro 4,985 thousand. According to the forecasts in the Strategic Plan 2018-2022, the management has made a forecast for the same period of future taxable income of the companies included within the tax consolidation, to check the recoverability of prepaid tax credits linked to

tax losses. From the analysis it emerged that these credits are fully recoverable by 2022. The recoverability of these amounts in the indicated times is subject to the intrinsic risk of non-implementation inherent in the forecasts contained in the Strategic Plan.

In addition, as occurred in the previous financial year, for reasons of prudence the Group decided not to recognize any further provisions for deferred tax assets on tax losses for the year.

It is reported that, at 31 December 2017, the Group had tax losses that could be carried forward indefinitely exceeding Euro 51 million, for which deferred tax assets were not recognized.

At 31 December 2017 offsettable deferred tax liabilities totalled Euro 4,071 thousand (Euro 5,580 thousand at 31 December 2016), with a decrease of Euro 1,509 thousand, and are primarily related to temporary differences between the book values of certain tangible and intangible assets and the values recognized for tax purposes. The significant decrease is due mainly to the deconsolidation of the Sound segment.

CURRENT ASSETS

10. TRADE RECEIVABLES (including related parties)

Trade receivables (including trade receivables due from related parties), stated net of the related depreciation fund, are analysed by geographical segment as follows (Thousands of Euro):

(Thousands of Euro)			
Trade receivables by geographical area	31/12/2017	31/12/2016	Change
Italy	5,893	10,244	-4,351
Europe (excluding Italy)	7,611	10,620	-3,009
America	12,168	12,326	-158
Asia and Rest of the World	9,894	11,196	-1,302
Provision for bad debts	-6,448	-6,835	387
Total	29,118	37,551	-8,433

Trade Receivables totalled Euro 29,118 thousand at 31 December 2017, net of the Provision for Bad Debts equal to Euro 6,448 thousand, compared with Euro 37,551 thousand at 31 December 2016, a value net of a provision for bad debts of Euro 6,835 thousand.

The Group carried out assignment of trade receivables through *factoring* without recourse and, at 31 December 2017, the amount of assignments, for which there was *derecognition* of the related receivables, totalled Euro 19,471 thousand at 31 December 2017 (Euro 22,196 thousand at 31 December 2016).

Note that there are no non-current trade receivables or receivables secured by collateral guarantees.

Receivables from related parties totalled Euro 1,675 thousand compared with Euro 1,998 thousand at 31 December 2016 and related to supplies of goods to the Joint Venture Krishna Renzo India Private Ltd Held, to the Joint Venture EFI Avtosanoat Landi Renzo LLC and to the Pakistani company AutoFuels. All the transactions are carried out at arm's length conditions. For transactions with related parties, please refer to paragraph 43.

The provision for bad debts, calculated using analytical criteria on the basis of the data available, changed as follows:

(Thousands of Euro)

Provision for bad debts	31/12/2016	Allocation	Uses	Other changes	Variation in the consolidation area	31/12/2017
Provision for bad debts	6,835	632	-717	-107	-195	6,448

The allocations made during the period, necessary in order to adjust the book value of receivables to their assumed realization value, totalled Euro 632 thousand (compared with Euro 1,809 thousand for 2016). Uses during the year, on the other hand, totalled Euro 717 thousand, compared with Euro 1,019 thousand in the previous year.

In accordance with the requirements of Accounting Standard IFRS 7, the following table provides information on the maximum credit risk divided by past due credit classes, gross of the bad debt reserve:

(Thousands of Euro)

	Not past due	Past due			Bad debt provision
		0-30 days	30-60 days	60 and beyond	
Trade receivables at 31/12/2017	21,280	2,607	807	10,872	-6,448
Trade receivables at 31/12/2016	33,240	3,025	1,057	7,064	-6,835

It is considered that the book value of the item Trade Receivables approximates the fair value thereof.

11. INVENTORIES

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)

Inventories	31/12/2017	31/12/2016	Change
Raw materials and parts	24,772	37,136	-12,364
Work in progress and semi-finished products	7,331	8,009	-678
Finished products	12,012	12,959	-947

(Inventory write-down reserve)	-7,553	-8,232	679
Total	36,562	49,872	-13,310

Closing inventories at 31 December 2017 totalled Euro 36,562 thousand, net of the provision for inventories of Euro 7,553 thousand, and therefore record a slight decrease of Euro 13,310 thousand compared to 31 December 2017 when the value was Euro 49,872 thousand. This reduction relates not only to the logistic process optimization during the year but also to the sale of the subsidiary Eighteen Sound S.r.l. and the aggregation of SAFE & CEC, which led to the deconsolidation of these subsidiaries, with a total effect on stocks of Euro 10.2 million.

The Group estimated the amount of an inventory write-down reserve, the details of which are provided below, to cover risks of technical obsolescence of stocks and to align the book value to their presumed realization value

(Thousands of Euro)						
Inventory write-down reserve	31/12/2016	Allocation	Uses	Other changes	Variation in the consolidation area	31/12/2017
Inventory write-down reserve (raw materials)	6,172	527	-67	-121	-1,079	5,432
Inventory write-down reserve (finished products In progress)	691	0	-10	11	-7	685
Inventory write-down reserve (finished products)	1,369	91	-151	131	-4	1,436
Inventory write-down reserve – total	8,232	618	-228	21	-1,090	7,553

The provisions, totalling Euro 618 thousand, were recognized for inventory items with a slow turnaround. Uses, totalling Euro 228 thousand, relate to the disposal of obsolete mechanical components.

12. CONTRACT WORK IN PROGRESS

This item referred to orders for compressors of SAFE S.p.A. in progress at 31 December 2016, measured using the cost to cost method for a total amount of Euro 1,281 thousand. Following the deconsolidation of SAFE S.p.A., conferred to the joint venture SAFE & CEC S.r.l., consolidated using the net equity method, the balance of this item at 31 December 2017 was zero.

13. OTHER RECEIVABLES AND CURRENT ASSETS

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)			
Other receivables and current assets	31/12/2017	31/12/2016	Change
Tax assets	4,611	6,229	-1,618

Receivables from others	2,071	2,525	-454
Accruals and deferrals	847	1,328	-481
Total	7,529	10,082	-2,553

Tax assets

Tax assets consist primarily of VAT recoverable from the tax authorities for Euro 3,290 thousand, including Euro 565 thousand requested as a refund. The remaining part refers to income tax credit due to a surplus of advance payments made during the previous years by the Italian companies of the Group, as well as, on a residual basis, other specific tax credit attributable to the Group's foreign subsidiaries. The item also includes the amount due as an IRES refund relating to the IRAP deduction pursuant to Legislative Decree 201/2011 totalling Euro 379 thousand.

Receivables from others

At 31 December 2017, this item related to advances granted to suppliers, receivables from social security institutes, credit notes to be received and other receivables.

(Thousands of Euro)	31/12/2017	31/12/2016	Change
Receivables from others			
Advances to suppliers	716	945	-229
Receivables from social security institutes	22	226	-204
Credit notes to be received	401	759	-358
Other receivables	932	595	337
Total	2,071	2,525	-454

“Other receivables” include the short-term receivables from AVL Italia S.r.l. relating to the aforementioned sale of the company branch for a total of Euro 570 thousand.

Prepayments and accrued income

This item includes primarily prepaid insurance premiums, rentals, type approvals, membership contributions and hardware and software maintenance fees paid in advance.

14. CASH AND CASH EQUIVALENTS

This item, consisting of the positive balances of bank current accounts and cash in hand in both Euro and foreign currency, is shown in detail below (thousands of Euro):

(Thousands of Euro)			
Cash and cash equivalents	31/12/2017	31/12/2016	Change
Bank and post office accounts	17,738	16,406	1,332
Cash	41	78	-37
Total	17,779	16,484	1,295

Cash and cash equivalents at 31 December 2017 totalled Euro 17,779 thousand (Euro 16,484 thousand at 31 December 2016).

For analysis of the production and absorption of cash during the year, please refer to the consolidated Statement of Cash Flows.

It is considered that the book value of the item "Cash and cash equivalents", not subject to a significant risk of changes in value, is aligned with its fair value at the date of the financial statements.

The credit risk relating to Cash and cash equivalents is therefore deemed to be limited since the deposits are split over primary national and international banking institutions.

15. SHAREHOLDERS' EQUITY

The following table provides a breakdown of shareholders' equity items, consolidated at 31 December 2017:

(Thousands of Euro)			
Equity	31/12/2017	31/12/2016	Change
Share capital	11,250	11,250	0
Other reserves	41,983	59,400	-17,417
Profit (loss) for the period	4,139	-25,245	29,384
Total Group equity	57,372	45,405	11,967
Capital and Reserves attributable to minority interests	-232	436	-668
Profit (loss) attributable to minority interests	-437	-759	322
Total Minority Interests	-669	-323	-346
Total Consolidated Equity	56,703	45,082	11,621

The share capital stated in the Financial Statements at 31 December 2017 is the share capital fully subscribed and paid-up by the company Landi Renzo S.p.A. which is equal to nominal Euro 11,250 thousand subdivided into a total of 112,500,000 shares, with a nominal value equal to Euro 0.10.

The consolidated net equity at 31 December 2017 shows a positive variation of Euro 11,621 thousand compared to 31 December 2016, mainly following the future capital increase contribution by the controlling shareholder of Euro 8,867 thousand, and the profit for the period.

The other reserves are shown in detail below:

(Thousands of Euro)

Other reserves	31/12/2017	31/12/2016	Change
Legal Reserve	2,250	2,250	0
Extraordinary and Other Reserves	9,015	10,552	-1,537
Share Premium Reserve	30,718	46,598	-15,880
Total Other Reserves of the Group	41,983	59,400	-17,417

The balance of the Statutory Reserve at 31 December 2017 totalled Euro 2,250 thousand and remains unchanged since it has reached one fifth of the share capital. The extraordinary reserve and other reserves relate to the profit obtained by the Group in previous financial years and have decreased by Euro 1,537 thousand due to the combined effect of the future capital increase contribution by the controlling shareholder for Euro 8,867 thousand and the partial coverage of the losses of the previous financial year.

The Share Premium Reserve originated as a result of the floatation on the stock market for an amount equal to Euro 46,598 thousand, net of the related costs. This reserve was used during the financial year for Euro 15,880 thousand to partially cover the losses in 2016.

The minority interest represents the share of equity and result for the year attributable to minority interests of companies not owned in full by the Group.

NON-CURRENT LIABILITIES

Financial Optimization Agreement

It is reported that on 30 March 2017, the Meeting of Bondholders for the LANDI RENZO 6.10% 2015-2020 loan unanimously approved the Board of Directors' proposal regarding amendments to the Debenture Loan Regulations. In particular, inter alia, the Meeting approved the postponement of the maturity of the debenture loan from 15 May 2020 to 31 December 2022. The Meeting then approved a decrease in the coupon rate in relation to interest periods beginning from the payment date falling on 30 April 2017 (inclusive) until 30 June 2019 (exclusive) from the current 6.10% to 5.5% on an annual basis of the outstanding capital; the coupon rate will be paid every six months.

Following the changes mentioned above, the debenture loan was named "LANDI RENZO 6.10% 2015-2022", maintaining the same ISIN IT0005107237.

At the same time, the Group's financial structure Optimization Agreement was finalized, the guidelines of which were developed with the support of the financial advisor Mediobanca - Banca di Credito Finanziario S.p.A., after all banking institutions involved had signed it.

The agreement calls for, inter alia:

- (i) The postponement of the maturity date of the debt of the Parent Company and its subsidiaries signatories to the agreement to 2022;

- (ii) The rescheduling of the debt of the Group, on the basis of repayment instalments of increasing amounts in line with the cash generation objectives laid out in the Business Plan;
- (iii) The review of financial covenants consistent with the performance laid out in the Business Plan;
- (iv) The maintenance of short-term lines in an amount consistent with the needs laid out in the Business Plan.

The project was also prepared in light of and consistent with the Group's Business Plan, the update of which was approved by the Board of Directors on 30 December 2016. The Business Plan was subject to an independent business review by KPMG Advisory S.p.A. in the capacity of independent third-party business advisor, and the results of that analysis and the relative documentation were considered by the Group's management in developing and finalizing the Financial Optimization Project.

16. NON-CURRENT BANK LOANS

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)	31/12/2017	31/12/2016	Change
Non-current bank loans			
Loans and financing	27,213	18,741	8,472
Amortized cost	-307	-54	-253
Total	26,906	18,687	8,219

This item includes the medium/long term portion of bank debts for unsecured loans and finance. It totalled Euro 26,906 thousand at 31 December 2017, compared with Euro 18,687 thousand at 31 December 2016.

Please note that upon closure of the Financial Optimization Agreement, compared to 31 December 2016, the unsecured loans were reclassified from short to medium-term based on the updated contractual maturities which require half-yearly repayment in instalments of increasing amounts, from June 2018 to December 2022. The first measurement of financial covenants at 31 December 2017, confirmed the Group's compliance with these.

The structure of the debt is exclusively at a variable rate indexed to the Euribor and increased by a spread aligned with the normal market conditions; the loan currency is the Euro, except for the loans provided in United States dollars by the Bank of the West, totalling USD 4 million. The loans are not secured by real collateral and there are no clauses other than the early payment clauses normally envisaged by commercial practice.

The Annual repayment plan for the medium/long-term loans, based on the balances at 31 December 2017, is shown below.

Maturities	Annual loan repayment instalments post-agreement
2018	2,214
Total current	2,214
2019	4,088
2020	5,129
2021	7,205
2022	10,792
Total non-current	27,213
Total	29,427

The Group does not have any derivatives to hedge the loans.

It should be noted that, as indicated in point 2.h) of the Report on Corporate Governance and Ownership Structures, early settlement of certain loan agreements may be requested should there be a change of control of the Parent Company.

It is considered that the book value of non-current bank loans is aligned with their fair value at the date of the financial statements.

At 31 December 2017, the Group had the following further short-term credit facilities, available but not used:

(Thousands of Euro)	
Credit facilities	2017
Cash facility	4,212
Facility for various uses	22,428
Total	26,640

17. OTHER NON-CURRENT FINANCIAL LIABILITIES

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)			
Other non-current financial liabilities	31/12/2017	31/12/2016	Change
Payables to other financial backers	629	1,048	-419
Landi Renzo 6.10% 2015-2022 MT Debenture Loan	29,347	22,010	7,337
Amortized cost	-668	-246	-422
Total	29,308	22,812	6,496

At 31 December 2017, other non-current financial liabilities totalled Euro 29,308 thousand (Euro 22,812 thousand at 31 December 2016) and are formed of:

- Euro 629 thousand for the long-term portions of the three tranches of a loan granted to the Parent Company by Simest S.p.A. in September 2013, December 2014 and November 2015, to support a plan of expansion of business activities in the USA, for a resolved total amount of Euro 2,203 thousand, in accordance with specific requirements;
- Euro 28,679 thousand, net of the effect of the amortized cost evaluation, for the medium/long-term portion of the “LANDI RENZO 6.10% 2015-2022” Debenture Loan.

The repayment times of the debenture loan, originally issued in May 2015 for Euro 34 million, with a duration of five years, bullet repayment and a 6.10% gross fixed interest rate with six-monthly deferred coupon, were revised by the Bondholders' Meeting held on 30 March 2017, which voted in particular, inter alia, to postpone the maturity of the debenture loan from 15 May 2020 to 31 December 2022. The Meeting then approved a decrease in the coupon rate in relation to interest periods beginning from the payment date on 30 April 2017 (inclusive) until 30 June 2019 (exclusive) from the current 6.10% to 5.5% on an annual basis of the outstanding capital; the coupon rate will be paid every six months.

The coupon for the first four months of 2017 remained unchanged compared to the provisions of the Meeting of 30 December 2016 equal to an annual rate of 6.10% paid on the date of payment of 30 April 2017 in an amount of 2.03% (for the entitlement period from 31 December 2016 inclusive to 30 April 2017 excluded) while for the entitlement period from 30 April 2017 included to 30 June 2017 excluded the coupon was paid at 0.92% (equal to an annual interest rate of 5.5%). For the entitlement period from 30 June 2017 inclusive to 30 June 2019 exclusive, the half-yearly coupon rate will be 2.75% (equal to an annual interest rate of 5.5%).

The rates on the half-yearly coupons that will accrue from 30 June 2019 inclusive to the maturity date of the loan will be equal to 3.05% (equal to an annual interest rate of 6.1%) of the outstanding capital.

In addition, inter alia, again referring to the Group's financial structure Optimization Agreement, the Meeting of 30 March 2017 approved the amendment to the repayment plan, envisaging increasing instalment amounts on a half-yearly basis from 30 June 2018 to 31 December 2022.

The table below provides details of the new maturities on the nominal value of the Loan:

(Thousands of Euro)	2018	2019	2020	2021	2022	Total
Instalment amount repayment of the Debenture Loan Landi Renzo	2,613	3,920	5,227	7,840	12,360	31,961
Amortized cost	-240		-668			-908

It is considered that the BOOK value of other non-current financial liabilities is aligned with their fair value at the balance sheet date.

18. RESERVES FOR RISKS AND CHARGES

This item and changes in it are shown in detail below:

(Thousands of Euro)

Provisions for risks and charges	31/12/2016	Allocation	Utilization	Other changes	Variation in the consolidation area	31/12/2017
Provision for product warranties	3,356	1,780	-334	454	-354	4,902
Provision for lawsuits in progress	277	0	-75	0	0	202
Provisions for pensions	53	10	-4	0	-2	57
Other provisions	5,287	4,940	-2,996	-501	0	6,730
Total	8,973	6,730	-3,409	-47	-356	11,891

The item "Provision for product warranties" includes the best estimate of the costs related to the commitments that the Group companies have incurred as an effect of legal or contractual provisions, in relation to the expenses connected with providing product warranties for a fixed period of time starting from the sale thereof. This estimate was calculated with reference to the historical data of the Group, on the basis of specific contractual content.

At 31 December 2017 this provision totalled Euro 4,902 thousand. The provision, totalling Euro 1,780 thousand, was stated on the Income Statement under the item "Provisions, write-downs and other operating expenses".

Use of the risk provision totalling Euro 334 thousand is mainly due to the covering of warranty costs correlated with supplies of components in previous years.

The provision for lawsuits in progress, which relates to the probable payment for a dispute under way with a service provider declared bankrupt, was used in the amount of Euro 75 thousand to cover the first tranche of settlement costs incurred during the year.

The pensions reserve relates to the provision accrued for additional customer indemnity, including provisions for the year of Euro 10 thousand after utilization of Euro 4 thousand.

"Other funds" include mainly charges for compensation worth Euro 2,595 thousand and provisions made during the year totalling Euro 4,040 thousand, in relation to the forecast financial payments as voluntary retirement incentives to the Parent Company and the subsidiary Lovato S.p.A., following the agreements undersigned respectively in December 2017 and January 2018 with the social partners implementing the company restructuring plan aiming to achieve an organizational structure that is consistent with the current business of the Group and the Strategic Plan.

This item also includes a provision for a dispute with a primary customer of the Group for which negotiations are currently underway.

The uses in the year concern mainly the costs incurred in relation to non-recurrent trade agreements previously entered for Euro 2,963 thousand.

19. DEFINED BENEFIT PLANS FOR EMPLOYEES

This item includes the employee severance indemnity funds set up by the Italian companies in compliance with the regulations in force, as well as by the Pakistani and Iranian companies. The following is the overall change in defined benefit plans for employees (thousands of Euro):

(Thousands of Euro)						
Defined benefit plans for employees	31/12/2016	Allocation	Utilization	Other changes	Variation in the consolidation area	31/12/2017
Employee severance indemnity reserve	3,124	90	-312	70	-526	2,446

The provision of Euro 90 thousand relates to revaluation of the employee severance indemnity reserve at the end of the period, while use of Euro 312 thousand refers to the amounts paid to employees who ceased working for the Group. The other changes relate primarily to actuarial adjustment of the reserve. The amount of Euro 70 thousand, relating to discounting of defined benefit plans according to IAS 19, has been stated under the item Other Reserves and expressed in other components of the Statement of comprehensive income.

The main economic and financial assumptions used by the actuary in charge of estimates, methodologically unchanged since the previous year, are as follows:

Actuarial assumptions used for evaluations	31/12/2017
Demographic table	SIM AND SIF 2016
Discount rate (Euro Swap)	Curve of the Markit iBoxx € Corporate AA 10+ rates at 31/12/2017
Probability of request for advance	4%
Expected % of employees who will resign before pension	7.5% - 7.9%
Maximum % of TFR requested in advance	70%
Annual cost of living increase rate	1.5%

The sensitivity analysis performed on the above-indicated parameters, equal to +/- 0.50%, showed no significant effects.

20. DEFERRED TAX LIABILITIES

At 31 December 2017 deferred tax liabilities that do not meet the offsetting requirements for the purposes of IAS 12, par. 74, totalled Euro 423 thousand (Euro 514 thousand at 31 December 2016) with a decrease equal to Euro 91 thousand, and are primarily related to temporary differences between the book values of certain intangible assets and the values recognized for tax purposes.

The following table shows the values of the deferred tax liabilities and their movements from 31 December 2016 to 31 December 2017 (in thousands of Euro):

Deferred tax liabilities	Deferred tax liabilities 31/12/2016	Uses	Temporary changes	Other changes	Deferred tax liabilities 31/12/2017
Intangible assets	506	-31	0	-65	410
Other temporary changes	8	0	0	5	13
Total deferred tax liabilities	514	-31	0	-60	423

CURRENT LIABILITIES

21. BANK FINANCING AND SHORT-TERM LOANS

At 31 December 2017 this item, totalling Euro 7,741 thousand, compared with Euro 40,662 thousand in 2016, was made up of the current portion of existing loans and financing totalling Euro 2,093 thousand and use of short-term commercial credit lines totalling Euro 5,648 thousand.

The table below provides the detail of the Group's Net Financial Position:

(Thousands of Euro)	31/12/2017	31/12/2016
Cash and cash equivalents	17,779	16,484
Bank financing and short-term loans	-7,741	-40,662
Securities issued	-2,373	-9,614
Short-term loans	-419	-425
Net short term indebtedness	7,246	-34,217
Securities issued	-28,679	-21,764
Medium-Long term loans	-27,535	-19,735
Net medium-long term indebtedness	-56,214	-41,499
Net financial position	-48,968	-75,716

The net financial position at 31 December 2017 is negative for Euro 48,968 thousand compared with a negative net financial position at 31 December 2016 of Euro 75,716 thousand. This decrease is essentially

related to the future capital increase contribution by the controlling shareholder, the sale of the Sound segment, the sale of the Chinese building and the deconsolidation of the subsidiary SAFE S.p.A.

The group has no loans or financial receivables from related parties.

It should be noted that the short term net financial position also includes the current portion of other financial liabilities.

22. OTHER CURRENT FINANCIAL LIABILITIES

(Thousands of Euro)

Type	Lender	Expiry date	Balance as at 31/12/2017	Current portion
Loan	Simest	17/06/2020	1,048	419
Landi Renzo 6.10% 2015-2022 ST Debenture Loan		30/06/2022	31,052	2,373
Total			32,100	2,792

At 31 December 2017, other current financial liabilities totalled Euro 2,792 thousand (Euro 10,039 thousand at 31 December 2016) and are mainly formed of:

- Euro 2,373 thousand, net of the effect of the amortized cost evaluation, for the short-term portion of the "LANDI RENZO 6.10% 2015-2022" bonded loan (according to the maturity dates laid out in the loan regulations updated at 30 March 2017);
- Euro 419 thousand in the short-term portion of a subsidized loan disbursed by Simest S.p.A. to support a plan to expand trade in the USA.

23. TRADE PAYABLES (including related parties)

Trade payables at 31 December 2017 totalled Euro 47,829 thousand; at 31 December 2016, they totalled Euro 53,090 thousand, and therefore decreased by Euro 5,261 thousand, primarily linked to the deconsolidation of SAFE S.p.A. and Eighteen Sound S.r.l.

Trade payables (including trade payables to related parties) are shown divided by geographical area below (thousands of Euro):

(Thousands of Euro)

Trade payables by geographical area	31/12/2017	31/12/2016	Change
Italy	38,817	40,466	-1,649
Europe (excluding Italy)	7,140	9,263	-2,123
America	416	737	-321
Asia and Rest of the World	1,456	2,624	-1,168
Total	47,829	53,090	-5,261

Trade payables to related parties of Euro 4,654 thousand refer mainly to relations with the companies Gireimm S.r.l. and Gestimm S.r.l. for property lease payments.

All the related transactions are carried out at arm's length conditions. For transactions with related parties, please refer to note 43.

It is considered that the book value of the trade payables at the balance sheet date approximates their fair value.

24. TAX LIABILITIES

At 31 December 2017 tax liabilities, consisting of total amounts payable to the Tax Authorities of the individual States in which the companies of the Group are located, totalled Euro 3,003 thousand, compared with Euro 2,604 thousand at 31 December 2016.

25. OTHER CURRENT LIABILITIES

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)	31/12/2017	31/12/2016	Change
Other current liabilities			
Payables to welfare and social security institutes	1,625	2,136	-511
Other payables (payables to employees, to others)	3,290	3,098	192
Payments on account	109	1,198	-1,089
Accrued expenses and deferred income	74	218	-145
Total	5,098	6,650	-1,553

The item "Other Payables" includes mainly amounts due to employees for current and deferred remuneration, as well as to directors for fees.

The reduction in the item "Payments on account" relates principally to payments on account paid by customers on orders received, relating to the deconsolidation of the company SAFE S.p.A. which received considerable payments on account on supplies of conversion plants.

INCOME STATEMENT

26. REVENUES (including related parties)

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)			
Revenues from sales and services	31/12/2017	31/12/2016	Change
Revenues related to the sale of assets	198,854	177,322	21,532
Revenues for services and other revenues	7,440	6,920	520
Total	206,294	184,242	22,052

In the financial year which closed on 31 December 2017, the Landi Renzo Group achieved revenues on sales and services of Euro 206,294 thousand, a increase of 12.0% on the previous year. The item "Revenues for services and other revenues" includes revenues for services rendered and for technical consultancy supplied to third parties by the companies of the Group.

See the section "Analysis of revenues" of the Report on Operating Performance for further details on performance of revenues on sales.

27. OTHER REVENUES AND INCOME

(Thousands of Euro)			
Other revenue and income	31/12/2017	31/12/2016	Change
Grants	551	96	455
Other income	3,671	1,121	2,550
Total	4,222	1,217	3,005

Other revenues and income totalled Euro 4,222 thousand, compared with Euro 1,217 thousand at 31 December 2016.

Contributions have increased on the previous financial year following the greater tax credits for research and development and contributions from the Emilia Romagna Region and the MIUR for development projects relating to innovative components in the *automotive* sector obtained by the Group.

Other income refers mainly to the non-current capital gains on the sale of the building owned by the Chinese subsidiary Beijing Landi Renzo Autogas System Co Ltd, with a counter-value of Euro 2.9 million. As explained above, the sales contract was undersigned on 26 December 2017, and the whole amount of the price was received at the same time. The formal steps required by Chinese law to register the passage of ownership were completed on 12 January 2018. According to what provided for in the contract and

considering the referred local laws, the risks and benefits of the building were already transferred to the purchaser on the date of signature of the sales deed and the payment of the sales price on that date, consequently, according to the provisions of international accounting standards, the sales transaction and relative derecognition of the asset were accounted for in 2017.

28. COST OF RAW MATERIALS, CONSUMABLES AND GOODS AND CHANGE IN INVENTORIES

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)			
Costs of raw materials, consumables and goods and change in inventories	31/12/2017	31/12/2016	Change
Raw materials and parts	81,225	78,108	3,117
Finished products intended for sale	16,861	13,349	3,512
Other materials and equipment for use and consumption	2,441	2,779	-338
Total	100,527	94,236	6,291

Total costs for consumption of raw materials, consumables and goods (including the change in inventories) decreased from Euro 94,236 thousand at 31 December 2016 to Euro 100,527 thousand at 31 December 2017, an increase of Euro 6,291 thousand in connection with revenue trends.

29. COSTS FOR SERVICES AND USE OF THIRD PARTY ASSETS (including related parties)

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)			
Costs for services and use of third party assets	31/12/2017	31/12/2016	Change
Industrial and technical services	30,750	27,242	3,508
Commercial services	5,600	5,750	-150
General and administrative services	10,242	10,804	-562
Costs for use of non-Group assets	5,264	5,460	-196
Non-recurrent costs for services and use of third party assets	5,451	2,345	3,106
Total	57,307	51,601	5,706

Costs for services and the use of third party assets at 31 December 2017 totalled Euro 57,307 thousand, compared to Euro 51,601 thousand at 31 December 2016, with an increase of Euro 5,706 thousand.

The increase in costs for industrial and technical services relate mainly to the increase in outsourcing services and the increase in costs of specific technical consulting on automotive projects linked to the increase in Group turnover.

The costs for non-recurrent services relate mainly to costs incurred during the year for strategic consultancy by a Top Consulting Firm appointed to support the CEO and the company management in the preparation and implementation of an action plan for “Ebitda improvement”.

30. PERSONNEL EXPENSES

Personnel expenses are shown in detail below (thousands of Euro):

(Thousands of Euro)			
Personnel cost	31/12/2017	31/12/2016	Change
Wages and salaries	25,314	23,358	1,956
Social security contributions	7,628	7,684	-56
Expenses for defined benefit plans	1,641	1,731	-90
Temporary agency work and transferred work	2,970	2,737	233
Directors' remuneration	989	854	135
Non-recurrent personnel costs and expenditure	4,639	0	4,639
Total	43,181	36,364	6,817

In the year ending at 31 December 2017, personnel expenses totalled Euro 43,181 thousand, compared with personnel expenses of Euro 36,364 thousand in the year ending at 31 December 2016. It is acknowledged that the item in question includes Euro 4,040 thousand relating to the provision for company restructuring charges for a mobility and voluntary retirement incentive procedure involving the Parent Company and the subsidiary Lovato S.p.A. These reorganizations, notified to the social partners in 2017, were concluded with the signature of the relative agreements with the social partners respectively in December 2017 and January 2018.

Refer to the Report on Remuneration published pursuant to art. 123-ter of the Finance Consolidation Act for details of directors' remuneration.

The average and peak number of employees in the Group's workforce, divided by qualification, in the two years being analysed is as follows:

Number of employees	Average			Precise			
	31/12/2017	31/12/2016	Change	31/12/2017	31/12/2017 (*)	31/12/2016	Change
Executives and Clerical Staff	475	498	-23	365	433	484	-119

Operatives	293	299	-6	234	277	297	-63
Total	768	797	-29	599	710	781	-182

(*) Data including employees of SAFE S.p.A. and Eighteen Sound S.r.l. prior to deconsolidation

The decrease in the number of employees at the end of the year was the result of resignations, voluntary redundancy payments and the voluntary mobility procedure.

31. ACCRUALS, WRITE-DOWNS AND OTHER OPERATING EXPENSES

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)			
Accruals, write-downs and other operating expenses	31/12/2017	31/12/2016	Change
Other taxes and duties	357	255	102
Other operating expenses	1,082	1,248	-166
Provision for product warranties	1,780	372	1,408
Losses on receivables	51	176	-125
Bad debts	632	1,809	-1,177
Accruals, write-downs and other non-recurrent operating expenses	900	2,300	-1,400
Total	4,802	6,160	-1,358

The costs included in this item totalled Euro 4,802 thousand at 31 December 2017, compared with Euro 6,160 thousand at 31 December 2016, with an increase of Euro 1,358 thousand.

As regards provisions for funds for risks and charges refer to paragraph 18.

32. AMORTIZATION, DEPRECIATION AND IMPAIRMENT

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)			
Amortization, depreciation and impairment	31/12/2017	31/12/2016	Change
Impairment of goodwill and other intangible assets	0	305	-305
Amortization of intangible assets	7,090	7,191	-101
Depreciation of tangible assets	7,115	8,522	-1,407
Impairment of non-recurrent intangible assets	1,984	0	1,984
Total	16,189	16,018	171

Amortization, depreciation and impairment at 31 December 2017 totalled Euro 16,189 thousand, compared with Euro 16,018 thousand at 31 December 2016.

The amortization of intangible assets, of Euro 7,090 thousand, refers primarily to the amortization of development and design expenditure incurred by the Group, costs for the purchase and registration of trademarks, patents and licenses and software programs (applications and management) purchased over time.

Depreciation of tangible assets, totalling Euro 7,115 thousand, refers to plant and machinery, including automated lines, for production, assembly and testing of the products, to industrial and commercial equipment, to moulds for production, to testing and control instruments and to electronic processors.

The capital losses for sale of fixed assets refer wholly to the economic loss deriving from the sale of the company branch relating to the part of the Technical Centre destined to laboratory management to AVL Italia S.r.l.

33. FINANCIAL INCOME

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)	31/12/2017	31/12/2016	Change
Financial income			
Interest income on bank deposits	8	46	-38
Other income	83	71	12
Total	91	117	-26

Financial income includes, primarily, bank interest income and interest income on other financial assets, as well as other income of a financial nature. At 31 December 2017 they amount to Euro 91 thousand, compared with Euro 117 thousand at 31 December 2016.

34. FINANCIAL CHARGES

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)	31/12/2017	31/12/2016	Change
Financial expenses			
Interest on bank overdrafts and loans and loans from other financiers	3,437	4,035	-598
Bank charges and commissions	950	1,113	-163
Other operating expenses	9	13	-4
Total	4,396	5,161	-765

Financial charges essentially include bank interest charges, interest on bonds and non-recourse factoring, actuarial expenses deriving from discounting of the employee severance indemnity reserve and bank charges.

Financial charges at 31 December 2017 totalled Euro 4,396 thousand, compared with Euro 5,161 thousand at 31 December 2016, marking a decline of Euro 765 thousand.

35. EXCHANGE RATE GAINS AND LOSSES

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)	31/12/2017	31/12/2016	Change
Exchange gains and losses			
Positive exchange differences realized	976	1,468	-492
Positive exchange differences from valuation	734	1,105	-371
Negative exchange differences realized	-789	-819	30
Negative exchange differences from valuation	-2,794	-850	-1,944
Total	-1,873	904	-2,777

The Group realizes its revenues mainly in Euro.

The impact of exchange rate differences on the year was negative and totalled Euro 1,873 thousand, compared with exchange gains of Euro 904 thousand in 2016.

The change is primarily related to the depreciation of the Euro with respect to other currencies, particularly the US Dollar, the Pakistani Rupee and the Brazilian real, and mainly originates from the inter-company payables from the Brazilian and Pakistani companies.

At 31 December 2017, the Group did not have financial instruments hedging exchange rates.

In accordance with the requirements of Accounting Standard IFRS 7, financial income and expenses ascribed to the income statement are analysed below by individual financial instrument category:

thousands of Euro	31/12/2017 Book value	31/12/2016 Book value
Interest income on cash and cash equivalents	8	46
Interest expenses from financial liabilities valued at the amortized cost	-3,437	-4,035
Exchange gains (losses)	-1,873	904
Total	-5,302	-3,085

36. PROFIT (LOSS) ATTRIBUTABLE TO INVESTMENTS

This item, totalling Euro 21,142 thousand includes primarily:

- Euro 21.8 million, the non-recurrent capital gains from the aggregation of SAFE & CEC as described above, which lead to the loss of control over the company SAFE S.p.A., previous owned 100% by the Parent Company, and the accounting of the fair value of 51% of the stake in the newco SAFE & CEC;
- the item also includes the non-recurrent capital losses deriving from the sale of 100% of the stake in Eighteen Sound S.p.A. and its subsidiary Sound & Vision S.p.A., totalling Euro 0.7 million, not entered separately in the income statement as they are not significant and do not represent a "major line of business".

The fair value of 51% held by the Group in the newco SAFE & CEC S.r.l. was determined by a primary independent expert.

The item also includes the valuation of the net equity of the joint venture Krishna Landi Renzo India Private Ltd Held and Landi Renzo Argentina.

37. TAXES

The theoretical rate used for the calculation of taxes on the income of Italian companies is 27.9% of the taxable income for the year. The taxes of the foreign companies are calculated according to the rates applicable in the respective countries.

Income taxes are shown in detail below (thousands of Euro):

(Thousands of Euro)	31/12/2017	31/12/2016	Change
Taxes			
Current taxes	1,623	1,770	-147
Deferred (prepaid) taxes	-1,851	1,108	-2,959
Total	-228	2,878	-3,106

Taxes totalled Euro 228 thousand at 31 December 2017, compared with positive net taxes of Euro 2,878 thousand at 31 December 2016, marking a variation of Euro 3,106 thousand.

The item includes a tax refund obtained during the year by the subsidiary Landi Renzo Pakistan with a counter-value of Euro 422 thousand.

As the Group has overall tax losses, for which prepaid taxes were not entered, the reconciliation between the theoretical and actual rate is not reported as this information is not deemed significant.

Please note, as already highlighted in note 9 "deferred tax assets", that for reasons of prudence the Group decided not to recognize any provision for deferred tax assets on tax losses for the year.

Current taxes are shown in detail in the table below:

(Thousands of Euro)			
Current taxes	31/12/2017	31/12/2016	Change
IRES	587	1,060	-473
IRAP	149	245	-96
Current taxes of foreign companies	887	465	422
Total	1,623	1,770	-147

Income for current taxes recognized this year arose partly due to the recognition of the IRES tax benefit on the losses for the year.

The Italian companies of the Group have adhered to the National Tax Consolidation scheme since 2014, with consolidation by the Parent Company, with the agreement renewed in 2017 for the three-year period 2017-2019.

Deferred taxes amount to Euro 1,851 thousand and relate to deferred taxation on temporary differences.

38. EARNINGS (LOSS) PER SHARE

The “base” earnings/(loss) per share was calculated by relating the net profit/(loss) of the Group to the weighted average number of ordinary shares in circulation in the period (112,500,000). The profit per “base” share, which corresponds with the loss per “diluted” share, since there are no convertible bonds, was Euro 0.0368 at 31 December 2017, compared with a loss per share of Euro -0.2244 at 31 December 2016.

The result and the number of ordinary shares used for the purposes of calculating basic earnings per share, determined according to the methodology specified by IAS 33, are provided below.

Consolidated earnings/(loss) per share	31/12/2017	31/12/2016
Consolidated profit/(loss) for the period attributable to the Parent Company shareholders (Euro/thousand)	4,139	-25,245
Average number of shares in circulation	112,500,000	112,500,000
Basic earnings/(loss) per share for the period	0.0368	-0.2244

OTHER INFORMATION

39. INFORMATION ON THE FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

As required by IFRS 7 – Financial Instruments, the attached table provides a comparison between the book value and the fair value of all the financial assets and liabilities, divided according to the categories identified by the above-mentioned accounting standard.

(Thousands of Euro)	31/12/2017		31/12/2016	
	Book value	Fair value	Book value	Fair value
Receivables and other current assets	35,800	35,800	46,305	46,305
Cash and cash equivalents	17,779	17,779	16,484	16,484
Trade payables	52,853	52,853	59,522	59,522
Financial liabilities valued at the amortized cost - non-current portion	26,906	26,906	18,687	18,687
Financial liabilities valued at the amortized cost - current portion	10,533	10,533	50,701	50,701

Note that the book value of bank overdrafts and short-term loans and loans and financing approximates their fair value at 31 December 2017, since such classes of financial instruments are indexed at the Euribor market rate.

40. COMMITMENTS

At 31 December 2017, the only existing commitments are for rental expenses. The related details are provided below in thousands of Euro, taking account of the duration of the contract:

Category	within 12 months	from 1 to 5 years	over 5 years
Commitments for rental	3,003	5,985	176

41. OPERATING LEASES

The Group has existing operating leases related primarily to the Italian companies for real estate rental contracts, including with related parties, as mentioned below in paragraph 43, totalling Euro 4,040 thousand. No sureties were provided for said contracts and there are no kinds of restrictions associated with these operating leases. At year's end, the minimum future payments for operating leases to be paid totalled Euro 3,003 thousand within one year and Euro 6,161 thousand between one and five years.

42. ANALYSIS OF THE MAIN DISPUTES IN PROGRESS

At 31 December 2017, the Group is involved in proceedings, brought both by and against it, for non-significant amounts.

The directors of the Parent Company, taking into account the status of proceedings under way and supported by the opinion of its legal advisers, on a dispute with the bankruptcy proceedings of a supplier of services, decided to maintain the provision for risks of Euro 100 thousand on the financial statements.

43. TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties listed below include:

- relationships for supply of services between Gireimm S.r.l. and Landi Renzo S.p.A. for rent of the property used as the operational headquarters of the New Technical Centre of the Parent Company and the subsidiaries;
- relationships for supply of services between Gireimm S.r.l. and SAFE S.p.A. for rent on an industrial property in San Giovanni in Persiceto (BO), the headquarters of the Company;
- the service contracts between Gestimm S.r.l., a company in which a stake is held through the parent company Girefin S.p.A., and the company Landi Renzo S.p.A. for rent of the property used for the production of AEB branded products;
- the service contracts between Reggio Properties LLC, a company in which a stake is held through the parent company Girefin S.p.A., and Landi Renzo USA Corporation for the rents on properties used by the company;
- relationships for supply of services to the Pakistani company AutoFuels (held by a minority shareholder of the Pakistani subsidiary LR PAK), to the joint venture Krishna Landi Renzo India Private Ltd Held and to the joint venture EFI Avtosanoat-Landi Renzo LLC.

The Landi Renzo Group deals with related parties at conditions considered to be arm's length on the markets in question, taking account of the characteristics of the goods and the services supplied.

The following table summarizes the relationships with related parties (thousands of Euro):

(Thousands of Euro)

Incidence of Transactions with Related Parties	Total item	Absolute value for related parties	%	Related party
a) Incidence of the transactions or positions with related parties on balance sheet items				

Trade receivables	29,118	1,675	5.8%	Autofuels, Krishna Landi Renzo, EFI Avtosanoat
Trade payables	-47,829	-4,664	9.8%	Gireimm, Gestimm, Krishna Landi Renzo
b) incidence of the transactions or positions with related parties on income statement items				
Cost for services and use of third party assets	-57,307	-2,897	5.1%	Gireimm, Gestimm, Reggio Properties LLC, Krishna Landi Renzo, EFI Avtosanoat
Revenues from sales and services	206,294	554	0.3%	Krishna Landi Renzo, EFI Avtosanoat
Profit (loss) attributable to investments	21,142	21,818	103.2%	SAFE&CEC S.r.l.

Trade receivables from customers – related parties totalled Euro 1,675 thousand and relate to receivables from the Pakistani company AutoFuels (a wholly owned subsidiary of a minority shareholder of the subsidiary LR Pak, operating on the Pakistani market in the *After Market* channel), totalling Euro 318 thousand, receivables from the Joint Ventures Krishna Landi Renzo India Private Ltd Held for Euro 883 thousand and EFI Avtosanoat-Landi Renzo LLC for Euro 474 thousand.

Trade payables from related parties, totalling Euro 4,654 thousand, relate especially to payables in rent to Gireimm S.r.l. and Gestimm S.r.l.

Revenues from related parties, totalling Euro 554 thousand, relate to revenues from the joint ventures Krishna Landi Renzo India Private Ltd Held of Euro 183 thousand and EFI Avtosanoat-Landi Renzo LLC of Euro 371 thousand.

Costs for services and use of third party assets that refer to related parties totalled Euro 2,897 thousand and relate to the rental charges for the industrial property in Cavriago, headquarters of the Parent Company, and the part relating to the new Technical Centre, paid to Gireimm S.r.l.; the rental charge on the industrial property in Cavriago, used for the production of AEB branded products, paid to Gestimm S.r.l.; the rental charge on the industrial property in San Giovanni in Persiceto (BO) paid by Safe S.p.a. to Gireimm S.r.l., the rental charge on the *guesthouse* property paid by Landi Renzo USA Co. to Reggio Properties LLC plus the costs for approval services paid to Krishna Landi Renzo India Private Ltd Held.

The Profit (Loss) from investments includes the non-recurrent capital gains following the conferral of SAFE S.p.A. into the new joint venture SAFE&CEC S.r.l.

44. NON-RECURRING SIGNIFICANT EVENTS AND OPERATIONS

Pursuant to CONSOB communication no. 6064293 of 28 July 2006, concerning significant non-recurrent events or transactions during 2017, the existence of non-recurrent transactions is reported in the following notes:

- note 27 - Other income and revenues;
- note 29 - Costs for services and use of third party assets;
- note 30 - Staff costs;
- note 31 - Accruals, write-downs and other operating expenses;

- note 32 - Amortization, depreciation and impairment;
- note 36 - Profit (loss) attributable to investments;

broadly explained above in these Explanatory Notes and in the Management Report.

Also in light of Consob communication no. 0031948 of 10 March 2017, the above-mentioned transactions are deemed non-recurrent by the management given their specific nature and the infrequency with which they occur in the normal course of business.

45. POSITIONS OR TRANSACTIONS DERIVING FROM ATYPICAL AND/OR UNUSUAL TRANSACTIONS

Pursuant to CONSOB communication no. 6064293 of 28 July 2006, during the year no atypical and/or unusual transactions occurred outside the normal operation of the company that could give rise to doubts regarding the correctness and completeness of the information in the financial statements, conflicts of interest, protection of company assets, safeguarding of minority shareholders.

46. SIGNIFICANT EVENTS OCCURRING AFTER THE CLOSE OF THE FINANCIAL YEAR

Please refer to the analysis provided in the Directors' Report.

G) INFORMATION PURSUANT TO ART. 149-duodecies OF THE CONSOB ISSUER REGULATIONS

In compliance with the express provisions of the CONSOB Issuer Regulations - Art. 149 duodecies - payments, stated in the Group's 2017 Income Statement, made for services rendered by the auditing firm, and by entities belonging to its network, to the companies belonging to the Landi Renzo Group are listed below.

(Thousands of Euro)

Type of Services	Subject who provided the service	Recipient	Remuneration 2017
Auditing	PricewaterhouseCoopers S.p.A.	Parent Company	265
Other services	PricewaterhouseCoopers S.p.A. and PwC network	Parent Company	34

APPENDIX

STATEMENT OF RELATED PARTIES

Consolidated Income Statement at 31 December 2017, prepared in application of the requirements of Consob resolution 15519 of 27/06/2006 and Consob Communication no. DEM/6064293 of 28/07/2006.

(Thousands of Euro)

CONSOLIDATED INCOME STATEMENT	Notes	31/12/2017			31/12/2016		
			of which transactions with related parties	Weight %		of which transactions with related parties	Weight %
Revenues from sales and services	25	206,294	554	0.3%	184,242	391	0.2%
Other revenue and income	26	4,222			1,217		
Costs of raw materials, consumables and goods and change in inventories	27	-100,527			-94,236		
Costs for services and use of third party assets	28	-57,307	-2,897	5.1%	-51,601	-3,226	6.3%
Personnel cost	29	-43,181			-36,364		
Provisions, provision for bad debts and other operating expenses	30	-4,802			-6,160		
Gross Operating Profit		4,699			-2,902		
Amortization, depreciation and impairment	31	-16,189			-16,018		
Net Operating Profit		-11,490			-18,920		
Financial income	32	91			117		
Financial expenses	33	-4,396			-5,161		
Exchange gains (losses)	34	-1,873			904		
Profit (loss) attributable to investments	35	21,142	21,818	103.2%	-66		
Profit (Loss) before tax		3,474			-23,126		
Current and deferred taxes	36	228			-2,878		
Net profit (loss) for the Group and minority interests, including:		3,702			-26,004		
Minority interests		-437			-759		
Net profit (loss) for the Group		4,139			-25,245		
Basic earnings (loss) per share (calculated on 112,500,000 shares)	37	0.0368			-0.2244		
Diluted earnings (loss) per share		0.0368			-0.2244		

Statement of Financial Position at 31 December 2017, prepared in application of the requirements of Consob resolution 15519 of 27/06/2006 and Consob Communication no. DEM/6064293 of 28/07/2006.

(Thousands of Euro)								
ASSETS	Notes	31/12/2017			31/12/2016			
			of which transactions with related parties	Weight %		of which transactions with related parties	Weight %	
Non-current assets								
Land, property, plant, machinery and equipment	2	14,583			30,500			
Development expenditure	3	5,401			8,420			
Goodwill	4	30,094			30,094			
Other intangible assets with finite useful lives	5	15,769			20,359			
Equity investments valued using the equity method	6	24,301			43			
Other non-current financial assets	7	428			664			
Other non-current assets	8	4,560			0			
Deferred tax assets	9	8,016			6,887			
Total non-current assets		103,152			96,967			
Current assets								
Trade receivables	10	29,118	1,675	5.8%	37,551	1,998	5.3%	
Inventories	11	36,562			49,872			
Work in progress on orders	12	0			1,281			
Other receivables and current assets	13	7,529			10,082			
Cash and cash equivalents	14	17,779			16,484			
Total current assets		90,988			115,270			
TOTAL ASSETS		194,140			212,237			

(Thousands of Euro)

SHAREHOLDERS' EQUITY AND LIABILITIES	Notes	31/12/2017	of which transactions with related parties	Weight %	31/12/2016	of which transactions with related parties	Weight %
Equity							
Share capital	15	11,250			11,250		
Other reserves	15	41,983			59,400		
Profit (loss) for the period	15	4,139			-25,245		
Total Shareholders' Equity attributable to the Group		57,372			45,405		
Minority interests		-669			-323		
TOTAL SHAREHOLDERS' EQUITY		56,703			45,082		
Non-current liabilities							
Non-current bank loans	16	26,906			18,687		
Other non-current financial liabilities	17	29,308			22,812		
Provisions for risks and charges	18	11,891			8,973		
Defined benefit plans for employees	19	2,446			3,124		
Deferred tax liabilities	20	423			514		
Total non-current liabilities		70,974			54,110		
Current liabilities							
Bank financing and short-term loans	21	7,741			40,662		
Other current financial liabilities	22	2,792			10,039		
Trade payables	23	47,829	4,664	9.8%	53,090	4,171	7.9%
Tax liabilities	24	3,003			2,604		
Other current liabilities	25	5,098			6,650		
Total current liabilities		66,463			113,045		
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		194,140			212,237		



Certification on the consolidated financial statements pursuant to art. 154-bis of Legislative Decree 58/98

The undersigned Cristiano Musi, Chief Executive Officer, and Paolo Cilloni, Officer in charge of preparing the corporate financial statements, of Landi Renzo Group, state, having regard also to the provisions of art. 154-bis, paragraphs 3 and 4, of legislative decree No. 58 dated 24th February 1998:

- the adequacy of consolidated financial statements in relation to the relative corporate characteristics, and
- the effective application of the administrative and accounting procedures for the preparation of the consolidated financial statements during the course of 2017.

In addition, the undersigned state that the consolidated financial statements at 31st December 2017:

- have been prepared in accordance with the international accounting standards acknowledged by the European Union pursuant to regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19th July 2002;
- correspond to the results in the accounting books and records;
- are suitable to give a true and correct representation of the equity, economic and financial position of the issuer and of all the companies included in the scope of consolidation.

The report on operating performance includes a reliable analysis on trends and performance, on Company's financial situation and on Group Companies included in the consolidation, together with a description of the main risks and uncertainties which are exposed.

Cavriago, 15th March 2018

CEO
Cristiano Musi

The Officer in Charge
Paolo Cilloni



Independent Auditor's Report

in accordance with article 14 of Legislative Decree No.39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of
Landi Renzo SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Landi Renzo SpA (hereinafter, the "Company") and its subsidiaries (hereinafter, the "Landi Renzo Group"), which comprise the consolidated statement of financial position as of 31 December 2017, the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity, consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Landi Renzo Group as of 31 December 2017 and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of Landi Renzo SpA pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311



Key Audit Matters

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

Key Audit Matters

Auditing procedures performed in response to key audit matters

Recoverability of goodwill

See note 4 and the paragraph titled “Consolidation principles and valuation criteria” of the explanatory notes

As at 31 December 2017 goodwill recognised in the consolidated financial statements related to the cash generating units “Lovato Gas SpA” and “Landi Renzo SpA” amounted to Euro 27.7 million and Euro 2.4 million, respectively. The Company is required to verify, at least annually, the recoverability of goodwill recognised.

This was considered a key audit matter for the purpose of the statutory audit of the consolidated financial statements in consideration of the revenue growth forecasts included in the 2018-2022 business plan approved by the Company’s board of directors on 13 September 2017 (the “Business Plan”), compared to the significant reductions in revenue (and in the related cash flows) reported in prior years. The valuation models underlying the determination of the recoverable amounts of goodwill are based on subjective evaluations and estimates of management, having as a reference the Business Plan mentioned above. In particular, the valuation models of the recoverable amounts of goodwill and the assumptions included in those models are influenced by future market conditions as regards the expected cash flows, the perpetuity growth rate and the discount rate.

Our audit approach preliminarily consisted of understanding and evaluating the methods and procedures defined by the Company to determine the recoverable amounts of goodwill in compliance with IAS 36 as adopted by the European Union.

In particular, we verified the reasonableness of the methods adopted and of the main assumptions reflected in the valuation model (discounted cash flow method) also involving PwC network valuation experts. Moreover, we verified the reasonableness of the discount rate and perpetuity growth rate in relation to the valuation practices usually adopted for companies belonging to the industry in which the Landi Renzo Group operates.

We also verified that the cash flows included in the valuation models were consistent with those in the Business Plan.

Considering that forecast cash flows are a particularly significant parameter for the determination of the recoverable amounts of goodwill as they depend on future and uncertain events, we analysed the reasonableness of the estimated future cash flows through interviews with company management and the involvement of experts in the Automotive segment of the PwC network, who supported us in the critical

analysis of the reasonableness of the forecasts included in the Business Plan.

Furthermore, we verified the mathematical accuracy of the valuation models prepared by the Company.

Finally, we verified the disclosures provided by the Company in the consolidated financial statements about the method adopted to determine the recoverable amounts of goodwill and the results of the valuations performed.

Recoverability of deferred tax assets

See note 9 and the paragraph titled “Consolidation principles and valuation criteria” of the explanatory notes

Deferred tax assets recognised in the consolidated financial statements as of 31 December 2017 amounted to Euro 12.1 million, partially offset by deferred tax liabilities equal to Euro 4.1 million, giving a net deferred tax asset equal to Euro 8 million. Deferred tax assets relate for Euro 7.1 million to temporary differences between the book values of assets and liabilities recognised in the financial statements and the corresponding tax values, and for Euro 5 million to prior tax losses. The recoverability of deferred tax assets was considered to be a key audit matter for the purpose of the statutory audit of the consolidated financial statements in consideration of the growth forecasts contained in the 2018-2022 business plan approved by the Company’s board of directors on 13 September 2017 (the “Business Plan”) compared to the significant reductions in revenues from sales (and in the related taxable income) reported in prior years, as well as due to the complexity of the evaluation of the recoverability of these receivables which is closely related to the achievability of the Business Plan targets.

Our audit procedures preliminarily included understanding and evaluating the procedures adopted by the Company to verify the recoverability of deferred tax assets.

We carried out an in-depth analysis of deferred tax assets related to prior tax losses as their recoverability, unlike the tax assets related to tax temporary differences, is closely related to the existence of future taxable income and, therefore, to the achievement of the prospective results included in the Business Plan.

We obtained and verified details of deferred tax assets based on the jurisdictions of the different countries in which the Landi Renzo Group operates, which relate for Euro 12 million to Italian subsidiaries included in the tax consolidation scheme of Landi Renzo SpA.

We obtained the analysis performed by the Company of the recoverability of deferred tax assets closely related to the existence of future taxable income of the Landi Renzo Group for the period 2018-2022, which are based on the net results included in the Business Plan.

We verified the reasonableness of the net results included in the Business Plan through

interviews with company management and the involvement of PwC network experts in the Automotive segment, who supported us in the critical analysis of the reasonableness of the forecasts in the Business Plan.

Finally, we verified the disclosures provided by the Company in the financial statements about the elements supporting the recoverability of deferred tax assets.

Accounting treatment and valuation of investment in SAFE & CEC Srl

See notes 6 and 36 and the paragraph titled “General information and significant events in the year” of the explanatory notes

On 29 December 2017, Landi Renzo SpA entered into an agreement with Clean Energy Fuels Corporation for the combination of SAFE SpA, a subsidiary of Landi Renzo SpA, and Clean Energy Compression, a subsidiary of Clean Energy Fuels Corporation. The business combination was carried out through the establishment of a newco called SAFE & CEC Srl (hereinafter also the “NewCo”), and the subsequent contribution to it of the equity investments in SAFE SpA and Clean Energy Compression, resulting in Landi Renzo SpA holding 51% of SAFE & CEC Srl and Clean Energy Fuels Corporation holding the remaining 49%. Following an analysis carried out also with the support of an accounting expert, the Company concluded that the governance of SAFE & CEC Srl, regulated by a specific shareholders’ agreement, reflects a joint arrangement classified as a joint venture pursuant to IFRS 11 as adopted by the European Union. Further to the loss of control in SAFE SpA by Landi Renzo SpA, in the consolidated financial statements the Company adopted the following accounting treatment:

- i) Derecognition of the assets and liabilities of SAFE SpA;
- ii) Initial recognition of the 51% interest in SAFE & CEC Srl at the fair value at the date of the

Our audit approach preliminarily consisted of understanding the analysis performed by the Company of the classification of the investment in SAFE & CEC Srl as a joint venture, pursuant to IFRS 11 as adopted by the European Union, through a critical analysis of the accounting opinion obtained by Landi Renzo SpA and also involving PwC network experts in the interpretation and application of International Financial Reporting Standards.

Moreover, we verified the reasonableness of the methods adopted and the main assumptions reflected in the valuation model (discounted cash flow method) adopted by the independent expert appointed by the Company to determine the fair value of SAFE & CEC Srl at the date of the loss of control in SAFE SpA, also through the involvement of PwC network valuation experts. In particular, we verified the reasonableness of the discount rate, of the perpetuity growth rate and of the risk premium for the execution of the 2018-2022 business plan of SAFE & CEC Srl (the “Business Plan”) compared to the valuation practices usually adopted for companies belonging to the industry of the NewCo.

-
- loss of control in SAFE SpA determined in an appraisal report prepared by an independent expert appointed by the Company;
- iii) Recognition of a gain on disposal equal to about Euro 22 million, as the difference between 51% of the fair value of the NewCo, corresponding to the initial book value as a joint venture, and the net book value of the assets and liabilities of the subsidiary SAFE SpA at the date of deconsolidation.

This was considered a key audit matter for the statutory audit of the consolidated financial statements in consideration of the significant impact on the income statement of the Landi Renzo Group, the complexity of the analysis of the accounting treatment and of the determination of the fair value of SAFE & CEC Srl at the date of the loss of control in SAFE SpA, based on management's subjective evaluations and estimates.

Considering that forecast cash flows are a particularly significant parameter for the determination of the fair value of SAFE & CEC Srl, as they depend on future and uncertain events, we analysed the reasonableness of the estimated future cash flows through interviews with company management and with the advisors employed by the Company to prepare the Business Plan, also through the involvement of PwC network experts in the Automotive segment, who supported us in the critical analysis of the reasonableness of the forecasts included in the NewCo's Business Plan.

Finally, we verified the disclosures provided by the Company in the consolidated financial statements about the reasons underlying the classification of the investment in SAFE & CEC Srl as a joint venture, the method adopted to determine the fair value of 51% of the investment in SAFE & CEC Srl and the accounting treatment adopted in the deconsolidation of the subsidiary SAFE SpA.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Landi Renzo Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, management uses the going concern basis of accounting unless management either intends to liquidate Landi Renzo SpA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the Landi Renzo Group's financial reporting process.



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

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

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Landi Renzo Group's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- We concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Landi Renzo Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Landi Renzo Group to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Landi Renzo Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and



performance of the Landi Renzo Group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

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

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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



Additional Disclosures required by Article 10 of Regulation (EU) No 537/2014

On 29 April 2016, the shareholders of Landi Renzo SpA in general meeting engaged us to perform the statutory audit of the Company's and the consolidated financial statements for the years ending 31 December 2016 to 31 December 2024.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/2010 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

Management of Landi Renzo SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Landi Renzo Group as of 31 December 2017, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the Landi Renzo Group as of 31 December 2017 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of the Landi Renzo Group as of 31 December 2017 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/2010, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.



Statement in accordance with article 4 of Consob's Regulation implementing Legislative Decree No. 254 of 30 December 2016

Management of Landi Renzo SpA is responsible for the preparation of the non-financial statement pursuant to Legislative Decree No. 254 of 30 December 2016. We have verified that management approved the non-financial statement.

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016, the non-financial statement is the subject of a separate statement of compliance issued by ourselves.

Parma, 30 March 2018

PricewaterhouseCoopers SpA

Signed by

Massimo Rota
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers.



Separated Financial Statement at 31 December 2017 Landi Renzo S.p.A.

Statement of Financial
Position

Income statement

Statement of Comprehensive
Income

Statement of Cash Flow

Statement of Changes in
Shareholders' Equity

Explanatory Notes

APPENDIX

Certification of the separated financial
statements pursuant to Art. 154-bis of
Legislative Decree 58/98

Report of the Auditing Company

Report of the Board of Statutory
Auditors to the Shareholders' meeting

Landi Renzo S.p.A.

STATEMENT OF FINANCIAL POSITION *

(Euro)			
ASSETS	Notes	31/12/2017	31/12/2016
Non-current assets			
Land, property, plant, machinery and equipment	2	9,964,851	18,992,782
Development expenditure	3	4,953,932	5,822,036
Goodwill	4	2,372,845	0
Other intangible assets with finite useful lives	5	6,483,969	657,850
Investments in subsidiaries	6	56,013,238	102,383,265
Equity investments in associated companies and joint ventures	7	24,473,316	214,958
Other non-current financial assets	8	395,874	340,274
Other non-current assets	9	4,561,430	1,066
Deferred tax assets	10	7,751,453	8,102,793
Total non-current assets		116,970,908	136,515,024
Current assets			
Trade receivables	11	12,799,945	10,360,249
Receivables from subsidiaries	12	13,434,065	7,274,896
Inventories	13	20,271,041	14,412,905
Other receivables and current assets	14	5,179,972	2,091,214
Cash and cash equivalents	15	7,225,430	4,185,332
Total current assets		58,910,453	38,324,596
TOTAL ASSETS		175,881,361	174,839,620
SHAREHOLDERS' EQUITY AND LIABILITIES			
	Notes	31/12/2017	31/12/2016
Equity			
Share capital	16	11,250,000	11,250,000
Other reserves	16	38,032,481	61,857,026
Profit (loss) for the period	16	1,938,986	-28,985,861
TOTAL SHAREHOLDERS' EQUITY		51,221,467	44,121,165
Non-current liabilities			
Non-current bank loans	17	23,338,908	13,653,090
Other non-current financial liabilities	18	32,257,572	25,861,927
Provisions for risks and charges	19	9,012,497	6,313,602
Defined benefit plans for employees	20	1,999,508	1,471,069
Total non-current liabilities		66,608,485	47,299,688
Current liabilities			
Bank financing and short-term loans	21	6,129,157	26,572,038
Other current financial liabilities	22	2,792,482	10,033,054
Trade payables	23	35,924,139	23,631,251
Payables to subsidiaries	24	8,391,553	19,951,986
Tax liabilities	25	1,153,057	829,577
Other current liabilities	26	3,661,021	2,400,861
Total current liabilities		58,051,409	83,418,767
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		175,881,361	174,839,620

* Pursuant to Consob resolution no. 15519 dated 27 July 2006, the effects of relations with related parties on the statement of financial position are shown in Note 44 and in the specific table in annex.

* This table includes data from the merger by incorporation of the subsidiary A.E.B. S.p.A.

INCOME STATEMENT *

(Euro)		31/12/2017	31/12/2016
Revenues from sales and services	27	111,073,954	72,818,797
Other revenue and income	28	915,334	640,308
Costs of raw materials, consumables and goods and change in inventories	29	-53,624,202	-39,620,622
Costs for services and use of third party assets	30	-35,903,190	-22,956,348
Personnel cost	31	-24,632,353	-16,453,241
Provisions, provision for bad debts and other operating expenses	32	-2,577,608	-3,571,541
Gross Operating Profit		-4,748,065	-9,142,647
Amortization, depreciation and impairment	33	-11,270,976	-8,705,745
Net Operating Profit		-16,019,041	-17,848,392
Financial income	34	201,481	30,897
Income on equity investments	35	21,232,561	1,112,693
Financial expenses	36	-3,641,463	-4,041,953
Expenses from investments	37	-58,000	-9,161,915
Exchange gains (losses)	38	-1,298,666	379,366
Profit (Loss) before tax		416,872	-29,529,304
Taxes	39	1,522,114	543,443
Profit (loss) for the year		1,938,986	-28,985,861

* Pursuant to Consob resolution no. 15519 dated 27 July 2006, the effects of relations with related parties on the income statement are shown in Note 44 and in the specific table in annex.

* This table includes data from the merger by incorporation of the subsidiary A.E.B. S.p.A.

STATEMENT OF COMPREHENSIVE INCOME

(Euro)			
		31/12/2017	31/12/2016
Net profit (loss) for the Group and minority interests:		1,938,986	-28,985,861
<i>Gains/losses that will not be subsequently reclassified in the income statement</i>			
Remeasurement of defined employee benefit plans (IAS 19)	20	-79,056	-57,088
Total gains/losses that will not be subsequently reclassified on the income statement		-79,056	-57,088
Profits/Losses recorded directly to Shareholders' Equity net of tax effects		-79,056	-57,088
Total Statement of Comprehensive Income for the period		1,859,930	-29,042,949

STATEMENT OF CASH FLOWS

(Thousands of Euro)

	31/12/2017 (*)	31/12/2016
Financial flows deriving from operating activities		
Profit (loss) for the year	1,939	-28,986
<i>Adjustments for:</i>		
Net capital loss from disposal	1,984	0
Depreciation of property, plant and equipment	4,574	4,810
Amortization of intangible assets	4,713	3,896
Impairment loss on receivables	139	777
Net financial expenses	4,739	3,632
Net income/charges from equity investments	-21,175	8,049
Income tax for the year	-1,522	543
	-4,609	-7,279
<i>Changes in:</i>		
inventories	553	4,511
Trade receivables and other receivables	2,323	6,431
Trade payables and other payables	6,015	3,302
Provisions and employee benefits	1,680	966
Cash generated from operations	5,962	7,931
Interest paid	-3,721	-3,448
interest received	35	13
Net cash generated from operating activities	2,276	4,496
Financial flows from investments		
Dividends cashed	0	1,113
Proceeds from the sale of property, plant and equipment	663	154
Receipts from sale of shares	6,788	
Purchase of property, plant and equipment	-1,174	-1,891
Purchase of intangible assets	-316	-223
Loans to subsidiary companies	-1,536	
Development expenditure	-1,910	-3,018
Net cash absorbed by investment activities	2,515	-3,865
Financial flows from financing activities		
Proceeds from future share capital increase contributions	8,867	0
Bond repayments	0	-2,040
Disbursements (reimbursements) of medium/long-term loans	-755	-17,201
Cash contribution from merger of A.E.B.	987	0
Changes in short-term bank debts	-10,850	8,127
Net cash generated (absorbed) by financing activities	-1,751	-11,114
Net increase (decrease) in cash and cash equivalents	3,040	-10,483
Cash and cash equivalents as at 1 January	4,185	14,668
Cash and cash equivalents at 31 December	7,225	4,185

(*) Variations in net working capital entered in the financial flows deriving from operations were determined net of the contribution from the merger of the subsidiary AEB S.p.A. to represent the effective financial flows in the year.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Thousands of Euro)

	Share capital	Legal Reserve	Extraordinary and Other Reserves	Share Premium Reserve	Future share capital increase contribution	Result for the year	Equity
Balance as at 31 December 2015	11,250	2,250	50,768	46,598	0	-37,702	73,164
Result for the year						-28,986	-28,986
Actuarial profits/losses (IAS 19)			-57				-57
Total comprehensive profits/losses	0	0	-57	0	0	-28,986	-29,043
Allocation of profit			-37,702			37,702	0
Total effects deriving from transactions with shareholders	0	0	-37,702	0	0	37,702	0
Balance as at 31 December 2016	11,250	2,250	13,009	46,598	0	-28,986	44,121
Result for the year						1,939	1,939
Actuarial profits/losses (IAS 19)			-79				-79
Total comprehensive profits/losses	0	0	-79	0	0	1,939	1,860
Allocation of profit			-13,106	-15,880		28,986	0
Future share capital increase contribution					8,867		8,867
Merger of A.E.B.			-3,626				-3,626
Total effects deriving from transactions with shareholders	0	0	-16,732	-15,880	8,867	28,986	5,241
Balance as at 31 December 2017	11,250	2,250	-3,803	30,718	8,867	1,939	51,221

EXPLANATORY NOTES TO THE SEPARATE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

A) GENERAL INFORMATION AND SIGNIFICANT EVENTS IN THE YEAR

LANDI RENZO S.p.A. (the “Company”) has been active for sixty years in the automotive fuel supply systems sector, designing, manufacturing and selling eco-compatible LPG and CNG fuel supply systems. The Company manages all phases of the process that leads to the production, the sale and, for particular business areas, also the installation of automotive fuel supply systems; it sells both to the principal automobile manufacturers at a world-wide level (OEM customers) and to independent retailers and importers (*After Market* customers).

Landi Renzo S.p.A., has its headquarters in Cavriago (RE) and is the parent company of the Landi Renzo Group, which holds equity investments, directly and indirectly (through other sub-holding companies), in the capital of the companies through which it is active in Italy and abroad.

The company, listed on the Milan Stock Exchange in the FTSE Italy STAR segment, as the Parent Company, has prepared the consolidated financial statements of the Landi Renzo Group at 31 December 2017.

These financial statements are submitted to auditing carried out by the auditing firm PricewaterhouseCoopers S.p.A.

Significant events in the financial year

In 2017, following the approval of the Strategic Plan 2018-2022, the Company completed some extraordinary operations provided for in the Strategic Plan, with consequent effect, as illustrated in detail in these Explanatory Notes, on the financial statements. These extraordinary operations are described below.

Merger of A.E.B. S.p.A.

With accounting and tax effects from 1 January 2017, the subsidiary A.E.B. S.p.A. was merged by incorporation into Landi Renzo S.p.A. With no specific indications in the international accounting standards, the transaction was accounted for according to the provision included in the Assirevi document OPI no. 2R which, in the case of mergers without purchase, require the application of the principle of continuity of value, given the lack of an exchange with third party economies. In particular, this interpretation gives importance to the existence of a cost and control relationship, and relative *purchase price allocation*, deriving from the group’s consolidated financial statements. As laid down in OPI no. 2R, the differential emerging when cancelling the share value and the corresponding share of the net worth or the incorporated company,

including the effects of the *purchase price allocation* shown in the consolidated financial statements, totalling Euro 3,626 thousand, was classified as a reduction of the net worth.

Following this extraordinary transaction the economic and asset values of the financial statements of the Company at 31 December 2017 are not fully comparable with those of the previous financial year. Consequently, here below in these Explanatory Notes, where significant the effects on the balance sheet items deriving from the incorporation of assets and liabilities of the subsidiary A.E.B. are indicated. S.p.A.

The accounting values, drafted in conformity with IAS/IFRS accounting standards, of the subsidiary A.E.B. S.p.A at 1 January 2017, are given below.

AEB S.p.A.

ASSETS (thousands of Euro)	01/01/2017	ASSETS AND LIABILITIES (thousands of Euro)	01/01/2017
Non-current assets		Equity	
Land, property, plant machinery and equipment	2,041	Share capital	2,800
Development expenditure	886	Other reserves	35,828
Goodwill	2,373	Profit 2016	2,063
Other intangible assets with finite useful lives	6,559	Total Shareholders' Equity	40,691
Other non-current assets	0	Non-current liabilities	0
Equity investments	1,040	Non-current bank loans	0
Deferred tax assets	468	Other non-current financial liabilities	0
Total non-current assets	13,367	Provisions for risks and charges	1,246
		Defined benefit plans for employees	58
Current assets	0	Deferred tax liabilities	1,800
Trade receivables	2,797	Total non-current liabilities	3,104
Receivables from associated companies	6,776	Current liabilities	0
Receivables from parent companies	13,892	Bank financing and short-term loans	1,108
Receivables from subsidiaries	6,273	Other current financial liabilities	0
Inventories	6,412	Trade payables	6,886
Other receivables and current assets	3,337	Payables to subsidiaries	0
Current financial assets	0	Payables to parent companies	828
Cash and cash equivalents	1,769	Payables to associated companies	933
Total current assets	41,256	Tax liabilities	716
		Other current liabilities	357
TOTAL ASSETS	54,623	Total current liabilities	10,828
		TOTAL LIABILITIES AND EQUITY	54,623

It can be seen how, for the purpose of a more complete evaluation of the transaction, during the years from purchase in 2010 to the date of incorporation in 2017, A.E.B. S.p.A. paid dividends to the parent company totalling Euro 20 million.

Aggregation of SAFE & CEC

On 29 December 2017, the strategic agreement was concluded for the industrial aggregation of the subsidiary SAFE S.p.A., company of Landi Group operating in the production and installation of gas treatment compressors for many applications, and Clean Energy Compression Ltd (today called “IMW Industries Ltd”), a company specialized in compressed natural gas (CNG) supply systems including compressors, distributors, gas control systems and storage systems for various forms of transport, company fully owned by the US group Clean Energy Fuels Corp, consequently creating the world’s second largest group in this sector in terms of turnover.

SAFE S.p.A., with headquarters in San Giovanni in Persiceto (BO), has been part of the Landi Renzo Group since 2012 and employees over 70 staff, specializing in the production of compressors for motor propulsion compressed natural gas (CNG), Oil&Gas (above all gas recovery) and Biogas (RNG) stations. The company already has a sales network in Europe, America, Asia and the Middle East with a total turnover for 2017 of approximately Euro 28 million.

Clean Energy Compression Ltd, with headquarters in Chilliwack in Canada, employs around 180 staff with a high-quality, highly efficient and standardized product portfolio for CNG supply systems. Its geographical presence includes a large share of the market in the United States, as well as in South America and, more marginally, in Europe, Asia and the Middle East. In 2016 the turnover of Clean Energy Compression Ltd was USD 34.8 million.

The focus of the new joint-venture business will be on compressors for motor propulsion compressed natural gas (CNG) stations and Renewable Natural Gas (RNG) worldwide, with a market share in Europe and the United States of over 15%.

The aim of the company aggregation is to strengthen business competitiveness to gain a leader position in this sector in Europe and the American continent, also seeking new geographical areas in particular the Middle East and Asia, laying the foundations for an acceleration of this business development. With a worldwide presence and a broad range of advanced products, excellent service and the far-reaching sales network, the new group can respond to the growing demands of customers in a sector that is expected to expand rapidly in the coming years, considering the increasingly strict global environmental protection policies demanding the progressive adoption of alternative fuels.

The new group created through this aggregation is characterized by a global sales network, deriving from the integration of the two current networks, which do not have any significant overlaps. As regards the product range, the range of medium-power compressors, the area in which Clean Energy Compression Ltd has already completed the standardization process, is to be optimized, with a better range of low-power compressors, dryers and integrated solutions, the historical strength of SAFE S.p.A., for the Clean Energy

Compression Ltd customers. The new group also aims to enhance the SAFE range in RNG, completing the range of Clean Energy Compression Ltd in North America, one of the most promising markets for RNG, due to the green house emission regulations.

The aggregation was based on the establishment of a newco called SAFE & CEC S.r.l. and subsequent contribution of 100% of SAFE S.p.A. by the Landi Group and 100% of Clean Energy Compressor Ltd by Clean Energy Fuels Corp. Landi Renzo S.p.A. has a majority share of 51% in SAFE & CEC S.r.l. while Clean Energy Fuels Corp. holds the remaining 49%. As explained in detail below, following the contractually required governance system which reflects the joint control agreement between the two shareholders, the Group ownership is classified as a “joint venture” pursuant to international accounting standards (IFRS 11).

In this specific case, the main balances of *governance* according to the *joint venture* agreement, such as to reflect a joint arrangement, are the following:

- The Board of Directors of the company has 7 members, 4 appointed by Landi Renzo S.p.A. and 3 appointed by Clean Energy. The Board of Directors has powers of ordinary and extraordinary administration and resolutions are taken by simple majority of the attendees of the meeting, with the exception of some key matters for which the favourable vote of at least 5 directors is required, in particular:
 - approval of the budget, the effective management instrument of the Newco;
 - approval of expenses not included in the budget for amounts above set thresholds;
 - decisions concerning the hiring and firing of Top Management;
 - decisions concerning the sale of key assets.
- The shareholders’ meeting takes decisions with the favourable vote of a percentage which complies with legal requirements, with the exception of some matters for which a greater majority is required, i.e. the favourable vote of both the Landi Group and Clean Energy Fuel Corp, in particular:
 - Distribution of dividends;
 - Extraordinary operations (mergers/spin-offs/transformations);
 - Capital increases;
 - Modifications to the business in which the NewCo works.
- The Chief Executive Officer must be appointed from among the members of the board of directors chosen by Landi Renzo S.p.A., while the chairman is chosen from among the members of the board of directors chosen by Clean Energy Fuels Corp. The powers of the Chief Executive Officer are defined, with clear limits, and with a range of action exercised exclusively within those defined by the Board of Directors.

Moreover, in the event of an impasse, the shareholders and directors appointed by them must act in good faith to resolve the dispute.

To determine any loss of control over a subsidiary, an investor must assess whether he holds the power over the invested entity, i.e. if he holds valid rights ensuring the current capacity to manage key activities, i.e. activities with a significant impact on the performance of the invested entity. According to what explained above, given the need for greater majorities for decisions relating to key activities, required to manage the company business and the distribution of dividends, the management has considered that the Company is no longer in the condition to exercise sole control over the Newco. This is also confirmed by the fact that the powers conferred to the CEO do not ensure a situation in which he is able to autonomously manage the key activities; his powers are rather set within the field of ordinary administration, with clearly defined limits and a range of action exercised exclusively within the limits defined by the Board of Directors.

According to the provisions of IFRS 10 paragraph 25, in the event of loss of control over a subsidiary, the following must be done:

- a) derecognise the assets and liabilities of the ex-subsiary from the consolidated statement of financial position;
- b) recognise any shares held in the ex-subsiary at the respective fair value on the date of loss of control;
- c) recognise the profit or loss related to the loss of control attributable to the ex-controlling shares.

The fair value of 51% held by the Company in the newco SAFE & CEC S.r.l. was determined by an independent primary expert, applying the discounted cash flow method, deriving from the 2018-2022 business plan of SAFE & CEC S.r.l. approved on 29 December 2017 by the Boards of Directors of the respective conferring companies and annexed to the agreement undersigned by the parties. The evaluator also applied the comparable transactions method and multiples method as control methods of the fair value determined as described above. Following the application of these accounting methods, the financial statements of the Company at 31 December 2017 shows a capital gains of approximately Euro 20.9 million, the difference between the fair value of the 51% share in SAFE & CEC S.r.l. on the date of loss of control in SAFE S.p.A. (Euro 24.2 million) and the value of the stake held by the Company in SAFE S.p.A. (worth Euro 2.5 million) and relative costs of the transaction. The conclusions of the management outlined above relating to the situation of a joint venture according to the provisions of IFRS 11 and the relative accounting of the loss of control according to IFRS 10, were also supported by the technical opinion of a primary accounts expert.

The transaction also took place thanks to the granting of waivers by banks and the Meeting of Bondholders which unanimously (the meeting was attended by bondholders representing 67.059% of the loan) approved the proposal of the Board of Directors of Landi Renzo S.p.A. concerning some provisions of the Loan Regulations, waiving the compliance with the Issuer's Commitments (as defined in the Regulation itself) in relation to the aggregation of SAFE S.p.A. and Clean Energy Compression Ltd.

Disposal of the Sound segment

With effect from early December 2017, the Sound segment was sold (through the subsidiary A.E.B. S.p.A.) to B&C Speakers S.p.A., a company listed in the STAR segment of the Italian Stock Exchange specialized in the

design, production, distribution and sale of electroacoustic transducers for professional use, for a corresponding *enterprise value* of Euro 7,400 thousand net of the financial position on the date of sale. This disposal falls within the provisions of the 2018-2022 strategic plan, which calls for focusing on relaunching core Group activities with the resulting disposal of non-strategic activities.

B) GENERAL CRITERIA FOR PREPARATION OF THE FINANCIAL STATEMENTS FOR THE PERIOD AND DECLARATION OF CONFORMITY

Declaration of conformity with international accounting standards and basis of presentation

The separate financial statements were prepared in accordance with the IFRS-EU, i.e., all International Financial Reporting Standards, all International Accounting Standards (IAS) and all interpretations of the International Reporting Interpretations Committee (IFRIC), previously called the Standard Interpretations Committee (SIC), which, at the reporting date, had been endorsed by the European Union in accordance with the procedure laid out in Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002. The IFRSs were applied uniformly to all periods presented.

The separate financial statements were drafted in Euro, which is the currency of the primary economic environment in which the Group operates. The figures in the Statement of Financial Position, the Income Statement and the Statement of Comprehensive Income for the period are expressed in Euro, the functional currency of the Company, while the data contained in the Statement of Cash Flows, the Table of Changes in Equity and in these Explanatory Notes are expressed in thousands of Euro. Rounding up is performed on each individual account.

The financial statement layouts and the relative classification criteria adopted by the Company, from amongst the options laid out in IAS 1 - Presentation of Financial Statements, are specified below:

- the Statement of Financial Position was prepared by classifying assets and liabilities based on whether they are current or non-current;
- the Income Statement was prepared separately from the Statement of Comprehensive Income, and shows operating costs divided by nature, as this is considered more representative than the format showing said items by destination, since it complies with the internal reporting methods and international sector practices.
- the Statement of Comprehensive Income includes, aside from the profit (loss) for the year, the other changes in equity items associated with transactions not carried out with Company shareholders;
- the Statement of Cash Flows was prepared by showing cash flows deriving from operations in accordance with the “indirect method”.

Recently issued accounting standards

The accounting standards adopted in preparing the separate financial statements are consistent with those adopted for the preparation of the separate financial statements for the year ending on 31 December 2016, with the exception of the adoption of the new accounting standards, improvements and interpretations applicable as of 1 January 2017 listed below.

EU endorsement regulation	Description
Regulation (EU) 2016/1703	Modifications to IFRS 10, IFRS 12 and IAS 28: issued by the IASB on 18 December 2014. This amendment mainly envisages that an investment entity that draws up financial statements in which all of its subsidiaries are measured at fair value through profit or loss must provide the disclosure set forth for investment entities on the basis of IFRS 12. The application of this standard had no impacts on the Company.

Accounting standards, amendments and interpretations not yet applicable and not adopted in advance by the Company

The following table lists the new international accounting standards, or the amendments of standards and interpretations already in force, which must begin being applied from 1 January 2018 or thereafter. The Company did not exercise the option to apply them early.

EU endorsement regulation	Description
Regulation (EU) 2017/1989	IAS 12 Income tax – Recognition of deferred tax assets for unrealised losses, the modification aims to clarify how to account for deferred tax assets relating to debt instruments measured at fair value.
Regulation (EU) 2017/1990	IAS 7 Cash Flow Statement – Disclosure initiative, the change aims to improve disclosures about an entity’s financing activities provided to balance sheet users.
Regulation (EU) 2016/2067	IFRS 9 Financial instruments, the standard aims to improve financial disclosure of financial instruments, tackling the related problems arising during the financial crisis. In particular, IFRS 9 responds to the recommendation of the G20 to transition to a more forward-looking model for the recognition of expected losses on financial assets. Companies are required to apply the standard, at the latest, starting in annual periods beginning on or after 1 January 2018.
Regulation (EU) 2016/1905	IFRS 15 - Revenue from Contracts with Customers, aims to improve the quality and consistency of revenue recognition and to define the moment of transfer as an element for the recognition of revenue and the amount that the company is entitled to receive.

	<p>The following process is to be followed for the recognition of revenue:</p> <ol style="list-style-type: none"> 1) Identify the contract(s) with a customer; 2) Identify the performance obligations; 3) Determine the transaction price; 4) Allocate the transaction price to the performance obligations in the contract; 5) Recognize revenue when (or as) the entity satisfies a performance obligation. <p>Companies are required to apply the standard, at the latest, starting in annual periods beginning on or after 1 January 2018.</p>
Regulation (EU) 2016/1905	<p>The amendment to IFRS 4 deals with concerns that arose in the application of IFRS 9 on financial instruments before the introduction of the new insurance contract standards. In addition, two options are provided for companies that issue insurance contracts with reference to IFRS 4: i) one option that allows companies to reclassify certain revenue or costs arising from designated financial assets from the income statement to the statement of comprehensive income; ii) a temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4.</p> <p>The amendment does not apply to the Company.</p>
Regulation (EU) 2017/1986	<p>IFRS 16 Leases, replacing IAS 17, is applicable from 1 January 2019. Early application is permitted for entities which also apply IFRS 15 - Revenue from contracts with customers.</p>
Regulation (EU) 2018/289	<p>IFRS 2 Classification and Measurement of Share-based Payment Transactions aims to clarify the accounting of certain types of share-based payment transactions. The amendments apply as of 1 January 2018. However, early application is permitted.</p>
Regulation (EU) 2018/182	<p>The IASB published the Annual Improvements to IFRS Standards 2014-2016 Cycle, amending IFRS 1, IFRS 12 and IAS 28.</p> <p>This amendment will come into force on 1 January 2018.</p>

As stated above, from 1 January 2018 the new accounting standard IFRS 15 on the recognition of revenues and IFRS 9 on financial instruments must be applied.

From the preliminary analysis performed on contracts with its own customers, the Company does not consider that there will be any significant impacts deriving from the application of IFRS 15.

With reference to IFRS 9 our analyses showed a potential impact, in any case not significant, linked to the provisions of paragraph B.5.4.6 of the standard, governing the impact on the amortized cost of financial liabilities deriving from a change in the related financial flow plan, due both to a revised estimate or a contractual amendment. Substantially this paragraph requires that, if the estimates of payments relating to financial liabilities are revised, the company must discount future cash flows at the original internal rate of yield and must account for the difference between the current value of future cash flows determined with that rate and the book value of the liability entered in the accounts. The application of IFRS 9 will therefore affect

the value of some financial liabilities (convertible bonds and medium and long-term bank loans) renegotiated by the Company during the year. The Company is defining the impact of this amendment on the next financial year.

From 1 January 2019 the Company must also apply IFRS 16, which replaces IAS 17, approved in November 2017 by the EFRAG. The Company is still performing an analysis to estimate the impacts arising from the application of this standard, particularly with reference to lease agreements payable on non-owned buildings. Please note that accounting standards and/or interpretations whose application would be compulsory for periods that begin subsequent to 1 January 2017 were not applied early.

During the year, the IASB made amendments to several IAS/IFRSs issued previously and published new international accounting standards, for which the approval process has not yet been completed.

Date	IAS Publications
30 January 2014	<p>IFRS 14 entered into force on 1 January 2016, but the European Commission decided to suspend the endorsement process pending the new accounting standard on rate-regulated activities.</p> <p>IFRS 14 allows only entities which adopt IFRS for the first time to continue to recognize regulatory deferral account balances in accordance with the previous accounting standards adopted. To improve comparability with entities that already apply IFRS and do not recognize such balances, the standard requires the effect of rate regulation to be presented separately from other items.</p>
08 December 2016	<p>IFRIC 22 – Foreign Currency Transactions and Advance Consideration. The interpretation (effective as of 1 January 2018) covers foreign currency transactions if an entity recognizes a non-monetary asset or liability from the payment or receipt of an advance before the entity recognizes the relative asset, cost or revenue. The provision must not be applied to taxes, insurance or reinsurance contracts. This IFRIC does not apply to the Company’s financial statements.</p>
08 December 2016	<p>Amendments to IAS 40 regarding transfers of investment property. The amendment (effective from 1 January 2018) covers the following:</p> <ul style="list-style-type: none"> <li data-bbox="395 1630 1410 1765">i) paragraph 57 of IAS 40 is amended to state that an entity must transfer a property from, or to, the real estate investment category only when there is evidence of a change in use. <li data-bbox="395 1778 1410 1912">ii) The list of examples indicated in paragraph 57 (a) – (d) is redefined as a non-exhaustive list. These amendments do not apply to the Company’s financial statements.
18 May 2017	<p>The IASB published IFRS 17 Insurance Contracts. The standard aims to improve understanding by investors, and others, of the exposure to risk, profitability and the</p>

	financial position of insurers. IFRS 17 replaces IFRS 4, issued in 2004 as an interim Standard. It will come into force on 1 January 2021, but prior application is permitted. This standard is not applicable to the Company.
07 June 2017	The IASB published the interpretation IFRIC 23 Uncertainty over Income Tax Treatments, providing indications on how to present uncertainty of the tax treatment of a given phenomenon in accounting for income tax. IFRIC 23 comes into force on 1 January 2019.
12 October 2017	The IASB published amendments to IFRS 9 Financial Instruments and IAS 28 Investments in Associates and Joint Ventures to facilitate their implementation. The amendments to IFRS 9 Prepayment Features with Negative Compensation aims to allow the measuring at the amortized cost or fair value through other comprehensive income (OCI) of financial assets characterised by an early repayment option with the so-called “negative compensation”. The amendments to IAS 28 Long-term Interests in Associates and Joint Ventures aim to clarify that IFRS 9 applies to long-term receivables from an associate company or joint venture which, substantially, are part of the net investment in the associate company or joint venture .
12 December 2017	The IASB published the Annual Improvements to IFRSs 2015-2017 Cycle, including amendments to IAS 12 Income Taxes, IAS 23 Borrowing Costs, IFRS 3 Business Combination and IFRS 11 Joint Arrangements. The amendments will come into force on 1 January 2019. However, early application is in any case permitted.

The Company is evaluating the effects that the application of such standards may have on its financial statements.

C) ACCOUNTING STANDARDS AND VALUATION CRITERIA

The accounting standards described hereafter were applied uniformly for all the periods included in these financial statements.

NON-CURRENT ASSETS

LAND, PROPERTY, PLANT, MACHINERY AND OTHER EQUIPMENT

Tangible assets were recognized in accordance with the cost criterion at the purchase price or the production cost inclusive of directly attributable accessory costs necessary to make the assets ready for use.

The carrying amount of tangible assets is subsequently adjusted for systematic depreciation, calculated on a straight-line basis from the moment in which the asset is available and ready for use, based on its useful life, understood as the estimated period in which the asset will be used by the company, and any accumulated loss for impairment.

When the asset to be depreciated consists of distinctly identifiable elements whose useful life differs significantly from that of the other parts of the asset, each of those parts are depreciated separately in application of the component approach method.

Any financial expense directly attributable to the purchase and production of tangible assets is capitalized and depreciated on the basis of the useful life of the asset to which it refers.

The following annual depreciation rates are used:

Categories	Depreciation period	Depreciation rates
Leasehold improvements - buildings	The lower between the residual economic usefulness of the improvement and the residual duration of the underlying contract	16.67- 20%
Plant and machinery	Straight-line basis	10 - 17.5%
Industrial and commercial equipment	Straight-line basis	17.5 - 25%
Other assets	Straight-line basis	12 - 20 - 25%

The residual value and the useful life of tangible assets are reviewed at least annually and updated, when applicable, at the end of each year. Based on the analysis performed by the management it was not necessary to amend the useful life compared to those applied in the previous financial year.

Costs incurred for maintenance and repairs are charged in their entirety to the Income Statement for the year in which they are incurred. Costs for improvements, upgrades and transformation having an incremental nature are attributed to the tangible assets to which they refer, when it is probable that they will increase the future economic benefits expected from the use or the sale of the asset, and depreciated based on the remaining useful life of the assets.

Costs capitalized for leasehold improvements are classified under property and depreciated at the lower of the residual economic usefulness of the improvement and the residual duration of the underlying contract.

The financial expenses directly attributable to the acquisition, construction or production of a tangible asset are recognized in the income statement at the moment at which they are incurred, in accordance with the appropriate accounting treatment provided for by IAS 23.

The book value of tangible assets is subjected to verification in order to discover any possible impairment, using the methods described in the paragraph "Impairment of assets".

At the moment of sale or when no future economic benefits are expected from the use of an asset, it is eliminated from the financial statements and any loss or profit (calculated as the difference between the sale value and the book value) is recognized in the income statement in the year of the aforementioned elimination.

Intangible assets

Intangible assets consist of identifiable non-monetary elements with no physical consistency, which can be controlled and can generate future economic benefits. These elements are initially recognized at purchase and/or production cost, inclusive of expenses directly attributable to make the asset ready for use. Intangible assets are amortized on a straight-line basis throughout their estimated useful life; amortization rates are reviewed on an annual basis and are amended if the current useful life differs from that estimated previously. The useful life estimated by the Company for the various categories of intangible assets, valid for all periods presented, is shown below.

Categories	Useful Life
Development expenditure	3 years
Industrial patents and rights to use intellectual property	From 3 to 10 years
Software, licenses and others	From 3 to 5 years
Trademarks	From 10 to 18 years

DEVELOPMENT EXPENDITURE

Research and development costs are recognized in the Income Statement for the year in which they are incurred, with the exception of development expenditure recognized under intangible assets if the conditions established in IAS 38, reported below, are satisfied:

- the project is clearly identified and the costs relating to it are identifiable and can be measured reliably;
- the technical feasibility of the product is demonstrated;
- there is evidence of the Company's intention to complete the development project and to sell the intangible assets generated by the project;
- there is a potential market or, in the case of internal use, the utility of the intangible asset for the production of intangible assets generated by the project can be demonstrated;
- the technical and financial resources required to complete the project are available.

The amortization period starts only when the development phase is completed and the result generated by the project can be marketed, and is usually three years, based on the estimated duration of the benefits linked

with the product developed. Capitalized development expenditure is stated at cost, minus accumulated amortization and any accumulated losses from impairment.

GOODWILL

The goodwill deriving from business combination transactions after 1st January 2005 is initially entered at cost, and represents the excess of the purchase cost over the purchaser's share of the net *fair value* referring to the identifiable values of existing and potential assets and liabilities.

Goodwill deriving from acquisitions made prior to 1 January 2005 is entered at the value recorded for that purpose in the last Financial Statements prepared according to the previous accounting standards (31 December 2004), subject to verification and recognition of any possible impairment.

When the IFRS were initially adopted, as permitted by IFRS 1, acquisition transactions performed prior to 1 January 2005 were not reconsidered.

At the acquisition date, any goodwill emerging is allocated to each of the *cash generating units* (or “CGUs”) that are expected to benefit from the synergistic effects deriving from the acquisition. Taking into account the Group organizational structure and the methods in which control of operations is exercised, the CGU are identified as the individual legal entities forming the Group. After the initial recognition, since goodwill is regarded as an intangible asset with an indefinite life, it is no longer amortized and is decreased by any accumulated losses in value, determined as described below.

Goodwill is subjected to an analysis of recoverability on at least an annual basis, or even more frequently if events or changes in circumstances arise that could result in possible losses of value, identifying the CGUs which benefit from acquisition synergies. Cash flows are discounted to the cost of capital as a function of the specific risks of the unit concerned. Impairment is stated when it emerges from the check on discounted cash flows that the recoverable value of the CGU is less than the book value and is stated as a priority under goodwill.

Any loss in value is identified through valuations that take as a reference the ability of each CGU to produce financial flows capable of recovering the portion of goodwill allocated to it. If the value recoverable by the CGU is less than the book value attributed, the corresponding loss in value is recognized. Such loss of value is restored if the reasons that generated it cease to exist.

On disposal of the company or a company unit from the acquisition of which goodwill emerged, the gains and losses are determined taking the residual value of goodwill into account. Any losses in value of goodwill stated on the Income Statement are not restored if the reasons that generated them cease to exist.

OTHER INTANGIBLE FIXED ASSETS

Other intangible assets with finite useful life, acquired or self-created, are capitalized when it is probable that use of the asset will generate future economic benefits and its cost can be measured reliably. These assets are initially recognized at purchase or development cost.

Costs incurred subsequently relating to intangible assets are capitalized only if they increase the future economic benefits of the specific asset capitalized and they are amortized on the basis of the aforementioned criteria according to the assets to which they refer.

IMPAIRMENT OF ASSETS

At each reporting date, tangible and intangible assets with a finite useful life are analysed in order to identify the existence of any indicators of impairment originating from sources external or internal to the Group. When these indicators are identified, the recoverable value of the above-mentioned assets is estimated, and any impairment loss is recognized in the Income Statement.

A tangible or intangible asset suffers a reduction in value if it is not possible to recover, either through use or sale, the book value at which said asset is recorded in the financial statements. Therefore, the aim of the test (*impairment test*) provided for by IAS 36 is to assure that tangible and intangible fixed assets are not entered at a value greater than their recoverable value, which is the greater of the net sale price and the value of use. The value of use is the current value of future financial flows that are expected to be generated by the asset or by the cash generating unit to which the asset belongs. The expected cash flows are discounted using a discount rate that reflects the current estimate of the market of reference referring to the cost of the money in proportion to the time and risks specific to the asset.

Management uses various assumptions in applying this method, including estimates of changes in revenues, the gross profit margin, operating costs, the growth rate of terminal values, investments, changes in operating capital and the weighted average cost of capital (discount rate) which combine in defining a medium-term plan, specifically aimed at performing an impairment test, revised at least annually and approved by the Board of Directors of the Parent Company. The principal hypotheses formulated in relation to the plans of CGUs relevant for the impairment test are indicated in note 4 of the financial statements, to which reference should be made for further details.

If the book value exceeds the recovery value, the assets or the cash generating units to which they belong are written down until they reflect the recovery value. Such losses are accounted for on the Income Statement.

The impairment test is carried out when conditions occur inside or outside the company that suggest that the assets have suffered a reduction in value. In the case of goodwill or other intangible assets with an indefinite useful life, the impairment test is carried out at least annually. If the conditions that resulted in the loss of value cease to exist, the same value is restored proportionally on the previously devalued assets until it reaches, at most, the value that such goods would have had, net of amortization calculated on the historical cost, in the absence of a prior loss of value. Restorations of value are recognized in the income statement.

The value of previously devalued goodwill is not restored, as provided for by the international accounting standards.

EQUITY INVESTMENTS IN SUBSIDIARY AND ASSOCIATED COMPANIES AND JOINT VENTURES

Investments in subsidiary companies are evaluated using the cost method including directly related costs, adjusted according to impairment losses. Applying the cost method, the parent company states income on the investment solely if the subsidiary has resolved to pay out dividends.

In the case where there is evidence of events indicative of long term impairment, the value of the investments is subjected to an impairment test according to the provisions of IAS 36. The original value is restored in subsequent years if the reasons for write-down cease to exist.

The risk deriving from any losses exceeding the cost is recorded under provisions, to the extent to which the Company is obliged or intends to be responsible for it.

Equity investments in joint ventures are companies for which an agreement existed at the date when the financial statements were prepared, whereby Landi Renzo S.p.A. has similar rights on net assets, rather than rights on assets, and accepts obligations for liabilities.

Equity investments in *joint ventures* are valued using the equity method.

OTHER NON-CURRENT FINANCIAL ASSETS

This category includes loans granted to Group companies which are due for repayment beyond 12 months and equity investments in other ventures.

Non-current financial assets are initially stated at their fair value at the date of negotiation (which is the purchase cost), minus the costs of the transaction directly attributable to purchase.

After the initial recognition, financial instruments held until they fall due are measured at amortized cost, using the effective interest method.

The effective interest rate is the rate which discounts future cash flows precisely, estimated for the entire expected life of the instrument, at its net book value.

An impairment test is performed at the date of the financial statements to ascertain whether there is any objective evidence of a loss in value of each non-current financial asset.

If there is objective evidence of this impairment, the amount of the loss is measured as the difference between the book value of the investment held until maturity and the discounted future cash flows, estimated as discounted to the original effective interest rate of the financial asset.

Any impairment is stated immediately on the income statement.

If total impairment decreases in subsequent years and said decrease is linked to an event occurring after the loss in value has been stated, said loss is reversed and the value is restored on the Income Statement.

OTHER RECEIVABLES AND OTHER NON-CURRENT ASSETS

Loans and receivables are recognized when they occur. All other financial assets are recognized for the first time when the Company becomes a party to the contractual provisions of the instrument.

Financial assets are initially measured at cost, which corresponds to their fair value increased by ancillary charges.

After the initial recognition, assets held for trading are classified under current financial assets and measured at fair value; gains or losses from this measurement are stated on the income statement.

Assets possessed with the intention to keep them until expiry are classified among the current financial assets if the expiry date is within less than one year, and non-current if greater, and are subsequently valued with the principle of amortized cost. Consequently, the initial value is then adjusted to take into account repayments of capital, any write-downs and amortization of the difference between the repayment amount and the initial book value. Amortization is performed on the basis of the internal effective interest rate, represented by the interest rate that aligns, on initial recognition, the present value of expected cash flows and the initial value (so-called amortized cost method). If there is objective evidence indicating impairment, the asset value is decreased to the discounted value of the future flows obtainable from it. Such losses are recognized on the Income Statement. If, in subsequent periods, the reasons for the preceding write-down no longer exist, the value of the asset is restored to the amount that would have derived from applying the amortized cost without write-down.

CURRENT ASSETS

TRADE RECEIVABLES

Receivables are initially recognized at fair value. The initial value is subsequently adjusted to take into account repayments of capital, any write-downs and the amortization of the difference between repayment amount and initial value. Amortization is performed on the basis of the internal effective interest rate, represented by the interest rate that aligns, on initial recognition, the present value of expected cash flows and the initial value (so-called amortized cost method). If there is objective evidence indicating impairment, the asset value is decreased to the discounted value of the future flows obtainable from it. Such losses are recognized on the Income Statement. If, in subsequent periods, the reasons for the preceding write-down no longer exist, the value of the asset is restored to the amount that would have derived from applying the amortized cost without write-down.

The provision for bad debts, determined in order to measure receivables at their effective realization value, includes write-downs recognized in order to take account of objective indications that trade receivables are impaired. Write-downs, which are based on the most recent information available and management's best estimate, are recognized in such a way as to decrease impaired assets to the present value of future cash flows obtainable from them.

The provision for bad debts is classified in the reduction of the item "Trade receivables".

Allocations made to the provision for bad debts are classified in the Income Statement under the item "Accruals, write-downs and other operating expenses"; the same classification was used for any utilizations and permanent losses of trade receivables.

INVENTORIES

The item inventories includes raw materials and materials used in the production process, semi-finished products, spare parts and finished products.

Inventories are stated at the lower value between purchase or manufacturing cost, inclusive of accessory costs, measured according to the FIFO method, and the realization value that can be inferred from market performance.

The measurement of inventories includes the direct costs of materials and labour and the indirect costs of production (variable and fixed), determined on the basis of normal production capacity.

Where necessary, depreciation funds are calculated for obsolete stocks or those with a slow turnaround taking account of their future possibility of use or recovery.

OTHER RECEIVABLES AND OTHER CURRENT ASSETS

Other receivables and other current financial assets are initially recognized at fair value. Subsequently, the receivables are measured with the amortized cost method on the basis of the internal effective interest rate, represented by the interest rate that aligns, on initial recognition, the present value of expected cash flows and the initial value.

If there is objective evidence indicating impairment, the asset value is decreased to the discounted value of the future flows obtainable from it. Such losses are recognized on the Income Statement. If, in subsequent periods, the reasons for the preceding write-down no longer exist, the value of the asset is restored to the amount that would have derived from applying the amortized cost without write-down.

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES FROM THE BALANCE SHEET ASSETS AND LIABILITIES

Financial assets are derecognized when one of the following conditions is met:

- the contractual right to receive cash flows from the asset has expired;
- the Company has substantially transferred all risks and benefits connected with the asset, transferring its rights to receive cash flows from the asset or assuming a contractual obligation to transfer the cash flows received to one or more beneficiaries by virtue of a contract that meets the requirements of IAS 39 (“pass through test”);
- the Company has not substantially transferred or maintained all risks and benefits connected to the financial asset, but it has transferred control over it.

Financial liabilities are derecognized when they are settled and when the Company has transferred all risks and charges relating to the instrument.

ASSIGNMENT OF RECEIVABLES

The Group is permitted to assign part of its trade receivables through factoring transactions. The operations for assignment of receivables can be with or without recourse; some non-recourse assignments include

deferred payment clauses (for example, the payment by the factor of a minority part of the purchase price is subordinate to the total collection of receivables), requiring an exemption on the part of the assignor or implying the maintenance of significant exposure to the progress of the financial flows deriving from the receivables assigned.

This type of operation does not meet the requirements laid down by IAS 39 for eliminating assets from the balance sheet, since the associated benefits and risks have not been transferred substantially.

Consequently, all the receivables assigned through factoring operations that do not meet the requirements for elimination established by IAS 39 continue to be recorded in the Financial Statements of the Company, although they have been legally assigned; a financial liability for the same amount is recorded in the consolidated financial statements as Payables for Advances on Assignment of Receivables. Profits and losses related to assignment of these assets are recorded only when they are eliminated from the Statement of Financial Position of the Company.

At 31 December 2017, Landi Renzo S.p.A. had only performed assignments of trade receivables without recourse that meet all the requirements established by IAS 39 for the derecognition of such receivables.

CASH AND CASH EQUIVALENTS

The item relating to cash and cash equivalents includes, primarily, bank deposits repayable on demand, as well as cash on hand and other short-term investments that are highly convertible (convertible into cash and cash equivalents within ninety days). Cash and cash equivalents are valued at fair value, which usually coincides with their nominal value; any changes are recognized on the Income Statement. The current account overdraft, if utilized, is shown among the “Short-term financial liabilities”.

For the purposes of representing cash flows for the period, when drawing up the Cash Flow Statement, short-term bank debts are represented among the cash flows of the financing activities, since they are for the most part attributable to bank advances and short term bank loans.

SHARE CAPITAL AND OTHER EQUITY ITEMS

(i) Share capital

The share capital is made up of the ordinary shares in circulation.

The costs relating to the issue of new shares or options are classified in equity (net of the associated tax benefit) as a deduction of the income deriving from the issue of such instruments.

As provided for by IAS 32, if equity instruments are repurchased, such instruments (treasury shares) are recognized as a direct deduction from Equity under the item “Other Reserves”. Gains or losses are not recognized on the Income Statement when treasury shares are purchased, sold or cancelled.

The consideration paid or received, including any cost directly incurred and attributable to the capital transaction, net of any related tax benefit, is directly recognized as an Equity transaction.

(ii) Statutory reserve and other reserves

The statutory reserve is formed from the allocation of part of the Company's profit for the year (5% each year until it has reached 20% of the share capital) and may be used exclusively to cover losses. The other reserves include the reserves of profits and capital for a specific use, the profit (loss) of previous years not distributed or allocated to a reserve, as well as the reserve generated upon first-time application of IFRS.

CURRENT AND NON-CURRENT LIABILITIES

PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges are set aside to cover current obligations - legal or implicit - deriving from past events, for which a reliable estimate of the amount required to settle the obligation can be made at the end of the year. Provisions for risks and charges are stated if said charges are likely to be incurred. Any change in the estimate of provisions is reflected on the Income Statement in the period when it occurs.

If a liability is regarded as merely potential, no allocation to provisions for risk and charges is made and only adequate information is provided in these notes to the financial statements.

When the financial effect of time is significant and the date of cash outflows associated with the obligation can be reliably determined, the estimated cost is discounted to the present value using a rate reflecting the current market values and includes the additional effects relating to the specific risk that may be associated with each liability. After discounting, the increase in the provision due to the passage of time is recognized as a financial charge.

The product warranty provision is stated on sale of the underlying goods or supply of the underlying services. The provision is determined using historical information on warranties and by weighting the probability associated with possible results.

The provisions are periodically updated to reflect changes in estimated costs, realization timing and the discount rate; revisions of the estimated provisions are recognized in the same item of the Income Statement which previously included the provision or, when the liability relates to an asset, as a matching entry to the asset to which it refers.

EMPLOYEE BENEFITS

Short-term benefits are represented by salaries, wages, the relative social security contributions, compensation in lieu of holidays and incentives provided in the form of a bonus payable in twelve months after the reporting date. These benefits are accounted for as components of personnel cost in the period in which the work activity is provided.

Post-employment benefits are broken down into two types: defined contribution plans and defined benefit plans.

In defined contribution plans, social security contributions are recognized in the Income Statement when they are incurred, based on the relative nominal value.

Defined benefit plans

Defined benefit plans are represented by the TFR (employee severance indemnity) contributions accrued up to 31 December 2006 for the employees of the Company. These are valued in accordance with IAS 19 by independent actuaries, using the projected unit funding method.

This calculation consists in estimating the amount of benefit that an employee will receive at the expected retirement date, using demographic assumptions (such as, for example, death rate and personnel turnover rate) and financial assumptions (such as, for example, discount rate and future salary increases). The amount thus determined is discounted to the present value and re-proportioned based on the accrued length of service compared to the total length of service and represents a reasonable estimate of the benefits that each employee has already accrued because of his/her service. The discount rate used derives from the curve of rates on Markit iBoxx € Corporate AA 10+ bonds at year's end, with a similar maturity date to the bond held for employees.

Actuarial profits and losses emerging following the revaluations of net liabilities for defined benefit plans were immediately entered in the other items of the Statement of Comprehensive Income. Net interest and other costs of defined benefit plans are stated under profit/(loss) for the year.

Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the entity pays fixed contributions into a separate entity and has no legal or implicit obligation to pay further contributions. The contributions to defined contribution plans are recognized as an expense in profit or loss in the periods in which the employees provide their work. Contributions paid in advance are recorded as assets to the extent that the advance payment will result in a reduction in future payments or a refund.

TRADE PAYABLES

Trade payables are stated at the fair value of the initial consideration received in exchange and subsequently measured at amortized cost, using the effective interest method. Trade payables with due dates that fall under normal sales terms are not discounted to the present value.

CURRENT AND NON-CURRENT FINANCIAL LIABILITIES, TAX LIABILITIES AND OTHER LIABILITIES

Short- and long-term financial payables and other short- and long-term liabilities are initially recognized at fair value. The initial value is subsequently adjusted to take into account repayments of principal and the amortization of the difference between repayment amount and initial value. Amortization is performed on the basis of the internal effective interest rate, represented by the interest rate that aligns, on initial recognition, the present value of cash flows connected to the liability and the initial value (so-called amortized cost method).

When there is a change in cash flows and it is possible to estimate them reliably, the value of payables is recalculated to reflect that change on the basis of the present value of the new cash flows and the internal rate of return initially determined.

The item “Tax liabilities” includes all liabilities to the Tax Authorities payable or offsettable in the short-term connected with direct and indirect taxes.

Payables to employees and social security institutes, as well as payments on account from customers and accrued expenses and deferred income are classified under “Other current liabilities”.

RECOGNITION OF REVENUES

Revenues are recognized at the fair value of the consideration received for the sale of products and services relating to the Group’s ordinary operations.

Revenues are recognized to the extent that it is probable that the economic benefits will be achieved and the relative amount can be reliably determined. Revenues and income are entered in the financial statements net of returns, allowances, discounts and premiums, as well as the taxes directly connected with the sale of products or performance of services.

Revenues are accounted for as follows:

- a) Revenues from the sale of products are recognized when the risks and benefits connected with ownership of the assets are transferred to the purchaser; this moment generally coincides with the shipment date.
- b) Revenues from services rendered (generally consisting of technical consultancy provided to third parties) are accounted for in the income statement on the basis of the percentage of completion at the date of the financial statements;

Revenues are recorded in the Income Statement only if it is likely that the company will benefit from the cash flows associated with the transaction.

GRANTS

Grants from public and private bodies are recognized at fair value when it is reasonably certain that they will be received and the conditions for receiving them will be met.

Grants related to income (provided as immediate financial assistance to an entity or to cover expenses and losses incurred in a previous year) are fully recognized in the Income Statement when the above-mentioned conditions, necessary for their recognition, are met.

No capital contributions were obtained in the year in question.

COSTS

Costs are recognized in so far as it is possible to reliably determine that economic benefits will flow to the company. Costs for services are recognized for the year in question at the moment when they are received.

For accounting purposes, leases and hire contracts are classified as operational if:

- the lessor retains a significant share of the risks and the benefits associated with the property,
- there are no purchase options at prices that do not reflect the presumable market value of the rented asset at the end of the period,
- the duration of the contract does not represent the greater part of the useful life of the leased or hired asset.

The related charges are stated on the Income statement on a straight-line basis distributed according to the duration of the underlying contracts.

DIVIDENDS

Dividends payable by the Company are shown as changes in equity in the year in which they are approved by the shareholders.

Dividends to be received by the Company are recognized on the Income Statement on the date on which the right to receive them matures.

FINANCIAL INCOME AND CHARGES

Income and charges of a financial nature are recognized on an accrual basis, on the basis of the interest accrued on the net value of the related financial assets and liabilities, using the effective interest method.

TAXES

Income taxes include current and deferred taxes. Income taxes are generally stated on the Income Statement, except when they refer to items directly accounted for in the Statement of Comprehensive Income. Current

taxes are income taxes expected to be paid or received, calculated by applying the rate applicable at the date of the financial statements to the taxable income or tax losses for the year.

Deferred taxes are calculated using the so-called liability method on the temporary differences between the book values of assets and liabilities in the financial statements and their corresponding tax values. Deferred tax assets and liabilities are not stated on goodwill and on assets and liabilities which do not influence taxable income. Deferred taxes are calculated on the basis of the tax rate that is expected to be in force when the asset is realized or the liability is settled. Deferred tax assets (hereafter also called “prepaid taxes”) are recognized only when it is likely that taxable profits sufficient to realize these assets will be generated in future years. Deferred tax assets and liabilities are offset only for homogeneous expiry dates, when there is a legal right to offset and when they refer to recoverable taxes due to the same tax authority. Income tax deriving from distribution of dividends is stated when the liability relating to their payment is recognized.

Recoverability of deferred tax assets is checked at the end of each period, on the basis of plans duly approved by the Board of Directors and taking the tax consolidation indicated below into account, and any part for which recovery is unlikely is stated on the Income Statement.

Since 2014, the Company has adhered, as the consolidating company, to the national consolidation tax scheme pursuant to articles 117 and 129 of the Italian Consolidated Income Tax Act (T.U.I.R) with the other Italian companies of the Group.

The adhesion was renewed in 2017 and is valid for the next three-year period. According to this procedure, the consolidating company identifies a single taxable base for the group of companies adhering to the national consolidation tax scheme and may therefore offset taxable income against tax losses on a single tax returns form. Each company adhering to the national consolidation tax scheme transfers its taxable income (or tax loss) to the consolidating company. The consolidating company states receivables from the consolidated company which are equal to the IRES (corporate income tax) to be paid. If the companies have tax losses, the consolidating company states payables equal to the IRES on the part of the loss transferred at Group level.

CONVERSION OF ENTRIES INTO FOREIGN CURRENCY

The functional and presentation currency of Landi Renzo S.p.A. is the Euro (€). As required by IAS 21, transactions in foreign currency are initially recognized at the exchange rate in place on the date of the transaction. Monetary assets and liabilities in foreign currency are reconverted to the functional currency at the exchange rate in place on the closing date of the Financial Statements.

Non-monetary items valued at historical cost in foreign currency are converted using the exchange rate in force on the initial date that the transaction was recognized.

Non-monetary items measured at fair value are converted using the exchange rates at the date when fair value was determined.

The exchange differences realized at the time of collecting from debtors and paying creditors in foreign currency are entered in the income statement in the item exchange gain/losses.

EARNINGS PER SHARE

The Company determines the earnings per share based on IAS 33 - Earnings per share.

(a) Basic earnings per share

The basic earnings per share is calculated by dividing the profit (loss) pertaining to the Company shareholders by the weighted average of ordinary shares in circulation during the year, excluding treasury shares.

(b) Diluted earnings per share

The diluted earnings per share is calculated by dividing the profit (loss) pertaining to the Company shareholders by the weighted average of ordinary shares in circulation during the year, excluding treasury shares. To calculate the diluted earnings per share, the weighted average of shares in circulation is modified assuming the exercise by all assignees of rights with a potentially dilutive effect, while the profit (loss) pertaining to Company shareholders is adjusted to take into account any effects, net of taxes, of the exercise of such rights.

COMMUNICATION ON FINANCIAL INSTRUMENTS

In accordance with the provisions of Accounting Standard IFRS 7, supplementary information is supplied on the financial instruments in order to evaluate:

- the impact of the financial instruments on the statement of financial position, on the economic result and on the financial flows of the company;
- the nature and size of the risks deriving from financial instruments to which the company is exposed, as well as the methodologies with which such risks are managed.

USE OF ESTIMATES AND ASSESSMENTS

The preparation of Financial Statements in accordance with the IFRS (International Financial Reporting Standards) requires application of accounting standards and methods that are sometimes based on subjective assessments and estimates based, in turn, on past experience and assumptions that are considered reasonable and realistic given the circumstances. Application of these estimates and assumptions affects the amounts presented in the financial statements, such as the Statement of Financial Position, the Income Statement and the Statement of Cash Flows, and in disclosures provided.

Please note that the situation caused by the current economic and financial scenario has resulted in the necessity to make assumptions on future performance that are characterized by significant uncertainty. Therefore it cannot be excluded that results different to those estimated may be realized in the coming years. Such results could therefore require adjustments, that may even be considerable, which cannot obviously be either estimated or predicted at this stage, to the book value of the relative items.

The items on the financial statements that most require greater subjectivity on the part of the directors in producing the estimates and for which a change in the conditions underlying the assumptions used can have a significant impact on the financial statements are listed below:

- Valuation of fixed assets;
- Recoverability of development expenditure;
- Valuation of deferred tax assets;
- Valuation of provisions for bad debts and obsolete inventories;
- Valuation of employee benefits;
- Valuation of provisions for risks and charges.

The estimates and assumptions are reviewed periodically and the effects of each variation are immediately reflected on the Income Statement.

MOST IMPORTANT ACCOUNTING STANDARDS THAT REQUIRE A GREATER DEGREE OF SUBJECTIVITY

A description is provided below of the most significant accounting standards that require, more than the others, greater subjectivity on the part of the directors in producing the estimates and for which a change in the conditions underlying the assumption used may have a significant impact on the financial data of the company.

Valuation of receivables

Trade receivables are adjusted with the relevant write-down fund in order to take account of their effective recoverable value. The determination of the amount of depreciation carried out requires the directors to make subjective evaluations based on the documentation and on the information available, also in relation to the solvency of the customer, as well as on experience and historical trends.

The continuation of the current economic and financial situation and its possible aggravation could lead to further deterioration in the financial conditions of the Company's debtors beyond that already taken into consideration prudentially in quantifying the write-downs recorded in the financial statements.

Valuation of goodwill and intangible assets in progress

In accordance with the accounting standards applied by the Company, goodwill and intangible assets in progress are subjected to annual verification (impairment test) in order to assess whether they have suffered a reduction in value, which is established by means of an impairment test, when the net book value of the unit generating the cash flows to which these items are allocated appears to be greater than its recoverable value (defined as the greater value between the value of use and the fair value of the same). The above mentioned value confirmation check necessarily requires subjective evaluations to be made based on the

information available within the Company, and on the reference market outlook and historical trends. In addition, whenever it is supposed that a potential reduction in value could be generated, the Company determines said reduction using those evaluation techniques considered suitable. The same value tests and evaluation techniques are applied to intangible and tangible assets with a defined useful life when indicators exist that predict difficulties in recovering the corresponding net book value. The correct identification of elements indicative of the existence of a potential reduction in value as well as the estimates for determination of the reduction depend principally on factors that can vary over time, even significantly, therefore influencing the evaluations and estimates made by the directors.

Provisions for risks

Establishing whether or not a current obligation (legal or implied) exists is in some cases difficult to determine. The directors assess such phenomena on a case by case basis, together with an estimate of the amount of the economic resources required in order to meet that obligation. When the directors consider that is merely possible that liabilities may arise, the risks are indicated in the appropriate information section on commitments and risks, without resulting in any allocation in the financial statements.

Defined benefit plans

The Company offers defined benefit plans to some of its employees. Using the services of experts and actuaries, management used various statistical assumptions and evaluation factors to calculate the charges and the current value of assets and liabilities relating to these plans. The assumptions relate to the discount rate, the expected return on the assets servicing the plan, the rates of future salary increases, demographic trends, the inflation rate and expected health costs. The actuaries consulted also use subjective factors, such as mortality and resignation rates.

Provision for product warranties

Based on product sales, the Company allocates provisions according to the costs estimated as likely to be incurred for product warranties. Management establishes the value of such provisions on the basis of historical information on the nature, frequency and average cost of operations carried out under warranty and on the basis of specific contractual agreements.

The Company strives to improve the quality of its products and to minimize the burden deriving from operations under warranty.

Potential liabilities

The Company is subject to lawsuits regarding a number of disputes that were submitted to the jurisdiction of various States. Given the inherent uncertainty of these disputes, it is difficult to predict with certainty the resulting financial cost, or the time frame within which it will arise. The lawsuits and disputes against the Company derive primarily from complex legal problems, that are subject to varying degrees of uncertainty, considering the facts and circumstances involved in each dispute and the different laws applicable. To assess the risks deriving from potential liabilities of a legal nature correctly and prudentially, management

periodically obtains information on the situation from its legal advisers. The Company establishes a liability in relation to such disputes when it considers it likely that a financial cost will occur and when the amount of the resulting losses can be reasonably estimated.

Valuation of closing inventories

Closing inventories of products with characteristics of obsolescence or slow turnaround are periodically subjected to tests for their correct valuation and are written down where the recoverable value thereof is less than the book value. The write-downs carried out are based, primarily, on assumptions and estimates of management deriving from its experience and the historical results achieved.

Valuation of deferred tax assets

The valuation of deferred tax assets is made on the basis of taxable income expected in future years and expected tax rates at the date when the temporary differences are expected to occur, insofar as they are considered applicable in the future. The measurement of such expected profits depends on factors that may change over time and have a significant impact, therefore, on the valuation of deferred tax assets.

Transactions with related parties

The Company deals with related parties under contractual conditions considered to reflect the arm's length conditions on the markets in question, taking account of the characteristics of the goods and services supplied and received.

RISK ANALYSIS

In accordance with the requirements of Accounting Standard IFRS 7, the following analysis is provided regarding the nature and extent of risks deriving from financial instruments to which the company is exposed, as well as the methodologies with which such risks are managed.

The main risks are reported and discussed at the Top Management level of the Company in order to create the prerequisites for their hedging, insurance and for the assessment of the residual risk.

Interest rate risk

The Company is exposed to the interest rate risk associated with both cash in hand and with medium to long term loans. The exposure refers mainly to the Euro zone. As regards exposure to the risk of interest rate volatility, note that the financial indebtedness with banks is regulated primarily by variable interest rates. Therefore, the financial management of the Company remains exposed to fluctuations in interest rates, since, at the date of these financial statements, it had no hedging instruments to cover changes in interest rates on loans with banks.

The recent economic and financial performance of the Company led to a reduction in the credit rating assigned

by financial institutions, which limited access to sources of funding, as well as increased financial charges. Interest rate risks were measured using *sensitivity analysis* and the potential impacts of Euribor interest rate fluctuations on the financial statements at 31 December 2017 were analyzed with particular reference to cash and cash equivalents and to loans. The increase of 50 *basis points* on the Euribor, like all the other variables, would have produced an increase in financial costs for the Company of Euro 217 thousand in comparison to an increase of financial income equal to Euro 26 thousand.

Exchange risk

The Company sells part of its production and, although to much lesser degree, also purchases some components also in countries outside the Euro zone.

In relation to the exchange risk, it is reported that the amount of accounting balances expressed in currency other than the Euro is not considered significant, therefore the sensitivity analysis required by IFRS 7 is not provided. The Company has not subscribed to instruments to cover exchange rate fluctuations and, in accordance with the company's policy up to this moment, no derivatives are subscribed solely for trading purposes. Therefore, the Company remains exposed to the exchange rate risk on the balances of the assets and liabilities in foreign currency at year end.

Credit risk

Credit risk is the risk that a customer or one of counterparts of a financial instrument causes a financial loss through failure to fulfil an obligation and derives primarily from trade receivables, from other financial assets and from guarantees that may have been given by the company.

Trade receivables and other receivables

The Company deals mainly with known and reliable customers. It is Company policy to subject customers requesting extended payment conditions to procedures for checking their credit class. This check also includes external assessments when available. Sales limits are established for each customer, which represent the maximum line of credit, beyond which direct approval by management is required. The credit limits are reviewed periodically and the customers who do not satisfy the creditworthiness conditions established by the company can then make purchases only by payment in advance. In addition, the balance of the receivables is monitored on a fortnightly basis over the period, in order to minimize exposure to the risk of losses. Finally, regarding new customers and those not operating in EU countries, a letter of credit to guarantee successful collection is normally used, where possible.

The company allocates a provision for loss of value that reflects the estimated losses on trade receivables and on other receivables, made up primarily of individual write-downs of significant exposures.

Other financial assets

The credit risk regarding the other financial assets of the Company, including cash and cash equivalents, presents a maximum risk equal to the book value of these assets in the case of insolvency of the counterpart.

Guarantees

When required, the policies of the Company provide for the issue of financial guarantees in favour of subsidiary companies, but not for Joint Ventures. At 31 December 2017, the Company did not have any financial guarantees to third parties for a significant amount in place.

Liquidity risk

The liquidity risk is the risk that the Group may have difficulty in meeting obligations associated with financial liabilities.

On 27 March 2017, to cope with the economic and financial situation and the reduced liquidity levels, as highlighted in the Financial Report 2016, the Company undersigned a financial structure Optimization Agreement for the whole Group, the guidelines of which were developed with the support of the Financial Advisor Mediobanca – Banca di Credito Finanziario S.p.A. In particular, this agreement regards the entire financial debt of the Company and the entire Group (i.e., that represented by the bond component and that represented by the bank component) and calls for, inter alia:

- (i) The movement of the maturity date of the debt of the Parent Company signatory to the agreement to 2022;
- (ii) The rescheduling of the debt of the Company and its subsidiaries, on the basis of repayment instalments of increasing amounts in line with the cash generation objectives laid out in the Business Plan;
- (iii) The review of financial covenants consistent with the performance laid out in the Business Plan;
- (iv) The maintenance of short-term lines in an amount consistent with the needs laid out in the Business Plan.

The agreement was also prepared in light of and consistent with the Company's Business Plan, the update of which was approved by the Board of Directors on 30 December 2016. The Business Plan was subject to an independent business review by KPMG Advisory S.p.A. in the capacity of independent third-party business advisor, and the results of that analysis and the relative documentation were considered by the Company's management in developing and finalizing the Financial Optimization Project.

See the Directors' Report for all further information on risk factor analysis pursuant to art. 154-ter TUF (Finance Consolidation Act).

D) NOTES TO THE FINANCIAL STATEMENTS

1. SEGMENT REPORTING

Please refer, as provided for by IAS 14 paragraph 6, to the analysis provided in the consolidated financial statements.

NON-CURRENT ASSETS

For the purpose of facilitating the understanding of the tables below, the data relating to the merger by incorporation of the subsidiary A.E.B. S.p.A. is entered in a specific column, giving the values relating to the fixed assets conferred, with reference to the date of effect of the merger.

2. LAND, PROPERTY, PLANT, MACHINERY AND OTHER EQUIPMENT

Tangible assets showed a total net decrease of Euro 9,028 thousand, from Euro 18,993 thousand at 31 December 2016 to Euro 9,965 thousand at 31 December 2017.

An overall analysis of the changes in net tangible assets during the financial year 2016 are shown below:

(Thousands of Euro)							
Net value	31/12/2015	Acquisitions	(Disposals)	Amortization amounts	Other changes		31/12/2016
Land and buildings	14	231	0	-43	0		202
Plant and machinery	8,668	396	-115	-1,542	1,158		8,565
Industrial and commercial equipment	9,653	1,047	-18	-2,807	476		8,351
Other tangible assets	1,246	44	-21	-418	973		1,824
Assets in progress and payments on account	2,484	173	0	0	-2,607		50
Total	22,066	1,891	-154	-4,810	0		18,993

Overall changes in net tangible assets during fiscal year 2017 are shown in detail below:

(Thousands of Euro)							
Net value	31/12/2016	Merger of AEB	Acquisitions	(Disposals)	Amortization amounts	Other changes	31/12/2017
Land and buildings	202	310	16	0	-121	0	407
Plant and machinery	8,565	1,292	265	-3,219	-1,860	101	5,144
Industrial and commercial equipment	8,351	277	745	-4,293	-2,130	21	2,971
Other tangible assets	1,824	86	29	-136	-463	0	1,341

Assets in progress and payments on account	50	76	119	-21	0	-122	102
Total	18,993	2,041	1,174	-7,669	-4,574	0	9,965

The main increases in tangible assets during the period in question relate to:

- Purchases and improvements to specific plants and machinery for Euro 265 thousand referring primarily to general plants and production lines;
- Purchase of new moulds and templates for Euro 341 thousand;
- Purchase of equipment for Euro 62 thousand;
- Purchase of testing and control instruments for Euro 342 thousand, relating primarily to functional component testing.

The significant decreases for the period relate primarily to the sale on 31 July 2017 with effect from 1 August 2017, of the company branch relating to the part of the Technical Centre destined to laboratory management to the company AVL Italia S.r.l., primary world leader in the development of *powertrains*. This transaction, which led to the disposal of fixed assets worth Euro 7.7 million, was carried out at a sale price of Euro 5,700 thousand consequently determining the entry of net capital losses of Euro 2.0 million;

The transaction will annually lead to a reduction in fixed costs of around Euro 3 million and will have a positive impact of around Euro 2 million per year in terms of financial management. The disposal of the business unit will also allow for a reduction of between Euro 500 thousand and Euro 700 thousand, amounts incurred during previous financial years in the annual investments to maintain and *upgrade* the equipment sold.

The item Land and Buildings includes the improvements to real estate leased from third parties.

The item Fixed Assets in Progress and Payments on Account totalling Euro 102 thousand at 31 December 2017 includes production machinery still to be completed.

The Other changes column includes reclassifications between fixed assets in progress and payments on account and the relative destination categories of the assets completed in the year.

3. DEVELOPMENT EXPENDITURE

Changes in development expenditure during 2016 are shown in detail below:

(Thousands of Euro)					
	31/12/2015	Acquisitions	(Amortization)	Other changes	31/12/2016
Development expenditure	6,171	3,018	-3,367	0	5,822

Changes in development expenditure during 2017 are shown in detail below:

(Thousands of Euro)						
	31/12/2016	Merger of AEB	Acquisitions	(Amortization)	Other changes	31/12/2017
Development expenditure	5,822	886	1,910	-3,664	0	4,954

Development expenditure, totalling Euro 4,954 thousand (Euro 5,822 thousand at 31 December 2016), includes the costs incurred by the Company for internal personnel, for services rendered by third parties and the costs of the test rooms and prototyping material, for projects satisfying the requirements of IAS 38 in order to be recognized in net assets. In particular, costs capitalized during the period refer to innovative projects, not carried out previously, aimed at new market segments, capable of expanding and optimizing the product range. The reduction of Euro 868 thousand is attributable to the amortizations of the period totalling Euro 3,664 thousand, only partially compensated by increases for new capitalizations for the period totalling Euro 1,910 thousand and the contribution of the merger of A.E.B. S.p.A. for Euro 886 thousand. Among these, the following main projects were developed by the parent company:

1. After Market Evolution Project (LPG and CNG) for development of new kits and components, including new reducers and new software for direct injection engines, and also adaptation of the product range to the new vehicle and engine models;
2. OEM Market Evolution Project (LPG and CNG) for development of new kits and components, including new reducers and injectors, and also adaptation of the product range to the new vehicle and engine models;
3. new (CNG) reducers project for heavy-goods vehicles;
4. project for a new range of self-calibrating Multipoint electronic control units.

New development activities began during the initial months of 2018 and they are also expected to continue for the rest of the current year.

4. GOODWILL

This item breaks down as follows:

(Thousands of Euro)

Goodwill	Net Value at 31/12/2016	Merger of AEB	Acquisitions	(Amortization)	Other changes	(Write-downs)	Net Value at 31/12/2017
Goodwill ex-A.E.B. S.p.A.	0	2,373	0	0	0	0	2,373
Total	0	2,373	0	0	0	0	2,373

This item refers to the goodwill conferred following the merger by incorporation of the subsidiary A.E.B. S.p.A. and refers to the values deriving from the purchase by the latter of the company branch of MED brand alarm systems.

Impairment tests were carried out on goodwill and the results were approved by the Board of Directors of the Company on 15 March 2018.

Given the full integration of the AEB business and its products in those of the parent company, the management has identified the company as CGU.

The recoverable value of goodwill was defined with respect to the value in use, intended as the current net value of operating cash flows (discounted accordingly using the DCF – *Discounted Cash Flow* method) deriving from the update of the 2018-2022 Strategic Plan approved by the Board of Directors on 13 September 2017.

The forecasts for 2018-2022 were prepared and approved by the governing body of the Company on the basis of the results achieved in previous years, management expectations on market trends and the operating costs rationalization dynamics envisaged by the group industrial plan approved by the Board of Directors of the Parent Company. For said impairment test, at the end of the period considered in the plan, a terminal value was estimated which reflects the value of the goodwill beyond the specific period, on the assumption that the companies will continue as a going concern.

Expected cash flows refer to current operating conditions and therefore do not include cash flows linked with intervening extraordinary events.

The discount rate was calculated as the weighted average cost of capital (“W.A.C.C.”), before tax, determined as the weighted average between the cost of equity, calculated using the CAPM (Capital Asset Pricing Model) method, and the cost of debt. The rate, as required by IAS 36, was determined with reference to the operating risk of the sector and the financial structure of a sample of listed companies comparable to the Group in terms of risk profile and sector of activity. The methods for calculating the main variables used to determine the value in use of the CGUs are described below.

The following aspects were taken into consideration to determine the discount rate:

- The approach which considers the country risk implicit in the risk free rate was used in determining the discount rate;

- The risk free rate was determined using as a reference the average return on 10-year Italian government bonds for the period January - December 2017, equal to 2.3%;
- The unlevered beta parameter and the market target financial structure used for the releveraging of that parameter were identified on the basis of the same panel of comparable companies used for the other Cash Generating Units;

On the basis of the parameters set forth above, the weighted average cost of capital (W.A.C.C.) relating to Landi Renzo S.p.A. is therefore equal to roughly 9.5%.

The “g” growth rate was determined by taking as a reference the long-term inflation rate estimated by the International Monetary Fund (“World Economic Outlook”, October 2017) for Italy, resulting in a value of 3.0%.

The results of these tests did not show any loss of value of goodwill.

The changes in the basic assumptions which make the recoverable value equal to the book value are shown below:

(Thousands of Euro)

Subsidiary company	Surplus of recoverable value over book value	Terminal value growth rate %	Discount rate including tax %
Goodwill ex-A.E.B. S.p.A.	140,101	negative	33.8

5. OTHER INTANGIBLE ASSETS WITH FINITE USEFUL LIVES

Changes in other intangible assets with finite useful lives that occurred during 2016 are shown in detail below:

(Thousands of Euro)

Other intangible assets with finite useful lives	Net Value at 31/12/2015	Acquisitions	(Amortization)	Other changes	(Write-downs)	Net Value at 31/12/2016
Patents and intellectual property rights	847	163	-500	-18	0	492
Concessions and trademarks	116	60	-28	18	0	166
Total	963	223	-529	0	0	658

Changes in other intangible assets with finite useful lives that occurred during 2017 are shown in detail below:

(Thousands of Euro)

Other intangible assets with finite useful lives	Net Value at 31/12/2016	Merger of AEB	Acquisitions	(Amortization)	Other changes	(Write-downs)	Net Value at 31/12/2017
Patents and intellectual property rights	492	76	299	-455	-2	0	410

Concessions and trademarks	166	6,483	17	-594	2	0	6,074
Total	658	6,559	316	-1,049	0	0	6,484

This item, totalling Euro 6,484 thousand at 31 December 2017 (Euro 658 thousand at 31 December 2016), includes primarily concessions and trademarks for Euro 6,074 thousand, as well as rights to use intellectual property and the purchase of licences concerning operating applications for Euro 410 thousand. The significant increase in the period is due primarily to the A.E.B. trade mark (Euro 5,892 thousand), purchased following the merger by incorporation of the latter.

6. INVESTMENTS IN SUBSIDIARIES

This item breaks down as follows:

(Thousands of Euro)							Net Value at 31/12/2017
Investments in subsidiaries	31/12/2016	Merger of AEB	Increases	Decrements	Impairment losses	Other changes	
Equity investments	102,383	1,035	5,530	-8,530	-26	-44,379	56,013

The following are the changes in equity investments:

Thousands of Euro	Initial value	Increases	Decrements	Impairment losses	Other changes	Final value	Investment
LR Industria e Commercio Ltda	1,709					1,709	99.99%
Landi International B.V.	18					18	100.00%
Beijing Landi Renzo Autogas System Co. Ltd	2,057					2,057	100.00%
L.R. Pak (Pvt) Limited	0					0	70.00%
Landi Renzo Pars Private Joint Stock Company	3,000					3,000	99.99%
Lovato Gas S.p.A.	48,680					48,680	100.00%
Landi Renzo Ro Srl.	5					5	100.00%
Landi Renzo VE C.A.	0					0	100.00%
Landi Renzo USA	0					0	100.00%
AEB S.p.A.	44,379				-44,379	0	-
Eighteen Sound S.r.l.	0	6,030	-6,030			0	-
AEB America s.r.l.	0	535				535	96.00%
SAFE S.p.A.	2,500		-2,500			0	-
Emmegas S.r.l.	0					0	100.00%
Landi Renzo Argentina Srl	34			-26		8	96.00%
Total equity investments	102,383	6,565	-8,530	-26	-44,379	56,013	

The following changes occurred during the financial year:

- merger by incorporation of A.E.B. S.p.A., with accounting and tax effects from 1 January 2017, and consequent registration of the stakes held by the latter in AEB America S.r.l. and Eighteen Sound S.r.l.;
- Waiver of the receivables due from the subsidiary Eighteen Sound S.r.l., for Euro 5,530 thousand, amount taken directly to increase the value of the share;
- Sale, with effect from November 2017, of the subsidiary Eighteen Sound S.r.l. to B&C Speakers S.p.A., for an enterprise value of Euro 7,400 thousand net of the financial position on the date of sale;
- The above-mentioned strategic agreement for an industrial project for the aggregation of the subsidiary SAFE S.p.A., company in the Landi Group, and the company Clean Energy Compression Ltd (now called IMW Industries Ltd), company held by the US group Clean Energy Fuels Corp, was concluded on 29 December 2017. The aggregation was based on the establishment of a newco called SAFE & CEC S.r.l. and subsequent contribution of 100% of SAFE S.p.A. by the Landi Group and 100% of Clean Energy Compressor by Clean Energy Fuels Corp. Landi Group has a majority share of 51% in SAFE & CEC S.r.l. while Clean Energy Fuels Corp. holds the remaining 49%. Following the contractually required governance system which reflects the joint control agreement between the two shareholders, the Group ownership is classified as a “joint venture” pursuant to international accounting standards (IFRS 11);
- Decrease, for adjustment of the value, of the stake in Landi Renzo Argentina S.r.l.

At 31 December 2017, the stakes in the subsidiaries Lovato Gas S.p.A. and Landi Renzo Pars were subject to *impairment tests* to verify any loss in value.

The recoverable value of equity investments subjected to the *impairment test* was defined with respect to the value of use, by summing the net current value of operating cash flows (discounted accordingly using the DCF – *Discounted Cash Flow* method) deriving from the 2018-2022 economic-financial plan approved by the Board of Directors on 13 September 2016.

The forecasts for 2018-2022 were prepared and approved by the boards of directors of the respective subsidiaries on the basis of the results achieved in previous years, management expectations on market trends and the operating costs rationalization dynamics envisaged by the plan. For said impairment test, at the end of the period considered in the plan, a terminal value was estimated which reflects the value of the equity investment beyond the specific period, on the assumption that the companies will continue as a going concern. Said terminal value was calculated as a perpetual source of income, with a long-term growth rate (“g rate”) of:

- 3.9% for the subsidiary Lovato Gas S.p.A.;
- 5% for the subsidiary Landi Renzo Pars

The discount rate was calculated as the weighted average cost of capital (“W.A.C.C.”), before tax, determined as the weighted average between the cost of equity, calculated using the CAPM (Capital Asset Pricing Model) method, and the cost of debt. The rate, as required by IAS 36, was determined with reference to the operating

risk of the sector and the financial structure of a sample of listed companies comparable to the Group in terms of risk profile and sector of activity.

In particular, considered that Lovato Gas SpA operates primarily abroad, the discount rate was calculated while taking into consideration the risks associated with the company's cash flows generated in the various geographical areas. In this sense the following geographical areas were considered: "East Europe", "Asia and Middle East", "South America"; "West Europe", "Africa", "North America" and "Rest of the World". Likewise, in order to reflect growth prospects in the different geographical areas in which Lovato Gas S.p.A. operates, the "g" growth rate was determined as the weighted average of the long-term inflation rates estimated by the International Monetary Fund for the individual geographical areas, resulting in a value of 3.9%.

The principal parameters used to determine the rates used as a reference in the impairment tests are shown below:

Subsidiary company	Risk Free rate %	Beta levered	Market premium %	WACC %
Lovato Gas S.p.A.	4.6	1.20	6.1	10.7
Landi Renzo Pars Private Joint Stock Company	9.8	1.20	6.6	17.7

The approach which considers the country risk implicit in the risk free rate was used in determining the discount rate;

For the risk free rate, reference was made to an average figure for the period January - December 2017 of 10-year Italian government bonds. For the Beta factor, reference was made to a Beta taken over a timespan of 3 years for a sample of listed companies considered as comparables.

The resulting *impairment tests* highlighted that the recoverable value is higher than the book value of each share analysed, and therefore no depreciation of the book value of these shares was necessary.

At the bottom of these Explanatory Notes there is a specific table summarizing the companies in which an investment is held, which contains the information required by the Italian Civil Code, and the indirect investments not specified in the above paragraph are also shown.

7. EQUITY INVESTMENTS IN ASSOCIATED COMPANIES AND JOINT VENTURES

This item breaks down as follows:

(Thousands of Euro)

Equity investments in associated companies and joint ventures	31/12/2016	Increases	Use of provision	Impairment losses	Net Value at 31/12/2017
SAFE&CEC S.r.l.		24,225			24,225

EFI Avtosanoat - Landi Renzo LLC	172				172
Krishna Landi Renzo India Private Ltd Held	43	33			76
Total	215	24,258	0	0	24,473

At 31 December 2017, this item totalled Euro 24,473 thousand and relates to the stakes in the company SAFE&CEC S.r.l. for Euro 24,225 thousand, EFI Avtosanoat Landi Renzo LLC for Euro 172 thousand and in Krishna Landi Renzo India Private Ltd for Euro 76 thousand. The increases in the period refer to:

- increase in value of Euro 33 thousand of the company Krishna Landi Renzo India Private Ltd following the valuation of its net worth;
- registration of the stake held by the Company in the joint venture SAFE&CEC S.r.l., established in the year and of which Landi Renzo S.p.A. holds a 51% stake, entered in the financial statements according to the fair value share, equal to Euro 24,225 thousand. The fair value of the new joint venture was determined by a primary independent expert.

The significant variation on the previous financial year is due to the establishment of the joint venture SAFE & CEC S.r.l., in which the Group holds a 51% stake following the conferral of 100% of SAFE S.p.A., aggregation transaction which took place on 29 December 2017 as described above.

8. OTHER NON-CURRENT FINANCIAL ASSETS

This item breaks down as follows:

(Thousands of Euro)

Other non-current financial assets	31/12/2016	Merger of AEB	Decrements	Increases	Impairment losses	31/12/2017
Loan to Eighteen Sound S.r.l.		4,775	-4,775			0
Loan to Landi Renzo Usa Co.				1,025	-1,025	0
Loan to Landi Renzo Pars	337			50		387
Total equity investments in other companies	3	6				9
Total	340	4,781	-4,775	1,075	-1,025	396

At 31 December 2017, other non-current financial assets totalled Euro 396 thousand and relate principally to the remainder of the outstanding loan to subsidiary Landi Renzo Pars totalling Euro 388 thousand. As explained above, the receivable from Eighteen Sound S.r.l., previously a subsidiary of A.E.B. S.p.A., was waived by the Company.

The company performed an impairment test on the value of non-current financial assets at 31 December 2017 to check for any loss in value of said assets.

For the purpose of evaluating the recoverability of receivables from the US subsidiary, the management considered some factors affecting the debtor's ability to repay the granted loan. In particular, considering the current economic and equity situation, the profitability of previous financial years and this year at 31 December 2017, the ability to support the debt and the future short/medium term prospects, the financial receivables of Euro 9,964 thousand, of which 1,025 thousand in 2017, was entirely written off.

9. OTHER NON-CURRENT ASSETS

This item breaks down as follows:

(Thousands of Euro)			
Other non-current assets	31/12/2017	31/12/2016	Change
Other non-current assets	4,561	1	4,560

At 31 December 2017 the other non-current assets amount to Euro 4,561 thousand relating mainly to receivables beyond the financial year from AVL Italia S.r.l. for Euro 4,560 thousand, in relation to the sale of the company branch "Technical Centre", the relative contract of which provides for the receipt in ten annual instalments and the charging of interests on the residual credit at the end of each year.

10. DEFERRED TAX ASSETS

In application of IAS 12, deferred tax assets were offset with deferred tax liabilities as:

- (i) the entity has a right to set off current tax assets against current tax liabilities; and
- (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

This item breaks down as follows:

(Thousands of Euro)			
Net deferred tax assets and liabilities	31/12/2017	31/12/2016	Change
Deferred tax assets	9,445	8,506	939
Deferred tax liabilities	-1,694	-403	-1,291
Total net deferred tax assets	7,751	8,103	-352

The following table shows the values of the offsettable prepaid and deferred taxes and their movements from 31 December 2016 to 31 December 2017 (in thousands of Euro):

Deferred tax assets	Deferred tax assets 31/12/2016	Uses	Other changes	Temporary changes	Deferred tax assets 31/12/2017
Inventory write-down reserve	1,024	0	274	28	1,326
Provision for product warranties	373	-44	83	348	760
Provision for bad debts - taxed	524	-2	61	20	603
Provision for other risks and lawsuits	1,351	-849	0	250	752
Other temporary differences	249	-24	15	779	1,019
Tax losses	4,985	0	0	0	4,985
Total deferred tax assets	8,506	-919	433	1,425	9,445
Offsettable deferred tax liabilities	Deferred tax liabilities 31/12/2016	Uses	Other changes	Temporary changes	Deferred tax liabilities 31/12/2017
Non-deductible amortization of the AEB trade mark	0	-157	1,800	0	1,643
TFR - Equity reserve	23	0	0	0	23
Other temporary changes	380	-355	-23	26	28
Total deferred tax liabilities	403	-512	1,777	26	1,694
Total net deferred tax assets	8,103	-407	-1,344	1,399	7,751

At 31 December 2017 prepaid tax assets, totalling Euro 9,445 thousand (Euro 8,506 thousand at 31 December 2016), related both to temporary differences between the book values of assets and liabilities on the balance sheet and the corresponding tax values recognized for tax purposes and to the losses from the consolidation tax scheme of years prior to 2017, totalling Euro 4,985 thousand. According to the forecasts in the Strategic Plan 2018 - 2022, the management has made a forecast for the same period of future taxable income of the companies included within the tax consolidation, to check the recoverability of prepaid tax credits linked to tax losses. From the analysis it emerged that these credits are fully recoverable by 2022. The recoverability of these amounts in the indicated times is subject to the intrinsic risk of non-implementation inherent in the forecasts contained in the Strategic Plan.

For reasons of prudence, the company decided not to recognize any provision for deferred tax assets on tax losses for the year, totalling Euro 11,403 thousand.

In consideration of this, at 31 December 2017, the Company had tax losses that could be carried forward indefinitely of Euro 50 million, for which deferred tax assets were not recognized.

At 31 December 2017 deferred tax liabilities totalled Euro 1,694 thousand (Euro 403 thousand at 31 December 2016) with an increase equal to Euro 1,291 thousand, and are primarily related to temporary differences between the book values of certain assets, particularly the difference between the book value and the value recognized for tax purposes of the brand A.E.B. deriving from the merger.

The column "Other movements" relates mainly to the effects of the merger of A.E.B. S.p.A.

CURRENT ASSETS

11. TRADE RECEIVABLES INCLUDING RECEIVABLES FROM CUSTOMERS - OTHER RELATED PARTIES

Trade receivables, stated net of the related write-down reserve, are shown divided by geographical area below:

(Thousands of Euro)			
Trade receivables by geographical area	31/12/2017	31/12/2016	Change
Italy	5,452	3,889	1,563
Europe (excluding Italy)	4,344	3,977	367
Asia and Rest of the World	4,726	3,589	1,137
America	1,680	1,852	-172
Provision for bad debts	-3,402	-2,947	-455
Total	12,800	10,360	2,440

Trade Receivables totalled Euro 12,800 thousand at 31 December 2017, net of the Provision for Bad Debts equal to Euro 3,402 thousand, compared with Euro 10,360 thousand, net of a provision for bad debts of Euro 2,947 thousand in 2016. The increase on the previous financial year is mainly due to the merger of A.E.B. S.p.A.

The Company carried out assignment of trade receivables through *factoring* without recourse and, at 31 December 2017, the amount of assignments with credit *maturity*, for which there was *derecognition* of the related receivables, totalled Euro 13,644 thousand, substantially unchanged compared with Euro 13,574 thousand at 31 December 2016.

Note that there are no non-current trade receivables or receivables secured by collateral guarantees.

Trade receivables from related parties totalled Euro 1,025 thousand at 31 December 2017, compared with Euro 1,269 thousand in 2016 and related to supplies of goods to the Joint Ventures Krishna Renzo India Private Ltd Held and EFI Avtosanoat Landi Renzo LLC. All the transactions are carried out at arm's length conditions.

For transactions with related parties, please refer to paragraph 44.

The provision for bad debts, calculated using analytical criteria on the basis of the data available, changed as follows:

(Thousands of Euro)					
Provision for bad debts	31/12/2016	Merger of AEB	Provisions	Uses	31/12/2017
Provision for bad debts	2,947	322	194	-61	3,402

The allocations made during the year, necessary in order to adjust the book value of the receivables to their assumed recovery value, net of the effect of the merger by incorporation of the subsidiary A.E.B. S.p.A., equal to Euro 194 thousand.

In accordance with the requirements of Accounting Standard IFRS 7, the following table provides information on the maximum credit risk divided by past due credit classes, gross of the Reserve for Bad Debts:

(Thousands of Euro)

Trade receivables ageing for 2017 - 2016	Total	Not past due	Past due		
			0-30 days	30-60 days	60 and beyond
Trade receivables at 31/12/2017 (gross of provision)	16,202	9,093	1,073	177	5,859
Trade receivables at 31/12/2016 (gross of provision)	13,307	6,717	1,343	132	5,115

It is considered that the book value of the Trade receivables approximates their fair value.

12. RECEIVABLES FROM SUBSIDIARIES

Receivables from subsidiaries totalled Euro 13,434 thousand at the end of the period compared with Euro 7,275 thousand for the previous year. The increase is primarily due to the purchase of the credits held by A.E.B. S.p.A. towards other companies in the Group, for Euro 5,839 thousand, following the merger.

For a breakdown, see the appropriate final chapter relating to “Other information” (Note 44).

13. INVENTORIES

This item breaks down as follows:

(Thousands of Euro)			
Inventories	31/12/2017	31/12/2016	Change
Raw materials and parts	13,769	8,930	4,839
Work in progress and semi-finished products	5,127	4,820	307
Finished products	6,126	4,331	1,795
(Inventory write-down reserve)	-4,751	-3,668	-1,083
Total	20,271	14,413	5,858

The table shows an increase in stocks totalling Euro 5,857 thousand compared to 31 December 2016, due mainly to the effects of the merger with AEB S.p.A.

The Company estimated the amount of an inventory write-down reserve, the details of which are provided below, to cover risks of technical obsolescence of stocks and to align the book value to their presumed realization value.

(Thousands of Euro)

Inventory write-down reserve	31/12/2016	Merger of AEB	Provisions	Uses	31/12/2017
Inventory write-down reserve (raw materials)	3,178	702	100	-	3,980
Inventory write-down reserve (finished products In progress)	260	227	-	-	487
Inventory write-down reserve (finished products)	230	54	-	-	284
Inventory write-down reserve – total	3,668	983	100	0	4,751

14. OTHER RECEIVABLES AND CURRENT ASSETS

This item breaks down as follows:

(Thousands of Euro)

Other receivables and current assets	31/12/2017	31/12/2016	Change
Tax assets	3,134	639	2,496
Receivables from others	1,531	795	736
Accruals and deferrals	515	657	-142
Total	5,180	2,091	3,089

Tax assets

Tax receivables are represented by receivables from the Tax Authorities for VAT totalling Euro 2,335 thousand, receivables for IRES and IRAP credits as well as receivables from the Tax Authorities for IRES related to IRAP deduction pursuant to Italian Legislative Decree 201/2011 totalling Euro 379 thousand, as shown in the following table.

(Thousands of Euro)

Tax assets	31/12/2017	31/12/2016	Change
IR c/VAT recoverable	2,335	352	1,983
IR c/IRES and IRAP payments on account and tax credits	799	287	512
Total	3,134	639	2,496

Receivables from others

(Thousands of Euro)

Receivables from others	31/12/2017	31/12/2016	Change
Advances to suppliers	385	294	90
Receivables from social security institutes	10	135	-125
Credit notes to be received	381	129	252
Other receivables	755	237	518
Total	1,531	795	736

At 31 December 2017 Other receivables refer mainly to the current part of the receivables from AVL Italia S.r.l. relating to the sale of the company branch “Technical Centre” for Euro 570 thousand, and the remainder advances granted to suppliers and credit notes to be received.

Prepayments and accrued income

This item includes primarily prepaid insurance premiums, rentals, type approvals, membership contributions and hardware and software maintenance fees paid in advance.

15. CASH AND CASH EQUIVALENTS

This item, consisting of the active balances of bank current accounts and cash in hand in both Euro and foreign currency, breaks down as follows:

(Thousands of Euro)			
Cash and cash equivalents	31/12/2017	31/12/2016	Change
Bank and post office accounts	7,219	4,184	3,035
Cash	6	1	5
Total	7,225	4,185	3,040

Cash and cash equivalents at 31 December 2017 totalled Euro 7,225 thousand (Euro 4,185 thousand at 31 December 2016).

It is considered that the book value of the item “Cash and cash equivalents” is aligned with its fair value at the date of the financial statements. The credit risk relating to Cash and cash equivalents is therefore deemed to be limited since the deposits are split over primary national banking institutions.

For analysis of the production and absorption of cash during the year, please refer to the Statement of Cash Flows.

16. SHAREHOLDERS' EQUITY

The following table provides a breakdown of shareholders' equity items:

(Thousands of Euro)			
Equity	31/12/2017	31/12/2016	Change
Share capital	11,250	11,250	0
Statutory reserve	2,250	2,250	0
Extraordinary reserve	0	12,796	-12,796
IAS transition reserve	0	310	-310
OPI reserve 2	-3,626	0	-3,626
Share premium reserve	30,718	46,598	-15,880

Discounted profit/loss reserve (IAS 19)	-177	-97	-80
Future share capital increase contribution	8,867	0	8,867
Profit (loss) for the period	1,939	-28,986	30,925
Total Shareholders' Equity	51,221	44,121	7,100

Share capital

The share capital stated in the Financial Statements at 31 December 2017 is the share capital (fully subscribed and paid-up) of the company, which is equal to nominal Euro 11,250 thousand subdivided into a total of 112,500,000 shares, with a nominal value equal to Euro 0.10.

Statutory reserve

The balance of the Statutory Reserve at 31 December 2017 amounted to Euro 2,250 thousand and is unchanged compared with the previous year, having reached one fifth of the share capital.

Extraordinary reserve

The Extraordinary Reserve decreased by Euro 12,796 thousand following the coverage of the loss for the year at 31 December 2016.

OPI reserve 2

As explained above, with accounting and tax effects from 1 January 2017, the subsidiary A.E.B. S.p.A. was merged by incorporation into the company. With no specific indications in the international accounting standards, the transaction was accounted for according to the provision included in the Assirevi document OPI no. 2R which, in the case of mergers without purchase, require the application of the principle of continuity of value, given the lack of an exchange with third party economies. In particular, this interpretation gives importance to the existence of a cost and control relationship, and relative *purchase price allocation*, deriving from the group's consolidated financial statements.

As laid down in OPI no. 2R, the differential emerging when cancelling the share value and the corresponding share of the net worth or the incorporated company, including the effects of the *purchase price allocation* shown in the consolidated financial statements, totalling Euro 3,626 thousand, was classified as a reduction of the net worth.

Share Premium Reserve

The Share Premium Reserve decreased by Euro 15,880 thousand following the coverage of the loss for the year at 31 December 2016.

Future share capital increase contribution

During the financial year, on 30 March 2017, coinciding with the Financial Structure Optimization Agreement of the company and the Group, the controlling shareholder made a future capital increase contribution to Landi Renzo S.p.A. totalling Euro 8,866,500.

It is acknowledged that the losses for 2016, totalling Euro 28,986 thousand, were covered by the use of the Extraordinary Reserve for a total of Euro 12,796 thousand, the Share premium account for Euro 15,880 thousand, and other minor reserves available for Euro 310 thousand.

The following table shows the individual equity items, distinguishing them according to origin, availability and their using in the three previous years.

<i>Nature and description</i>	<i>Amount (in thousands)</i>	<i>Possibility of utilization (*)</i>	<i>Portion available</i>	<i>Summary of utilizations carried out in the three previous years</i>
Share capital	11,250	-		
Capital reserves				
Share premium	30,718	A,B,C	30,718	*** 15,880
Profit reserves				
Statutory reserve	2,250	B		
Extraordinary reserve	0	A,B,C	0	*** 38.346
IAS transition reserve	0	A,B,C	0	
OPI reserve 2	-3,626	A,B,C	-3,626	*** 28,045
Discounted profit/loss reserve (IAS 19)	-177		-177	
Future share capital increase contribution	8,867	A	8,867	
Profit (Loss) for the year 2017	1,939		1,939	
Total	51,221		37,721	
Non-distributable portion (**)			-13,820	
Residual distributable portion			23,901	

(*) Possibility of use: A - for share capital increases B -for covering losses C - for distribution to shareholders

(**) Non-amortizable development costs and future capital increase contributions

(***) for coverage of losses

NON-CURRENT LIABILITIES

Financial Optimization Agreement

It is reported that on 30 March 2017, the Meeting of Bondholders for the LANDI RENZO 6.10% 2015-2020 loan unanimously approved the Board of Directors' proposal regarding amendments to the Debenture Loan Regulations. In particular, inter alia, the Meeting approved the postponement of the maturity of the debenture loan from 15 May 2020 to 31 December 2022. The Meeting then approved a decrease in the coupon rate in relation to interest periods beginning from the payment date falling on 30 April 2017 (inclusive) until 30 June 2019 (exclusive) from the current 6.10% to 5.5% on an annual basis of the outstanding capital; the coupon rate will be paid every six months.

Following the changes mentioned above, the debenture loan was named “LANDI RENZO 6.10% 2015-2022”, maintaining the same ISIN IT0005107237.

At the same time, the Group’s financial structure Optimization Agreement was finalized, the guidelines of which were developed with the support of the financial advisor Mediobanca – Banca di Credito Finanziario S.p.A., after all banking institutions involved had signed it.

The agreement calls for, inter alia:

- (i) The movement of the maturity date of the debt of the Company and its subsidiaries which are signatories to the agreement to 2022;
- (ii) The rescheduling of the debt of the Group, on the basis of repayment instalments of increasing amounts in line with the cash generation objectives laid out in the Business Plan;
- (iii) The review of financial covenants consistent with the performance laid out in the Business Plan;
- (iv) The maintenance of short-term lines in an amount consistent with the needs laid out in the Business Plan.

The project was also prepared in light of and consistent with the Group’s Business Plan, the update of which was approved by the Board of Directors on 30 December 2016. The Business Plan was subject to an independent business review by KPMG Advisory S.p.A. in the capacity of independent third-party business advisor, and the results of that analysis and the relative documentation were considered by the Group’s management in developing and finalizing the Financial Optimization Project.

17. NON-CURRENT BANK LOANS

This item breaks down as follows:

(Thousands of Euro)	31/12/2017	31/12/2016	Change
Non-current bank loans			
Loans and financing	23,339	13,653	9,686

This item includes the medium/long term portion of bank debts for unsecured loans and finance. It totalled Euro 23,339 thousand at 31 December 2017, compared with Euro 13,653 thousand at 31 December 2016.

Please note that upon closure of the Financial Optimization Agreement, compared to 31 December 2016, the unsecured loans were reclassified from short to medium-term based on the updated contractual maturities which require half-yearly repayment in instalments of increasing amounts, from June 2018 to December 2022. The first measurement of financial covenants at 31 December 2017, confirmed the Group’s compliance with these.

The structure of the debt is exclusively at a variable rate indexed to the Euribor and increased by a spread aligned with the normal market conditions; the loan currency is the Euro. The loans are not secured by real collateral and there are no clauses other than the early payment clauses normally envisaged by commercial practice.

The Annual repayment plan for the medium/long-term loans, based on the balances at 31 December 2017, is shown below.

Maturities	Annual loan repayment instalments post-agreement
2018	2,038
Total current	2,038
2019	3,121
2020	4,160
2021	6,236
2022	9,822
Total non-current	23,339
Total	25,377

The Company does not have any derivatives to cover the loans.

It should be noted that, as indicated in point 2.h) of the Report on Corporate Governance and Ownership Structures, early settlement of certain loan agreements may be requested should there be a change of control of the Company.

It is considered that the book value of the bank payables is aligned with their fair value at the balance sheet date.

At 31 December 2017, the Company had the following further short-term credit facilities, available but not used:

(Thousands of Euro)	2017
Credit facilities	
Cash facility	2,620
Facility for various uses	14,132
Total	16,752

18. OTHER NON-CURRENT FINANCIAL LIABILITIES

This item breaks down as follows:

(Thousands of Euro)			
Other non-current financial liabilities	31/12/2017	31/12/2016	Change
Payables to other financial backers	629	1,048	-419
Lovato S.p.A. loan	2,950	3,050	-100
Bonded loan MT Landi Renzo 6.10% 2015-2022	29,347	22,010	7,337
Amortized cost of the bonded loan MT	-668	-246	-422
Total	32,258	25,862	6,396

At 31 December 2017, other non-current financial liabilities totalled Euro 32,258 thousand (Euro 25,862 thousand at 31 December 2016) and are formed of:

- Euro 629 thousand for the long-term portions of the three tranches of a loan granted by Simest S.p.A. in September 2013, December 2014 and November 2015, to support a plan of expansion of business activities in the USA, for a resolved total amount of Euro 2,203 thousand, in accordance with specific requirements;
- Euro 2,950 thousand for the intercompany loan granted by the subsidiary Lovato Gas S.p.A.;
- for Euro 28,679 thousand for the medium/long-term portion of the “LANDI RENZO 6.10% 2015-2022” bonded loan, net of the amortized cost.

The repayment times of the debenture loan, originally issued in May 2015 for Euro 34 million, with a duration of five years, bullet repayment and a 6.10% gross fixed interest rate with six-monthly deferred coupon, were revised by the Bondholders' Meeting held on 30 March 2017, which voted in particular, inter alia, to postpone the maturity of the debenture loan from 15 May 2020 to 31 December 2022. The Meeting then approved a decrease in the coupon rate in relation to interest periods beginning from the payment date on 30 April 2017 (inclusive) until 30 June 2019 (exclusive) from the current 6.10% to 5.5% on an annual basis of the outstanding capital; the coupon rate will be paid every six months.

The coupon for the first four months of 2017 remained unchanged compared to the provisions of the Meeting of 30 December 2016 equal to an annual rate of 6.10% paid on the date of payment of 30 April 2017 in an amount of 2.03% (for the entitlement period from 31 December 2016 inclusive to 30 April 2017 excluded) while for the entitlement period from 30 April 2017 included to 30 June 2017 excluded the coupon was paid at 0.92% (equal to an annual interest rate of 5.5%). For the entitlement period from 30 June 2017 inclusive to 30 June 2019 exclusive, the half-yearly coupon rate will be 2.75% (equal to an annual interest rate of 5.5%).

The rates on the half-yearly coupons that will accrue from 30 June 2019 inclusive to the maturity date of the loan will be equal to 3.05% (equal to an annual interest rate of 6.1%) of the outstanding capital.

In addition, inter alia, again referring to the Group's financial structure Optimization Agreement, the Meeting of 30 March 2017 approved the amendment to the repayment plan, envisaging increasing instalment amounts on a half-yearly basis from 30 June 2018 to 31 December 2022.

The table below provides details of the new maturities on the nominal value of the Loan:

(Thousands of Euro)

	2018	2019	2020	2021	2022	Total
Instalment amount of repayment of Landi Renzo bonded loan	2,613	3,920	5,227	7,840	12,360	31,960
Amortized cost	-240		-668			-908

It is considered that the BOOK value of other non-current financial liabilities is aligned with their fair value at the balance sheet date.

19. RESERVES FOR RISKS AND CHARGES

The breakdown and changes in this item are shown in detail below:

(Thousands of Euro)

Provisions for risks and charges	31/12/2016	Merger of AEB	Allocation	Utilization	Other changes	31/12/2017
Provision for pensions and similar obligations	30	18	9			57
Provision for product warranty risks	1,337	797	1,248	-157	0	3,225
Tax risk and current legal proceedings fund	289	0	0	-94	0	195
Other provisions	4,658	0	3,840	-2,963	0	5,535
Total	6,314	815	5,097	-3,214	0	9,012

The pensions reserve relates to the provision accrued for additional customer indemnity, including provisions for the year of Euro 9 thousand and Euro 18 thousand deriving from the merger by incorporation of the subsidiary A.E.B S.p.A.

The item “Provision for Product Warranties” includes the best estimate of the costs related to the commitments that the Company has taken on as an effect of legal or contractual provisions, in relation to the expenses connected with providing product warranties for a certain period of time starting from the sale thereof. This estimate was calculated both with reference to the historical data of the Company and on the basis of specific contractual content. At 31 December 2017 this fund totalled Euro 3,225 thousand, of which Euro 797 thousand due to the effect of the merger with A.E.B. S.p.A.

The provision for tax risks and lawsuits in progress, which relates primarily to the probable payment for a dispute with a service provider declared bankrupt, was used in the amount of Euro 94 thousand to cover settlement costs incurred during the year.

“Other funds” include mainly provisions made during the year totalling Euro 2,940 thousand, in relation to the forecast financial payments as voluntary retirement incentives, following the agreements undersigned respectively in December 2017 with the social partners implementing the company restructuring plan aiming

to achieve an organizational structure that is consistent with the current business of the Company and the Strategic Plan. This item also includes a provision for a dispute with a primary customer of the Group for which negotiations are currently underway.

The uses in the year concern the costs incurred in relation to non-recurrent trade agreements previously entered for Euro 2,963 thousand.

20. DEFINED BENEFIT PLANS FOR EMPLOYEES

The following is the overall change in defined benefit plans for employees:

(Thousands of Euro)

Defined benefit plans for employees	31/12/2016	Merger of AEB	Allocation	Utilization	Other changes	31/12/2017
Employee severance indemnity reserve	1,471	447	48	-203	237	2,000

The provision of Euro 48 thousand relates to revaluation of the employee severance indemnity reserve at the end of the period, while use of Euro 203 thousand refers to the amounts paid to employees who ceased working during the year. The other movements relate to the actuarial adjustment of the Fund and the increase due to the direct passage of the TFR (severance indemnity) of the employees of the companies in the Group. The amount of Euro 79 thousand, relating to discounting of defined benefit plans according to IAS 19, has been stated under the item Other Reserves and expressed in other components of the Statement of Comprehensive Income. "Other movements" relates to the transfer of some staff of the subsidiary Emmegas S.r.l.

The main economic and financial assumptions used by the actuary in charge of estimates, methodologically unchanged since the previous year, are as follows:

Actuarial assumptions used for evaluations	31/12/2017
Demographic table	SIM AND SIF 2016
Discount rate (Euro Swap)	Curve of the Markit iBoxx € Corporate AA 10+ rates at 31/12/2017
Probability of request for advance	4.00%
Expected % of employees who will resign before pension	7.50%

Maximum % of TFR requested in advance	70%
Annual cost of living increase rate	1.5%

The sensitivity analysis performed on the above-indicated parameters, equal to +/- 0.50%, showed no significant effects.

CURRENT LIABILITIES

21. BANK FINANCING AND SHORT-TERM LOANS

At 31 December 2017 this item, totalling Euro 6,129 thousand, compared with Euro 26,572 thousand in 2016, was made up of the current portion of existing loans and financing totalling Euro 2,038 thousand and use of short-term commercial credit lines totalling Euro 4,091 thousand.

It is reported that compared to 31 December 2016 the loans were reclassified from short to medium term according to the provisions of the Financial Optimization Agreement.

22. OTHER CURRENT FINANCIAL LIABILITIES

(Thousands of Euro)

Type	Lender	Expiry date	Balance as at 31/12/2017	Current portion
Loan	Simest	17/06/2020	1,048	419
Landi Renzo 6.10% 2015-2022 ST Debenture Loan		30/06/2022	31,052	2,373
Total			32,100	2,792

At 31 December 2017, other current financial liabilities totalled Euro 2,792 thousand (Euro 10,033 thousand at 31 December 2016) and are formed of:

- for Euro 2,373 thousand for the short-term portion of the “LANDI RENZO 6.10% 2015-2022” bonded loan (according to the maturity dates laid out in the loan regulations amended by the Meeting of Bondholders on 30 March 2017);
- Euro 419 thousand in the short-term portion of a subsidized loan disbursed by Simest S.p.A. to support a plan to expand trade in the USA.

23. TRADE PAYABLES INCLUDING PAYABLES TO RELATED PARTIES

The changes in this item relate to:

(Thousands of Euro)			
Trade payables	31/12/2017	31/12/2016	Change
Trade payables	35,924	23,631	12,293

Trade payables (including trade payables to related parties) amount to Euro 35,924 thousand, of which Euro 6,886 thousand conferred following the merger with AEB S.p.A. and, referring to geographical areas, are divided as follows:

(Thousands of Euro)			
Trade payables by geographical area	31/12/2017	31/12/2016	Change
Italy	32,070	18,869	13,201
Europe (excluding Italy)	2,971	4,359	-1,388
Asia and Rest of the World	880	346	534
America	3	57	-54
Total	35,924	23,631	12,293

Trade payables to related parties of Euro 4,654 thousand refer mainly to relations with the companies Gireimm S.r.l. and Gestimm S.r.l. for property lease payments.

It is considered that the book value of the trade payables at the balance sheet date approximates their fair value.

24. PAYABLES TO SUBSIDIARIES

The trade payables due to subsidiaries refer to the payables for purchase of components and finished products from the companies of the Group and totalled Euro 8,392 thousand (Euro 19,952 at 31 December 2016). All the related transactions are carried out at arm's length conditions.

For details of the payables to Group companies, see the relevant table in the final chapter "Other information" (Note 44).

25. TAX LIABILITIES

This item breaks down as follows:

(Thousands of Euro)			
Tax liabilities	31/12/2017	31/12/2016	Change
for employee IRPEF (personal income tax) deductions	1,061	697	364
for self-employed workers' IRPEF (personal income tax) deductions	26	15	11

for collaborators' IRPEF (personal income tax) deductions	0	73	-73
for lieu tax and income tax	66	45	21
Total	1,153	830	323

At 31 December 2017 the tax payables amount to Euro 1,153 thousand, an increase of Euro 323 thousand compared to 31 December 2016, above all by effect of the IRPEF payables to employees following the merger of A.E.B. S.p.A.

26. OTHER CURRENT LIABILITIES

This item breaks down as follows:

(Thousands of Euro)			
Other current liabilities	31/12/2017	31/12/2016	Change
Advance payments from customers	45	145	-100
Payables to welfare and social security institutes	1,172	957	215
Other payables (payables to employees, to others)	2,428	1,196	1,232
Accrued expenses and deferred income	16	103	-87
Total	3,661	2,401	1,260

At 31 December 2017 other current liabilities totalled Euro 3,661 thousand, an increase of Euro 1,260 thousand compared with 31 December 2016.

The item "Other payables", increased from Euro 1,196 thousand at 31 December 2016 to Euro 2,428 thousand at 31 December 2017, primarily as a result of the increase in payables to employees related to the pay and holiday entitlement of staff conferred in the A.E.B. merger. S.p.A.

INCOME STATEMENT

Transactions with subsidiaries and related parties and the relative statement of financial position and income statement balances are shown in the following Note 44.

27. REVENUES INCLUDING REVENUES FROM RELATED PARTIES

This item breaks down as follows:

(Thousands of Euro)			
Revenues from sales and services	31/12/2017	31/12/2016	Change
Revenues related to the sale of assets	103,214	63,882	39,332
Revenues for services and other revenues	7,860	8,937	-1,077
Total	111,074	72,819	38,255

At 31 December 2017 income from sales and services increased by 52.5% compared to the year closed on 31 December 2016 above all by effect of the increase due to the merger with A.E.B. S.p.A.

Revenues for services and other revenues consist of:

(Thousands of Euro)			
Revenues for services and other revenues	31/12/2017	31/12/2016	Change
Services rendered	995	928	67
Technical consultancy	4,066	2,788	1,278
Intercompany services rendered	1,715	4,636	-2,921
Reimbursement of transport expenses	177	118	59
Reimbursement of other costs	216	117	99
Reimbursement of employee canteen costs	92	58	34
Other income	599	292	307
Total	7,860	8,937	-1,077

Income from services rendered include primarily technical consultancy and charges of services for the *testing* of components supplied to leading automobile manufacturers.

Intercompany services supplied refer to services of an administrative, operating and technical nature charged to the subsidiary companies and governed by agreements at arm's length conditions. The reduction of Euro 2,921 thousand is due to the merger by incorporation of the subsidiary A.E.B. S.p.A.

Technical consultancy refers to services charged to OEM customers for technical services on new components designed for gas systems.

Reimbursements of various costs relate primarily to insurance refunds and revenue from incentives for the production of electricity by the photovoltaic system. The increase of Euro 99 thousand is attributable primarily to the merger of A.E.B. S.p.A.

Other income refers mainly to payments to recover costs related to production activity.

28. OTHER REVENUES AND INCOME

Other revenue and income totalled Euro 915 thousand at 31 December 2017, compared to Euro 640 thousand at 31 December 2016 and are shown in detail below:

(Thousands of Euro)			
Other revenue and income	31/12/2017	31/12/2016	Change
Grants	551	95	456
Other income	364	545	-180
Total	915	640	275

Contributions relate to tax credits for research and development and contributions from the Emilia Romagna Region and MIUR for development projects relating to innovative components in the *automotive* sector, including the effect of the merger with A.E.B. S.p.A.

Other income refers to capital gains on the sale of fixed assets, contingent gains and non-existent liabilities, as well as some capitalized costs for development projects.

29. COST OF RAW MATERIALS, CONSUMABLES AND GOODS AND CHANGE IN INVENTORIES

This item breaks down as follows:

(Thousands of Euro)			
Costs of raw materials, consumables and goods and change in inventories	31/12/2017	31/12/2016	Change
Raw materials and parts	36,756	17,999	18,757
Finished products	15,354	16,286	-932
Other materials	961	825	136
Change in inventories	553	4,511	-3,958
Total	53,624	39,621	14,003

Total costs for purchase and consumption of raw materials, consumables and goods (including the change in inventories) increased from Euro 39,621 thousand at 31 December 2016 to Euro 53,624 thousand at 31 December 2017.

30. COSTS FOR SERVICES AND USE OF THIRD PARTY ASSETS

This item breaks down as follows:

(Thousands of Euro)			
Costs for services and use of third party assets	31/12/2017	31/12/2016	Change
Industrial and technical services	19,590	10,780	8,810
Commercial services	2,451	2,025	426
General and administrative services	5,552	5,146	406
Costs for use of non-Group assets	2,860	2,660	200
Non-recurrent costs for services and use of third party assets	5,450	2,345	3,105
Total	35,903	22,956	12,947

The item Costs for services and use of third party assets totalled Euro 35,903 thousand at 31 December 2017 and Euro 22,956 thousand at 31 December 2016.

Greater costs for industrial and technical services relate to the increase in outsourcing, in relation to the increase in turnover of the Company and the increase in specific technical consulting costs on projects commissioned from automobile manufacturers.

The costs for non-recurrent services and use of third party assets increased from Euro 2,345 thousand in 2016 to Euro 5,450 thousand in 2017 and relate mainly to costs incurred during the year for strategic consultancy by a *Top Consulting Firm* appointed to support the CEO and the company management in the preparation and implementation of an action plan for “*Ebitda improvement*”.

31. PERSONNEL EXPENSES

Personnel expenses are analysed as follows:

(Thousands of Euro)			
Personnel cost	31/12/2017	31/12/2016	Change
Wages and salaries	14,034	9,074	4,961
Social security contributions	4,660	3,439	1,222
Expenses for defined benefit plans	1,100	877	223
Temporary agency work and transferred work	364	2,406	-2,042
Directors' remuneration	934	657	277
Non-recurrent personnel costs and expenditure (Voluntary retirement incentives)	3,539	0	3,539
Total	24,632	16,453	8,179

In the year closed at 31 December 2017, personnel expenses increased by Euro 8,179 thousand compared to the year closed at 31 December 2016. This increase relates mainly to the merger by incorporation of the subsidiary A.E.B. S.p.A. and the provision for Euro 2,940 thousand, in relation to the forecast financial

payments as voluntary retirement incentives, following the agreements undersigned in December with the social partners implementing the company restructuring plan.

The employee severance allocation, totalling Euro 1,100 thousand, includes for Euro 269 thousand the cost from the merger by incorporation of the subsidiary A.E.B. S.p.A.

The average number of employees in the Company workforce, divided by qualification in the two years analyzed, is shown below:

Number of employees	Average (*)			Peak		
	31/12/2017	31/12/2016	Change	31/12/2017	31/12/2016	Change
Executives and Clerical Staff	181	183	-2	227	181	46
Operatives	110	110	0	142	109	33
Total	291	293	-2	369	290	79

(*) These values do not include temporary workers, fixed contract collaborators or the directors.

The increase in the precise number of employees compared to the previous year was determined following the direct transfer of the employees of the subsidiary A.E.B. S.p.A., merged during the year, and the transfer of employees from the subsidiary Emmegas S.r.l.

32. ACCRUALS, WRITE-DOWNS AND OTHER OPERATING EXPENSES

This item breaks down as follows:

(Thousands of Euro)	31/12/2017	31/12/2016	Change
Accruals, write-downs and other operating expenses			
Other taxes and duties	100	83	17
Other operating expenses	191	412	-221
Losses on receivables	0	116	-116
Provisions, write-downs and various operating expenses	2,148	2,300	-152
Bad debts	139	661	-522
Total	2,578	3,572	-994

The costs included in this item totalled Euro 2,578 thousand at 31 December 2017, of which Euro 900 thousand non-recurrent compared to Euro 3,572 thousand at 31 December 2016. For more information please refer to paragraph 19.

33. AMORTIZATION, DEPRECIATION AND IMPAIRMENT

This item breaks down as follows:

(Thousands of Euro)			
Amortization, depreciation and impairment	31/12/2017	31/12/2016	Change
Amortization of intangible assets	4,713	3,896	817
Depreciation of tangible assets	4,574	4,810	-236
Capital losses from the disposal of non-recurrent fixed assets	1,984	0	1,984
Total	11,271	8,706	2,565

Amortization of intangible assets, totalling Euro 4,713 thousand, refers primarily to the amortization of development and design costs incurred by the Company, as well as the costs for the purchase of the software (applications and management) acquired over time and industrial patents. S.p.A. merged by incorporation in Landi Renzo S.p.A.

Depreciation of tangible assets, totalling Euro 4,574 thousand, refers to plant and machinery, including automated lines, for production, assembly and testing of the products, to industrial and commercial equipment, to moulds for production, to testing and control instruments and to electronic processors.

The capital losses for sale of fixed assets refer to financial losses relating to tangible fixed assets not yet amortized, part of the company branch sold to AVL Italia S.r.l., compared to the counter-value of the sale.

34. FINANCIAL INCOME

This item breaks down as follows:

(Thousands of Euro)			
Financial income	31/12/2017	31/12/2016	Change
Interest income on bank deposits	0	4	-4
Other income	201	27	174
Total	201	31	170

Financial income includes, primarily, bank interest income and interest on intercompany loans. Financial income at 31 December 2017 amount to Euro 201 thousand, increased compared to Euro 31 thousand at 31 December 2016 primarily due to the interests for the loan to the company Eighteen Sound S.r.l. deriving from the merger by incorporation of A.E.B. S.p.A.

35. INCOME FROM INVESTMENTS

This item totalled Euro 21,233 thousand at 31 December 2017, compared with Euro 1,113 thousand at 31 December 2016.

(Thousands of Euro)

	31/12/2017	31/12/2016	Change
Income on equity investments			
Income on equity investments	21,233	1,113	20,120
Total	21,233	1,113	20,120

Income from interests refer primarily to non-recurrent capital gains totalling Euro 20.9 million, determined by the conferral of SAFE S.p.A. into the new joint venture SAFE&CEC S.r.l. As described in detail above, this capital gain was determined as the difference between the fair value of the 51% stake in SAFE & CEC S.r.l. on the date of loss of control in SAFE S.p.A. (Euro 24.2 million) and the value of the stake held by the Company in SAFE S.p.A. (worth Euro 2.5 million) and relative costs of the transaction.

This item also includes the non-recurrent capital gains on the sale of the subsidiary Eighteen Sound S.r.l., worth Euro 322 thousand, and the revaluation of the share in the company Krishna Landi Renzo India Private Ltd for Euro 33 thousand.

36. FINANCIAL CHARGES

This item breaks down as follows:

(Thousands of Euro)

	31/12/2017	31/12/2016	Change
Financial expenses			
Interest on bank overdrafts and loans and loans from other financiers	3,045	3,366	-321
Bank charges and commissions	596	676	-80
Total	3,641	4,042	-401

Financial charges essentially include bank interest charges, interest on bonds and non-recourse factoring, actuarial expenses deriving from discounting of the employee severance indemnity reserve and bank commissions.

At 31 December 2017, the Company did not have interest rate hedging derivatives.

37. EXPENSES FROM INVESTMENTS

This item breaks down as follows:

(Thousands of Euro)

	31/12/2017	31/12/2016	Change
Expenses from investments			
Write-down of investments and loans in subsidiaries and JV	58	9,162	-9,104
Total	58	9,162	-9,104

Expenses from investments decreased from Euro 9,162 thousand at 31 December 2016 to Euro 58 thousand at 31 December 2017, and include:

- the write-down of the equity investment in the subsidiary Landi Renzo Argentina S.r.l., for Euro 25 thousand;
- the coverage of losses of the subsidiary Emmegas S.r.l. for Euro 361 thousand;
- the release of the credit depreciation fund for the loan granted to the American subsidiary for Euro 329 thousand, due to variations in the Euro/Usd exchange rate.

38. EXCHANGE RATE GAINS AND LOSSES

This item breaks down as follows:

(Thousands of Euro)	31/12/2017	31/12/2016	Change
Exchange gains and losses			
Positive exchange differences realized	109	13	96
Positive exchange differences from valuation	-34	379	-413
Negative exchange differences realized	-31	-6	-25
Negative exchange differences from valuation	-1,343	-7	-1,336
Total	-1,299	379	-1,678

The Company realizes over 95% of its revenues and costs in Euro.

The most significant value is that of the exchange losses referring mainly to the negative variations in the loan in USD to the subsidiary Landi Renzo Usa Co.

At 31 December 2017 the Company did not have any financial instruments to cover of exchange rate fluctuation.

In accordance with the requirements of Accounting Standard IFRS7, a breakdown is provided below of financial income and expenses ascribed to Income Statement by individual financial instruments category:

(Thousands of Euro)	31/12/2017	31/12/2016
Financial income and expenses	Book value	Book value
Interest income on cash and cash equivalents	1	4
Other financial income	201	27
Exchange gains/losses	-1,299	379
Bank interest charges	-155	-54
Interest expenses from financial liabilities valued at the amortized cost	-662	-817

Interest charges on factoring without recourse and other interest charges	-408	-352
Interest charges on bonds	-1,822	-2,144
Total	-4,143	-2,957

39. TAXES

The theoretical rate used for the calculation of taxes on the income of Italian companies is 27.9% of the taxable income for the year. Income taxes are shown in detail below:

(Thousands of Euro)			
Taxes	31/12/2017	31/12/2016	Change
Current taxes	-123	-221	98
Deferred (prepaid) taxes	-1,399	-322	-1,077
Total	-1,522	-543	-979

Total taxes in the income statement at 31 December 2017 were Euro 1,522 thousand compared to Euro 543 thousand at 31 December 2016.

Current taxes are positive and include income from tax consolidation of Euro 544 thousand, use of deferred tax assets totalling Euro 930 thousand and lastly use of deferred tax liabilities totalling Euro 509 thousand.

Deferred taxation is positive and amounts to Euro 1,399 thousand, composed of Euro 1,428 thousand for deductible temporary differences and Euro 29 thousand for taxable temporary differences.

Please note, as already highlighted in note 10 “deferred tax assets and deferred tax liabilities”, that for reasons of prudence the Company decided not to recognize any provision for prepaid taxes on consolidated tax losses for the year.

The Italian companies of the Group have adhered to the National Tax Consolidation scheme since 2014, with consolidation by the Company, with the agreement renewed in 2017 for the three-year period 2017-2019.

The theoretical tax charge is only reconciled with the effective charge in relation to IRES, which has characteristics typical of a corporate income tax, taking into consideration the tax rate applying to the company. No reconciliation between theoretical and actual tax burden has been prepared for IRAP (regional tax on production activities), in view of the different way of determining the basis of calculation for the tax.

The summarized data is shown below:

(Thousands of Euro)	31/12/2017		
	Taxable	Taxes	%
Result before tax	417		
Taxes calculated at the tax rate in force		100	24.0%
Permanent differences			
- non-deductible costs	4,419	1,061	254.5%
- write-downs and non-recurrent losses	387	93	22.3%
- share of non-taxed financial income	-21,350	-5,124	-1228.8%
- other non-taxable income	-787	-189	-45.3%
-taxes from reduction of Ires rate			0.0%
- write-off of prepaid taxes on tax losses		0	0.0%
Tax loss without taxation	11,403	2,737	656.3%
Benefits from undersigning the consolidated tax regime		-215	-51.6%
IRAP calculated on a different basis from the pre-tax result		16	3.8%
Total current taxes/Effective rate		-1,521	-364.8%

OTHER INFORMATION

40. INFORMATION ON THE FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

As required by IFRS 7 – Financial Instruments, the attached table provides a comparison between the book value and the fair value of all financial assets and liabilities, divided according to the categories identified by the aforementioned accounting standard.

(Thousands of Euro)	31/12/2017		31/12/2016	
	Book value	Fair value	Book value	Fair value
Loans and Receivables	30,858	30,858	19,068	19,068
Cash and cash equivalents	7,225	7,225	4,185	4,185
Trade payables	48,038	48,038	46,232	46,232
Financial liabilities valued at the amortized cost - non-current portion	52,646	52,646	36,465	36,465
Financial liabilities valued at the amortized cost - current portion	4,891	4,891	22,009	22,009
Other short term amounts owed to banks	4,091	4,091	14,176	14,176

Note that the book value of the loans and financing approximates their fair value at 31 December 2017, since such classes of financial instruments are indexed at the Euribor market rate.

41. GUARANTEES PROVIDED

The Company did not provide any guarantees to third parties during the year, but provided them to several subsidiaries in the form of credit mandates, letters of patronage or stand-by on loans.

42. OPERATING LEASES

For accounting purposes, leases and hire contracts are classified as operational if:

- the lessor retains a significant share of the risks and the benefits associated with the property,
- there are no purchase options at prices that do not reflect the presumable market value of the rented asset at the end of the period,
- the duration of the contract does not represent the greater part of the useful life of the leased or hired asset.

Payments of operating lease charges are stated on the Income Statement in line with the underlying contracts.

The principal operating leases signed by Landi Renzo S.p.A. refer to two contracts signed with Gireimm S.r.l. (see Note 43 "Transactions with other related parties") for rental of the Operating Headquarters and the offices of the New Technical Centre situated in Cavriago (RE):

The first contract expires on 10 May 2019 and the remaining instalments total Euro 1,301 thousand, of which Euro 956 thousand within one year, while the second, undersigned on 03 August 2017 after the sale of the company branch to AVL Italia, expires on 31 July 2023, with residual instalments of Euro 1,688 thousand, of which Euro 302 thousand within one year.

No sureties were provided for said contract and there are no kinds of restrictions associated with the lease.

Following the merger with A.E.B. S.p.A., from December 2017, there is also a lease contract for an industrial building in Via dell'Industria in Corte Tegge, Cavriago where the company's production activities are located; the contract in question expires on 31 December 2021 and the residual instalments amount to Euro 2,473 thousand, of which Euro 618 thousand within one year.

43. ANALYSIS OF THE MAIN DISPUTES IN PROGRESS

At 31 December 2017, the Company is involved in proceedings, brought both by and against it, for non-significant amounts.

The directors of the Company, taking into account the status of proceedings under way and supported by the opinion of its legal advisers, on a dispute with the bankruptcy proceedings of a supplier of services, decided to maintain the provision for risks of Euro 100 thousand on the financial statements.

There are currently no major disputes with the Tax Authority or with Social Security Institutions or other Public Authorities.

44. TRANSACTIONS WITH RELATED PARTIES

In addition to relations with subsidiaries, associated companies and Joint Ventures, transactions with related parties also included transactions with other related parties, meaning service supply relations between Gireimm S.r.l. and Gestimm S.r.l., subsidiaries of the parent company Girefin S.p.A., and Landi Renzo S.p.A., relating to lease payments on the property housing the operating unit and technical centre.

The following table summarizes the relationships with other related parties and intercompany relationships (thousands of Euro):

Company	Sales revenues	Revenues for services and other revenues	Financial Income	Sale of assets	Purchase of finished products	Costs for use of third party assets	Purchase of assets	Costs for services	Financial Expenses	Income from Equity Investments	Financial Assets	Financial Liabilities	Receivables	Payables
SAFE&CEC S.r.l.										20,878				
Gestimm S.r.l.						618								126
Krishna Landi Renzo India Priv. Ltd	122				17					33			822	25
Efi Avtosanoat	371				1								203	
Gireimm S.r.l.						1,720								4,503
Total related parties	493	0	0	0	18	2338	0	0	0	20,911	0	0	1025	4654
Lovato Gas S.p.A.	4,212	683			3,223			15	105			2,950	437	4,174
Eighteen Sound Srl *	17	104	153					31						
Landi Renzo Polska	2,904	59			4,583			9						2,946
Beijing Landi Renzo Cina	1,250	47			42								765	621
LR Industria e Commercio Ltda	4,455	163			10			5					4,560	35
Landi Renzo Pars	698		18		0						388		1,177	
LR PAK Pakistan	66	13			227			1					3,348	173
Landi Renzo Ro Srl.	287	9			3			87						325
Landi Renzo Usa Corp.	28	172						70					1,685	70
Landi Renzo VE C.A.														
AEB America	317	15						1					850	48
SAFE S.p.A. **		403						92						97
Emmegas Srl	1,071	239			257			130					515	
Total subsidiaries	15,305	1,907	171	0	8,345	0	0	441	105	0	388	2,950	13,434	8,392

* At 31 December 2017 the company is no longer included in the tax consolidation of Landi Renzo.

** Company conferred to the Joint Venture SAFE&CEC S.r.l. on 29 December 2017

Incidence of Transactions with Related Parties	Total item	Absolute value for related parties	%	Related party
a) Incidence of the transactions or positions with related parties on balance sheet items				
Other non-current financial assets	396	388	97.88%	Subsidiaries
Trade receivables	26,234	14,459	55.12%	Subsidiaries, Krishna Landi Renzo India Private Ltd Held, EFI Avtosanoat-Landi Renzo LLC
Current financial assets	0	0		Subsidiaries
Trade payables	44,316	13,045	29.44%	Gireimm Srl, Gestimm Srl + subsidiaries
Other non-current financial liabilities	32,258	2,950	9.15%	Subsidiaries
b) incidence of the transactions or positions with related parties on income statement items				
Revenues from sales and services	111,074	17,706	15.94%	Subsidiaries, Krishna Landi Renzo India Private Ltd Held, EFI Avtosanoat-Landi Renzo LLC
Cost of raw materials, consumables and goods	53,624	8,363	15.60%	Subsidiaries, Krishna Landi Renzo India Private Ltd Held, EFI Avtosanoat-Landi Renzo LLC
Cost for services and use of third party assets	35,903	2,540	7.07%	Gireimm Srl, Gestimm Srl + subsidiaries
Personnel cost	24,632	242	0.98%	Subsidiaries
Financial expenses	3,641,463	105,136	2.89%	Subsidiaries
Financial income	201	171	84.87%	Subsidiaries
Income on equity investments	21,233	20,911	98.48%	Joint ventures

45. NON-RECURRING SIGNIFICANT EVENTS AND OPERATIONS

Pursuant to CONSOB communication no. DEM/6064293 of 28 July 2006, concerning significant non-recurrent events or transactions during 2017, the existence of non-recurrent transactions is reported in the following notes:

- note 30 - Costs for services and use of third party assets;
- note 31 - Staff costs;
- note 32 - Accruals, write-downs and other operating expenses;
- note 33 - Amortization, depreciation and impairment;
- note 35 - Profit (loss) attributable to investments;

broadly explained above in these Explanatory Notes and in the Management Report.

Also in light of Consob communication no. 0031948 of 10 March 2017, the above-mentioned transactions are deemed non-recurrent by the management given their specific nature and the infrequency with which they occur in the normal course of business.

46. POSITIONS OR TRANSACTIONS DERIVING FROM ATYPICAL AND/OR UNUSUAL TRANSACTIONS

Pursuant to CONSOB communication no. 6064293 of 28 July 28 2006, note that, during 2017, no atypical and/or unusual transactions occurred outside the normal operation of the company that could give rise to doubts regarding the correctness and completeness of the information in the financial statements, conflicts of interest, protection of company assets, safeguarding of minority shareholders.

47. ADOPTION OF SIMPLIFICATION OF DISCLOSURE OBLIGATIONS IN CONFORMITY WITH CONSOB RESOLUTION NO. 18079 OF 20 JANUARY 2012

Pursuant to art. 3 of CONSOB Resolution no. 18079 of 20 January 2012, Landi Renzo S.p.A. decided to adopt the opt-out system envisaged by arts. 70, par. 8, and 71, par. 1-*bis*, of CONSOB Regulation no. 11971/99 (as amended). It is therefore able to opt out from the disclosure of the information documents listed in Annex 3B to said CONSOB Regulation, on occasion of significant mergers, demergers, increases in capital through contribution of goods in kind, acquisitions and disposals.

48. SIGNIFICANT EVENTS OCCURRING AFTER THE CLOSE OF THE FINANCIAL YEAR

Please refer to the analysis provided in the Directors' Report.

Cavriago 15 March 2018

LIST OF EQUITY HOLDINGS IN SUBSIDIARIES AT 31/12/2017

Company Name	Registered Office	Currency	Fully paid-up share capital	Amount of the equity in Euro	Result for the year in Euro	Direct stake	Indirect stake	Book value in Euro
LR Industria e Comercio Ltda	Espirito Santo (Brazil)	BRL	4,320,000	1,908,423	-178,968	99.99%		1,708,862
Landi International B.V.	Utrecht (The Netherlands)	EUR	18,151	5,317,669	716,564	100%		17,972
Beijing Landi Renzo Autogas System Co. Ltd	Beijing (China)	USD	2,600,000	6,631,289	2,181,288	100%		2,057,305
Landi Renzo Polska Sp.Zo.O.	Warsaw (Poland)	PLN	50,000	5,308,050	706,475		100% (*)	
L.R. Pak (Pvt) Limited	Karachi (Pakistan)	PKR	75,000,000	-2,279,167	-1,348,945	70%		1
Landi Renzo Pars Private Joint Stock Company	Tehran (Iran)	IRR	55,914,800,000	1,293,612	-199,663	99.99%		3,000,454
Landi Renzo Ro S.r.l.	Bucharest (Romania)	RON	20,890	979,817	378,798	100%		5,000
Landi Renzo USA Corporation	Wilmington - DE (USA)	USD	3,067,131	-12,699,469	-1,472,149	100%		1
AEB America s.r.l.	Buenos Aires (Argentina)	ARS	2,030,220	967,510	-235,048	96%		534,878
Landi Renzo VE C.A.	Caracas (Venezuela)	VEF	2,035,220	-	-	100%		1
Lovato Gas S.p.A.	Vicenza (Italy)	EUR	120,000	17,110,238	1,180,525	100%		48,680,352
Lovato do Brasil Ind Com	Curitiba (Brazil)	BRL	100,000	-	-		100% (#)	
Officine Lovato Private Ltd	Mumbai (India)	INR	19,091,430	-92,625	-91		74% (#)	
Landi Renzo Argentina S.r.l.	Buenos Aires (Argentina)	ARS	1,378,000	-	-	96%	4% (#)	8,409
Emmegas S.r.l.	Cavriago (RE) - Italy	EUR	60,000	324,002	264,002	100%		1

(*) held by Landi International B.V.

(#) held by Lovato Gas S.p.A.

INFORMATION PURSUANT TO ART. 149-duodecies OF THE CONSOB ISSUER REGULATIONS

In compliance with the express provisions of the CONSOB Issuer Regulations - Art. 149 duodecies - payments, stated in the Company's 2017 Income Statement, made for services rendered by the auditing firm, and by entities belonging to its network, to the companies belonging to the Company are listed below.

(Thousands of Euro)

Type of Services	Subject who provided the service	Recipient	Remuneration 2017
Auditing	PricewaterhouseCoopers S.p.A.	Parent Company	182
Other services	PricewaterhouseCoopers S.p.A. and PwC network	Parent Company	34
Total			216

RELATIONS WITH COMPANY DIRECTORS, AUDITORS AND MANAGERS WITH STRATEGIC RESPONSIBILITIES

Pursuant to Consob resolution no. 11971/99 (Issuer Regulations), remuneration paid or at least allocated to the members of Board of Directors and the Board of Auditors in 2017, and also to managers with strategic responsibilities and the equity investments held by them in the year are shown in the table attached to the "Report on Remuneration", which will be provided to the shareholders' meeting called to approve the Financial Statements at 31 December 2017.

PROPOSAL FOR APPROVAL OF THE FINANCIAL STATEMENTS AND ALLOCATION OF THE RESULT FOR THE YEAR

Dear Shareholders,

to conclude these Explanatory Notes to the Financial Statements of Landi Renzo S.p.A. We propose to:

- approve the Financial Statements at 31 December 2017;
- propose that the Shareholders' Meeting approve the allocation of the profits for the year of Landi Renzo S.p.A. totalling Euro 1,938,986.13 to the Extraordinary Reserve, given that the Legal Reserve has already reached one fifth of the share capital.

Cavriago (RE), 15 March 2018

For the Board of Directors
The Chairman
Stefano Landi

APPENDIX

STATEMENT OF RELATED PARTIES

Income Statement at 31/12/2017, prepared in application of the requirements of Consob resolution 15519 of 27/06/2006 and Consob Communication no. DEM/6064293 of 28/07/2006 (in Euro).

(Euro)							
		31/12/2017	of which transactions with related parties	Weight %	31/12/2016	of which transactions with related parties	Weight %
INCOME STATEMENT							
Revenues from sales and services	27	111,073,954	17,706,005	15.9%	72,818,797	12,138,770	16.7%
Other revenue and income	28	915,334			640,308		
Costs of raw materials, consumables and goods and change in inventories	29	-53,624,202	-8,362,647	15.6%	-39,620,622	-	30.1%
Costs for services and use of third party assets	30	-35,903,190	-2,539,744	7.1%	-22,956,348	-2,804,019	12.2%
Personnel cost	31	-24,632,353	-241,645	1.0%	-16,453,241	-2,387,788	14.5%
Provisions, provision for bad debts and other operating expenses	32	-2,577,608			-3,571,541		
Gross Operating Profit		-4,748,065			-9,142,647		
Amortization, depreciation and impairment	33	-11,270,976			-8,705,745		
Net Operating Profit		-16,019,041			-17,848,392		
Financial income	34	201,481	171,159	85.0%	30,897	17,156	55.5%
Income on equity investments	35	21,232,561	20,911,261	98.5%	1,112,693	1,112,693	100.0%
Financial expenses	36	-3,641,463	-105,136	2.0%	-4,041,953		
Expenses from investments	37	-58,000			-9,161,915		
Exchange gains (losses)	38	-1,298,666			379,366		
Profit (Loss) before tax		416,872			-29,529,304		
Taxes	39	1,522,114			543,443		
Profit (loss) for the year		1,938,986			-28,985,861		

Statement of Financial Position at 31/12/2017, prepared in application of the requirements of Consob resolution 15519 of 27/06/2006 and Consob Communication no. DEM/6064293 of 28/07/2006 (in Euro).

(Euro)								
ASSETS	Notes	31/12/2017	of which transactions with related parties	Weight %	31/12/2016	of which transactions with related parties	Weight %	
Non-current assets								
Land, property, plant, machinery and equipment	2	9,964,851			18,992,782			
Development expenditure	3	4,953,932			5,822,036			
Goodwill	4	2,372,845			0			
Other intangible assets with finite useful lives	5	6,483,969			657,850			
Investments in subsidiaries	6	56,013,238			102,383,265			
Equity investments in associated companies and joint ventures	7	24,473,316			214,958			
Other non-current financial assets	8	395,874	387,500	97.9%	340,274	337,500	99.2%	
Other non-current assets	9	4,561,430			1,066			
Deferred tax assets	10	7,751,453			8,102,793			
Total non-current assets		116,970,908			136,515,024			
Current assets								
Trade receivables	11	12,799,945	1,024,652	8.0%	10,360,249	1,268,569	12.2%	
Receivables from subsidiaries	12	13,434,065	13,434,065	100%	7,274,896	7,274,896	100.0%	
Inventories	13	20,271,041			14,412,905			
Other receivables and current assets	14	5,179,972			2,091,214			
Cash and cash equivalents	15	7,225,430			4,185,332			
Total current assets		58,910,453			38,324,596			
TOTAL ASSETS		175,881,361			174,839,620			

SHAREHOLDERS' EQUITY AND LIABILITIES	Notes	31/12/2017			31/12/2016		
			of which transactions with related parties	Weight %		of which transactions with related parties	Weight %
Equity							
Share capital	16	11,250,000			11,250,000		
Other reserves	16	38,032,481			61,857,026		
Profit (loss) for the period	16	1,938,986			-28,985,861		
TOTAL SHAREHOLDERS' EQUITY		51,221,467			44,121,165		
Non-current liabilities							
Non-current bank loans	17	23,338,908			13,653,090		
Other non-current financial liabilities	18	32,257,572	2,950,000	9.1%	25,861,927	3,050,000	11.8%
Provisions for risks and charges	19	9,012,497			6,313,602		
Defined benefit plans for employees	20	1,999,508			1,471,069		
Total non-current liabilities		66,608,485			47,299,688		
Current liabilities							
Bank financing and short-term loans	21	6,129,157			26,572,038		
Other current financial liabilities	22	2,792,482			10,033,054		
Trade payables	23	35,924,139	4,653,682	13.0%	23,631,251	3,898,632	16.5%
Payables to subsidiaries	24	8,391,553	8,391,553	100%	19,951,986	19,951,986	100.0%
Tax liabilities	25	1,153,057			829,577		
Other current liabilities	26	3,661,021			2,400,861		
Total current liabilities		58,051,409			83,418,767		
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		175,881,361			174,839,620		



Certification on the separate financial statements pursuant to art. 154-bis of Legislative Decree 58/98

The undersigned Cristiano Musi, Chief Executive Officer, and Paolo Cilloni, Officer in charge of preparing the corporate financial statements, of Landi Renzo S.p.A., state, having regard also to the provisions of art. 154-bis, paragraphs 3 and 4, of legislative decree No. 58 dated 24th February 1998:

- the adequacy of financial statements in relation to the relative corporate characteristics, and
- the effective application of the administrative and accounting procedures for the preparation of the annual financial statements during the course of 2017.

In addition, the undersigned state that the separate financial statements at 31 December 2017:

- have been prepared in accordance with the international accounting standards acknowledged by the European Union pursuant to regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19th July 2002;
- correspond to the results in the accounting books and records;
- are suitable to give a true and correct representation of the equity, economic and financial position of the Landi Renzo S.p.A.

The report on operating performance includes a reliable analysis on trends and performance, on Company's financial situation together with a description of the main risks and uncertainties which is exposed.

Cavriago, 15th March 2018

CEO
Cristiano Musi

The Officer in Charge
Paolo Cilloni



Independent Auditor's Report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of
Landi Renzo SpA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Landi Renzo SpA (the Company), which comprise the statement of financial position as of 31 December 2017, the income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of Landi Renzo SpA as of 31 December 2017 and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of this report. We are independent of Landi Renzo SpA pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311



Key Audit Matters

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

Key Audit Matters

Auditing procedures performed in response to key audit matters

Recoverability of goodwill and of equity investments in subsidiaries

See notes 4 and 6 and the paragraph titled “Accounting standards and valuation criteria” of the explanatory notes

As of 31 December 2017 the book values of goodwill and equity investments in subsidiaries recognised in the financial statements amounted to Euro 2.4 million and Euro 56 million, respectively. The Company verifies, at least annually, the recoverability of goodwill recognised in the financial statements and carries out an analysis in order to identify any impairment indicators of the equity investments in subsidiaries and, should these indicators be identified, the Company determines the recoverable value of each equity investment.

This was considered a key audit matter for the purpose of the statutory audit of the financial statements in consideration of the revenue growth forecasts included in the 2018-2022 business plan approved by the Company’s board of directors on 13 September 2017 (the “Business Plan”), compared to the significant reductions in revenue (and in the related cash flows) reported in prior years. The valuation models underlying the determination of the recoverable amounts of goodwill and of equity investments in subsidiaries are based on subjective evaluations and estimates of management, having as a reference the Business Plan mentioned above. In particular, the valuation models of the recoverable amounts of goodwill and of equity investments in subsidiaries and the assumptions included in the same models are

Our audit approach preliminarily consisted of understanding and evaluating the methods and the procedures defined by the Company to determine the recoverable amounts of goodwill and of equity investments in subsidiaries, in compliance with IAS 36 as adopted by the European Union.

In particular, we verified the reasonableness of the methods adopted and of the main assumptions reflected in the valuation model (discounted cash flow method) also involving PwC network valuation experts. Moreover, we verified the reasonableness of the discount rate and perpetuity growth rate in relation to the valuation practices usually adopted for companies belonging to the industry in which the Landi Renzo Group operates.

We also verified that the cash flows included in the valuation models were consistent with those in the Business Plan.

Considering that forecast cash flows are a particularly significant parameter for the determination of the recoverable amounts of goodwill and equity investments as they depend on future and uncertain events, we analysed the reasonableness of the estimated future cash flows through interviews with company management and the involvement of experts in the Automotive segment of the

influenced by future market conditions as regards the expected cash flows, the perpetuity growth rate and the discount rate.

PwC network, who supported us in the critical analysis of the reasonableness of the forecasts included in the Business Plan.

Furthermore, we verified the mathematical accuracy of the valuation models prepared by the Company.

Finally, we verified the disclosures provided by the Company in the financial statements about the method adopted to determine the recoverable amounts of goodwill and equity investments and the results of the valuations performed.

Recoverability of deferred tax assets

See note 10 and paragraph “Accounting standards and valuation criteria” of the explanatory notes

Deferred tax assets recognised in the financial statements as of 31 December 2017 amounted to Euro 9.4 million, partially offset by deferred tax liabilities equal to Euro 1.7 million, giving a net deferred tax asset equal to Euro 7.7 million.

Deferred tax assets relate for Euro 4.4 million to temporary differences between the book values of assets and liabilities recognised in the financial statements and the corresponding tax values and for Euro 5 million to prior tax losses. The recoverability of deferred tax assets was considered a key audit matter for the purpose of the statutory audit of the financial statements in consideration of the growth forecasts contained in the 2018-2022 business plan approved by the Company’s board of directors on 13 September 2017 (the “Business Plan”) compared to the significant reductions in revenues from sales (and in the related taxable income) reported in prior years, as well as due to the complexity of the evaluation of the recoverability of these receivables which is closely related to the achievability of the Business Plan targets.

Our audit procedures preliminarily included understanding and evaluating the process adopted by the Company to verify the recoverability of deferred tax assets.

We carried out an in-depth analysis of deferred tax assets related to prior tax losses as their recoverability, unlike the receivables related to tax temporary differences, is closely related to the existence of future taxable income and, therefore, to the achievement of the prospective results included in the Business Plan.

We obtained the analysis performed by the Company of the recoverability of deferred tax assets closely related to the existence of future taxable income of the companies included in the tax consolidation scheme of the Landi Renzo Group for the period 2018-2022, which are based on the net results included in the Business Plan.

We verified the reasonableness of the net results included in the Business Plan through interviews with company management and the involvement of PwC network experts in the Automotive segment, who supported us in the critical analysis of the reasonableness of the forecasts in the Business Plan.

Finally, we verified the disclosures provided by the Company in the financial statements about the elements supporting the recoverability of deferred tax assets.

Accounting treatment and evaluation of investment in SAFE & CEC Srl

See notes 7 and 35 and the paragraph titled “General information and significant events in the year” of the explanatory notes

On 29 December 2017, Landi Renzo SpA entered into an agreement with Clean Energy Fuels Corporation for the combination of SAFE SpA, a subsidiary of Landi Renzo SpA, and Clean Energy Compression, a subsidiary of Clean Energy Fuels Corporation. The business combination was carried out through the establishment of a newco called SAFE & CEC Srl (hereinafter also “NewCo”), and the subsequent contribution to it of the equity investments in SAFE SpA, with a book value of Euro 2.5 million, and Clean Energy Compression, resulting in Landi Renzo SpA holding 51% of SAFE & CEC Srl and Clean Energy Fuels Corporation holding the remaining 49%. Following an analysis carried out also with the support of an accounting expert, the Company concluded that the governance of SAFE & CEC Srl, regulated by a specific shareholders’ agreement, reflects a joint arrangement classified as a joint venture pursuant to IFRS 11 as adopted by the European Union. Further to the loss of control in SAFE SpA by Landi Renzo SpA, in the financial statements the Company adopted the following accounting treatment:

- i) Derecognition of the equity investment in SAFE SpA;
- ii) Initial recognition of the 51% interest in SAFE & CEC Srl at the fair value at the date of the loss of control in SAFE SpA, determined in an appraisal report prepared by an independent expert appointed by the Company;

Our audit approach preliminarily consisted of understanding the analysis performed by the Company of the classification of the investment in SAFE & CEC Srl as a joint venture, pursuant to IFRS 11 as adopted by the European Union, through a critical analysis of the accounting opinion obtained by Landi Renzo SpA and also involving PwC network experts in the interpretation and application of International Financial Reporting Standards.

Moreover, we verified the reasonableness of the methods adopted and the main assumptions reflected in the valuation model (discounted cash flow method) adopted by the independent expert appointed by the Company to determine the fair value of SAFE & CEC Srl at the date of the loss of control in SAFE SpA, also through the involvement of PwC network valuation experts. In particular, we verified the reasonableness of the discount rate, of the perpetuity growth rate and of the risk premium for the execution of the 2018-2022 business plan of SAFE & CEC Srl (the “Business Plan”) compared to the valuation practices usually adopted for companies belonging to the industry of the NewCo. Considering that forecast cash flows are a particularly significant parameter for the determination of the fair value of SAFE & CEC Srl, as they depend on future and uncertain events, we analysed the reasonableness of the estimated future cash

iii) Recognition of a gain on disposal equal to about Euro 21 million, as the difference between 51% of the fair value of the NewCo, corresponding to the initial book value as a joint venture, and the net book value of the equity investment in SAFE SpA.

This was considered a key audit matter for the statutory audit of the financial statements in consideration of the significant impact on the income statement of Landi Renzo SpA, the complexity of the analysis of the accounting treatment and of the determination of the fair value of SAFE & CEC Srl at the date of the loss of control in SAFE SpA, based on management's subjective evaluations and estimates.

flows through interviews with company management and with the advisors employed by the Company to prepare the Business Plan, also through the involvement of PwC network experts in the Automotive segment, who supported us in the critical analysis of the reasonableness of the forecasts included in the NewCo's Business Plan.

Finally, we verified the disclosures provided by the Company in the financial statements about the reasons underlying the classification of the investment in SAFE & CEC Srl as a joint venture, the method adopted to determine the fair value of 51% of the investment in SAFE & CEC Srl and the accounting treatment adopted to reflect the loss of control in the subsidiary SAFE SpA.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Company's ability to continue as a going concern and, in preparing the financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the financial statements, management uses the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that



an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised our professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- We concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



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

Additional Disclosures required by Article 10 of Regulation (EU) No 537/2014

On 29 April 2016, the shareholders of Landi Renzo SpA in general meeting engaged us to perform the statutory audit of the Company's and the consolidated financial statements for the years ending 31 December 2016 to 31 December 2024.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/2010 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/1998

Management of Landi Renzo SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Company as of 31 December 2017, including their consistency with the relevant financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/1998, with the financial statements of Landi Renzo SpA as of 31 December 2017 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the financial statements of Landi Renzo SpA as of 31 December 2017 and are prepared in compliance with the law.



With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/2010, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Parma, 30 March 2018

PricewaterhouseCoopers SpA

Signed by

Massimo Rota
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers.