DRAFT ANNUAL REPORT
2018

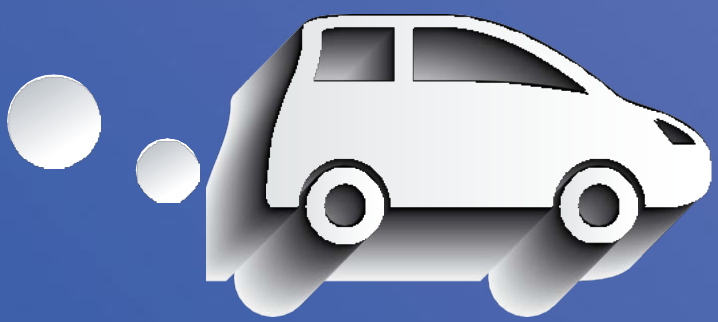
(This is a translation, the Italian version prevails)

MISSION

To build a cleaner world and to design better quality into the future for the next generations, with a profund sense of social responsability for the territory, society and the environment while intesifying social commitment to sustainable mobility.

Our mission offers a tangible contruibution to this ambitious objective: since sixty years, we have been providing real solutions for sustainable transportation by marketing and installing fuel systems based on less expensive, alternative fuels with smaller enviromental footprints.

Technology, innovation and respect for the planet and human beings: these are the values guiding our daily choices, transforming our present into the future we want.



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LETTER TO THE SHAREHOLDERS

Dear Shareholders,

It is with great satisfaction that I share with you the excellent results achieved by our Group in 2018, resulting from prudent and farsighted management focused on the future. Thanks to a very capable management team and a group of motivated professionals intent on meeting goals, we have done extraordinary work over these last two years to improve our company's leadership position in the development of gas mobility as an increasingly significant technology to meet future transport needs.

These results bear witness to the effectiveness of the actions we have taken thus far, including the completion of our business restructuring which helped to streamline both costs and processes and enhance intragroup synergies, and our re-focusing on the Automotive segment, the traditional core business of Landi Renzo.

On a like-for-like basis, considering only the Automotive segment after the disposal of the Sound segment and the deconsolidation of the Gas Distribution and Compressed Natural Gas division, Landi Renzo indeed achieved growth across all of the main economic indicators earlier than anticipated in the 2018-2022 Strategic Plan, and also boosted its capacity to generate cash from ordinary operations.

Our market continues to be favourable to us as well, considering the growth seen in alternative mobility and increased ecological awareness on the part of consumers, aside from increasingly stringent European regulations to reduce CO2 emissions. Indeed, with performance equal to that of petrol and diesel fuelled vehicles, CNG and LPG vehicles emit 10-20% less CO2 and more than 90% less particulates and thus represent an important tool for lowering pollution.

It is therefore clear that all of the foundations have been laid for a continuation of this positive trend for the Group, which also boasts of a well-known brand, solid partnerships with the main global OEMs and a deep-rooted presence, both directly and through local partners, in countries were gas mobility is rising rapidly, in the passenger car as well as heavy duty segments. I am referring of course to Brazil, India, South America, China, the Middle East and Russia. Just look at India, where CNG fuelled vehicles are close to reaching 30% of all new vehicles (against a European average of under 5%) and where there could be up to 5,000 gas fuelling stations by the end of 2025. In early 2019, we entered into two important strategic agreements in India as well as Brazil: for Ford India, through our joint venture Landi Krishna, we will convert their new flagship model to CNG, and for Uber Brazil, we will convert the vehicles of their partner drivers to CNG, also providing after sale support services. Elsewhere, in Europe and Russia, where gas infrastructure is expected to develop considerably, we are working through the Landi Renzo brand as well as through the subsidiary SAFE&CEC to consolidate our market share and develop innovative solutions for the OEM and After Market channels.

Our Group continues to look to the future with investments in Research & Development. Our R&D hub in Cavriago (RE) works in partnership with universities, other research centres in Italy and abroad and OEMs on projects for the creation and development of solutions and components for green engines fuelled by biomethane - the cleanest and most environmentally friendly solution to date, even compared with pure electric -, liquid methane and hydrogen.

All of these critical pieces of the puzzle, which have enabled Landi Renzo to close a year full of wins and successes, confirm the great potential that our Group still has yet to express. Being able to count on the strategic guidance of our team of managers and on the commitment of every single worker at Landi Renzo, as well as on your fundamental support and confidence, is the key to being able to take advantage of new growth opportunities and play a key role in the mobility of the future.

Chairman of Board of Directors

Stefano Landi

2018 Balance Sheet

Following the extraordinary transactions occurring at the end of the previous financial year, leading to the deconsolidation of the “Sound” and “Gas Distribution and Compressed Natural Gas” segments, the financial data for the year ended at 31 December 2018 are not directly comparable with the same period of 2017.

(Thousands of Euro)

ECONOMIC INDICATORS	2018	2017	2016
Revenue	188,079	206,294	184,242
Adjusted Gross Operating Profit (EBITDA) (1)	25,237	12,723	2,744
Gross Operating Profit (EBITDA)	21,512	4,699	-2,902
Net Operating Profit (EBIT)	11,269	-11,490	-18,920
Earnings before Tax	4,185	3,474	-23,126
Net profit (loss) for the Group and minority interests	4,533	3,702	-26,004
Adjusted Gross Operating Profit (EBITDA) / Revenue	13.4%	6.2%	1.5%
Net profit (loss) for the Group and minority interests / Revenue	2.4%	1.8%	-14.1%

Below are the main financial indicators, with the same scope (Automotive segment)

(Thousands of Euro)

ECONOMIC INDICATORS	2018	2017	2016
Revenue	188,079	167,144	145,325
Adjusted Gross Operating Profit (EBITDA) (1)	25,237	10,745	3,773
Gross Operating Profit (EBITDA)	21,512	2,721	-1,872
Net Operating Profit (EBIT)	11,269	-11,860	-16,100
Adjusted Gross Operating Profit (EBITDA) / Revenue	13.4%	6.4%	2.6%

(Thousands of Euro)

STATEMENT OF FINANCIAL POSITION	2018	2017	2016
Net fixed assets and other non-current assets	100,983	103,152	96,967
Operating capital (2)	18,893	17,279	36,442
Non-current liabilities (3)	-7,428	-14,760	-12,611
NET INVESTED CAPITAL	112,448	105,671	120,798
Net Financial Position (4)	52,872	48,968	75,716
Equity	59,576	56,703	45,082
BORROWINGS	112,448	105,671	120,798

(Thousands of Euro)

KEY INDICATORS	2018	2017	2016
Operating capital / Turnover (5)	10.0%	10.3%	20.0%
Net financial debt / Equity	88.7%	86.4%	168.0%
Adjusted net financial debt / EBITDA	2.10	3.84	27.60
Gross tangible and intangible investments	7,932	5,149	9,376
Personnel (peak) (6)	494	599	781

(Thousands of Euro)

CASH FLOWS	2018	2017	2016
Gross operational cash flow	9,946	8,954	-6,104
Cash flow for investment activities	-8,269	3,319	-9,144
Gross FREE CASH FLOW (7)	1,677	12,273	-15,248
Non-recurrent expenditure for voluntary resignation incentives and TFR	-4,377	0	0
Net FREE CASH FLOW	-2,700	12,273	-15,248
Future share capital increase contributions	0	8,867	0

(1) The data does not include accounting of non-recurrent costs. Since EBITDA is not identified as an accounting measure, within the international accounting standards (IAS / IFRS), the quantitative determination of the same may not be unique. EBITDA is a measure used by the management of the company to monitor and evaluate its operational performance. Management believes that EBITDA is an important parameter for measuring the operating performance of the company as it is not influenced by the effects of the different criteria for determining taxable income, the amount and characteristics of the capital employed as well as the related amortization policies. The criterion for determining the EBITDA applied by the company may not be homogeneous with that adopted by other companies / groups and therefore its value may not be comparable with that determined by the latter.

(2) This is calculated as the difference between Trade Receivables, Inventories, Contract Work in Progress, Other Current Assets and Trade Payables, Tax liabilities, Other Current Liabilities.

(3) These are calculated by totalling Deferred Tax Liabilities, Defined Benefit Plans for employees and Provisions for Risks and Charges.

(4) The net financial position is calculated in accordance with the provisions of CONSOB Communication DEM/6064293 of 28 July 2006.

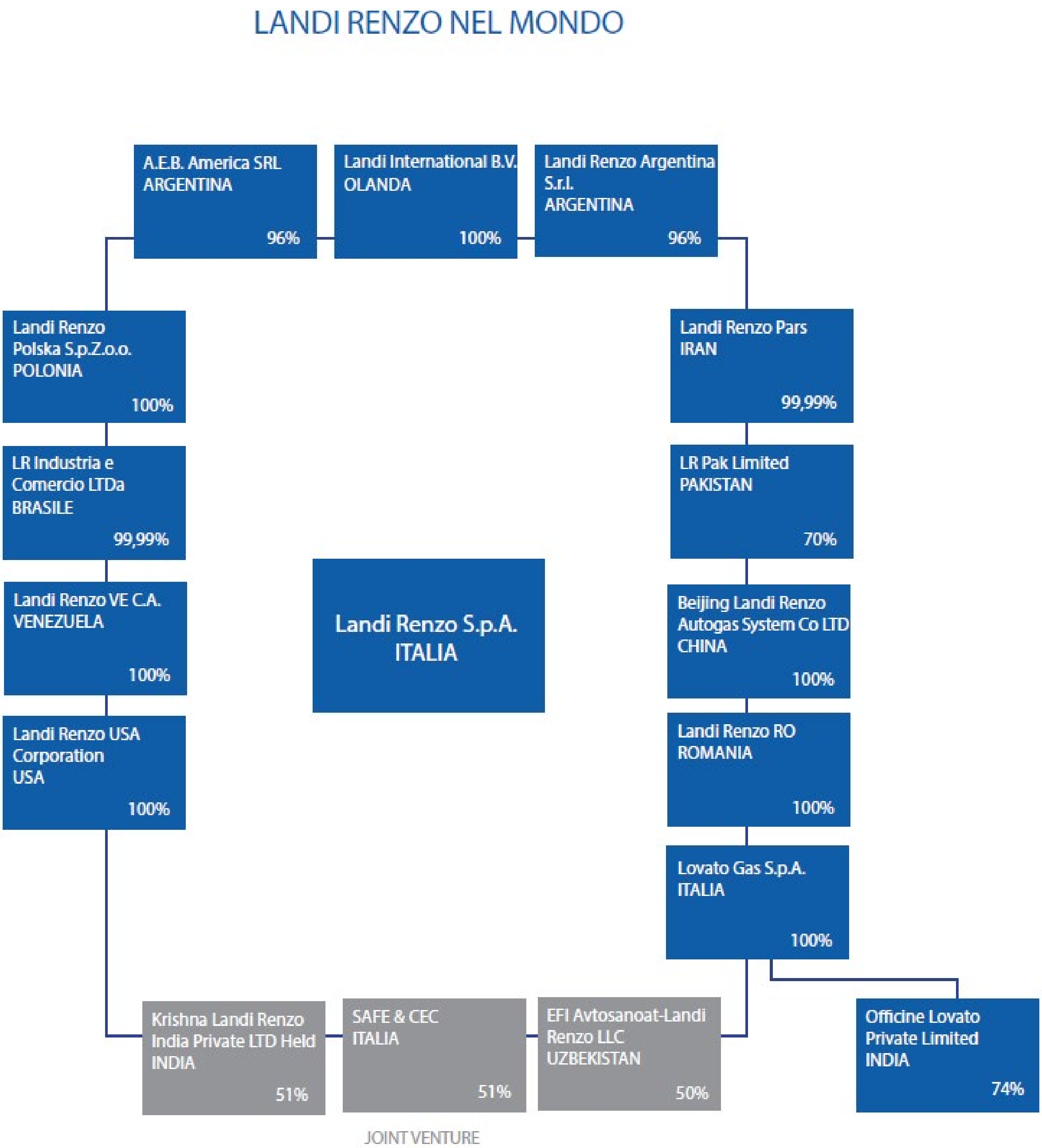
(5) The figures at 31 December 2017 have been "normalised" to take into account the deconsolidation of the "Sound" and "Gas Distribution and Compressed Natural Gas" segments.

(6) The Personnel figure as at 31 December 2017 does not include the employees of Eighteen Sound S.r.l. and SAFE S.p.A. (38 and 73 employees, respectively), which exited the scope of the Group's consolidated accounts in November and December 2017, respectively.

(7) Operational cash flow before non-recurrent expenditure relating to voluntary resignation incentives for a value of Euro 3,732 thousand, and to TFR (severance indemnity) for a value of Euro 645 thousand, disbursed in 2018 based on the provisions of the mobility agreement approved with the trade unions.

GROUP STRUCTURE

The only change in the Group structure in the course of 2018 with respect to 31 December 2017 is the merger by incorporation of Emmegas S.r.l. into Landi Renzo S.p.A.



The Landi Renzo Group worldwide

The Landi Renzo Group has established its international vocation with both a direct presence, featuring 17 companies in 13 countries and 494 employees, as well as an indirect one, on all five continents. The centrality of environmental issues demonstrates a growing association with the Group's ability to gain a leading position worldwide, thanks to the continuous technological and qualitative development of its products, decision to adopt a flexible approach to customers and through extensive marketing of the company's technologies.

The Landi Renzo Group worldwide

Company bodies

The Shareholders' Meeting of the parent company Landi Renzo S.p.A. held on 29 April 2016 appointed the Board of Directors and the Board of Statutory Auditors for the three year period 2016-2018, and therefore until the shareholders' meeting to approve the Financial Statements at 31 December 2018. On 28 April 2017, after increasing the number of members of the Board of Directors from eight to nine, the Shareholders' Meeting appointed Cristiano Musi (formerly General Manager) as director; on the same date, the Board of Directors made him Chief Executive Officer and revoked all other mandates previously assigned. Chairman Stefano Landi continues to act as Executive Chairman of the Board. On 17 October 2017 the Shareholders' Meeting of the parent company Landi Renzo S.p.A. approved the reduction of the number of members of the Board of Directors from nine to eight, following the resignation of Claudio Carnevale in July 2017.

At the same meeting, to allow for compliance with gender balance requirements by the company's Board of Statutory Auditors, due to the premature death of standing auditor Dott. Massimiliano Folloni in May 2017, the ordinary Shareholders' Meeting of Landi Renzo S.p.A. also approved the appointment of Domenico Sardano as standing auditor.

At 31 December 2018, the company appointments are distributed as follows:

Board of Directors

Name and surname	Position	Place and date of birth	Qualifications
Giovannina Domenichini	Honorary Chairman	Casina (RE), 6 August 1934	Non-executive
Stefano Landi	Executive Chairman	Reggio Emilia, 30 June 1958	Executive
Cristiano Musi	Chief Executive Officer	Parma, 27 April 1974	Executive
Silvia Landi	Director	Reggio Emilia, 08 June 1960	Non-executive
Angelo Iori	Director	Reggio Emilia, 11 December 1954	Non-executive
Anton Karl	Director	Mistelbach (Austria), 16 March 1976	Non-executive and Independent*
Sara Fornasiero**	Independent Director	Merate (LC), 9 September 1968	Non-executive and Independent*
Ivano Accorsi	Independent Director	Correggio (RE), 14 July 1938	Non-executive and Independent*

** Independent pursuant to article 148 of the Consolidated Law and article 3 of the Code of Conduct*
*** The Director also holds the office of Lead Independent Director*

Board of Statutory Auditors

Name and surname	Position	Place and date of birth
Eleonora Briolini	Chairman of the Board of Statutory Auditors	Pescara, 1971
Diana Rizzo	Standing Statutory Auditor	Bologna, 1959
Domenico Sardano	Standing Statutory Auditor	Genoa, 1970
Andrea Angelillis	Alternate Auditor	Milan, 1977
Filomena Napolitano	Alternate Auditor	Nola (Naples), 1970

Control and risks committee

Name and surname	Position
Chairman	Sara Fornasiero
Committee Member	Ivano Accorsi
Committee Member	Angelo Iori

Remuneration committee

Name and surname	Position
Chairman	Ivano Accorsi
Committee Member	Sara Fornasiero
Committee Member	Angelo Iori

Committee for transactions with related parties

Name and surname	Position
Chairman	Ivano Accorsi
Committee Member	Sara Fornasiero

Supervisory Board (Italian Legislative Decree 231/01)

Name and surname	Position
Chairman	Jean-Paule Castagno
Board Member	Sara Fornasiero
Board Member	Domenico Sardano ***

**** Appointed on 15 March 2018*

Independent Auditing Firm
PricewaterhouseCoopers S.p.A.

Financial Reporting Manager
Paolo Cilloni

Registered office and company 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 report is available online at:
www.landirenzogroup.com

Corporate structure at 31 December 2018

Description	Registered Office		Share capital	Direct investment	Indirect investment	Notes
Landi Renzo S.p.A.	Cavriago (RE) - Italy	EUR	11,250,000	Parent Company		
Landi International B.V.	Utrecht (The Netherlands)	EUR	18,151	100.00%		
Landi Renzo Polska Sp.Zo.O.	Warsaw (Poland)	PLN	50,000		100.00%	(*)
LR Industria e Comercio Ltda	Espirito Santo (Brazil)	BRL	4,320,000	99.99%		
Beijing Landi Renzo Autogas System Co. Ltd	Beijing (China)	USD	2,600,000	100.00%		
L.R. Pak (Pvt) Limited	Karachi (Pakistan)	PKR	75,000,000	70.00%		
Landi Renzo Pars Private Joint Stock Company	Tehran (Iran)	IRR	55,914,800,000	99.99%		
Landi Renzo RO srl	Bucharest (Romania)	RON	20,890	100.00%		
Landi Renzo USA Corporation	Wilmington - DE (USA)	USD	3,067,131	100.00%		
AEB America S.r.l.	Buenos Aires (Argentina)	ARS	2,030,220	96.00%		
Lovato Gas S.p.A.	Vicenza (Italy)	EUR	120,000	100.00%		
Lovato do Brasil Ind Com de Equipamentos para Gas Ltda	Curitiba (Brazil)	BRL	100,000		100.00%	(#) (^)
Officine Lovato Private Limited	Mumbai (India)	INR	19,091,430		74.00%	(#)
Landi Renzo Argentina S.r.l.	Buenos Aires (Argentina)	ARS	1,378,000	96.00%	4.00%	(#) (^)
Landi Renzo Ve C.A.	Caracas (Venezuela)	VEF	2,035,220	100.00%		(^)
SAFE&CEC S.r.l.	S. Giovanni in Persiceto (Bologna, Italy)	EUR	2,500,000	51.00%		(&)
Krishna Landi Renzo India Private Ltd Held	Gurgaon - Haryana (India)	INR	118,000,000	51.00%		(&)
EFI Avtosanoat-Landi Renzo LLC	Navoi Region - Uzbekistan	USD	800,000	50.00%		(&) (^)

Detailed notes on investments:

(*) held by Landi International B.V.

(#) indirect share held by Lovato Gas S.p.A.

(^) not consolidated because not significant

(&) Company Joint Venture

SIGNIFICANT EVENTS DURING THE YEAR

April On 24 April 2018, the Shareholders' Meeting of Landi Renzo S.p.A. resolved, amongst other things:

- to approve the financial statements for 2017, and to allocate to the extraordinary reserve the sum of Euro 1,938,986.13 being the annual profit earned by Landi Renzo S.p.A., as the Statutory Reserve has already reached one fifth of the share capital;
- to authorise the Board of Directors to purchase treasury shares.

April In April, one of the leading automotive publications, «Automotive News Europe», nominated CEO Cristiano Musi as one of the industry's Rising Stars of 2018 in the General Management category. This award is part of an annual programme for managers from all disciplines in the automotive industry.

June On 20 June 2018, the Board of Directors of Landi Renzo S.p.A. approved the proposed merger by incorporation of the wholly owned subsidiary Emmegas S.r.l. The transaction falls within the scope of the Landi Renzo Group 2018-2022 Strategic Plan, with continuation of the policy of improved efficiency, streamlining, and simplification of production flows and processes, allowing synergies to be achieved as well as a reduction in overall costs. This extraordinary transaction will not generate impacts on the Group's consolidated accounts.

June On 20 June 2018, the Landi Renzo S.p.A. Board of Directors also appointed Filippo Alliney as the manager of the company's internal auditing department, following checks – as an external party to the organisation – on the requirements of independence and professionalism.

July In line with the provisions of the Financial Optimisation Agreement, which provided for repayment as excess liquidity in the case of the sale of the Sound segment and of the business branch of the Technical Centre to AVL (transactions that fall under the so-called "Permitted Transactions"), on 2 July 2018 Landi Renzo S.p.A. paid the holders of the debenture loan an overall additional amount of Euro 1,061 thousand (equal to 26.13% of the net income exceeding Euro 3 million) and the lending banks an overall amount of Euro 969 thousand (23.87% of the net income exceeding Euro 3 million), drawn from the last instalment provided for by the respective repayment schedules.

October On 30 October 2018, by a notarial deed of merger, in the presence of Notary Giuseppe Chiantera, the parent company Landi Renzo S.p.A. incorporated the company "Emmegas S.r.l. a socio unico".

December On 28 December 2018, the Meeting of Bondholders for the "LANDI RENZO 6.10% 2015-2022" loan, ISIN IT0005107237, under the chairmanship of Stefano Landi and in the presence of Notary Giuseppe Chiantera, unanimously approved the Board of Directors' proposal regarding amendments to the Debenture Loan Regulations in order to postpone from 31 December 2018 to 31 December 2019 the deadline by which to propose to the Company's shareholders' meeting the approval of a capital increase. The resolution took effect immediately, as the lending banks had already released their waiver.

SHAREHOLDERS AND FINANCIAL MARKETS

The Landi Renzo Group maintains a constant dialogue with its shareholders through a responsible and transparent activity of communication carried out by the Investor Relations office, with the aim of facilitating an understanding of the company's situation, management outlook, Group strategies and the outlook of the reference market. This office is also assigned the task of organising presentations, events and “Roadshows” that enable a direct relationship to be established between the financial community and the Group's Top Management. For further information, and to consult the economic-financial data, corporate presentations, periodic publications, official communications and updates on the share price, visit the *Investor Relations* section of www.landirenzogroup.com.

The following is a graphical representation of the performance of Landi Renzo stock over the period 2 January 2017 - 28 December 2018, compared with the performance of the FTSE Italy All-Share index.

Note: The graph shows the performance of the Share at 2 January 2017 and at 28 December 2018.

In the period 2 January – 28 December 2018 (the last trading day of 2018), the official Landi Renzo share price dropped by 28.22% from Euro 1.566 to Euro 1.124. Over the same period, the index relating to the reference segment, FTSE Italy All-Share, recorded a 16.69% negative change, while the Euro Stoxx 600 Auto index recorded a 32.13% negative change.

The following table summarises the main share and stock market data for 2018.

Share Price and Stock Market Information (source Borsa Italiana S.p.A.)	Year 2018	Year 2017
Share capital (Euro)	11,250,000	11,250,000
Number of shares representing the share capital	112,500,000	112,500,000
Equity attributable to Group shareholders and to minority interests (Euro)	59,576,000	56,703,000
Net result for the Group and minority interests (Euro)	4,533,000	3,702,000
Earnings per share (Euro)	0.0415	0.0368
Closing price	1.12	1.57
Maximum price	1.63	1.92
Minimum price	0.93	0.36
Closing stock market capitalisation	126,450,000	176,625,000

Landi Renzo S.p.A.'s market capitalisation at 14 March 2019 was Euro 151,200,000.

All shares issued were fully paid up.

At 14 March 2019, the holders of ordinary shares that represent more than 2%, as provided for by the CONSOB regulations, are the following:

Shareholder	14 March 2019
Girefin S.p.A.	54.662%
Gireimm S.r.l.	4.444%
Aerius Investment Holding AG	8.356%
Others - Market	32.538%

The share capital is made up of 112,500,000 shares with a nominal value of Euro 0.10 per share, for a total of Euro 11,250,000.00.

Directors' Report

DIRECTORS' REPORT

The Directors' Report of the Parent Company and the consolidated Directors' Report have been presented in a single document, giving greater prominence, where appropriate, to issues of relevance to all companies included in consolidation.

Operating performance

Dear Shareholders,

The year ending 31 December 2018 ended with a group net profit of Euro 4,533 thousand, compared with a profit of Euro 3,702 thousand at 31 December 2017, and turnover of Euro 188,079 thousand, up significantly, on a like-for-like basis, compared to the previous financial year (+12.5%). After 5 years of losses, the Landi Renzo Group is once again in profit, in the absence of non-recurrent income coming from extraordinary transactions and despite non-recurring costs of Euro 3,725 thousand.

Completion of the mobility plan agreed upon with the trade unions at the end of 2017 and the implementation of the “EBITDA improvement” project guidelines, which began in the previous financial year, led to significant improvements in margins. The adjusted EBITDA was in fact Euro 25,237 thousand (equal to 13.4% of the turnover), compared with Euro 10,745 thousand (6.4% of the turnover) at 31 December 2017 (for the same scope). As already highlighted in the Half-Yearly Financial Report as at 30 June 2018, the mobility plan was completed in the first half of 2018 and many of the guidelines of the EBITDA improvement project became fully operational only in the final months of that half-year period. Therefore, the Group only began to fully benefit from the relative positive effects, as well as not be impacted by the significant additional non-recurring costs, starting in the third quarter of 2018. Following on from what is indicated above, it should also be noted that there has been a significant improvement in EBIT (by roughly Euro 23 million) which, for the same scope, increased from a negative value of Euro 11,860 thousand at 31 December 2017 to a positive value of Euro 11,269 thousand.

For the same scope, there was an important increase in turnover (+12.5%), mainly attributable to the good performance of the After Market channel, in particular for emerging markets, which the business initiatives of the Group were focused on. This growth confirms the adequacy of the efforts made by the Group in terms of business expansion, both in Italy and abroad, and its established positioning in the OEM market.

The net financial position at 31 December 2018 is Euro 52,872 thousand, up compared with the end of the previous year (Euro 48,968 thousand), despite of non-recurrent expenditure incurred for early retirement incentives and the relative TFR (severance indemnity) totalling Euro 4,377 thousand, as part of the above-mentioned labour mobility plan, as well as investments in tangible and intangible assets totalling Euro 8,379 thousand.

As regards the business outlook, the Automotive segment order portfolio is showing encouraging opportunities for the green sector of a trend reversal compared with previous years in both the OEM distribution channel and the After Market channel, where the Group benefits from its established leadership position in the global markets.

In order to better understand this Annual Financial Report, it should be noted that during the previous financial year the Landi Renzo Group completed various extraordinary transactions. These were described in detail in the Financial Report at 31 December 2017, which should be referred to for more information. In particular:

- The "Sound" segment, which is essentially represented by Eighteen Sound S.r.l. and its subsidiary Sound&Vision S.r.l., which was sold in November 2017.
- On 29 December 2017, the strategic agreement was concluded for the industrial aggregation of the subsidiary SAFE S.p.A., a company in the Landi Group operating in the production and installation of gas treatment compressors for many applications ("Gas Distribution and Compressed Natural Gas" segment), and Clean Energy Compression Ltd (today called "IMW Industries Ltd"), a company specialised 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. 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 around 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).

As a result, the financial data for the "Sound" segment and the "Gas Distribution and Compressed Natural Gas" segment were consolidated into the Group's consolidated accounts at 31 December 2017, for 11 and 12 months respectively. In 2018, the Group therefore only operated directly in the "Automotive" segment, its core business, and indirectly through the joint venture SAFE & CEC S.r.l., consolidated using the net equity method, in the "Gas Distribution and Compressed Natural Gas" segment. Consequently, the income statement at 31 December 2018 is not directly comparable with the same period of the previous year, which included the contribution of both the above segments.

The net financial position at 31 December 2018 is negative for Euro 52,872 thousand, basically in line with 31 December 2017 (a negative Euro 48,968 thousand).

Consolidated results

The following table sets out the main economic indicators of the Group for the year 2018 compared with 2017.

(Thousands of Euro)	2018	Non-recurring	2018 ADJ	%	2017	Non-recurring	2017 ADJ	%	ADJ changes	%
Revenues from sales and services	**188,079**		**188,079**	**100.0%**	**206,294**		**206,294**	**100.0%**	**-18,215**	-8.8%
Other revenues and income	1,482		1,482	0.8%	4,222	2,953	1,269	0.6%	213	16.8%
Operating costs	-168,049	-3,725	-164,324	-87.4%	-205,817	-10,977	-194,840	-94.4%	30,516	-15.7%
Gross operating profit	**21,512**		**25,237**	**13.4%**	**4,699**		**12,723**	**6.2%**	**12,514**	98.4%
Amortisation, depreciation and impairment	-10,243		-10,243	-5.4%	-16,189	-1,984	-14,205	-6.9%	3,962	-27.9%
Net operating profit	**11,269**		**14,994**	**8.0%**	**-11,490**		**-1,482**	**-0.7%**	**16,476**	
Financial income	138		138	0.1%	91		91	0.0%	47	51.6%
Financial expenses	-4,058		-4,058	-2.2%	-4,396		-4,396	-2.1%	338	-7.7%
Exchange gains (losses)	-1,573		-1,573	-0.8%	-1,873		-1,873	-0.9%	300	-16.0%
Profit (loss) attributable to investments	0		0	0.0%	21,134	21,134	0	0.0%	0	
Profit (loss) attributable to joint ventures valued using net equity method	-1,591		-1,591	-0.8%	8		8	0.0%	-1,599	
Profit (loss) before tax	**4,185**		**7,910**	**4.2%**	**3,474**		**-7,652**	**-3.7%**	**15,562**	
Current and deferred taxes	348				228					
Net profit (loss) for the Group and minority interests, including:	**4,533**				**3,702**					
Minority interests	-138				-437					
Net profit (loss) for the Group	**4,671**				**4,139**					

Revenues from sales and services totalled Euro 188,079 thousand, with a decrease of Euro 18,215 thousand (-8.8%), compared to the previous year. As previously illustrated, this dip in sales relates only to the sale of the "Sound" segment and to the deconsolidation of the "Gas Distribution and Compressed Natural Gas" segment at the end of 2017.

Consolidated revenues for the Automotive segment (Euro 188,079 thousand in 2018 and Euro 167,144 thousand in 2017) increased by 12.5% compared with the previous financial year. This was mainly as a result of sales in the After Market channel, which increased by around 19.9%. Revenues in the OEM channel, which represented 39.0% of the Group's total revenues at 31 December 2018, increased compared with the revenues recorded in the same period of the previous year (+2.7%). These results are a consequence of the continuing good performance of both the conversion market and the OEM market for gas-powered cars on a global level.

Adjusted EBITDA at 31 December 2018 was Euro 25,237 thousand, which is a clear improvement on the previous year (Euro 12,723 thousand) thanks to the higher sales in the Automotive segment and, in particular, the positive reduction in fixed and variable costs resulting from the *EBITDA improvement project*.

The Gross Operating Profit (GOP or EBITDA) was positive in the amount of Euro 21,512 thousand, inclusive of Euro 3,725 thousand in extraordinary costs referred to strategic advisory expenses as well as medium/long-term for the three-year period 2016-2018 bonuses recognised to certain directors (Euro 1,000 thousand) and voluntary resignation incentives agreed upon with personnel.

SEGMENT REPORTING

In compliance with the provisions of IFRS 8, information is provided below on the business operating segments.
The criteria applied to identify the operating segments and the performance indicators are consistent with the management reporting periodically prepared and used by the Group's top management to take strategic decisions.
As previously illustrated, during 2018 the Group's direct operations were only in the Automotive segment.
The information below, which illustrates the segment contributions by each business unit in the previous financial year, gives an adequate comparison of the results at 31 December 2018.

The Automotive operating segment refers primarily to the design, manufacture and sale through the OEM and After Market channels of mechanical and electronic systems and components for the use of automotive gas as well as, to a lesser extent, anti-theft alarms. In particular the following are made:

- Complete CNG and LPG alternative automotive fuel systems;
- Electromechanical components such as pressure reducers, injectors, solenoid valves and multivalves;
- Electronic devices such as electronic control units, switches, advance variators and other accessories;
- Devices dedicated to vehicle safety and mobility.

Automotive includes sales to the OEM and After Market channels.

The Group currently operates in the "Gas Distribution and Compressed Natural Gas" segment through a joint venture SAFE & CEC S.r.l. which, in accordance with the contractual governance system, meets the joint control requirements as stipulated by IFRS 11 and is consolidated according to the net equity method. This paragraph provides information about the trend in this segment during 2018, to provide a better understanding of the impact of this business unit on the Group's balance sheet.

Breakdown of revenues

Following the contribution of the "Gas Distribution and Compressed Natural Gas" segment to the joint venture SAFE&CEC S.r.l. and the sale of the Sound segment, which took place in December and November 2017, respectively, revenues for 2018 were entirely from the "Automotive" segment.

The following table illustrates the division of revenues across areas of activity.

(Thousands of Euro)

Distribution of revenues by segment	31/12/2018	% of revenues	31/12/2017	% of revenues	Change	%
Automotive segment	188,079	100.0%	167,144	81.0%	20,935	12.5%
Gas Distribution and Compressed Natural Gas segment	0	0.0%	28,137	13.7%	-28,137	-100.0%
Sound segment (*)	0	0.0%	11,013	5.3%	-11,013	-100.0%
Total revenues	**188,079**	**100.0%**	**206,294**	**100.0%**	**-18,215**	**-8.8%**

(*) sold in November 2017

The Group's total revenues in 2018 were Euro 188,079 thousand, a reduction (-8.8%, Euro 18,215 thousand) compared to the corresponding period in the previous year. They relate entirely to the Automotive segment following the contribution of the Gas Distribution and Compressed Natural Gas segment to the joint venture SAFE&CEC S.r.l., and the sale of the Sound segment which took place in December and November 2017, respectively. Following these extraordinary transactions, there were no intersegment sales during the period (this item amounted to Euro 803 thousand at 31 December 2017), as they mainly related to intercompany services provided by Automotive companies to companies operating in other sectors.

Revenues from sales of products and services in the Automotive segment alone moved from Euro 167,144 in 2017 to Euro 188,079 thousand in 2018, recording an increase of 12.5% (Euro 20,935 thousand). The increase in sales in the Automotive segment was caused by the growth in revenue of both the OEM channel (+2.7%) and the After Market channel (+19.9%), leading to an adjusted EBITDA for the segment of Euro 25,237 thousand, growth of 98% compared to 2017. This growth is linked to greater sales volumes achieved by the Group thanks to a greater market penetration, a greater request for engines with a low environmental impact and the more widespread restrictions on internal combustion engines (ICE).

The following are the notes on sales by geographical area:

(Thousands of Euro) Geographical distribution of revenues	31/12/2018	% of revenues	31/12/2017	% of revenues	Change	%
Italy	33,297	17.7%	40,441	19.6%	-7,144	-17.7%
Europe (excluding Italy)	77,896	41.4%	96,875	47.0%	-18,979	-19.6%
America	37,082	19.7%	31,847	15.4%	5,235	16.4%
Asia and Rest of the World	39,804	21.2%	37,131	18.0%	2,673	7.2%
Total revenues	**188,079**	**100.0%**	**206,294**	**100.0%**	**-18,215**	**-8.8%**

In view of the extraordinary transactions occurring at the end of the previous financial year, leading to the deconsolidation of the "Sound" and "Gas Distribution and Compressed Natural Gas" segments, for comparison purposes, a breakdown of sales by geographic area is reported below, for the "Automotive" segment only.

(Thousands of Euro) Geographical distribution of revenues	31/12/2018	% of revenues	31/12/2017	% of revenues	Change	%
Italy	33,297	17.7%	30,802	18.4%	2,495	8.1%
Europe (excluding Italy)	77,896	41.4%	81,669	48.9%	-3,773	-4.6%
America	37,082	19.7%	25,794	15.4%	11,288	43.8%
Asia and Rest of the World	39,804	21.2%	28,879	17.3%	10,925	37.8%
Total revenues	**188,079**	**100.0%**	**167,144**	**100.0%**	**20,935**	**12.5%**

Regarding the geographical distribution of revenues for the Automotive segment, during 2018 the Group realised 82.3% (81.6% at 31 December 2017) of its consolidated revenues abroad (41.4% in Europe and 40.9% outside Europe), and in detail:

- <u>Italy</u>

Sales on the Italian market of Euro 33,297 thousand, considering the same scope, increased compared with the same period of the previous financial year (an increase of Euro 2,495 thousand). The sales essentially reflect the good performance of the OEM and After Market sectors, in particular:

- New bi-fuel car registrations (OEM), for the set of new vehicles equipped with LPG and CNG systems, increased compared with the same period of the previous financial year, accounting for 8.5% of total vehicle registrations according to data published by UNRAE (Association of foreign car makers operating in Italy).
- The After Market was essentially stable in terms of the number of conversions compared with the

same period in the previous year. The Group's domestic market share on the After Market channel at the end of the period was roughly 33%.

- Europe

The decrease in revenues in Europe of Euro 3,773 thousand was mainly attributable to the fall in After Market sales in Turkey. This was only partially offset by an upturn in sales in the Polish market.

- America

Sales in 2018 for this area, equal to Euro 37,082 thousand, marked an increase of 43.8%. This was mainly attributable to the positive After Market sales trend in Latin America.

- Asia and rest of the world

The Asia and Rest of World markets saw significant growth (+37.8% compared to the previous year), with total revenue of Euro 39,804 thousand, favoured by good sales trends in North Africa.

Profitability

(Thousands of Euro)	Values at 31 December 2018					Values at 31 December 2017				
	Automotive	*Gas Distribution and Compressed Natural Gas*	*Sound (*)*	Adjustments	Landi Renzo Consolidated	*Automotive*	*Gas Distribution and Compressed Natural Gas*	*Sound*	Adjustments	Landi Renzo Consolidated
Net sales outside the Group	188,079				188,079	167,144	28,137	11,013		206,294
Intersegment sales	0				0	635	136	32	-803	0
Total Revenues from net sales and services	**188,079**	**0**	**0**	**0**	**188,079**	**167,779**	**28,273**	**11,045**	**-803**	**206,294**
Other revenue and income	1,482				1,482	1,180	88	1		1,269
Operating costs	-164,324				-164,324	-158,214	-27,425	-10,004	803	-194,840
Adjusted gross operating profit	**25,237**	**0**	**0**	**0**	**25,237**	**10,745**	**936**	**1,042**	**0**	**12,723**
Extraordinary revenue	0				0	2,953	0	0		2,953
Extraordinary costs	-3,725				-3,725	-10,977	0	0		-10,977
Gross operating profit	**21,512**	**0**	**0**	**0**	**21,512**	**2,721**	**936**	**1,042**	**0**	**4,699**
Amortisation, depreciation and impairment	-10,243				-10,243	-12,597	-915	-694		-14,205
Net capital loss from disposal	0				0	-1,984	0	0		-1,984
Net operating profit	**11,269**	**0**	**0**	**0**	**11,269**	**-11,860**	**22**	**348**	**0**	**-11,490**
Financial income (and expenses)					-5,493					-6,178
Profit (loss) from equity investments and joint ventures valued using the equity method					-1,591					21,142
Profit (loss) before tax					**4,185**					**3,474**
Current and deferred taxes					348					228
Net profit (loss) for the Group and minority interests, including:					**4,533**					**3,702**
Minority interests					-138					-437
Net profit (loss) for the Group					**4,671**					**4,139**

(*) sold in December 2017

In 2018, adjusted EBITDA was positive, Euro 25,237 thousand, equivalent to 13.4% of revenues, up by Euro 12,514 thousand compared with the figure for December 2017 (Euro 12,723 thousand)..

The Gross Operating Profit (EBITDA) was positive at Euro 21,512 thousand, including Euro 3,725 thousand in non-recurring costs relating to strategic consultancy expenses as well as the medium/long-term performance bonus recognised to several directors for the 2016-2018 period and voluntary resignation incentives, as detailed below:

(Thousands of Euro) EXTRAORDINARY COSTS	31/12/2018	31/12/2017	Change
Strategic consultancy	2,623	5,451	-2,828
Medium/long-term performance bonus	1,000	0	1,000
Personnel for voluntary resignation incentives	102	4,626	-4,524
Provisions, provision for bad debts and other operating expenses	0	900	-900
Total	**3,725**	**10,977**	**-7,252**

The costs of raw materials, consumables, and goods and changes in inventories decreased overall from Euro 100,527 thousand at 31 December 2017 to Euro 93,092 thousand at 31 December 2018, which in absolute terms is a decrease of Euro 7,435 thousand, related to both the improvements in production efficiency and offset by the deconsolidation of the "Sound" and "Gas Distribution and Compressed Natural Gas" segments.

The costs of services and use of third-party assets amounted to Euro 44,100 thousand and included non-recurring costs of Euro 2,623 thousand mainly to related to the strategic consultancy costs mentioned above, compared with Euro 57,307 thousand in the same period of the previous year (which included non-recurring costs of Euro 5,451 thousand).

Personnel costs were Euro 28,150 thousand, a significant decrease compared with the same period of the previous financial year (Euro 43,181 thousand), following the company restructuring process aimed at bringing the business organisation into line with the Group's current activities and strategic plan, and following the deconsolidation of the "Sound" and "Gas Distribution and Compressed Natural Gas" segments (Euro 7,115 thousand at 31 December 2017). Personnel costs at 31 December 2018 also include the medium/long-term for the three-year period 2016-2018 performance bonus recognised to several directors, totalling Euro 1,000 thousand. The number of employees of the Group reduced from 599 units at 31 December 2017 to 494 units at 31 December 2018.

The Net Operating Profit (EBIT) for the period was Euro 11,269 thousand (Euro -11,490 thousand at 31 December 2017), after accounting for amortisation, depreciation and impairment of Euro 10,243 thousand (Euro 14,205 thousand at 31 December 2017), as well as non-recurring costs of Euro 3,725 thousand (Euro 10,977 thousand at 31 December 2017). EBIT at 31 December 2017 was also affected by capital losses from disposal of Euro 1,984 thousand relating to the sale of a business unit regarding the laboratory management part of the Technical Centre to the AVL Group.

Total financial expenses (interest income, interest expense and exchange differences) totalled Euro 5,493 thousand, down compared to the same period of 2017 (Euro 6,178 thousand) primarily due to lower interest expense because of more effective debt management.

The year 2018 ended with a pre-tax profit of Euro 4,185 thousand (Euro 3,474 thousand at 31 December 2017) after the recognition of losses on valuations of investments at equity of Euro 1,591 thousand, relating primarily to the joint ventures Krishna Landi Renzo India Private Ltd Held (revalued for Euro 308 thousand) and SAFE&CEC S.r.l. (written down in the amount of Euro 1,895 thousand). In the course of 2017, the Group also recognised income from equity investments of Euro 21,142, mainly linked to the business combination involving the subsidiary SAFE S.p.A.

The net result of the Group and minority interests at 31 December 2018 showed a profit of Euro 4,533 thousand (Euro 3,702 thousand at 31 December 2017). Given the positive results accounted for in 2017-2018, which confirm the reliability of the 2018-2022 Strategic Plan forecasts, (and considering the forecasts developed by the directors for the 2019-2023), the management prepared an analysis with the support of its tax advisors to verify the recoverability of tax losses over the horizon of the above-mentioned plan. Based on these analyses, which confirm the recovery of the tax losses as early as the 2019 financial year and for all years of the plan, the directors decided to recognise on a prudent basis deferred tax assets relating to tax losses that they believe will be substantially recovered over the first three years (2019-2021) for Euro 3,047 thousand.

As previously illustrated, during 2018 the Group's direct operations were only in the Automotive segment. As a result, the income statement at 31 December 2018 is not directly comparable with that for the previous year. To allow for a clearer and more thorough comparison of the results, a comparison is provided below of the Group's main income statement figures relating only to the Automotive segment.

(Thousands of Euro)	31/12/2018	31/12/2017	Change	%
Net sales outside the Group	**188,079**	**167,144**	**20,935**	**12.5%**
Intersegment sales	0	635	-635	
Total Revenues from net sales and services	188,079	167,779	20,300	12.1%
Other revenue and income	1,482	1,180	302	25.6%
Operating costs	-164,324	-158,214	-6,110	3.9%
Adjusted gross operating profit	**25,237**	**10,745**	**14,492**	**134.9%**
Extraordinary revenue	0	2,953	-2,953	
Extraordinary costs	-3,725	-10,977	7,252	66.1%
Gross operating profit	**21,512**	**2,721**	**18,791**	**690.6%**
Amortisation, depreciation and impairment	-10,243	-12,597	2,354	-18.7%
Net capital loss from disposal	0	-1,984	1,984	
Net operating profit	**11,269**	**-11,860**	**23,129**	

The adjusted Gross Operating Profit (EBITDA) for 2018 was positive and totalled Euro 25,237 thousand, equal to 13.4% of revenues, an increase of Euro 14,492 thousand compared with the figure for December 2017 (Euro 10,745 thousand). This improvement was linked to higher sales in both the OEM and After Market channels (with an effect of Euro 6.4 million) and benefits from the reduction in fixed (by Euro 6.5 million) and variable (by Euro 1.6 thousand) costs thanks to the EBITDA improvement project.

The Gross Operating Profit (EBITDA) was positive at Euro 21,512 thousand, including Euro 3,725 thousand in non-recurring costs relating to strategic consultancy expenses as well as the medium/long-term performance bonus recognised to several directors for the 2016-2018 period and voluntary resignation incentives.

The Net Operating Profit (EBIT) for the period was Euro 11,269 thousand (Euro -11,860 thousand at 31 December 2017), after accounting for amortisation, depreciation and impairment of Euro 10,243 thousand (Euro 12,597 thousand at 31 December 2017), as well as non-recurring costs of Euro 3,725 thousand (Euro 10,977 thousand at 31 December 2017) and no non-recurring income (Euro 2,953 thousand at 31 December 2017). EBIT at 31 December 2017 was also affected by capital losses from disposal of Euro 1,984 thousand relating to the sale of a business unit regarding the laboratory management part of the Technical Centre to the AVL Group.

Gas Distribution and Compressed Natural Gas segment

As already illustrated above, the “Gas Distribution and Compressed Natural Gas” segment (which in 2017 was essentially represented by the subsidiary SAFE S.p.A.), was the subject of a strategic aggregation with Clean Energy Fuels Corp, the aim of which was to create the world’s second-largest group, in terms of business volume. 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 (now “IMW Industries Ltd”) by Clean Energy Fuels Corp. In accordance with the contractually required governance system, which reflects the joint control agreement between the two shareholders, the Group’s share is classified as a “joint venture” pursuant to international accounting standards (IFRS 11). Therefore consolidation is via the net equity method.

During 2018, the “Gas Distribution and Compressed Natural Gas” segment achieved consolidated net sales of Euro 57,113 thousand, positive adjusted EBITDA of Euro 4,005 thousand, and a post-tax loss of Euro 3,716 thousand. SAFE&CEC’s results for the period were mainly affected by the initial inefficiencies arising from the need for group harmonisation and reorganisation, which came about only a few months ago. In the meantime, all the activities aimed at reorganising the Group’s activities were initiated, aimed in particular at optimising processes and the synergies between SAFE S.p.A. and IMW Industries Ltd., with significant targets in terms of cost reduction and an increase in margins.

The Group also has a significant order portfolio which as early as 2019 is expected to result in a return to profit and a considerable rise in EBITDA.

Invested capital

(Thousands of Euro)

Balance Sheet and Financial Position	31/12/2018	31/12/2017
Trade receivables	35,131	29,118
Inventories	38,895	36,562
Trade payables	-55,166	-47,829
Other net current assets (liabilities)	33	-572
Net operating capital	**18,893**	**17,279**
Tangible assets	12,745	14,583
Intangible assets	51,065	51,264
Other non-current assets	37,173	37,305
Fixed capital	**100,983**	**103,152**
TFR (severance indemnity) and other provisions	-7,428	-14,760
Net invested capital	**112,448**	**105,671**
Financed by:		
Net Financial Position	52,872	48,968
Group shareholders' equity	59,852	57,372
Minority interests	-276	-669
Borrowings	**112,448**	**105,671**

Ratios	31/12/2018	31/12/2017
Net operating capital	18,893	17,279
Net operating capital/Turnover (1)	10.0%	10.3%
Net invested capital	112,448	105,671
Net invested capital/Turnover (1)	59.8%	63.0%

(1) 2017 figure calculated for only Automotive turnover

Net working capital at the end of the period stood at Euro 18,893 thousand. This is an increase of Euro 1,614 thousand compared to the same figure recorded at 31 December 2017. This amounts to 10.0% as a percentage of Automotive turnover, as in the sector's best practices, essentially in line with the previous year (10.3%), as the increase in net working capital was basically proportional with the increase in Group turnover.

Trade receivables stood at Euro 35,131 thousand, an increase of Euro 6,013 thousand compared with 31 December 2017. On 31 December 2018, derecognised receivables assigned through factoring with crediting on maturity stood at Euro 25.4 million, compared to Euro 19.5 million on 31 December 2017.

There was an increase of Euro 7,337 thousand in trade payables, which rose from Euro 47,829 thousand as at 31 December 2017 to Euro 55,166 thousand, while the closing inventories totalling Euro 38,895 thousand, increased by Euro 2,333 thousand.

The significant decline in TFR and other provisions was due to redundancy payments made as set forth in the labour mobility plan mentioned above, and the relative TFR (severance indemnity) for a total of Euro 4.4 million, and refunds for product warranties to vehicle manufacturers (Euro 2.1 million) already recognised in provisions in previous years.

Net Invested Capital (Euro 112,448 thousand) was basically unchanged compared with December 2017 (Euro 105,671 thousand), while the percentage indicator calculated on the turnover decreased from 63.0% to 59.8%.

Net Financial Position and cash flows

(Thousands of Euro)	31/12/2018	31/12/2017
Cash and cash equivalents	15,075	17,779
Bank financing and short-term loans	-16,203	-7,741
Bonds issued (net value)	-3,843	-2,373
Short-term loans	-419	-419
Net short term indebtedness	**-5,390**	**7,246**
Bonds issued (net value)	-24,219	-28,679
Medium-long term loans	-23,263	-27,535
Net medium-long term indebtedness	**-47,482**	**-56,214**
Net financial position	**-52,872**	**-48,968**

The Net Financial Position at 31 December 2018 is negative for Euro 52,872 thousand, compared with a negative net financial position at 31 December 2017 of Euro 48,968 thousand. The positive effect of EBITDA for the year (Euro 21,512 thousand) was indeed more than offset by non-recurrent expenditure incurred for early retirement incentives and the relative TFR (severance indemnity) totalling Euro 4.4 million, as part of the above-mentioned labour mobility plan, as well as investments in working capital required to support top-line growth, and outflows for investments in tangible and intangible assets and financial expenses.

On 02 July 2018, in line with the provisions of the Financial Optimisation Agreement, which provided for repayment as excess liquidity in the case of the sale of the Sound segment and of the business branch of the Technical Centre to AVL (transactions that fall under the so-called "Permitted Transactions"), Landi Renzo S.p.A. paid the holders of the debenture loan an overall additional amount of Euro 1,061 thousand (equal to 26.13% of the net income exceeding Euro 3 million) and the lending banks an overall amount of Euro 969 thousand (23.87% of the net income exceeding Euro 3 million), drawn from the last instalment provided for by the respective repayment schedules.

The following table illustrates the trend in total cash flow:

(Thousands of Euro)

	31/12/2018	31/12/2017
Gross operational cash flow (1)	9,946	8,954
Cash flow for investment activities	-8,269	3,319
Gross free cash flow	**1,677**	**12,273**
Non-recurrent expenditure for voluntary resignation incentives and TFR	-4,377	0
Net free cash flow	**-2,700**	**12,273**

(1) Operational cash flow before non-recurrent expenditure relating to voluntary resignation incentives for a value of Euro 3,732 thousand, and to TFR (severance indemnity) for a value of Euro 645 thousand, disbursed in 2018 based on the provisions of the mobility agreement entered into with the trade unions.

The free cash flow for the period was Euro -2,700 thousand, of which Euro -4,377 thousand relating to non-recurring expenditure, and Euro 8,269 thousand relating to investments.

Cash flows for investment activities were positive in the amount of Euro 3,319 thousand at 31 December 2017, following the sale of the Technical Centre to AVL and the disposal of operating activities.

Investments

Investments in property, plant and machinery and other equipment undertaken in order to support production and business needs totalled Euro 2,915 thousand (Euro 2,479 thousand at 31 December 2017).

The increases in intangible assets totalled Euro 5,251 thousand (Euro 2,670 thousand at 31 December 2017) and are related, primarily, to capitalised costs for the development of new products totalling Euro 5,083 thousand.

The increase in development activity is connected both to a significant new product development project for a primary customer in the OEM sector, currently being completed, and to the Heavy Duty (HD) sector which, consistently with the provisions of the Strategic Plan 2018-2022, is considered a key project to support the growth of the Group and its strategic positioning on the market.

New activities on development projects were started during the first few months of the 2019 and are expected to continue throughout the current year.

Statement of reconciliation between the data of the parent company's financial statements and the data of the consolidated financial statements

The following is a reconciliation statement between the results for the period and the capital and reserves of the Group with the corresponding values of the Parent Company.

(Thousands of Euro)

RECONCILIATION STATEMENT	Net Shareholder's equity at 31.12.2018	Result at 31.12.2018	Net Shareholder's equity at 31.12.2017	Result at 31.12.2017
Equity and result for the year of the Parent Company	**51,129**	**226**	**51,221**	**1,939**
Difference in value between book value and pro rata value of the accounting equity of the consolidated companies	9,450	0	8,738	0
Pro rata results achieved by investees	0	5,609	0	970
Elimination of intra-group dividends	0	-2,981	0	0
Elimination of the effects of intra-group commercial transactions	-919	545	-1,464	-8
Profits and losses on exchange from valuation of intra-group loans	478	-478	-1,354	1,354
Elimination of revaluation/write-down of investments and recognition of impairment of goodwill	0	1,737	0	-603
Elimination of the effects of intra-group assets	-562	-125	-438	50
Equity and result for the year from Consolidated Financial Statements	**59,576**	**4,533**	**56,703**	**3,702**
Equity and result for the year of minority interests	-276	-138	-669	-437
Equity and result for the year of the Group	**59,852**	**4,671**	**57,372**	**4,139**

The companies of the Landi Group

At the top of The Group structure is the Parent company, Landi Renzo S.p.A., with headquarters in Cavriago (RE), which holds direct and indirect controlling stakes in the capital of 17 companies, including two of minor interest – not consolidated because they are not significant – and three Joint Ventures, one of which is not consolidated for the same reason. The main figures on the consolidated Group companies are provided in the following table. Commercial relations between the companies of the Group take place under contractual conditions considered to reflect the arm's length conditions on the markets in question. The following table provides the main economic information on the companies of the Group based on the data of the Financial Statements prepared according to local regulations, approved by the respective governing bodies.

Company Name	Registered Office	Currency	Shareholders' Funds as at 31 December 2018 (in units of currency)	% stake at 31 December 2018		% stake at 31 December 2017		Notes
				Direct investment	Indirect investment	Direct investment	Indirect investment	
Parent Company								
Landi Renzo S.p.A.	Cavriago (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%		
Landi Renzo Polska Sp.Zo.O.	Warsaw (Poland)	PLN	50,000		100.00%		100.00%	(1)
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 America S.r.l.	Buenos Aires (Argentina)	ARS	2,030,220	96.00%		96.00%		
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%	(2)
Emmegas S.r.l.	Cavriago (RE) - Italy	EUR	60,000			100.00%		(3)
Associates and subsidiaries consolidated using the equity method								
SAFE&CEC S.r.l.	S. Giovanni in Persiceto (Bologna, Italy)	EUR	2,500,000	51.00%				(4)
Krishna Landi Renzo India Private Ltd Held	Gurgaon - Haryana (India)	INR	118,000,000	51.00%		51.00%		(4)

Detailed notes on investments:

(1) Held indirectly by Landi International B.V.

(2) Held by Lovato Gas S.p.A.

(3) merged in Landi Renzo S.p.A.

(4) Company joint venture

Landi Renzo S.p.A. (Parent Company)

In 2018, Landi Renzo S.p.A. achieved revenues from goods and services totalling Euro 135,987 thousand, compared to Euro 111,074 thousand in 2017, an increase of Euro 38,255 thousand or 22%.

The Gross Operating Profit was equal to Euro 11,894 thousand (including non-recurrent costs of Euro 3,623 thousand), compared with a negative result of Euro -4,748 thousand in 2017, including non-recurrent costs of Euro 9,877 thousand.

The Net Operating Profit, equal to Euro 4,466 thousand, was influenced by amortisation, depreciation and

impairment recorded during the year for an overall total of Euro 7,428 thousand, Euro 4,163 thousand for intangible assets and Euro 3,265 thousand for tangible fixed assets.
The net operating result of Euro 226 thousand includes expenses from investments for a total of Euro 3,689 thousand, financial expenses net of income for Euro 3,359 thousand and net exchange gains totalling Euro 427 thousand.
The net financial position at the end of 2018 is negative and equal to Euro 54,558 thousand, compared with a negative net financial position of Euro 56,899 thousand at 31 December 2017. Assignment of trade receivables without recourse by the company totalled Euro 19,735 thousand at year end.
The Parent Company's workforce has shown a decreasing trend during the year. At 31 December 2018, considering the above mentioned situation, the workforce has increased to 300 units.

Lovato Gas S.p.A.
Lovato Gas S.p.A., acquired in October 2008 by the Parent Company Landi Renzo S.p.A., is one of the major companies in the LPG and CNG fuel supply components and systems sector for the automotive industry, operating, for more than 50 years, primarily in the European and Asian markets.
The net revenue totalled Euro 29,853 thousand, down compared to the previous year (Euro 34,825 thousand) primarily due to the decline in sales in Turkey, caused by current political and economic instability, and Iran.
In any event, despite the decline in turnover, the Gross Operating Profit was equal to Euro 2,875 thousand compared with Euro 3,423 thousand in the previous year, substantially in line from a percentage on turnover point of view.

This was possible thanks to the significant reduction in costs deriving from the EBITDA Improvement project, the guidelines of which were implemented in the course of the year, and the positive effects of the restructuring of production.
The net operating profit totalled Euro 1,946 thousand, compared to Euro 2,125 thousand in 2017, while the net profit was Euro 1,171 thousand, in line with the previous year (Euro 1,181 thousand in 2017).

Landi International B.V.
The Dutch holding company, with 100% control over Landi Renzo Polska Sp.zo.o., did not record any revenue and has registered a profit amounting to Euro 1,728 thousand, essentially as a result of the valuation of the net shareholders' equity of the Polish branch.

Landi Renzo Polska Sp.zo.o.
This company, operating since 1998, sells LPG fuel systems for motor vehicles, mainly in Poland, and is also active in the installation of LPG systems, with manufacturing facilities in Warsaw and Tychy. Total turnover in 2018 was Euro 28,966 thousand compared to Euro 23,923 thousand in 2017, recording an increase of 21.1% linked with a good performance in sales both in the OEM sectror and in the After Market

channel. The year closed with a net profit of Euro 1,667 thousand, compared with a net profit of Euro 706 thousand in 2017, after amortisation of Euro 552 thousand.

LR Industria e Comercio Ltda

The Brazilian company, in which a stake has been held since 2003, saw a considerable increase in turnover from Euro 9,592 thousand in 2017 to Euro 13,819 thousand in 2018. The year closed with a net profit of Euro 360 thousand, after exchange losses of Euro 527 thousand due to the depreciation of the local currency.

Beijing Landi Renzo Autogas System Co. Ltd

This company, which was formed in 2005, carries out commercial activities for LPG and CNG systems in the Chinese market and is equipped with an internal structure for Research and Development focused on after-sales service. 2018 closed with revenues totalling Euro 3,000 thousand and a net loss of Euro 121 thousand.

L.R. Pak (Private) Limited

The company, 70% owned by the Group and active since 2006, manufactures and sells CNG fuel systems both for car manufacturers (OEM customers) and for the After Market. Even in 2018 heavily critical elements continue to persist on the market due to a lack of CNG distribution for vehicles along with import barriers to a few After Market components. 2018 closed with turnover of Euro 813 thousand.

Landi Renzo Pars Private Joint Stock Company

Since 2008, this company has been engaged in the production and marketing of CNG systems in the Iranian market, on both the OEM and After Market channels. Landi Renzo Pars received protection of its invested capital on the basis of the "FIPPA" (Foreign Investment Protection and Promotion Act) regulations. 2018 closed with sales revenues totalling Euro 1,216 thousand and a net profit of Euro 191 thousand. Revenues for the reference period were impacted by the international sanctions, which became effective in November 2018, but already in previous months had entailed a sharp reduction in transactions with that country.

Landi Renzo RO Srl

This company has been active since 2009 in the production, marketing and installation of LPG systems, in particular on the OEM channel. 2018 closed with a net loss of Euro 33 thousand, compared with a net profit of Euro 379 thousand in the previous year. Revenues from sales and services totalled Euro 5,894 thousand (Euro 5,766 thousand in the previous year).

Landi Renzo USA Corporation

In January 2010, Landi Renzo Usa Corporation was formed with the aim of developing productive and commercial opportunities on the American market. In 2018, the company achieved revenues of Euro 5,539 thousand, an increase of 23% compared to 2017, and recorded a Gross Operating Profit of Euro 208 thousand and a net profit of Euro 60 thousand.

AEB America S.r.l.

AEB America S.r.l. carries out production and marketing activities in the Argentine market. In 2018 the company posted sales revenues of Euro 3,170 thousand up by 75.1%, with a net profit of Euro 226 thousand, after exchange losses of Euro 555 thousand.

SAFE & CEC S.r.l.

SAFE & CEC S.r.l., Joint Venture, set up in December 2017 between the Landi Renzo S.p.A. and the American Clear Energy Fuels Corporation, through conferral of SAFE S.p.A. and Clean Energy Compression (CEC) respectively, operate in compressor for vehicle CNG sector with an estimated market share of 15%. In 2018, the SAFE & CEC Group earned consolidated sales revenue of Euro 57,113 thousand and achieved an adjusted Gross Operating Profit of Euro 4,005 thousand, after non-recurrent costs of Euro 5,509 thousand. The Net Operating Profit totalled Euro -2,885 thousand, after amortisation and depreciation totalling Euro 1,381 thousand.

The year 2018 closed with a consolidated net loss of Euro 3,716

Other information

Transactions with related parties

Creditor/debtor relationships and economic transactions with related parties are subject to specific analysis in the relevant section of the Explanatory Notes to the Consolidated and Separated Financial Statements and Annual Financial Statements, to which you should refer. Please note that transactions with related parties, including intercompany transactions, cannot be qualified as either atypical or unusual, as they are part of the normal activities of the Group companies, and that transactions are concluded according to contractual conditions that reflect arm's length conditions, taking into account the characteristics of the goods and services provided.

Regarding the relationships with the parent company Girefin S.p.A., it should also be noted that the Directors of Landi Renzo S.p.A. deem that it does not exercise the administration and coordination activities envisaged by art. 2497 of the Italian Civil Code, because:

- the shareholder lacks the means and structures to perform these activities, since it does not have employees or other collaborators capable of providing support for Board of Directors' activities;
- it does not prepare the budgets and business plans for Landi Renzo S.p.A.;
- it does not give any guidance or instructions to the subsidiary; it does not request to be informed in advance or to approve its more significant transactions, nor those of ordinary administration;
- no committees or working groups, formal or informal, are established with representatives of Girefin S.p.A. and representatives of the subsidiary.

As of today, there have been no changes with regards to the conditions indicated above.
For the detail of the transactions with related parties refer to note n. 43 of the explanatory notes to the consolidated financial statements.

Finally, please note that in accordance with CONSOB Regulation 17221/2010, and pursuant to Article 2391-bis of the Italian Civil Code, the Board of Directors has adopted the specific procedure for transactions with related parties, available on the company website, to which you should refer.

Positions or transactions deriving from atypical and/or unusual transactions

Pursuant to CONSOB communication no. 6064293 of 28 July 2006, note that, during 2018, 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.

Treasury shares and shares of parent companies

In compliance with the provisions of article 2428 of the Italian Civil Code, it is confirmed that during 2018 the Parent company did not negotiate any treasury shares or shares of parent companies and does not at

present hold any treasury shares or shares of parent companies.
The subsidiaries do not hold any shares of the Parent Company.

Sub-offices

No sub-offices were established.

Corporate governance

Information on corporate governance is provided in a separate report that is an integral part of the financial statements, annexed to this Report.

Policy for analysing and managing risks connected with the activities of the Group

This section provides information on exposure to risks connected with the activities of the Group as well as the objectives, policies and processes for managing such risks and the methods used to asses and to mitigate them.

The guidelines for the internal control and risk management system of the Group defined by the Board of Directors identify the internal audit system as a cross-sectional process integrated with all the company activities, which is based on the international principles of Enterprise risk management as a reference best practice for the architecture of internal audit systems. The purpose of the internal audit and risk management system is to help the Group to realise its performance and profit objectives, to obtain reliable economic-financial information and to ensure compliance with the laws and regulations in force, preventing damage to the company's image and economic losses. In this process, particular importance is given to the identification of corporate objectives, the classification (based on combined assessments regarding the probability and the potential impact) and the classification and control of the business risks connected to them, through the implementation of specific actions aimed at containing 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 the observance of the laws and regulations in force, to avoid the company suffering damage to its image or and/or economic losses) and, lastly, financial.

Those in charge of the various branches of company management identify and assess the risks within their jurisdiction, whether these originate within or outside the Group, and identify actions to limit and reduce them (so-called “first line audit”).

To the above activities one should add those of the Manager in charge of drafting corporate documents and his staff (co called “second level audit”) and those of the Manager of the Internal Audit function (so called "third level audit”)who continuously monitors the efficiency and effectiveness of the internal audit and risk management system through risk assessment activities, the performance of audit operations and the subsequent management of follow up.

The results of the risk identification procedures are reported and discussed at the Top Management level of the Group in order to create the prerequisites for their cover, insurance and for the assessment of the residual risk.

The following paragraphs describe the risks considered to be significant and connected with the activities of the Group (the order in which they are listed does not imply any classification, either in terms of probability of their occurrence or in terms of possible impact).

STRATEGIC RISKS

• **Risks relating to the macroeconomic and sector situation**

The activity of the Group is influenced by the general conditions of the economy in the various markets where it operates. A phase of economic crisis, with a consequent slow-down in consumption, can have a negative impact on the sales trends of the Group.

The current macroeconomic context causes significant uncertainty regarding future expectations, with the resulting risk that reduced performance could impact margins in the short term. In order to mitigate the possible negative impact that a downturn in demand could have on company profits, the Landi Renzo Group has outsourced part of its production to third-party suppliers; supplies to car manufacturers, on the other hand, are handled by the Group's own structures, as agreed with the customers for more effective synergy. In addition, when necessary, fixed-term contracts are also used.

The Group pursues its aim of increasing its industrial efficiency and improving its capacity for lean manufacturing, while reducing overhead costs.

• **Risks connected with the international expansion strategy**

The Group sells its products in more than 75 countries, in 14 of which it operates directly, including through its own companies. In 2018, the Group achieved 82.3% of consolidated revenues abroad.

In pursuing its expansion strategy, the Group has invested, and may invest more in the future, including in countries characterised by considerable instability in terms of their political institutions and/or involved in situations marked by international tensions. The above-mentioned strategy could expose the Group to various risks of a macroeconomic nature, arising, for example, from changes in the political, social, economic and regulatory systems of such countries or from extraordinary events such as acts of terrorism, civil disorder, restrictions on trade with particular reference to the Group's products, foreign investment and/or trade, as well as exchange rate control policies and associated restrictions on repatriation of capital, sanctions, restrictions on foreign investment, nationalisation, and inadequate protection of intellectual property rights.

The probability of the events described above actually taking place varies from country to country and is difficult to predict. However, a constant monitoring activity is carried out by company Top Management in order to become aware of any changes as early as possible, so as to minimise any economic or financial impact that may ensue.

- **Risks related to growth**

The Group aims at continued growth by means of a strategy based on gaining strength in the markets where it is already present and on further geographical expansion. In the context of such a strategy, the Group could encounter difficulties in managing the adaptation of the structure and business model or in the ability to identify market trends or the preferences of local consumers. In addition, the Group may incur start-up costs arising from the opening of new companies. Finally, in the event that the Group's growth is pursued through external lines by way of acquisition transactions, it may encounter, amongst other things, difficulties associated with the correct valuation of the assets acquired, the integration of such assets, and also the failure to achieve the expected synergy, which may have a negative impact on the activity and on the future economic-financial results of the Group.

OPERATING RISKS

- **Risks connected to relationships with OEM customers**

The Group distributes and sells its systems and components to the main vehicle manufacturers worldwide (OEM customers). In the year ending at 31 December 2018, the sales of systems and components made by the Group to OEM customers represented approximately 39.0% of the total sales of the Automotive segment. The Group boasts long-standing relationships with the main vehicle manufacturers worldwide. The ability of the group to strengthen the existing relationships with such customers, or to establish new relationships, is a determining factor that will consolidate the Group's leadership position in the market. Relationships with OEM customers are typically governed by agreements that do not require minimum purchase quantities. Therefore, the demand for predefined quantities of Group products from such customers cannot be guaranteed. In order to satisfy the requirements of various customers to the best of its abilities, the Group has initiated a policy of delocalisation of part of its production, in recent years, in countries where it already has a number of customers, and is attempting to do the same in other countries. In light of the above, and also in the light of the competitive advantage acquired in providing solutions for the development of sales in the After Market channel, the Group does not believe that it is at significant risk of dependency on OEM customers. It is not possible, however, to exclude the fact that the potential loss of important customers or a reduction in orders from them, or a delay in collection compared to contractual agreements may have negative effects on the economic-financial results of the Group.

- **Risks connected to the highly competitive markets in which the Group operates**

The markets in which the Group operates are highly competitive in terms of quality, innovation, economic conditions and reliability and safety. The success of the activity will depend on the ability to maintain and increase market shares and to expand through new innovative solutions. The Group constantly monitors the market in order to identify as quickly as possible the introduction of any new or alternative fuel supply systems for motor vehicles by competitors and car manufacturers, and consequently manages the risk by pursuing a policy of progressive diversification and enrichment of its product portfolio in order to minimise any possible economic impact.

• **Product liability risks**

Any design or manufacturing defects in the Group products, including those attributable to third parties such as suppliers and installers, may give rise to product liability with regard to third parties. In addition, should the products turn out to be defective or fail to comply with technical and legal specifications, the Group, including at the request of its customers, could be obliged to withdraw such products from the market while incurring the related costs. For these reasons, insurance cover has been put in place, centred on master policies negotiated and contracted centrally and local first risk policies. The latter guarantee immediate activation of the cover which is supplemented by master policies where the impact of the damage exceeds the local maximum amount. In order to further mitigate the risk related to product liability, the Group has considerably increased the maximum amounts of the master and recall policies in recent years. In addition, allocations are made to appropriate provisions, estimated by management based on the historical incidence of defects encountered and on the more recent and stricter requirements arising from commercial agreements signed with OEM customers.

• **Risks connected with the protection of intellectual property**

The Landi Group owns trademark rights, patent rights and other intellectual property rights, and regularly registers its trademarks, patents and other intellectual property rights, and also protects its industrial know-how pursuant to the applicable regulations, in order to avoid the risk of imitation or reproduction of the products by competitors or by unauthorised third parties.

In relation to this, it is noted that the Group operates in more than 50 countries worldwide and that part of the Group's product sales takes place in emerging or developing countries, where the existing forms of protection may not be fully effective. In other words, the risk of products being counterfeited is greater. It is therefore not possible to eliminate the risk of third parties counterfeiting the products or disputing trademarks and patents, or to exclude the possibility of third parties discovering know-how or industrial secrets, or the risk that competitors may develop products, know-how and technologies similar to those of the Group. Any counterfeiting, claims and/or disputes relating to protection of intellectual property, whether brought by or against the Group, could have a negative impact on its economic-financial results if it loses them.

• **Risks connected with the recoverability of intangible assets, in particular goodwill, investments and deferred taxes.**

Intangible assets totalling Euro 51,065 thousand are reported in the consolidated financial statements at 31 December 2018, including Euro 6,932 thousand for development costs, Euro 30,094 thousand for goodwill, Euro 14,039 thousand for trademarks and patents, as well as net deferred tax assets totalling Euro 10,538 thousand. The recoverability of such values is related to the materialisation of future industrial plans relating to the relevant cash generating units.

In particular, in the context of its development strategy, the Group has acquired companies that have allowed it to increase its market presence and to take advantage of the opportunities for growth that it provides. With regard to such investments, recorded in the financial statements as goodwill, there is no guarantee that the Group will succeed in achieving the benefits originally expected from these operations. Similarly, the interests in joint ventures, consolidated according to the net shareholder's equity method are subjected to impairment tests in case trigger events are identified that could envisage potential losses of value.

The Group constantly monitors the progress of performance in comparison to the plans, initiating the corrective actions necessary whenever unfavourable trends emerge that may involve significant changes in expected cash flow used for impairment tests when evaluating the consistency of the values recorded in the financial statements.

FINANCIAL RISKS

- **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 expenses. Interest rate risks were measured using *sensitivity analysis* and the potential impacts of Euribor interest rate fluctuations on the consolidated financial statements at 31 December 2018 were analysed 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 expenses for the Group of Euro 341 thousand in comparison to an increase in financial income equal to Euro 93 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, note that the amount of the accounting balances expressed in currency other than the functional currency is to be considered as insignificant compared to the Group's total revenues. The Group has no hedging instruments to cover exchange rate fluctuations and, in accordance with its policy up to this moment, no derivatives are subscribed solely for trading purposes. Therefore, the Group remains exposed to 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 minimise 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 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

If necessary, 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 2018, the Group did not have any financial guarantees 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 confront the economic and financial situation and the lower liquidity levels, as has already been pointed out in the financial report 2017, the Parent Company underwrote a financial optimisation agreement for the entire Group structure, the guidelines for which have been developed with the support of the financial Advisor Mediobanca – Banca di Credito Finanziario S.p.A.. In particular, this agreement substantially regards the entire financial debt of the 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 Strategic Plan;

(iii) The review of financial covenants consistent with the performance laid out in the Strategic Plan;

(iv) The maintenance of short-term lines in an amount consistent with the needs laid out in the Strategic Plan.

The financial covenants the set forth in the Optimization were all respected at the reporting date.

Consolidated non-financial report

Methodological note

The Consolidated Non-Financial Report 2018 (henceforth also the "Report") of the Landi Renzo Group (henceforth also the "Group"), reports to the various reference stakeholders on the news, projects and results achieved during 2018 regarding the economic, social and environmental performance.

In line with last year, the Report is published on an annual basis and was prepared in compliance with the requirements of art. 3 and 4 of Italian Legislative Decree 254/2016 (henceforth also the "Decree") and the GRI - Sustainability Reporting Standards defined in 2016 (the "GRI Standards"), "Core" option, which today constitute the most widely used standard at international level in terms of sustainability accounting.

On the basis of the provisions of art. 2 of the Decree ("Scope of application"), the non-financial reporting of the Landi Renzo Group is **obligatory in nature**, as the "size requirements" of the parties required to publish the Non-Financial Report are satisfied.

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 2018 and, where explicitly specified, to some significant projects pursued during the first months of 2019.
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 three-year temporal frame, with the exception a few figures which are presented only for 2018.

In this regard, please note that the data provided for 2016 were not reviewed by outside companies.
The reporting scope of this Non-Financial Report refers to Landi Renzo S.p.A. (whose data and information also include the Italian companies AEB S.p.A. and Emmegas S.r.l., which merged by incorporation into the parent company on 21 December 2017 and 30 October 2018, respectively), and the companies consolidated line-by-line: the Italian subsidiary (Lovato Gas S.p.A.) and the 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).
Compared to 2017, the following companies have been ruled out of the accounting perimeter: SAFE S.p.A., conferred in a joint venture to the newco SAFE & CEC S.r.l. on 29 December 2017 and Eighteen Sound S.r.l., transferred (along with its subsidiary Sound and Vision) on 11 December 2017.
In line with last year, the companies Officine Lovato Private Limited and Landi International B.V. were also excluded, since although they are consolidated line-by-line, they are not significant for the purposes of the non-financial report, as they have no personnel. The additional limitations to said perimeter are duly reported below in the Report. Below are the limitations to the scope with respect to the areas of the Decree.

	Personnel		Human rights	Environment	Social		Corruption
Company	HR	SSL			Social	Suppliers	
	GRI Standard	GRI Standard	GRI Standard	GRI Standard	GRI Standard	GRI Standard	GRI Standard
Landi Renzo S.p.A.	x	x	x	x	x	x	x
Lovato Gas S.p.A.	x	x	x	x	x	x	x
AEB America S.r.l.	(*)	x	x		x		x
Beijing Landi Renzo Autogas System Co. Ltd	(*)	x	x	x	x		x
Landi Renzo USA Corporation	x	x	x	x	x		x
Landi Renzo Pars Private Joint Stock Company	(*)	(*)	x	x	x		x
L.R. Pak (Pvt) Limited	(*)	x	x	x	x	x	x
Industria e Comercio Ltda	(*)	x	x		x	x	x
Landi Renzo RO srl	x	x	x	x	x	x	x
Landi Renzo Polska Sp.Zo.O.LR	(*)	x	x	x	x	x	x
Officine Lovato Private Limited	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Landi International B.V.	N/A	N/A	N/A	N/A	N/A	N/A	N/A

x: Information reported

(*) Information partially available

Letter to the stakeholders

With the conviction that *Social Responsibility* is not a merely marginal activity, from the very first edition of our Sustainability Report we have sought to transmit to readers our daily commitment to creating value, not only for the Group, but also for our stakeholders and for the general public at large.
We are the main players in the international market of technologies that rely on CNG, LNG and LPG for increasingly environmentally friendly and innovative mobility, and we aim to ensure the best outlooks for future generations, both socially and environmentally.
In 2018, our commitment to considering Sustainability as a veritable strategic pillar was reinforced even more, and we have endeavoured to operate with the utmost transparency and fairness with respect to all stakeholders with which the Group interacts by maintaining open and collaborative dialogue.
The Group's success is based on our **people**, who work every day to support the growth of our business over time. The creation of a stimulating and cooperative environment that appreciates individual skills is indeed crucial in our personnel management policy.

The continuous search for **quality**, which transversally impacts the entire scope of Group activities, continues to represent an indispensable asset for our business. The path towards "quality excellence" at Landi Renzo indeed began in 1996, a significant year during which the foundations were laid for an organisation consistently committed to **continuous improvement**, resulting in the Landi Renzo Group playing a leading role within the *automotive* market through robust partnerships with car manufacturers.

Aware that the activities carried out by suppliers and the goods purchased have a direct impact on the quality we are able to offer our customers as well as our business reputation, we also dedicate particular attention to quality aspects in the **supply chain**. Thus, we prefer to maintain a mainly Italian pool of suppliers with extensive experience in the industry and a high level of specialisation.

The spread of **sustainable mobility** and the development of **innovative solutions** that help to improve the quality of the air and the environment have always been part of our *mission*. In accordance with the needs of the socioeconomic context in which we operate, considering the environmental risks and impacts of our activities, we strongly believe that we can contribute to the creation of a cleaner world.

With the conviction that we can improve even more over time, the Non-Financial Report of the Landi Renzo Group represents our renewed commitment to promoting a sustainable business each and every day, based on respect for people, the land, the environment and the communities in which we operate.

The Chairman of the Board of Director
Stefano Landi

The Alternative in motion

Over 60 years of history in building the future

The history of Landi Renzo is the history of sustainable mobility. Indeed, for more than sixty years the Group has worked for a more ecological present and future. A process involving research and production excellence aimed at achieving a single objective: designing and manufacturing the alternative technological solutions that enable the spread 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. 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 objective 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

FIFTIES

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.

2000-2007

These were years of great expansion for the Group. 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 additional branches abroad: in Brazil in 2003, in China in 2005 and in Pakistan in 2006. In the same year, Landi

Renzo Corporate University was also founded as a hub for the development of human resources and spreading the culture of sustainable mobility.

The Landi Renzo Quality System, previously certified as meeting the ISO 9001 standard in 1996 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.

2008-2016

In October 2008 the third player at international level was acquired, Lovato Gas S.p.A.

Between 2010 and 2013 the acquisitions included AEB Technologies and the American Baytech, while in the same period further subsidiaries were opened 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 founded 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 Prise for Sustainable development.

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

2017-2018

Given the increasing complexity of the international financial and economic environment in which the Group is currently operating, as well as the future challenges it will need to face along its path of growth, a new management team has been selected and has begun work on a project designed to improve management efficiency by identifying series of operations geared to reducing the cost structure and aligning them with Automotive segment best practices.

The Board of Directors has appointed a new Chief Executive Officer, Cristiano Musi, formerly the General Manager, who has significant professional skills and a strong international background.

The year 2017 saw the completion of the reorganisation of the Group's organisational structure with an aim to focus much more on the company's core business. The one area in which the organisation process has been more sweepingly revised is the Automotive sector with the aim of strategically integrating the management of the Group's various Automotive companies while improving their efficiency, effectiveness and capacity for innovation.

With the aim of focusing on bolstering the Group's core activities, Eighteen Sound S.r.l. has been sold and the company AEB S.p.A. was merged by incorporation into Landi Renzo S.p.A.

The same approach has been used in setting up the joint venture SAFE & CEC between Landi Renzo S.p.A. and Clean Energy Fuels Corporation, which will give rise to the birth of the second largest sector Group at global level, focusing on compressors for transport methane fuelling stations and on Renewable Natural Gas. Furthermore, on 30 October 2018 the company Emmegas S.r.l. was merged by incorporation into Landi Renzo S.p.A.

Reference business: eco-mobility

In recent years, eco-mobility has taken on an increasingly important role: LPG and CNG continue to be the most widespread 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.

Indeed, 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 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 **Landi Renzo CNG and LPG systems** use **energy sources with a lower environmental impact than traditional fuels,** and thus contribute to the development of an ecological mobility, guaranteeing **lower emissions and economic advantages***

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

Other products and markets in which the Group operates

Aside from the Automotive segment, which represents its core business, Landi Renzo also operates in other markets. In fact, through external growth, the Group has acquired significant skills over the years, especially in the electronics and mechanical sectors, but also in the sector of safety devices and "Gas Distribution and Compressed Natural Gas".

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:

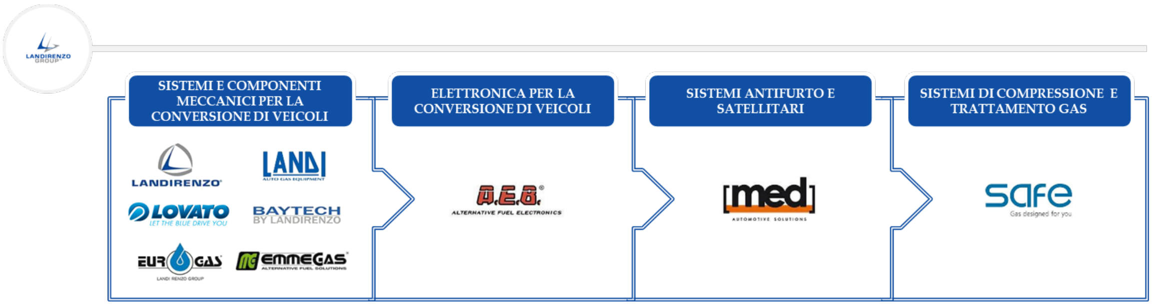
- *Safety*: parking assistance systems, Bluetooth, speed trap warning systems;
- *Security*: anti-theft systems, remote door opening and closing controls, pagers and their accessories;
- *Mobility*: computer based systems for vehicle fleet management.

SAFE S.p.A., today SAFE & CEC following its conferral to a joint venture with Clean Energy Compression Ltd (today called "IMW Industries Ltd"), 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. The newco SAFE & CEC, resulting from the strategic agreement between Landi Renzo S.p.A. and Clean Energy Fuel Corporation, is the second group in the sector at global level in terms of turnover.

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. From traditional eco-compatible fuels such as LPG and CNG, to the new horizons of hybrid-electric power: the Group is continuously investing in research and the design of cutting-edge technologies to transform future plans into reality.

Approccio Market Driven

- ✓ Ascoltare e supportare i clienti.
- ✓ Soddisfare e valorizzare le richieste dei clienti/mercati senza subire il mercato.
- ✓ Integrazione a livello nazionale e internazionale.

Diventare i migliori in quello che facciamo

- ✓ Migliorare in tutti gli aspetti della gestione operativa, ridurre i costi e puntare a raggiungere KPI.
- ✓ Efficientare i processi.
- ✓ Mantenere il focus sul futuro.

Motivazione e regole del gioco

- ✓ Rafforzare l'inclusione e la motivazione di tutte le risorse.
- ✓ Creare senso di appartenenza e valorizzare l'esperienza delle risorse nel gruppo.
- ✓ Definire regole di comportamento chiare.

Responsabili ed orientati al fare e al risultato

- ✓ Responsabilizzare le risorse, con obiettivi chiari e precisi.
- ✓ Pianificare e decidere sulla base di analisi.
- ✓ Focus sull'execution «right now» e rapidità nel fare.

The values

*"**Technology, innovation, respect for the planet and human beings** are values whereby, on a daily basis, we transform the present into the future we strive for."*

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.

The Landi Renzo Group values

The ecological and economic contribution of gas as a transportation fuel

As a concrete solution to environmental problems, the Landi Renzo Group provides **technologies capable of significantly reducing CO_2 emissions**, as well as nitrogen oxides and particulate matter, especially compared to diesel fuelled vehicles, which are the greatest cause of atmospheric pollution and the resulting effects on health that these can have. Indeed, 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 (CH_4) is the simplest and the one with the highest degree of hydrogen. For this reason, for the same amount of energy produced, methane **produces 20% less CO_2 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 **CO_2 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 guarantees **savings in the order of 60%**.

Furthermore, the Landi Renzo Group has launched projects in the field of **hydrogen** which represents a further potential clean technology of the future. Indeed, hydrogen is the **natural evolution** for those who, like the Landi Renzo Group, have worked for decades in LPG and CNG, as while the technological challenges are not identical, they are quite similar.

Governance and Sustainability

The stakeholders and relevant issues

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

Reference stakeholders

Identifying and engaging those parties that may influence or be influenced by the Group's activities in the various phases of the ESG (Environmental, Social and Governance) process, as well as with a view to widespread, shared and close participation with respect to Social Responsibility objectives, represents the pillar for establishing and maintaining mutually favourable, lasting relationships based on continuous dialogue. Transparency, trust and consent in decision-making are indeed crucial in order to create shared, long-term value.

To demonstrate the commitment and attention the Group places on the broader sustainable corporate project, in 2018 the materiality analysis, already revised in 2017, was updated in order to focus the contents of the Non-Financial Report along the lines of the business strategy, the mission, the company values and the strategic social and environmental priorities.

The Group's materiality analysis, prepared in line with the requirements of the ***GRI Standards Sustainability Reporting Guidelines***, reflects both the relevant (**material**) aspects for Landi Renzo as well as the considerations and expectations of its stakeholders. Indeed, alongside the top management, the corporate departments that engage in relations with the main stakeholders were also involved in order to provide their point of view.

To be considered relevant ("material"), an issue needs to have a significant impact on the Group's economic, social and environmental performance, such so as to be able to have a significant influence on stakeholder evaluations and decisions.

The analysis process takes place in two phases:

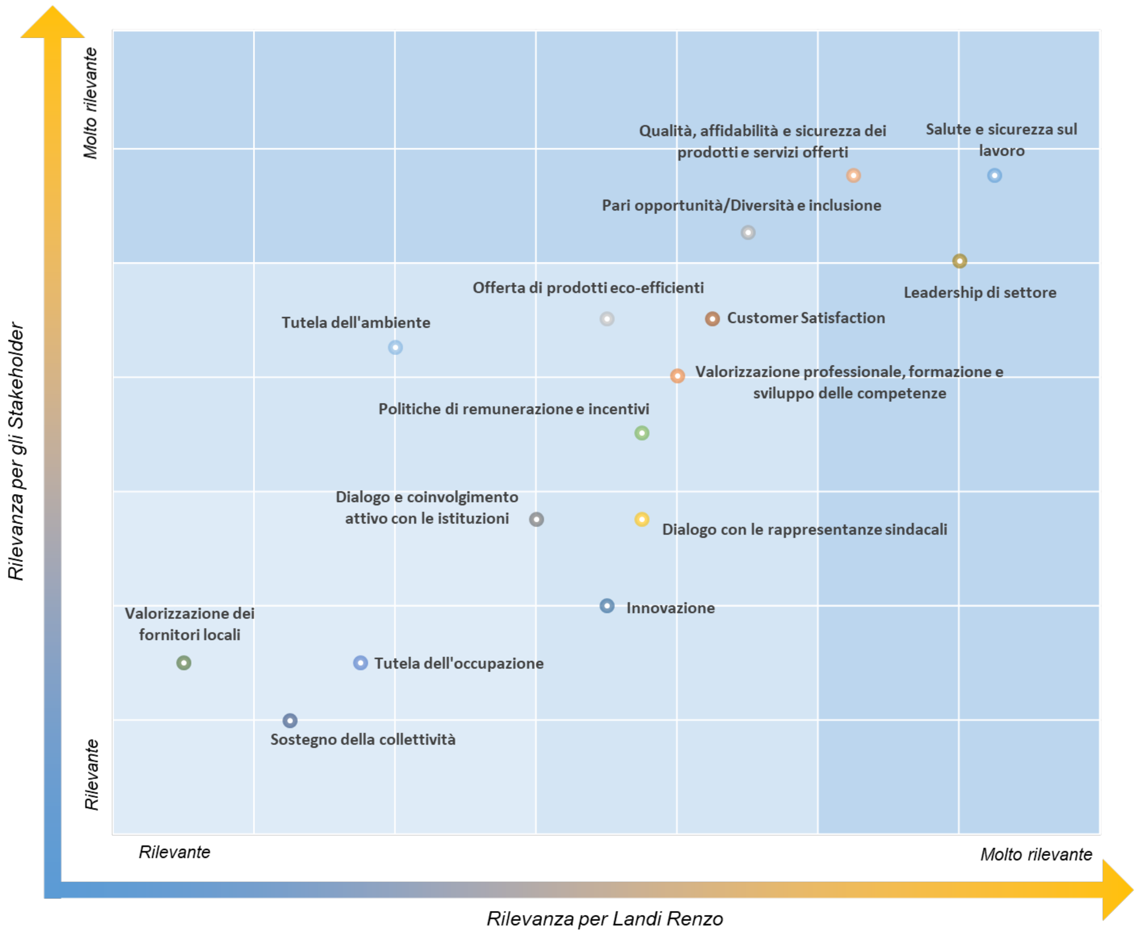
1. **Identification of the universe of issues**: identification of potentially material issues for Landi Renzo and its stakeholders (carried out with an analysis of the issues suggested by the GRI in the document: "*Sustainability Topics for Sectors: What do stakeholders want to know?*", knowledge of 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.

   The material issues identified are in line with those from last year.

2. **Issue prioritisation**: assessment of issues based on their relevance for the achievement of company objectives (internal relevance) and for stakeholders (external relevance), in order to establish a priority ranking for the various issues.

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



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: **Health and Safety at the workplace; reliability and safety of products and services offered; Equal opportunities / Diversity and inclusion and Segment leadership.**

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 relevant for the purposes of Italian Legislative Decree 254/2016 and thus are also reported on in the document.

A prospectus is provided below correlating the aspects set forth in the Decree, the relevant issues and the indicators set forth by the *GRI Standards Sustainability Reporting Guidelines*. The issues identified as the most relevant are reported in the specific sections of the Report.

Aspects of Italian Legislative Decree 254/2016	**Material issue**	**Aspects of the 2016 GRI Standards**	**Paragraph reference and referral to the relative documents**
Personnel	*Compliance and risk management*	Key impacts, risks and opportunities (102-15)	▪ Main non-financial risks
Personnel	*Policies applied and risk management method identified*	Management Approach (103)	▪ Employee turnover ▪ Trade union relations and employment protection ▪ Human rights, diversity and equal opportunities ▪ Training ▪ Personnel assessment and professional development ▪ Remuneration and benefits ▪ Health & Safety in the Workplace
Personnel	Health and Safety in the workplace	Occupational Health and Safety (403-2)	▪ Protection of Health and Safety at the workplace
Personnel	Professional enhancement, training and competence development	Training and education (404-1;404-3)	▪ Training; ▪ Personnel assessment and professional development
Personnel	Equal opportunity/ Diversity and inclusion	Diversity and equal opportunity (102-8; 102-22; 405-1)	▪ Corporate Governance ▪ HR management and structure ▪ Human rights, diversity and equal opportunities ▪ Report on Corporate Governance and Ownership Structure
Personnel	Dialogue with trade union representatives	Labour/ Management Relations (402-1) General disclosures (102-41)	▪ Trade union relations and employment protection

Personnel	Protection of occupation	Employment (401-1), Labour/ Management Relations (402-1)	▪ HR management and structure ▪ Employee turnover ▪ Trade union relations and employment protection
Personnel	Remuneration and incentive policies	Market presence (202-1) Employment (401-2) General disclosures (102-35)	▪ Report on Corporate Governance and Ownership Structure ▪ Remuneration and benefits
Human rights	*Compliance and risk management*	Key impacts, risks and opportunities (102-15)	▪ Main non-financial risks
Human rights	*Policies applied and risk management method identified*	Management Approach (103)	▪ Human rights, diversity and equal opportunities
Human rights	-	Non-discrimination (406-1)	▪ Human rights, diversity and equal opportunities
Social	Compliance and risk management	Key impacts, risks and opportunities (102-15)	▪ Constant focus on quality (Consumer health and safety)
Social	*Policies applied and risk management method identified*	Management Approach (103)	▪ The constant attention paid to quality ▪ Customer relationships - contact channels, satisfaction monitoring and training
Social	Quality, reliability and safety of products and services offered	Customer Health and Safety (416-1;416-2) Marketing and Labelling (417-2)	▪ The constant attention paid to quality
Social	Technological innovation of processes and/or products	(*)	▪ Innovation in research and development: a model of excellence
Social	Listening and satisfying customers	General disclosures (102-43;102-44) Customer Health and Safety (416-1;416-2) Customer Privacy (418-1)	▪ Relations with customers: contact channels, satisfaction monitoring and training ▪ The constant attention paid to quality
Social	Dialogue and active involvement with institutions	(*)	▪ Communication with authorities and institutions and active participation in sustainable development
Social	Consolidation of sector leadership / Expansion into	(*)	▪ The Landi Renzo Group worldwide ▪ Other products and markets in which the Group operates

	international markets		
Social	Support for the general public	Procurement Practice (204-1) General disclosures (102-14;102-44)	▪ Suppliers ▪ Communication with authorities and institutions and active participation in sustainable development
Social (Supply chain)	*Compliance and risk management*	Key impacts, risks and opportunities (102-15)	▪ Main non-financial risks
Social (Supply chain)	*Policies applied and risk management method identified*	Management Approach (103)	▪ Suppliers
Social (Supply chain)	Boosting local suppliers	Procurement Practices (204-1) General disclosures (102-09)	▪ Suppliers ▪ Enhancing the local economy.
Environment	*Compliance and risk management*	Key impacts, risks and opportunities (102-15)	▪ Main non-financial risks
Environment	*Policies applied and risk management method identified*	Management Approach (103)	▪ Environmental policy and management system ▪ Environmental performance
Environment	Environmental protection in terms of the efficient use of resources and the reduction of atmospheric emissions	Energy (302-1), Emissions (305-1; 305-2; 305-4; 305-7), Water (303-1) Effluents and Waste (306-2)	▪ Environmental performance
Environment	Offer of eco-efficient products	(*)	▪ The ecological and economic contribution of gas as a transportation fuel ▪ Innovation and Research & Development - a model of excellence
Fight against corruption	*Compliance and risk management*	Key impacts, risks and opportunities (102-15)	▪ Main non-financial risks
Fight against corruption	*Policies applied and risk management method identified*	Management Approach (103)	▪ Corporate Governance
Fight against corruption	-	Anti-corruption (205-3)	▪ Corporate Governance

* 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.

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. The analysis of 2018 accident figures shows that the most exposure derives from activities directly linked to the handling of goods and assembly and testing. The overall result of the indicators is lower than the national average for the reference engineering sector.

Indeed, to monitor these risks, the company Landi Renzo S.p.A. has adopted a health and safety policy and management system (HSMS) in accordance with the requirements of standard OHSAS 18001:2007 (for further details, please see the "Protection of health and safety" section).

Personnel management

Landi Renzo is very focused on avoiding any 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. Lastly, specific attention is always dedicated to the matter of relations with employees and trade unions. This is done to minimise the risk of harm caused to employees involved in the necessary restructuring activities in which the Group was engaged until last year.

Environmental protection

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;
- consumption of electricity, methane, groundwater, water supplies or other materials;

- sound pollution caused by vehicular traffic and production plants.

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.

Following the assessment, no significant risks of spillage or incorrect management of special waste were identified.

Furthermore, no auditing activities conducted in 2018 as part of the 2018-2019 Audit Plan brought to light specific findings on socio-environmental matters.

To monitor these risks, already in July 2013 Landi Renzo S.p.A. set up an Environmental Management System (EMS) in accordance with the requirements set out in the new standard UNI EN ISO 14001:2015, which ensures continual focus on environmental performance and contributes to using resources more efficiently (for more details, refer to the "Environmental policy and management system" section).

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, Pakistan and Algeria). This risk concerns primarily corruption between private parties as the Group does not usually deal with public organisations (public administrations or companies controlled by the public administration), or with the public administration in its capacity as a regulator. The greatest risk profile in this regard relates to the activities of SAFE S.p.A. (conferred in a joint venture to the newco SAFE & CEC) which also conducts its business by participating in tenders.

To monitor this risk, the Company Landi Renzo S.p.A. has set up a whistleblowing process by activating and making available to all Governance Model 231 addressees an *ad hoc* email channel to be used to report unlawful conduct or violations of the Model. This channel ensures that the identity of the reporting party remains confidential in report management activities (for further details, refer to the "Governance Model as per Legislative Decree 231/2001, Code of Ethics and Anti-Corruption" section).

Human rights

Some geographical areas where the Group carries out its production activities could present potential risks 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 and procedures. The countries that present the greatest risk in this regard are India, China, Iran, Pakistan and Brazil. In other countries, such as Poland, a dedicated telephone line has been set up for reports from employees.

These oversight mechanisms work alongside the activities of the Supervisory Board, which has established a specific whistleblowing channel (for further details, refer to the "Human rights, diversity and equal opportunities" section).

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.

To mitigate these risks, the Group has put specific oversight mechanisms into place throughout its supply chain (for further details, refer to the "Suppliers" section).

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**, the most recent update of which was approved in July 2018. A traditional governance system is in place which includes three structures - the Shareholders' Meeting, Board of Directors and Board of Statutory 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, at the proposal of the Board of Directors, 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 in July 2017. On 28 April 2017, the Board of Directors elected the General Manager at the time, Cristiano Musi, as the company's Chief Executive Officer.

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 make a significant part of the remuneration element for executive directors and directors 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 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*** 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. This Committee consists of two independent directors, Sara Fornasiero and Ivano Accorsi.

Board of Statutory 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 (IARMS) 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 identified 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.

With the support of the Audit and Risk Committee, the Board of Directors has also defined the guidelines of the Internal Audit and Risk Management System, identifying the system itself as an integrated process applied across all company activities which is based on international principles of Enterprise Risk Management (ERM). The purpose of this 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). In light of this, the Internal Audit Function has carried out risk mapping for the Italian companies, which was then evaluated by the Supervisory Board, the Audit and Risk Committee and the Board of Directors. On the basis of this mapping and the assessment of the level of risk represented in it, the Internal Audit Function carries out specific auditing activities (laid out in a three-year plan) and reports on the relative findings to the Audit and Risk Committee and the Supervisory Board as needed, to the Board of Statutory Auditors on a quarterly basis and to the Board of Directors once a year.

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 Italian 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 Italian 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 Italian Legislative Decree 231/2001.

Since it was first adopted and after subsequent updates (see herein) following proposals from the Supervisory Board, a review of the Organisation and Management Model will soon be initiated in order to maintain stability and efficiency in light of the Group's changing business conditions and the most recent legislation in force. Following its adoption in 2008 the Model was updated in 2012 to include corporate liability for environmental crimes as per Italian Legislative Decree 231/2001. It was further updated in 2013 when Italian Law 190/2012 (anti-corruption provisions) came into force. The last update in 2015 was included for the new crime of self-laundering (article 648-ter of the Italian Criminal Code). The Governance Model was published and communicated to all personnel, third-party contractors, customers, suppliers and partners.

With regard to the whistleblowing system, to comply with Italian Law 179 of 30 November 2017 - "*Provisions for the protection of individuals reporting crimes or causes for concern they become aware of in a private or public work setting*" - and taking into account the provisions of standard ISO 37001 *"Anti Bribery Management System"* (in line with best practices existing at national and international level), a dedicated email account has been activated, which is visible in the Investor Relations section of the website www.landirenzogroup.com and has been communicated to all Model addressees. This channel enables all employees and collaborators to write and send reports anonymously directly to the Supervisory Board, incentivising the reporting of unlawful conduct or violations of the Governance Model 231.

In the course of the year, no reports were received with regard to non-compliant behaviours or violations of the Code of Ethics.

A Supervisory Board has been set up to ensure the Model is implemented correctly, and it currently consists of Jean-Paule Castagno, Sara Fornasiero and Domenico Sardano, who were appointed for this role until approval of the financial statements at 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 231 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.

In July, the *vacatio* (suspension) phase of the Internal Audit Function was closed, with the appointment of Filippo Alliney as the new Internal Audit Manager. On the basis of the risk mapping carried out, the Manager developed and presented to the Board of Directors and the Supervisory Board the new Audit Plan, promptly launching the initial audit activities.

No breaches of the Model or irregularities have emerged after examining information received from managers in the various areas of the company and/or obtained autonomously with the support pro tempore of the internal auditing department, and no acts or conduct have come to light that constitute an infringement of the regulations contained in Italian Legislative Decree 231/2001.

With respect to the matter of corruption, all internal divisions operating in Italy were evaluated with regard to corruption risk, and therefore included in the risk mapping activity carried out by the Internal Audit Function. Over the next three years, the goal will be to extend this mapping to the Group's foreign offices and companies as well.

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. Lastly, no episodes of corruption were detected in 2018.

Company Performance

Human Resources

For the Landi Renzo Group, **people** represent a fundamental pillar to support company growth processes 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 people of the Landi Renzo Group are dynamic, enterprising individuals who are constantly 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 2018, the Landi Renzo Group employed 494 people (considering that due to the merger, the employees of Emmegas S.r.l. and AEB S.p.A. are included within the staff of Landi Renzo S.p.A.). In 2018, there were over 500 Group employees on average. In 2018, more recourse was made to temporary staff, for the most part in the manufacturing area, in order to guarantee the production volumes required by customers. The significant reduction in the number of employees with respect to 2017 (roughly 44%) should also be interpreted in light of the changes in the reporting scope in the course of the year (for more details, refer to the "Methodological Note" section).

Number of employees by geographical region and gender

GROUP EMPLOYEES BY GEOGRAPHICAL REGION AND GENDER	2016			2017			2018		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Italy	374	225	**599**	326	217	**543**	182	141	**323**
Europe (excluding Italy)*	59	19	**78**	60	19	**79**	71	23	**94**
Asia**	49	10	**59**	39	9	**48**	31	8	**39**
America***	27	18	**45**	29	11	**40**	23	15	**38**
Total	**509**	**272**	**781**	**454**	**256**	**710**	**307**	**187**	**494**

** 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			2018		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Employees	509	272	**781**	454	256	**710**	307	187	**494**
Temporary staff*	55	51	**106**	70	62	**132**	149	42	**191**
Other contract types*	1	0	**1**	3	0	**3**	2	0	**2**
Total	**565**	**323**	**888**	**527**	**318**	**845**	**458**	**229**	**687**

* 2018 figure not available for Brazil

Despite the reduction in staff, approximately **79%** of employees have a **permanent contract**, down slightly compared with previous years. **Average length of service** in 2018 was **10.26 years**.

Number of employees by contract type and gender

EMPLOYEES BY CONTRACT TYPE AND GENDER	2016			2017			2018		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Permanent	434	251	**685**	381	235	**616**	229	159	**388**
Fixed term	75	21	**96**	73	21	**94**	78	28	**106**
Total	**509**	**272**	**781**	**454**	**256**	**710**	**307**	**187**	**494**
Contracts that became permanent *	1	0	1	1	0	1	4	0	4

* 2018 figure not available for Brazil

In terms of employee categories, **office personnel** continue to be the main category at roughly **45%** of the total, followed by manual workers (roughly 41%).

Number of employees by professional category and gender

EMPLOYEES BY PROFESSIONAL CATEGORY AND GENDER	2016			2017			2018		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Senior managers	18	0	**18**	16	1	**17**	10	1	**11**
Middle managers	68	10	**78**	63	9	**72**	48	9	**57**
Office personnel	271	118	**389**	240	103	**343**	141	83	**224**
Manual workers	152	144	**296**	135	143	**278**	108	94	**202**
Total	**509**	**272**	**781**	**454**	**256**	**710**	**307**	**187**	**494**

Employee percentage by level of education and gender

EMPLOYEES BY LEVEL OF EDUCATION AND GENDER	2016			2017			2018		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Bachelor's Degree/Master's Degree	171	58	**229**	150	53	**203**	94	46	**140**
High school diploma /Qualification	223	104	**327**	202	94	**296**	134	65	**199**
Middle school diploma	115	110	**225**	102	109	**211**	79	76	**155**
Total	**509**	**272**	**781**	**454**	**256**	**710**	**307**	**187**	**494**

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 around 31% of employees in possession of a *lower middle school diploma*, 29% with a *university degree* and approximately 40% with an *upper middle school diploma*.

The more junior categories engage with the company via work experience schemes. ***Fourteen* work experience** schemes were set up in 2018 and mainly implemented at the Group's Italian premises, in line with the previous years.

The average employee age in the course of the year was **42.55** years old. It should be noted however that there is a prevalence of staff in the 36-50 age range (around 55% of total employees).

Number of employees split by age

EMPLOYEES SPLIT BY AGE	2016	2017	2018
18-35	181	147	120
36-50	460	417	276
>50	140	146	98
Total	**781**	**710**	**494**

Employee turnover

With the conviction that **employee satisfaction** is essential for the Group's success, Landi Renzo encourages the **growth** and **development** of **skills** and **professional qualities**. 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 managed by the *People Strategy* function. At the beginning of the year, personnel requirements are identified for the entire Landi Renzo Group and one or more recruitment channels are selected for each position. The main recruitment tools are recruitment firms, schools universities and spontaneous applications. To evaluate the technical knowledge and potential of each candidate, the selection process includes introduction and motivational interviews as well as technical testing. During this phase, to favour the utmost transparency and the proper exchange of information between the parties, both the opportunities available and company expectations are clarified. The *People Strategy* function defines a short list for the position and then the function head interviews candidates to conclude the selection process by identifying the resource to be hired.

In summary, in the complex market situation faced by the Group last year, **72** new employees joined the Group in **2018** (**80%** more than in 2017). Among the new hires are 28 women and 44 men, 35 of whom are 18-35 years old, 35 36-50 years old, and just 2 over 50 years old.

Among the 179 employees who left the Group, there were 60 women and 119 men, 31 of whom 18-35 years old, 106 36-50 years old, and 42 over 50 years old.

Employees recruited by age group, gender and geographical area

EMPLOYEES RECRUITED BY AGE AND GENDER	2016			2017			2018		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
18-35	19	7	**26**	14	9	**23**	19	16	**35**
36-50	12	3	**15**	10	3	**13**	24	11	**35**
>50	6	1	**7**	4	0	**4**	1	1	**2**
Total	**37**	**11**	**48**	**28**	**12**	**40**	**44**	**28**	**72**
EMPLOYEES RECRUITED BY GEOGRAPHICAL AREA AND GENDER	2016			2017			2018		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Italy	17	3	**20**	13	3	**16**	20	12	**32**
Europe (excluding Italy) *	7	3	**10**	6	3	**9**	14	7	**21**
Asia**	9	3	**12**	0	5	**5**	4	2	**6**
America***	4	2	**6**	9	1	**10**	6	7	**13**
Total	**37**	**11**	**48**	**28**	**12**	**40**	**44**	**28**	**72**

** 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			2018		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
18-35	32	11	**43**	26	16	**42**	25	6	**31**
36-50	35	11	**46**	39	12	**51**	69	37	**106**
>50	9	5	**14**	15	3	**18**	25	17	**42**
Total	**76**	**27**	**103**	**80**	**31**	**111**	**119**	**60**	**179**
FORMER EMPLOYEES BY GEOGRAPHICAL AREA AND GENDER	2016			2017			2018		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Italy	48	16	**64**	58	14	**72**	91	50	**141**
Europe (excluding Italy) *	3	3	**6**	5	3	**8**	3	3	**6**
Asia**	16	3	**19**	10	6	**16**	14	3	**17**
America***	9	5	**14**	7	8	**15**	11	4	**15**
Total	**76**	**27**	**103**	**80**	**31**	**111**	**119**	**60**	**179**

** 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. Indeed, Italy recorded the highest level of terminations: 141 employees (roughly 79%). Of these, 84 left the Group as part of two open mobility procedures for the companies Landi Renzo S.p.A. and Lovato Gas S.p.A., while the remainder were voluntary resignations (49), consensual terminations (7) and early retirements (1).

Rate of turnover

RATE OF TURNOVER	2016			2017			2018		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Rate of turnover *	**14.9**	**9.9**	**13.2**	**17.6**	**12.1**	**15.6**	**38.8**	**32.1**	**36.2**

* 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 quality of trade union relations represents an important topic for the Landi Renzo Group in order to activate a collaborative and constructive relationship with workers' representatives. Over the years, the Landi Renzo Group has always applied a policy of discussion and open, transparent dialogue with the trade unions. In the last year, following the presentation of the Strategic Plan in September 2017, the companies Landi Renzo S.p.A. and Lovato Gas S.p.A. activated a series of trade union negotiations on the Group's restructuring plan. This phase concluded for the Parent Company in December 2017 and for Lovato Gas in January 2018. The mobility agreements entered into with the unions called for 53 redundant positions at Landi Renzo and 39 at Lovato Gas.

The process concluded as follows:

- 48 people left Landi Renzo S.p.A. between January and March 2018;
- 36 people left Lovato Gas S.p.A. between February and November 2018.

The agreements ensured 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.

Furthermore, in 2018 a memorandum of understanding was entered into to define the harmonisation criteria linked to the application to employees of the company AEB S.p.A., incorporated into Landi Renzo S.p.A., of the National Collective Employment Agreement (CCNL) for the Engineering and Plant Installation Industry.

In the Italian companies, 100% of employees are covered by the National Collective Employment Agreement: specifically, the Industry agreement applies in Landi Renzo S.p.A. while the SME agreement applies in Lovato Gas S.p.A. No significant trade union activity has occurred in relation to foreign companies in 2018. The notice period for organisational changes established in employee contracts in the Italian companies is in line with the aforementioned collective contracts. 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. and Lovato Gas S.p.A., which defines conditions that are even more favourable than the aforementioned collective contract. In addition, in 2018 an agreement was signed to guarantee better remuneration for overtime work linked to peak production periods within certain production departments, with a view to rewarding the commitment and contribution of manufacturing workers.

With regard to the Italian companies, in 2018 there were no particular trade union issues. Indeed, the number of hours of absence for union meetings and activities, as well as the number of hours of strikes, decreased considerably since last year. The 192 hours are linked to a national strike for workplace fatalities.

Hours of absence due to meetings, union activities and strikes

PARTICIPATION IN UNION ACTIVITIES (h)	2016	2017	2018
Hours of absence due to meetings and union activities	1,312	1,676	890
Hours of absence due to strikes	1,253	6,102	192

In line with previous years and considering the decline in staff in 2018, the number of union member employees decreased (118 compared to 145 in 2017). One trade union organisation predominates in 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 Landi Renzo 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 people, 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 Italian organisation appointed to gather reports of breaches of human rights: *People Strategy* (former 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 a specific whistleblowing channel. 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. Based on the information available at the Group's headquarters, no areas at risk of breaching human rights were identified in 2018 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. 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

EMPLOYEES BY CONTRACT TYPE (no.)	2016			2017			2018		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Full-time	508	243	**751**	449	227	**449**	304	169	**473**
Part-time	3	30	**33**	5	29	**34**	3	18	**21**
Total	**511**	**273**	**784**	**454**	**256**	**710**	**307**	**187**	**494**

There are **22** 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			2018		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
No. of employees belonging to protected categories	18	15	**33**	19	15	**34**	9	13	**22**

The figures refer to the Italian companies

Training

For the Landi Renzo Group, employee training is considered a fundamental priority for individual growth and **to boost company value.**By developing, optimising and spreading knowledge and increasingly transferable skills, it is possible to ensure effectiveness, flexibility and the search for innovation. Training is seen as a continuous learning process that accompanies people throughout their career. People's knowledge and ability to innovate are critical for success and must be nurtured continuously.

To best manage training activities, in 2014 the Landi Renzo Group established a dedicated procedure allowing the management to define personnel requirements for every job and identify the specific skills required. Currently, the *People Strategy* department, in collaboration with the company management, establishes the annual training plan on the basis of the skills required for every employee and the specific training requirements identified by departmental managers.

Training is provided by the *People Strategy* department, which also monitors and evaluates the training activities organised. Indeed, at the end of every training course a satisfaction questionnaire is distributed to a sample of participants. The questionnaire focuses on the topics covered, the skills and capabilities of the instructor and the organisation of the course. The courses delivered throughout 2018 were assessed overall as very satisfactory.

After the annual training plan is completed, course effectiveness is evaluated in terms of the usefulness of the knowledge acquired for work activities through an effectiveness assessment form.

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.

Over the years, it has played an essential role in company policies for growth and development, by accompanying and supporting long-term planning, the implementation of strategic company plans, and the spread of a culture of sustainable mobility.

The Corporate University **manages professional training** for Landi Renzo Group staff and for the people who work for the Group, such as the network of installers. Given the various types of stakeholders and the different learning needs, the Corporate University places a particular focus on selecting training methodologies and tools. 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.

During the year, continuous education activities focused especially on the topics of *quality* (ISO 9001:2015 standard and IATF 16949:2016) and *occupational health and safety*. After being suspended for nearly one year, English language courses also resumed for 44 Landi Renzo S.p.A. employees, including office and manual workers.

To generate greater awareness and align company objectives with people's commitment and involvement, training activities were carried out on product knowledge and the policy, objectives and functioning of the Quality system. At the end of 2018, the WCM (World Class Manufacturing) project began, which will involve more than 200 employees in the course of 2019 in training activities in the classroom and on the job, on the application of the WCM methodology in the Cavriago production plant. The project is aligned with the efficiency and development objectives of the 2018-2022 Strategic Plan.
In addition, in 2018 the new hire on-boarding process was overhauled with a welcome to the company communication and a predefined training plan tailored to each role. An internal training course was carried out on Landi Renzo, AEB and Lovato products and systems, for new hires and personnel in new roles following the reorganisation.

Evidence of the Group's commitment to training was demonstrated throughout 2018, when **6,442 hours of training** were delivered to **370 people**, amounting to a total **investment** of approximately **60 thousand** Euro.

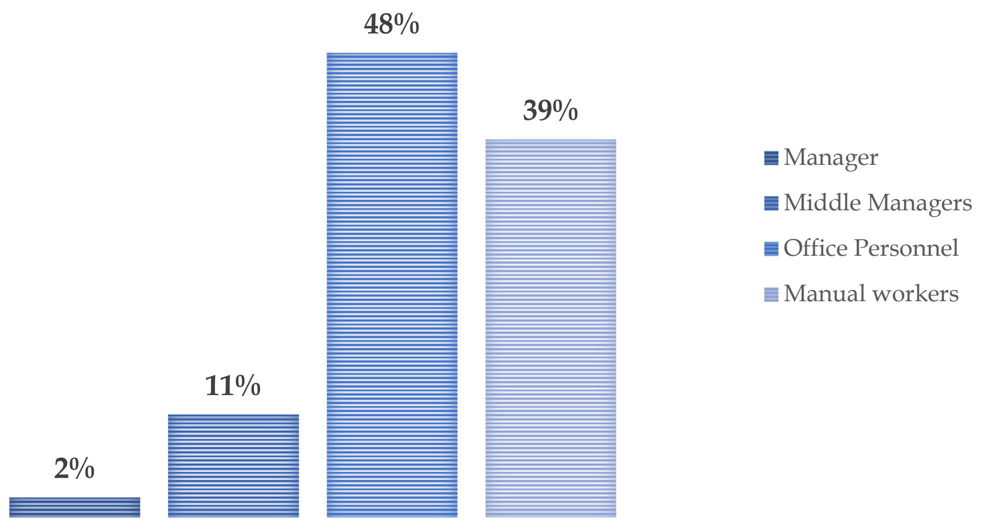
The ***mission*** *has always been to support* ***knowledge creation and capitalisation among the people*** *working in the Group and for the Group, spreading a* ***culture of sustainable mobility****.*

Employees who received training by professional category

EMPLOYEES WHO RECEIVED TRAINING BY PROFESSIONAL CATEGORY (no.)	2016			2017			2018		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Senior managers	11	1	**12**	12	0	**12**	10	0	**10**
Middle managers	47	4	**51**	41	6	**47**	33	6	**39**
Office personnel	170	60	**230**	142	43	**185**	119	58	**177**
Manual workers	65	91	**156**	69	90	**159**	52	92	**144**
Total	**293**	**156**	**449**	**264**	**139**	**403**	**214**	**156**	**370**

2018 figures for Brazil are unavailable

Employees who received training in 2018 by professional category



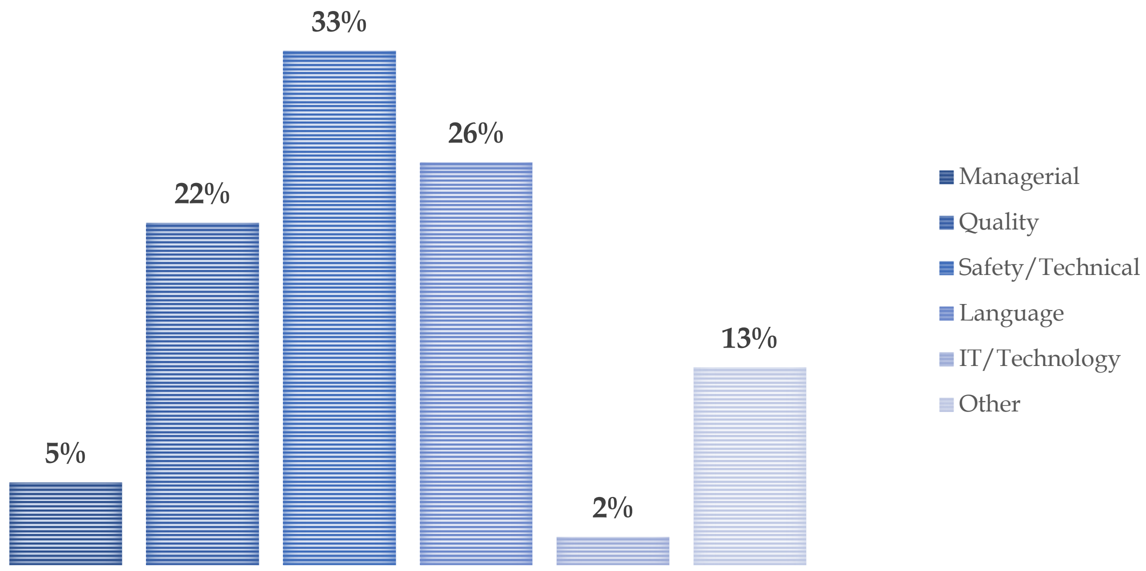
The figures shown demonstrate the Group's commitment to developing skills at all levels, with particular focus on office personnel. Different training activities were implemented during 2018 for Group employees which focused in particular on safety in the workplace and language and technical areas. Special consideration was also given to training on quality and managerial training as a main tool for improvement and development.

Hours of training by subject area

HOURS OF TRAINING BY SUBJECT AREA (h)	2016	2017	2018
Language	5,051	4,023	1,656
Safety/Technical	3,412	3,108	2,114
Quality	1,235	1,313	1,407
IT/Technology	471	-	115
Managerial	455	745	339
Other types	765	20	812
Total	**11,389**	**9,209**	**6,442**

2018 figures for Brazil are unavailable

Hours of training by subject area in 2018



Hours of training per capita by professional category

HOURS OF TRAINING PER CAPITA (h)	2016			2017			2018		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Senior managers	21.3	2.0	**23.3**	16.81	-	**15.82**	18.2	-	**18.2**
Middle managers	21.7	33.3	**55.0**	20.94	13.22	**19.98**	20.5	48.9	**24.9**
Office personnel	33.6	33.3	**67.0**	18.81	14.71	**17.41**	20.5	24.0	**21.6**
Manual workers	21.1	10.0	**31.1**	7.22	3.87	**5.50**	13.8	8.1	**10.1**
Total	**97.7**	**78.6**	**176.3**	**15.59**	**8.33**	**12.97**	**18.8**	**15.5**	**17.4**

2018 figures for Brazil are unavailable

Technical training for the Network of Garages and Installers

Training for the Italian network of garages and installers is managed and coordinated by the Customer Care and Technical Support department in conjunction with local dealers, whereas training is provided directly by dealers or branches for the foreign network, after suitable training of local trainers by Landi Group technicians. Since 2018, a Training Catalogue has been available containing all technical courses available for the Landi Renzo Network, both for Italy and abroad.

In detail, the courses for 2018 in the Landi Renzo catalogue for Italy were:

1. **Basic Landi Renzo Course on EVO and OMEGAS:**
   Basic training course that provides an introduction to component types and the electronic control unit installation and calibration methodology for garages that have not yet installed Landi Renzo brand multipoint injection systems.
2. **Landi Renzo Omegas Direct Injection (Landi Renzo Omegas DI):**
   Advanced course for those who have already taken the basic course, providing more in-depth information on specific components and the methodology for installing and calibrating the electronic control system in systems for vehicles with direct injection engines.
3. **EVO and OMEGAS troubleshooting**
   Advanced course for expert installers, dedicated to analysing the reasons for the main complaints received from customers on multipoint injection systems. The analysis is carried out based on the following phases:
   - Analysis of the customer complaint;
   - Diagnosis of the details of the problem, starting from the analysis of the customer complaint;
   - Problem solving with details on interventions to be carried out on the system.
4. **OEM troubleshooting**
   Course dedicated to analysing the reasons for the main complaints received from customers on multipoint injection systems (for vehicles no longer covered by a warranty) installed on vehicles manufactured and marketed directly by vehicle manufacturers. The analysis is carried out based on the following phases:
   - Analysis of the customer complaint;
   - Diagnosis of the details of the problem, starting from the analysis of the customer complaint;
   - Problem solving with details on interventions to be carried out on the system.

Technical training carried out abroad for the three brands (Landi Renzo, Lovato and AEB) is meant to update and provide technical training for personnel at the Landi Renzo branches as well as importers.
The types of trips and training offered are:

1. **Development:** technical trips dedicated to the application of Landi Renzo systems on new vehicle types. This activity is generally carried out in concert with branches and national importers of our products.
2. **Quality:** technical trips dedicated to analysing and resolving product / component quality issues.
3. **Vehicle problems:** technical trips dedicated to analysing and resolving functional issues in vehicles in which Landi Renzo systems have been installed.
4. **MPI Training:** technical trips dedicated to technical training on multipoint injection vehicle systems.

5. **DI Training:** technical trips dedicated to technical training on direct injection vehicle systems.
6. **DDF Training:** technical trips dedicated to technical training on Dual Fuel (CNG-Diesel) systems for

diesel vehicles.

In the course of 2018, **398 technicians** were trained, including Landi Renzo dealers and agents in Italy, while abroad more than 60 technical training days were provided by Landi Renzo Group staff.

Number of technicians trained in Italy

Number of technicians trained in Italy	2018
Landi Renzo Basic Evo & Omegas	76
Landi Renzo Omegas DI	63
EVO and OMEGAS troubleshooting	140
OEM troubleshooting	100
Continuous education course for Italy dealer technicians	19
Total	**398**

Number of technical training days carried out at branches and importers

Number of technical training days carried out at branches and importers	2018
Development	8
Quality	1
Vehicle problems	12
MPI Training	22
DI Training	25
DDF Training	1
Total	69
The technical training days regarded the Landi Renzo, Lovato Gas and AEB brands	

Personnel assessment and professional development

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

In 2018, around 17% of the employees of the Landi Renzo Group's Italian companies were subjected to a periodic assessment (a slight increase compared to the previous two-year period). In particular, this percentage includes 8 senior managers (all men), 22 middle managers (19 men and 3 women) and 24 office personnel (19 men and 5 women). Assessment outcomes represent the basis on which to identify individual development plans for high-potential profiles.

In the other companies, in the USA and Pakistan employee performance is monitored on an annual basis; in Iran, the achievement of individual employee objectives is monitored each month on the basis of indicators linked to IATF 16949 standard, efficiency and the quality of company processes. In China, department Managers conduct targeted interviews to monitor personnel in work experience schemes, and in **Romania** the "Professional Evaluation Criteria" assessment form is completed every year by the Area Manager, who provides an assessment as to the degree of achievement of each objective.

The Group 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. This, international experience underpins various development plans for future company managers. Policies to cover all aspects of travel abroad have been set up. At the end of 2018, **2 employees were involved** in ***international mobility*** schemes, both from Italian companies. These figures refer exclusively to expatriated employees who carry out their roles at one of the Group's foreign branches only. Furthermore, as confirmation of the importance attributed to international experience, the Landi Renzo Group has many employees in technical and business departments who are also ***frequent travellers*** and employees who are Italian nationals recruited under **local contracts** at a **branch abroad**.

Remuneration and benefits

The Landi Renzo Group's 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.

For the Italian companies, the process of defining variable remuneration is substantiated in the performance bonus linked to performance assessments for all employees, results for roles of responsibility and limited to specific roles, such as line managers and production plant managers, various objectives relating to health, safety and the environment.

Furthermore, every year during the budget phase a percentage of total remuneration is allocated to merit-based policies.

For none of the companies in the table below there are no salary levels below local minimum salaries for the relevant category of new hires, as shown.

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		2018	
	Male	Female	Male	Female	Male	Female
AEB America S.R.L	1.84	1.84	1.75	1.75	1.09	1.09
Beijing Landi Renzo Autogas System Co. Ltd	2.58	2.67	2.42	3.90	6.05	3.30
Landi Renzo Polska Sp.Zo.O.	1.42	1.62	1.85	1.76	1.99	1.69
Landi Renzo RO srl	1.81	1.81	1.79	1.79	1.5	1.5
Landi Renzo Pars Private Joint Stock Company	1.13	1.13	1.13	1.13	1.03	1.03
Landi Renzo S.p.A.	1.21	1.21	1.21	1.21	1.21	1.21
Landi Renzo USA Corporation	1.00	1.00	1.04	2.65	1.04	2.65
Lovato Gas S.p.A.	1.00	1.00	1.00	1.00	1.00	1.00
Average Group total	**1.25**	**1.27**	**1.29**	**1.35**	**1.38**	**1.67**

Local minimum salary: refers to salary in accordance with legislation or indicated in the National Collective Contract.
Salary for new hires: salary offered to a full-time employee in the lowest category.

In the companies Beijing Landi Renzo Autogas System Co. Ltd, Landi Renzo Pars Private Joint Stock Company, Landi Renzo RO srl 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.
Landi Renzo S.p.A. has supplemented its company welfare policy with a medical insurance plan available for all employees (without distinction between full-time and part-time) to receive standard medical treatment, and employees are provided with Euro 150 to be used within a company welfare portal where they 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.
Abroad, the company Landi Renzo RO S.r.l. provides its employees with meal vouchers, medical insurance and pensions, which are required by law, and maternity leave; 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, which is based on hours worked for those with a part-time contract.

Health & Safety in the Workplace

Landi Renzo has always focused on the well-being of its employees and this commitment is also demonstrated in a focus on employee health and safety in the workplace, and implemented with solid management systems. Indeed, the company Landi Renzo S.p.A. has 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.
In accordance with Italian 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 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 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.

In addition to the Italian companies, the companies Beijing Landi Renzo Autogas System Co. Ltd, Landi Renzo USA Corporation, AEB America S.p.A. and L.R. Pak (Pvt) Limited 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, AEB America S.p.A. and Landi Renzo Polska Sp.Zo.O. about the main ideas and new aspects regarding safety, performance objectives for safety in the workplace have been defined in relation to specific Key Performance Indicators for the Italian companies in the Group and at Landi Renzo USA Corporation.

For the purpose of achieving set objectives, the Group has an HSE (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 Health and Safety 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.

In the course of 2018, system audits were carried out at Landi Renzo S.p.A. in the via Nobel and via dell'Industria plants to check for compliance with the OHSAS 18001 system. In particular, the certification body BUREAU VERITAS, recognised by ACCREDIA, conducted two audits, one in January and one in December 2018, both of which had a positive outcome. No non-conformities were identified. AEB America S.p.A. conducts workplace audits every month to check for compliance with health and safety regulations. The company L.R. Pak (Pvt) Limited receives two inspections per year by government officials to check compliance with the requirements of the Sindh Factories Act of 1975.

Health and safety training

In 2018, initiatives continued to train all workers as set forth in the State-Regions Conference Agreement of 21 December 2011 as amended. Specifically, courses were provided for new hires and periodic updates were provided to workers, including health and safety managers, health and safety officers and worker safety representatives, both through the e-learning platform and in the classroom. The updates also involved first aid and fire prevention emergency management 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.

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

HOURS OF TRAINING BY ROLE	2016	2017	2018
Senior managers	0	0	25
Middle managers	33	68	138
Office personnel	349	426	937
Manual workers	1,391	1,771	1,228
Total	**1,773**	**2,265**	**2,328**

The figures for 2018 do not include Landi Renzo Pars Private Joint Stock Company as they were unavailable

PEOPLE WHO RECEIVED TRAINING BY ROLE	2016	2017	2018
Senior managers	0	0	3
Middle managers	3	7	19
Office personnel	45	35	127
Manual workers	158	135	210
Total	**206**	**177**	**359**

The figures for 2018 do not include Landi Renzo Pars Private Joint Stock Company as they were unavailable

In 2018, three Managers participated in Health and Safety training. Managers have considerable decision-making autonomy in providing 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 is 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

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 2018 there were 6 non-serious accidents at work out of more than 1 million hours worked, which occurred in accidental circumstances and did not require any particular corrective action. Of these 4 were in Italian companies, 1 occurred in the Polish company Landi Renzo Polska Sp.Zo.O. and one was in the company AEB America s.r.l.

No. of accidents split by geographical area

NO. OF ACCIDENTS (no.)	2016			2017			2018		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Italy	3	2	**5**	4	0	**4**	1	3	**4**
Europe (excluding Italy)*	0	0	**0**	1	0	**1**	1	0	**1**
Asia**	0	0	**0**	0	0	**0**	0	0	**0**
America***	0	0	**0**	0	0	**0**	0	0	**0**
South America ****	0	0	**0**	0	0	**0**	0	1	**1**
Total	3	2	**5**	4	**0**	**4**	**2**	**4**	**6**

** Poland and Romania*
*** Pakistan, China and Iran*
**** USA*
***** Argentina and Brazil*

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 2018, there were 2 near misses at Landi Renzo S.p.A. The companies analysed the causes and activated the necessary countermeasures. During 2018 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.

The rate of absenteeism relating to the Group's Italian companies was 0.01 in 2018 (this rate was calculated on the basis of the calculation approach laid out by the GRI, or as the ratio between the number of days of absence in the reporting peiod and the total work days for the work force).

Accident figures split by geographical area

FREQUENCY RATE	2016		2017		2018	
	Male	Female	Male	Female	Male	Female
Italy	4.94	6.25	5.84	0	2.97	13.79
Europe (excluding Italy)*	0	0	11.04	0	3.29	0.00
Asia**	0	0	0	0	0.00	0.00
America***	0	0	0	0	0.00	0.00
South America ****	0	0	0	0	0.00	31.80
SEVERITY RATE	**2016**		**2017**		**2018**	
	Male	**Female**	**Male**	**Male**	**Female**	**Male**
Italy	0.02	0.08	0.05	0	0.00	0.34
Europe (excluding Italy)*	0	0	0.10	0	0.03	0.00
Asia**	0	0	0	0	0.00	0.00
America***	0	0	0	0	0.00	0.00
South America ****	0	0	0	0	0.00	0.21
INCIDENCE RATE	**2016**		**2017**		**2018**	
	Male	**Female**	**Male**	**Male**	**Female**	**Male**
Italy	0.80	0.89	1.23	0	0.55	2.13
Europe (excluding Italy)*	0	0	1.67	0	1.41	0.00
Asia**	0	0	0	0	0.00	0.00
America***	0	0	0	0	0.00	0.00
South America ****	0	0	0	0	0.00	7.14

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 and do not consider Iran, as information on the total number of hours worked is unavailable.
** Poland and Romania*
*** Pakistan and China*
**** USA*
***** Argentina and Brazil*

Group accident figures

ACCIDENT FIGURES	2016			2017			2018		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
No. of accidents	3	2	**5**	5	0	**5**	2	4	**6**
Frequency rate	3.41	4.85	**3.87**	5.89	0	**4.05**	2.71	13.61	**5.81**
Severity rate	0.01	0.06	**0.03**	0.05	0	**0.03**	0.01	0.28	**0.09**
Incidence rate	0.59	0.74	**0.64**	1.10	0	**0.70**	0.651	2.139	**1.215**

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

Given the significant importance placed on employees, the Landi Renzo Group undertakes to maintain continuous dialogue with its personnel and to increase its involvement in various activities. The Group uses a number of internal communication channels, both traditional and innovative.

The traditional spaces include the **intranet**, **notice boards** and **company monitors**. The 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 these channels.

Some of the more innovative internal communication channels are the **Departmental Meeting, meetings for sharing company results, interviews, the internal meeting system and "Welcome on-board".**

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. They are considered useful to complete the informational process on new products and commercial strategies. Again in 2018 an R&D Day, Operations Day and Sales & Marketing Meetings were organised.

In addition, **periodic meetings** were also organised in 2018 to present company results to all employees, sharing partial results during the year and the main progress made in company strategies and ongoing organisational developments.

Due to the complexities dealt with throughout the year, an employee **interview project** was initiated, which will continue in 2019, to:

- understand the needs of internal customers, with a focus on perceived priorities;
- listen to and clarify line expectations with respect to the *People Strategy* function;
- reinforce the positive message of the Group's evolution and re-launch in line with the business plan.

With a view to improving the sharing of information, simplifying the fluidity of day-to-day work, better coordinating interdisciplinary activities and projects and boosting the involvement of all stakeholders, the **internal meeting system**, which consists of periodic meetings involving Area/Project Managers on the main product, sales and operations topics, has been revamped.

Lastly, in 2018, to facilitate the entry of new resources, a "**Welcome on-board**" news system was introduced for new hires, which sends an email to all Company employees containing a brief presentation of the new hire, also indicating his or her role and manager.

Customers

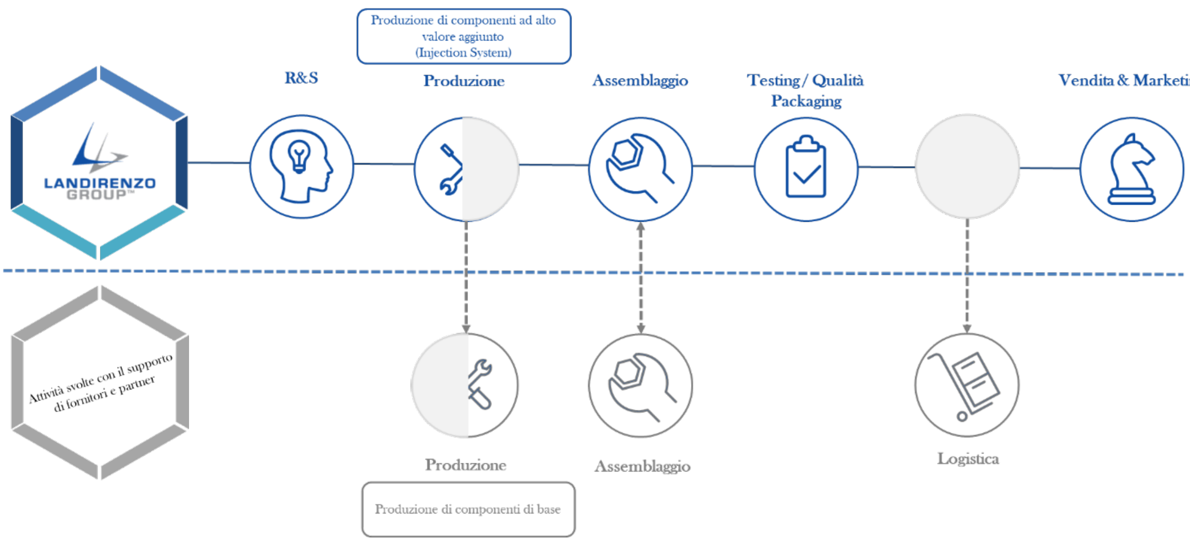
The Landi Renzo Group dedicates considerable attention to the needs of its customers, who are demanding increasingly innovative products with a low environmental impact. The products manufactured by the Landi Renzo Group, an international leader in technologies for **sustainable mobility**, enable vehicles 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



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 success of automotive companies hinges on their **capacity to innovate**. In the view of the Landi Renzo Group, this translates into the development of increasingly ecological mobility, reducing reliance on crude oil products, and the introduction of enabling technologies with a 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 the company management puts CNG and LNG components for medium and heavy-duty vehicles, pressure regulators and high flow injectors 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, in the last year a patent was filed relating to an **innovative electronic pressure regulator** for Diesel-CNG HPDI systems for heavy duty vehicles. Unlike all existing regulators, this one is not based on mechanical principles, rather it is capable of communicating electronically with the engine control unit, achieving significantly superior performance.

In addition, the group has filed dozens of designs and models, primarily regarding electronic control units, in an attempt to prevent unfair competitors from illegally copying these products.

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 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.

Landi Renzo systems can already use methane from renewable sources (e.g. biomass), further reducing the impact on the production of greenhouse gases.

Indeed, through SAFE&CEC, the Landi Group is able to provide biomethane treatment solutions. Also in 2018, the newco continued to develop solutions for the **compression of biomethane for injection into the network, loading and unloading gas tank transport lorries and the distribution and measurement of the gas itself**.

Always keeping pace with new technologies to be able to meet market requirements for cutting-edge solutions is of fundamental importance for the Group. Consequently, in 2018 improvements and refinements were made in **gas system self-calibration strategies** 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.

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 6d-TEMP 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. The **EPA** (Environmental Protection Agency) and **CARB** (California Air Resources Board) certifications are renewed for these kits every year, 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.

Biomethane is a renewable energy source obtained from agricultural biomass (dedicated crops, sub-products and agricultural scraps and animal manure), agroindustrial biomass (scraps from the food processing supply chain) and the organic fraction of municipal solid waste. Biomethane is obtained in two phases: production of crude biomass - predominantly through anaerobic digestion - and the subsequent removal - upgrading - of components not compatible with injection into the network (CO_2).

Liquefied natural gas (LNG) is a product mainly consisting of methane with low environmental impact: it eliminates emissions of particulate and reduces CO_2 emissions considerably. 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.

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.
In the course of 2018, the Landi Renzo Group promoted the updating of various industry regulations, first and foremost **international regulation no. 115** on the homologation of LPG and CNG retrofit systems for the aftermarket. This regulation will be updated to the new and stricter WLTP testing standard, and the Landi Renzo Group has already successfully launched the homologations of its systems under the new standard (for details, please refer to the **Worldwide harmonised Light vehicles Test Procedure - WLTP** section).
Lastly, bearing witness to the Group's passion for research and innovation, an innovative project has started in the world of hydrogen-fuelled engines, with the development of components to be used in **fuel cell** technology, which work based on the transformation of chemical energy contained in hydrogen into electricity. Specifically, given its similarity with CNG and LPG, Landi Renzo will design injectors and valves to be inserted in the circuit for the transformation of hydrogen into electric power.
With regard to diesel engine conversion systems (**Diesel Dual Fuel**), during the year the conversion of agricultural vehicles was launched, with the creation of a couple of prototypes that rely on that technology.

Dual fuel technology
This technology makes it possible to use a **mix of diesel and methane** 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.**

The Research & Development centre

Maintaining its traditional leadership in terms of technology, which has always set the company and its gas conversion systems apart, is based on continuously reviewing processes and sharing ideas and experiences. The Group's research and development activities are mainly carried out at the headquarters of Landi Renzo S.p.A., which takes into account the needs of all of the group's subsidiaries all over the world.
As highlighted in the previous section, in 2018 progress was made in a range of projects regarding LPG and CNG fuelling systems for vehicles, including:

- HPDI pressure regulator;
- pressure regulator for heavy duty vehicles;
- components for hydrogen fuel cells;
- gas injectors for heavy duty vehicles;
- gas injectors for the aftermarket capable of offering a high price/quality ratio and extended life;
- modular control units;
- strategies for direct injection vehicles.

In 2018 the partnership continued 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. On 31 July 2017 AVL took over the Research and Development Centre business unit, 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 automobiles - 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.

Worldwide harmonised Light vehicles Test Procedure – WLTP

WLTP is a worldwide harmonised norm to determine levels of pollutants and CO_2 emissions, fuel or energy consumption and the range of light electric vehicles (light commercial vehicles and vans). The standard was developed by automotive experts from the European Union, Japan and India under the guidance of the UNECE World Forum for harmonisation of vehicle regulations, and the final version was published in 2015. The test procedure provides a rigorous guide as regards dynamometric and road load (motion resistance) testing, gear shifting, total vehicle weight (including optional equipment, cargo and passengers), fuel quality, environmental temperature and tyre selection and pressure. The WLTP entered into force on 1 September 2017, replacing the New European Driving Cycle (NEDC) as the test for automobile homologation in the European Union. All new vehicles registered as of 1 September 2019 must be subject to the new testing cycle.

Gas systems are also subject to the WLTP cycle, so in 2018 the Landi Renzo Group worked systematically to align its systems with the new, stricter emissions standard. Landi Renzo's LPG systems have already successfully passed the test with various engines (FCA, Opel and Hyundai), obtaining the national DGM (Directorate-General for Road Traffic) homologation. In the near future, Landi Renzo will work on CNG systems to update the DGM homologation in accordance with the new cycle.

The constant attention paid to 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 quality system as early as 1996, to ensure design, production, sales and customer support systems were more efficient and met market requirements. In 2006, that Quality System was also extended to the Authorised Garages and Dealers in the Landi Renzo Italian network. Among the companies abroad, **Landi Renzo USA Corporation** has the QVM (Qualified Vehicle Modifiers) certification, which requires an assessment by the Ford Motor Company and compliance with the QVM guidelines.

In 2001, Landi Renzo S.p.A. was the first Italian company in its industry to obtain the prestigious ISO/TS 16949 certification, which lays out the requirements of the quality system for the design, development and manufacture of products in the automotive supply chain. This certification, which was discontinued in 2016, was replaced by the first edition of the IATF 16949.

The standard from the International Automotive Task Force (IATF) adopts a clear focus on continuous improvement (preventing defects due to product design and planning) to fully meet customer requirements, and also introduces new features, including greater emphasis on corporate social responsibility, product safety requirements, and greater clarification in supplier management processes.

Besides the parent company, in 2018 the companies **Lovato Gas S.p.A.**, **Landi Renzo Polska S.p.Z.o.o.** and Landi Renzo Pars Private Joint Stock Company, previously ISO/TS 16949 certified, also completed the transition to the most recent version of IATF 16949. The Indian company Krishna Landi Renzo India Private will become certified according to the new standard by the end of 2019.

In 2018, as in previous years, 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 9001:2015 and IATF 16949 guidelines and customer requirements stipulated by OEMs (original equipment manufacturers). Production process audit compliance results anticipated a total positive value (76%). Audits are also planned on support processes, to be carried out in January and February 2019.
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. Efficiency is measured on the basis of three overall equipment effectiveness (OEE) indicators:

- *availability*, or the time of actual machine use;
- *efficiency*, or the speed with which the plant works and produces;
- *quality rating*, or the number of good parts manufactured with respect to the total.

To achieve the quality 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. All of the documentation on Health, Safety and Quality is always available to personnel for consultation.

Products are planned using an integrated project management approach, requiring the appointment of a Chief Engineer and Project Manager, in addition to a multidisciplinary team who are assigned specific resources and responsibilities. The Stage & Gate method is used for all project management, requiring approval by the company board of all project phases.
Quality plans are prepared using the Advanced Product Quality Planning (APQP) framework to meet established quality requirements when creating products. Once planning is completed, the apparatus, equipment, resources and necessary personnel skills to achieve the required quality are identified. Tests and validation activities (according to the PPAP (Production Part Approval Process) method) are carried out during the product manufacturing phases and reported in Quality documentation.
As testimony to the focus on striving for quality, the main reference indicators are improving compared with previous years (for example, *After Market warranty values with respect to turnover* <0.8%, *customer complaint index* <2.6%), showing that the Group is on the right track.

Some of the targets the Group has committed to meeting by the end of June 2019 include: decreasing warranty costs linked to OEM customers through specific Product Improvement Plans and optimising the outgoing components tracking system.

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. In addition, 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.

Safety features are identified in designs shared with customers, and products are 100% tested when manufacturing is complete (for example, endurance testing is conducted on 100% of the products).

The Landi Renzo Group also 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. Indeed, every kit produced is accompanied by informational material to ensure proper use by customers.

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 customer relations and company processes that affect product quality is used and analysed to prevent non-compliance. Preventative actions are identified based on the results of this analysis, which are assessed on the basis of the effects of the potential issues to be resolved. A documented procedure (*PSQ 14-1*) 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.

Methods for managing any non-conformities identified vary based on their extent. Minor non-conformities identified in the AM and OEM areas are managed through an internal system and dealt with using the "8D" problem solving methodology (identification of the root cause, corrective action, preventive action, verification of the effectiveness of action implementation), while more significant non-conformities are discussed and handled during dedicated weekly "Quality Board" meetings with the participation of the main corporate entities (such as R&D, Operations and Sales).

As in previous years, no cases of non-compliance with regulations or voluntary codes relating to health and product safety resulting in recalls and/or penalties were logged in 2018. In some specific cases, non-conformities were identified, but they were not severe enough to compromise user safety.

Customer relationships - contact channels, satisfaction monitoring and training

Confirming its attention for its customers, the Landi Renzo Group has always adopted a transparent business policy geared towards creating long-term relationships, fruitful collaboration, rapid troubleshooting and maximum professionalism.

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 every original equipment manufacturer (OEM) customer, which is made up of business, technical and quality personnel who customers can consult for technical, logistics and quality requirements.

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

In this market, it is important to guarantee the same service level in all countries served. Therefore, the Landi Renzo Group relies on 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.

Instead, for end clients, the Group has activated a series of *traditional* contact channels such as email, fax, the office telephone number and the Landi Renzo toll-free number and letter, as well as *social* channels like Facebook, Twitter and YouTube. End clients can thus request information on products and purchasing options, report after-sales issues, and make complaints, while also obtaining information about matters such as ecology and eco-sustainability and 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.

To bring the Group closer to its customers and understand their expectations and needs, marketing and communication are playing an increasingly important role. To raise awareness of the Landi Renzo Group's brands among business customers and end clients, the companies participate in trade fairs, international fora, and specific local events run by dealers and importers.

Information and institutional advertising material in industry and other publications and web campaigns mainly developed on social media networks and Google are also designed and created.

These activities are managed to ensure the utmost transparency for end clients. During 2018, no instances of incorrect labelling were reported at Landi Renzo S.p.A. or Lovato Gas S.p.A.

Label content is defined in the design phase and reported on documents shared with customers, while the presence of labels is checked 100% in the shipment phase.

Monitoring customer satisfaction

Customer satisfaction is monitored using two different methods depending on customer type. For Original Equipment Manufacturer (OEM) customers, monitoring is based on specific indicators present in the automotive manufacturer portals: defect rate under warranty, defect rate at 0 km and on-time 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 monitored 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 users). 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.

In line with the excellent results obtained last year, 2018 again shows a high level of satisfaction among garages and end clients. The average system evaluation by end clients, equivalent to 4.47 (on a scale of 1-5), is practically the same as in 2017 when it was 4.5, while the average garage evaluation by end clients is 4.8 (on a scale of 1-5), higher than in 2017 when it was 4.7. This improvement is undoubtedly due for the most part to the continuous training provided to garages in recent years, which is designed to improve garage service levels in terms of operations and sales consultations.

Indeed, training activities provided to the Italian network of garages have intensified and, in 2018, technical training was provided to as many as 375 garages, compared to 106 in 2017.

In addition, in the future the Group plans to update the reserved area of its website: the portal that manages all communications and information for customers and installers (archives of technical documents, specifications, certifications, etc.).

Aside from the Customer Satisfaction survey, the Landi Renzo Group continuously monitors and manages complaints made by OEM customers and end clients. Customer management has always been structured with the use of specific complaints management procedures (procedure 13.1 Managing Non-Compliance), and since 2017 additional progress has been made on standardising management in foreign branches.

The "Non-compliance 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.
To ensure full customer satisfaction from the technical, logistics and quality perspective, the *interdisciplinary team* manages their needs and any complaints.

Thanks to a structured quality development process and the support of the purchasing department, which improved supply activities and also enabled a clear improvement in the quality of the end product, the number of OEM customer complaints declined by 22% compared to 2017.
Complaint responses are managed automatically by customer portals and provide a rapid customer response. This is typically 48 hours to manage action to limit the problem and 5 days to identify the root cause of the problem and implement corrective actions. End client 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. No complaints regarding confidentiality were received during the year.

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.
Periodic conference calls are organised with the main end clients, also of the branches, with a view to guiding them in analysing failures and seeking out solutions. The conference calls are organised based on the platform on which the *interdisciplinary team* is present (Program Manager, Technician, Customer Quality, etc.).

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** for the garage network are the main tools for the Group to pursue these objectives (for more information, refer to the "Technical training for the Network of Garages and Installers" section).

Suppliers

The Landi Renzo Group **constantly evaluates** its suppliers and adopts an approach oriented towards **transparency** and **collaboration** to establish long-lasting and stable relationships.

Suppliers are an integral part of the manufacturing and organisational process of an organisation; thus, they must be selected so as to offer the best guarantees possible.

Indeed, in line with the requirements imposed by the reference market, the Group selects suppliers who can guarantee the high quality of components and services purchased, and are also financially sound with a company reputation in line with that of the Group.

The assessment and qualification and subsequent supplier monitoring process is laid out in a specific procedure which lists the requirements searched for and the methods for monitoring service levels to be maintained once the supply agreement is activated. This procedure does not apply to AEB America S.r.l., Beijing Landi Renzo Autogas System Co. LTD, Landi Renzo USA Corporation or the Brazilian LR Industria e Comercio Ltda.

Selection 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 from the last three years (for example, revenue or turnover, sales profits, stock turnover and net financial position) and the suppliers who pass this initial phase are admitted to the qualification phase. During this phase, suppliers are asked to complete *form FA50*, which assigns 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 aspects 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 2018 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.

Certified suppliers

SUPPLIER CERTIFICATION	2018
ISO 9001 certification	78%
IATF 16949 (*Automotive*) certification	27%
ISO 14001 certification	21%
OHSAS 18001 certification	5%
SA8000 certification	2%
EMAS certification	1%
No certification	21%

The percentage is calculated on the total number of suppliers.

The figures on certifications were calculated on an actual basis for 2018. The historical figure is not reported as it is not comparable. The database was modified following the: 1) incorporation of all former AEB S.p.A. suppliers in Landi Renzo S.p.A. (following the merger); 2) exclusion from the database of suppliers such as non-core dealers and hardware and packaging suppliers.

The figure excludes the companies Beijing Landi Renzo Autogas System Co. Ltd, AEB America S.p.A., Landi Renzo USA Corporation and Landi Renzo Pars Private Joint Stock Company as the data are unavailable.

On the basis of the data in the supplier certification table and considering that 21% of suppliers have no certification, the most common certification relates to quality management systems.

With respect to this aspect, also to comply with regulations, the Landi Renzo Group is directing all "strategic" suppliers towards the new IATF 16949 standard (which replaces ISO/TS 16949).

The transition from OHSAS 18001 to ISO 45001 for the certification of occupational health and safety systems, which refers to topics such as context analysis and risk assessment with the same approach as ISO 9001:2015, will also be subject to particular focus in the coming years.

Aside from **quality** and aspects connected to **occupational health and safety**, it is understood that **ethics, social responsibility and safeguarding the environment** are important drivers 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 in any event 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. In addition, 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.

The main technological areas of the suppliers are: mechanical processing, die-casting and the relative mechanical processing, moulding in plastic, rubber and co-moulded components, gas tanks, high and low pressure pipes, electronic components and the relative assemblies.

A significant portion of the Group's manufacturing takes place in Italy and Poland, and most suppliers are located in these two countries. The suppliers are mostly Italian companies 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. However, also to support the needs and requirements of the foreign subsidiaries, the Group has implemented a supplier search policy to extend the supply chain to other countries as well.

In 2018 the expenditure carried out with local suppliers, who reside in the same country as the company of the group that made the purchase, is on average equal to 82.95%. Local supplies are divided as follows: 87.70% Italy, 63.44% Europe, 100% Asia and rest of Worl and 17.2% America (excluding AEB America S.r.l., Beijing Landi Renzo Autogas System Co. LTD, Landi Renzo USA Corporation and Landi Renzo Pars Private Joint, for which the figures are not available).

Supply figures by geographical area

SUPPLY FIGURES BY GEOGRAPHICAL AREA*	2016	2017	2018
Italy	75%	77%	76%
Europe (excluding Italy)	16%	16%	18.7%
Asia and rest of the world	7%	5%	5%
America	2%	2%	0.3%
Total			
Total Turnover (€/000)	**136,343**	**155,066**	**153,289**

* The figures between the two years are not perfectly comparable due to the changes in the reporting scope for the 2018 financial year. The figures doesn't include the companies AEB America S.r.l., Beijing Landi Renzo Autogas System Co. LTD, Landi Renzo USA Corporation and Landi Renzo Pars Private Joint are excluded

No. of active suppliers

ACTIVE SUPPLIERS (no.) *	2016	2017	2018
Italy	1,274	1,110	734

* The figures only include suppliers with annual turnover greater than Euro 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 are excluded

Supplier involvement and communication

For a few years now, the Landi Renzo Group has implemented initiatives increasingly oriented towards reciprocal growth with its suppliers. When objectives and strategies become shared, it is possible to overcome the traditional relationship between counterparties and launch a veritable partnership. During new product development phases, suppliers are involved in co-design activities, and Group personnel are always in contact with partners to support them in all required activities, the activities required by procedures and in validation processes. In addition, by monitoring logistics and quality performance levels, there is an incentive for suppliers to constantly strive to improve through technical and organisational development.

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 **United Nations Economic Commission for Europe** (UNECE), the **International Organisation for Standardisation** (ISO) and the **European Committee for Standardisation** (CEN).

These relationships mainly concern the following areas:

- patents and approvals of components and systems, generally involving the Ministry of Transport;
- actions to raise awareness of broader issues in the automotive industry and environmental and safety issues;
- contribution to the development of regulations and technical standards in the alternative fuel industry, at national, European and global level.

In recent years communication has intensified with regard to environmental sustainability, safeguarding the environment and safety for users, with experts from various Ministries 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.

The company's contribution also takes the form of participation by the Regulatory Affairs office in a range of work groups, both domestic and international, regarding the development of future environmental and safety regulations and technical standards in the alternative fuels industry.

The Landi Renzo Group also acts as a significant driver for the development of a number of international regulations, ISO standards and CEN standards, as an industry expert as well as in its capacity as coordinator of two work groups (ISO TC22 SC41 WG5 and CEN TC 286 WG6). In this respect, please note the work conducted by the Geneva UNECE's Working Party on Pollution and Energy (GRPE) for the introduction of new and stricter methodologies for measuring emissions (WLTC) in Regulation no. 115 of the United Nations Economic Commission for Europe (UN/ECE) *"Uniform provisions concerning the approval of: I. specific LPG (liquefied petroleum gases) retrofit systems to be installed in motor vehicles for the use of LPG in their propulsion system; II. specific CNG (compressed natural gas) retrofit systems to be installed in motor vehicles for the use of CNG in their propulsion system"*.

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

To monitor and guide potential standards or legislation that could affect specific industries, the Group actively participates in various industry associations and, thanks to its membership, takes part in many institutional work groups. The most significant include:

- **NGV Italy** (Natural Gas Vehicle Italy) is a consortium that brings together the main industrial players in the Italian methane industry for automotive use. 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 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.
- **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, of which SAFE & CEC is a

member. It promotes the use of natural gas as a fuel for transport, defining standards and guidelines for the industry and organising training activities.

- **NGVA Europe** (Natural & Bio Gas Vehicle Association), founded in 2008, is the European association that has 133 members in 31 countries throughout the gas and vehicle production chain. It aims to promote the use of natural and renewable gas in vehicles and watercraft.
- **PAPAAM** (Pakistan Association of Automotive Parts Accessories Manufacturers), of which L.R. Pak (Pvt) Limited is a member. PAPAAM was established in 1988 to represent the industry and provide technical and operational support to its members.
- **KCCI** (Karachi Chamber of Commerce and Industries), of which L.R. Pak (Pvt) Limited is a member. The KCCI supports private companies and helps to resolve their economic and financial problems.
- **SITE** (Sindh Industrial Trading Estate), of which L.R. Pak (Pvt) Limited is a member. SITE is an organisation founded in 1947 to promote industrialisation and create attractive conditions to incentivise investments in those areas.
- **CCIC** (Italian Chamber of Commerce in China) of which Beijing Landi Renzo Autogas System Co. Ltd. Founded in Beijing in 1991, the CCIC is the only trade association recognised by the Italian government (Ministry of Economic Development) and the People's Republic of China (Ministry of Civil Affairs) which aims to strengthen the internationalisation and location of Italian businesses and promote the "Made in Italy" brand in the People's Republic of China.
- **California NGV Coalition**, of which Landi Renzo USA Corporation is a member. This association is the main defence organisation of the natural and bio gas vehicles industry in California. It works with legislators and regulators to develop policies that boost the use of alternative fuels, supports new initiatives and provides updated information on NGV technology and market developments.
- **NIAF** (National Italian American Foundation). Landi Renzo USA Corporation became a member to preserve Italo-American heritage and culture, promote and inspire a positive image and the legacy of Italo-Americans and strengthen links between the United States and Italy.
- **IACC** (Italy-America Chamber of Commerce). The chairman of Landi Renzo USA Corporation is a member of the board of the IACC. Founded in New York in 1887, the IACC is an independent, private, American non-profit organisation dedicated to promoting trade, tourism, investments and economic cooperation between Italy and the United States. The Chamber brings together individual entrepreneurs and businesses that promote the interests of their members through contact and interaction with government agencies, trade associations and international organisations in both the United States and Italy.
- **TACC** (Torrance Area Chamber of Commerce), of which Landi Renzo USA Corporation is a member. Its mission is to assist its members by creating a strong economy, providing networking opportunities and supporting business interests by engaging in political action. Through these initiatives, the TACC helps businesses to grow and collaborate to ensure prosperity in the Torrance area.

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.

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.

In 2018, for Euro 770, Landi Renzo S.p.A. sponsored the **Workshop on Alternative Fuels for Endothermic Engines** planned in collaboration with the E. Ferrari Department of Engineering at the University of Modena & Reggio Emilia. Technicians from Landi Renzo S.p.A. actively participated in the Workshop, focusing on the company and the main applications it has developed.

The objective was to introduce the company and raise awareness on green topics and technologies to reduce vehicle emissions while maintaining performance levels.

Continuous partnerships are in place with the ***UNINAUTO Master's course***, amounting to Euro 5,000, offered by the University of Naples and the ***Vehicle Master's course*** offered by the E. Ferrari Department of Engineering at the University of Modena & Reggio Emilia, to enable young engineers to specialise in the automotive industry.

To foster good relations with the education sector visits of the company are organised periodically, presentations are regularly given in schools and students can participate in work-study initiatives, with a view to introducing young people to the business world and raising their awareness of ecological mobility.

In the course of 2018, Landi Renzo S.p.A. hosted two local secondary schools, organised talks at two high schools and hosted 10 young people in work-study programs.

AEB America participates in *Company Tours* in "PROGRAMA EMPUJAR" with a view to approaching young talent and highlighting values such as solidarity, commitment and responsibility, while promoting the importance of work in people's lives.

Landi Renzo USA Corporation supported the Landi Renzo Group in establishing a Gold Corporate Partnership with the UCLA Institute of the Environment and Sustainability (IoES). The UCLA Corporate Partners program was developed by the IoES Centre for corporate environmental performance with the input of a range of global industry leaders involved in green business. The model of the Corporate Partners program is to encourage collaboration and communication on environmental and sustainability issues. Through the Corporate University, Landi Renzo will contribute its more than half a century of knowledge of the alternative fuels sector to the program, with a particular focus on the development of technologies for eco-compatible and sustainable vehicles.

Dialogue with providers of risk and debt capital

The Landi Renzo Group believes that the level of *reliability* and *credibility* that a company needs to offer to investors and to the financial community at large depends on its **relations** with stakeholders. Specifically, the Group's Investor Relations (IR) department:

- provides an assessment of the company in light of the competitive scenario;
- guarantees accurate and extensive information from a range of sources to provide the management with a clear and complete view of the market's assessments of the company;
- transmits information about the company to the financial markets with a view to supporting investor assessments of the correct value of shares and other equity instruments, and assisting them in interpreting the company's strategy.

Landi Renzo's IR activities are managed directly by the CFO as they are deemed of utmost importance for the Group.

Investor Relations focuses on compulsory and voluntary communication and dialogue with two types of stakeholders - shareholders and debtors, primarily through planned conference calls and meetings both abroad and in Italy.

Compulsory communication activities involve legislative requirements or certain 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 which are made available to stakeholders in the Investors section of the Group's website.

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, both available on the Company's website in the Investors section, 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

2018 was a year of continuity with respect to the past. All risks and hazards to the environment were identified and assessed in accordance with legislation, and all technical and organisational safety and prevention measures were implemented as set forth in the Environmental Management System implemented in July 2013, in compliance with the requirements set forth in the UNI EN ISO 14001:2004 standard.

The activities set forth in the EMS include:

- identifying and assessing significant environmental aspects;
- defining objectives and improvement programs;
- monitoring and surveillance of environmental metrics and plant functioning;
- personnel training;
- identifying, updating and complying with applicable legal requirements;
- emergency management;
- managing internal audits;
- a periodic review of the EMS by the management to ensure it continues to operate in a suitable, effective and efficient manner.

In February 2018, the EMS and environmental policy were revised to view of the migration to ISO 14001:2015 and in May 2018 the second periodic system audit was successfully completed with no non-conformities identified. At the same time, migration to the new ISO 14001:2015 standard, which is expected to enter into force by the end of 2019, was completed. During the second periodic audit, the UNI EN ISO 14001:2004 certification was also extended to the via dell'Industria sites previously used by the former AEB S.p.A.

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

The EMS provides guidelines for the entire Group, even though it was formally adopted by the premises at Via Nobel and Via dell'Industria belonging to Landi Renzo S.p.A., and is 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.

Environmental Management System managers work with other company managers and are aware of the need to establish and update procedures or operational instructions to regulate work activities, including maintenance operations, which may present particular situations of risk of environmental impacts.

At the end of every year, Landi Renzo S.p.A. prepares the Periodic Environmental Analysis Report as required by ISO 14001 which summarises the data presented within the Non-Financial Report.

In 2018, the Group did not receive any punishment or fine from the authorities or other organisations.

Environmental performance

Energy consumption, emissions and initiatives to increase efficiency

The 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.

The Italian companies in the Landi Renzo Group have completed the transition to 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.

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	2018
ITALIAN COMPANIES			
Methane (m3)	442,794	395,103	218,880
FOREIGN COMPANIES*			
Methane (m3)	48,942	47,942	47,674
Total (m3)	**491,736**	**443,045**	**266,554**
Total (GJ)	**20,154**	**18,159**	**10,674**

* The figure for 2018 includes the companies Landi Renzo USA Corporation and Landi Renzo Ro S.r.l. as the information relating to the other companies is unavailable. Consumption relating to the company Landi Renzo Pars Private Joint Stock Company was estimated on the basis of historical data.
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 2018 *Department for Environment, Food and Rural Affairs* conversion factors were used to calculate total consumption for 2018 expressed in Gigajoules.

Direct energy consumption due to personnel travel

DIRECT ENERGY CONSUMPTION (company cars)	2016	2017	2018
ITALIAN COMPANIES			
Petrol (l)	100,613	90,256	73,841
Diesel (l)	30,430	39,707	18,547
LPG (l)	109,334	97,807	93,068
Methane (kg)	17,115	11,872	6,276
FOREIGN COMPANIES*			
Petrol (l)	40,434	43,743	35,061
Diesel (l)	54,459	51,748	41,150
LPG (l)	100,459	105,417	57,581
Methane (kg)	8,968	11,425	2,000
Total (tons)	**380**	**378**	**261**
Total (GJ)	**18,197**	**18,084**	**10,071**

* The 2017 figure excludes AEB America S.p.A. as the information is not available.The 2018 figure includes Landi Renzo Polska Sp.Zo.O., Beijing Landi Renzo Autogas System Co. Ltd and Landi Renzo RO Srl as the information for the other companies is not available. Consumption relating to the company Landi Renzo Pars Private Joint Stock Company was estimated on the basis of historical data.
The method used for the calculation involves gathering data from invoices sent by suppliers.
The 2018 *Department for Environment, Food and Rural Affairs* conversion factors were used to calculate total consumption for 2018 expressed in Gigajoule

Electricity consumption

ELECTRICITY CONSUMPTION	2016	2017	2018
ITALIAN COMPANIES*			
Electricity (kWh)	8,851,094	9,092,034	8,115,928
amount from renewable sources	*1,598,468*	*2,031,650*	*1,229,563*
FOREIGN COMPANIES**			
Electricity (kWh)	551,395	627,282	630,413
Total (KWh)	**9,402,489**	**9,744,763**	**8,746,341**
Total (GJ)	**33,849**	**35,081**	**31,486**

* The 2018 figure includes indirect electricity consumption of Landi Renzo S.p.A. and AVL (Landi Renzo S.p.A. 1,069,323 kWh and AVL 3,881,666 kWh).
** The 2017 figure excludes AEB America S.p.A. as the information is not available.The 2018 figure includes Landi Renzo Polska Sp.Zo.O., L.R. Pak (Pvt) Limited, Landi Renzo Ro s.r.l., Beijing Landi Renzo Autogas System Co. Ltd and Landi Renzo USA Corporation as the information for the other companies is not available.Consumption relating to the company Landi Renzo Pars Private Joint Stock Company was estimated on the basis of historical data.
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 2018 the average percentage between 2017 and 2016 of the energy mix communicated by service suppliers was considered, as the percentage for 2018 was not yet available.
The 2018 *Department for Environment, Food and Rural Affairs* conversion factors were used to calculate total consumption for 2018 expressed in Gigajoules.

The reduction in direct and indirect electricity consumption of the Group's Italian companies with respect to 2017 should also be interpreted in light of the changes in the reporting scope in the course of the year (for more details, refer to the "Methodological Note" section).

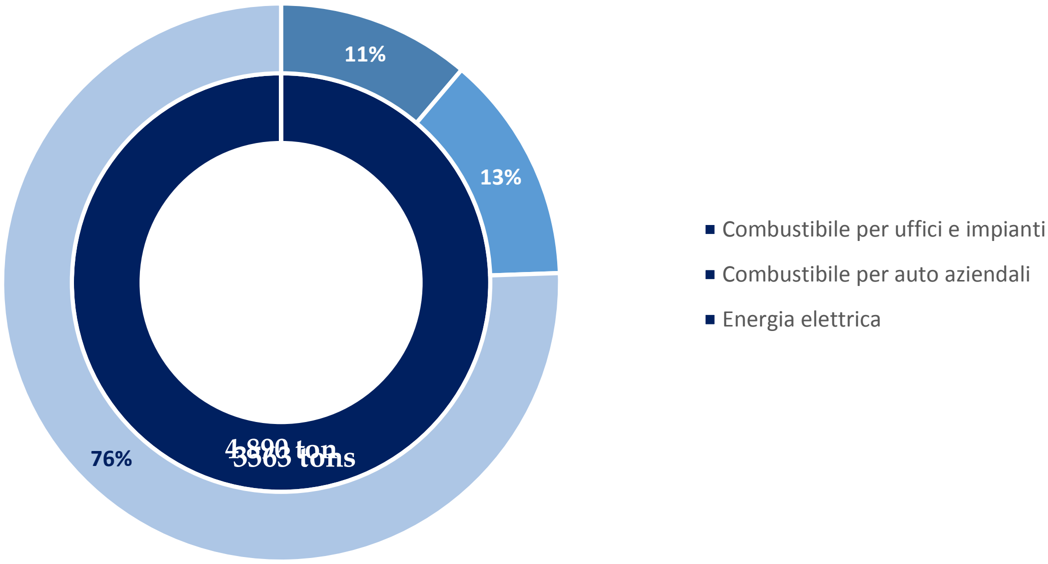
In the foreign companies direct energy consumption is mainly for domestic use.

In 2018, the company Landi Renzo Polska Sp.Zo.O. also declared indirect consumption of 4,917 Gj, related to electricity, CNG and diesel fuel, to heat its headquarters and offices (2016 and 2017 data unavailable).

Please also note that indirect electricity consumption also includes the share of consumption of AVL, which acquired the business unit regarding part of the technical centre on 31 July 2017. AVL's share of consumption was defined based on the total consumption recorded at the supplier's cabinet on via Nobel. Specifically, it was calculated based on the consumption recorded on the *Desigo* software. The value to be attributed to AVL consists of the total energy measured downstream from the transformers divided by transformer efficiency (constant assumption), from which the energy clearly attributable to Landi Renzo S.p.A. (GL air processing unit (APU), L1 APU, L2 APU, GL EMF, L1 EMF, L2 EMF, GL lighting, L1 lighting, L2 lighting) and the part of energy that the AVL machines provide to the building occupied by the Landi Renzo offices is subtracted. The energy generated by the photovoltaic system owned by Landi Renzo but used by the technical centre is then added.

Overall the intensity of emissions, calculated as the ratio between the total value of CO_2 emissions and the total number of employees, was equivalent to 9,900.21 (an increase of around 19% compared with 2017).

Breakdown of CO_2 emissions by consumption type



Direct and indirect emissions into the atmosphere

DIRECT CO_2 EMISSIONS (offices and systems)	2016	2017	2018
ITALIAN COMPANIES			
Emissions due to methane consumption (kg CO_2e)	928,417	828,422	447,942
FOREIGN COMPANIES*			
Emissions due to methane consumption (kg CO_2e)	102,582	100,521	99,959
Total	**1,030,999**	**928,943**	**547,815**

* The 2017 figure excludes Landi Renzo Polska Sp.Zo.O., AEB America S.p.A., L.R. Pak (Pvt) Limited, Beijing Landi Renzo Autogas System Co. Ltd and LR Industria e Comercio Ltda as the information is not available. The figure for 2018 includes the companies Landi Renzo USA Corporation and Landi Renzo RO S.r.l. as the information relating to the other companies is unavailable.The figure relating to the company Landi Renzo Pars Private Joint Stock Company was estimated on the basis of historical data.
The method used to calculate the emissions involves the use of emission factors published in 2018 by the *Department for Environment, Food & Rural Affairs*.

DIRECT CO_2 EMISSIONS (company cars)	2016	2017	2018
ITALIAN COMPANIES			
Total emissions (kg CO_2e)	513,356	482,775	370,015
FOREIGN COMPANIES*			
Total emissions (kg CO_2e)	407,227	421,845	278,304
Total	**920,583**	**904,621**	**648,319**

* The 2016 figure excludes Landi Renzo PAK and 2017 figure excludes AEB America as the information is not available.
* The 2018 figure includes Landi Renzo Polska Sp.Zo.O., Landi Renzo RO S.r.l and Beijing Landi Renzo Autogas System Co.Ltd as the information for the other companies is not available.The figure relating to the company Landi Renzo Pars Private Joint Stock Company was estimated on the basis of historical data.
The method used to calculate the emissions involves the use of emission factors published in 2018 by the *Department for Environment, Food & Rural Affairs*.

INDIRECT CO_2 EMISSIONS (electricity)	2016	2017	2018
ITALIAN COMPANIES			
Emissions due to electricity consumption	3,111,690	3,196,396	3,238,174
FOREIGN COMPANIES*			
Emissions due to electricity consumption	193,848	220,527	456,397
Total	**3,305,538**	**3,416,923**	3,694,571

* The 2017 figure excludes AEB America S.p.A. as the information is not available.The 2018 figure includes Landi Renzo Polska Sp.Zo.O., L.R. Pak (Pvt) Limited and Beijing Landi Renzo Autogas System Co. Ltd as the information for the other companies is not available.The figure relating to the company Landi Renzo Pars Private Joint Stock Company was estimated on the basis of historical data.
The method used to calculate the emissions involves the use of emission factors published in 2015 by the *Department for Environment, Food & Rural Affairs* which, although they are less updated than the latest version in 2018, are more representative as they provide details by country.

In the course of 2018, considering the Landi Renzo - AVL breakdown of indirect electricity consumption, the via Nobel CO_2 emissions total 1,975,395 Kg, of which 426,649 Kg attributed to Landi Renzo and 1,548,746 Kg attributable to AVL. The figure relating to CO_2 emissions is also impacted by the reduction in electricity consumption as well as changes in the reporting scope in the course of the year.

Energy production from renewable sources is among the energy strategies implemented by the Landi Renzo Group. Significant costs 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 office on via dell'Industria. In 2018 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 on via Nobel produced **777.28 GJ** and the plant on via dell'Industria **810 GJ**. The substantial increase in energy production on via dell'Industria was possible due to the repair of an inverter at the plant.

This made it possible to prevent **CO_2** emissions equivalent to **124.86 tonnes of CO_2e**.

Emissions of volatile organic compounds (VOCs) due to manufacturing extraction systems at Landi Renzo S.p.A. 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. Emissions of these substances rose for the via dell'Industria plants, as test results depend on plant production levels when tests are carried out. Please also note that the via Nobel plant has not emitted volatile organic compounds since 2018.

Other emissions into the atmosphere

OTHER EMISSIONS INTO THE ATMOSPHERE (kg)	2016	2017	2018
NOx*	344	155	93
SOx*	34	16	10
VOCs (Volatile Organic Compounds)**	195	247	115

* The 2017 figure excludes Landi Renzo Polska Sp.Zo.O., AEB America S.p.A., L.R. Pak (Pvt) Limited, Beijing Landi Renzo Autogas System Co. Ltd. The figure for 2018 includes Landi Renzo USA Corporation and Landi Renzo RO Srl as the data of the other companies are unavailable.The figure relating to the company Landi Renzo Pars Private Joint Stock Company was estimated on the basis of historical data.
** The figure includes the plants on Via Nobel and Via dell'Industria for the Company Landi Renzo S.p.A.
The method used to calculate NOx and SOx emissions from heating systems in m³ of methane consumed overall requires multiplication by the emission limit stipulated by legislation (350 mg/m³ for NOx and 35 mg/m³ for SOx) 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 8 working hours *220 working days in a year/1000.

NOx and SOx emissions decreased due to lower methane consumption.
As regards F-gas mixtures, contained only in the air cooling plants, in 2018 emissions totalled 75,58 tons CO_2e due primarily to damage in the air conditioning system and maintenance. Refrigerant gases have always been recovered when old plants are decommissioned. Thanks to more careful plant maintenance, in 2018 there was less damage and as a result fewer gas emissions.

Emissions of ozone-depleting substances

EMISSIONS of ODSs (tons CO2e)*	2016	2017	2018
F-gas mixtures (HFC)	251.23	581.04	75.58

*The figure includes the plants on Via Nobel and Via dell'Industria for the Company Landi Renzo S.p.A.
The method used to calculate the emissions is based on data entered in plant logbooks.

Water

The idea underpinning the Company's environmental policy is that using water is not just an environmental issue. Water occupies a primary position among the natural resources considered in the Group's policy to contain consumption. This is why it is necessary to manage water resources responsibly. The meters are read every month on the two Landi Renzo S.p.A. plants in order to identify any anomalous consumption due to breakdowns or defects and promptly take the appropriate corrective actions. With a view to continuous improvement, in 2019 controls will also be carried out on Lovato Gas.
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. The consumption of water for production processes is 6,556 m³ (roughly 26% of total water consumption). 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 (m³)	2016	2017	2018
ITALIAN COMPANIES			
Water supply*	10,143	15,535	13,392
Groundwater for irrigation	2,958	3,315	4,934
Total water collected	**13,101**	**18,850**	**18,326**
FOREIGN COMPANIES*			
Water supply	5,865	26,301	7,809
Groundwater for irrigation	-	-	-
Total water collected	**5,865**	**26,301**	**7,809**
WATER CONSUMPTION (m³)	**2016**	**2017**	**2018**
Total water consumption	**18,966**	**45,151**	**26,135**

* The figure for 2018 includes uses of water from the network relating to the Company Landi Renzo and AVL (Landi Renzo civ.2/4/6, 3,034 m³ - AVL civ. 6, 6.486 m³). For the details on the breakdown, refer to the text. The figure for 2018 includes Landi Renzo Polska Sp.Zo.O., L.R. Pak (Pvt) Limited, Landi Renzo USA Corporation and Landi Renzo RO Srl as the data of the other companies are unavailable.The figure relating to the company Landi Renzo Pars Private Joint Stock Company was estimated on the basis of historical data.

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 for 2018 relating to water network consumption for the Italian companies includes Landi Renzo and AVL. In particular, water resource consumption at via Nobel number 6 (Research and Development Centre) is 8,111 m³. The following calculation procedure was defined to break down consumption between Landi Renzo and AVL number 6: a lump-sum amount of 40 m³ per month for Landi Renzo was established, to which 15% of total residual consumption is added.

In the last two years, the overall trend of groundwater use was basically constant. In particular, in 2018 consumption from the water network declined and uses of groundwater supplies rose.

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. has 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 2018 was equivalent to 385 tonnes, with 93% (359 tonnes) of this classed as non-hazardous and only 7% (26 tonnes) classified as hazardous, all intended for recovery and recycling, at times also using outsourcers.

WASTE PRODUCED (tonnes)	2016	2017	2018
ITALIAN COMPANIES			
Total waste produced	239	200	149
FOREIGN COMPANIES*			
Total waste produced	137	138	236

* The figures for 2017 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 figure for 2018 includes Landi Renzo Polska Sp.Zo.O., Landi Renzo RO srl and Landi Renzo USA Corporation as the information relating to the other companies is unavailable.The figure relating to the company Landi Renzo Pars Private Joint Stock Company was estimated on the basis of historical data.
The method used for the calculation involves gathering data from waste logs and disposal forms.

Total waste produced

The change in waste generated in the last three years should be interpreted especially in light of the fact that in 2018 were included data of foreign companies not present in previous years, motivating the increase in the quantity represented.

Waste disposed of by type

WASTE DISPOSED OF BY TYPE (tonnes)	2016	2017	2018
ITALIAN COMPANIES			
Total waste disposed of	**242**	**198**	**149**
amount disposed of/treated	*21*	*13*	*3*
Non-hazardous	11	4	2
Hazardous	11	9	1
amount recovered/recycled	*221*	*185*	*146*
Non-hazardous	214	173	146
Hazardous	7	12	0.3
FOREIGN COMPANIES*			
Total waste disposed of	137	138	236*

*The waste of the company Landi Renzo Polska Sp.Zo.O. is considered non-hazardous and is managed by an outsourcer. The waste of Landi Renzo USA Corporation is considered non-hazardous; 5 tonnes is recovered while 22 tonnes are managed by external companies which handle municipal waste.
In 2017, the difference between total waste disposed of compared with waste produced was due to the disposal of some waste produced by Eighteen Sound S.r.l. in 2018.The figure for 2018 includes Landi Renzo Polska Sp.Zo.O., Landi Renzo USA Corporation and Landi Renzo RO Srl as the data of the other companies are unavailable.The figure relating to the company Landi Renzo Pars Private Joint Stock Company was estimated on the basis of historical data.

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

The Italian companies in the Landi Renzo Group monitored noise emissions through specific sound measurements to assess noise levels 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. 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.

Further investigations are conducted when there are substantial changes in manufacturing, so as to identify and analyse the acoustic impact of the new production method.
Indeed, in the course of 2018 following an improvement in the noise emissions of the cooling systems, Landi Renzo S.p.A. carried out new sound measurements. Specifically, Landi Renzo soundproofed the cooling systems to enable AVL to conduct testing activities in the test rooms at night as well (from 10:00 p.m. to 5:00 a.m.). The objective of the improvement was to ensure compliance with the soundproofing limits specified by the municipality of Cavriago. Specifically, the municipality of Cavriago requires class III compliance with absolute limits of 60 dBA in the daytime and 50 dBA at night. This intervention ensured compliance with the limits imposed, with a residual environmental noise level of 53.3 dBA in the daytime and 43.7 dBA at night.

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 - Physical Agents of Italian 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.

GRI Content Index – Core Option

GRI 2016 GRI Standards	KPI description	Notes year 2018	References
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102-2	Activities, brands, products, and services		50-55
102-3	Location of the organisation's headquarters		Annual Financial Report (contact information)
102-4	Number of countries where the organisation operates		Annual Financial Report (Landi Renzo worldwide)
102-5	Nature of ownership and legal form		Annual Financial Report Corporate structure
102-6	Markets served (including the geographic locations, sectors, type of customers and beneficiaries)		Annual Financial Report (Landi Renzo worldwide)
102-7	Scale of the organisation		Annual Financial Report (Landi Renzo worldwide - Balance Sheet)
102-8	Employees by contract type, gender and geographical area	The information relating to temporary personnel, other contract types and the number of contracts transformed to permanent is not available for Brazil.	71-73;77
102-9	Description of the supply chain	Information not available for China, Argentina, Iran and USA	102-103
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102-13	Memberships maintained at the organisational level in associations or organisations in which it holds a position on the governance body, participates in projects or committees, provides substantive funding beyond routine membership dues.		106-108
102-14	Statement from senior decision-maker concerning the importance of sustainability for the organisation and its strategy		45 (Letter to the stakeholders)
102-15	A description of key risks and how they are managed, deriving from the business, its products, services or trade relationships including, when relevant, the supply and sub-contracting chains.		62-64
102-16	Values, principles, standards and norms of behaviour within the company		65-66
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102-22	Composition of the highest governance body and its committees (age, gender, membership of under-represented social groups and any other diversity indicators)		Annual Financial Report (Company Bodies)
102-24	Nomination and selection processes and criteria for the highest governance body and its committees (in terms of professional background, qualifications and expertise)		66-67

102-35	Description of remuneration policies		66; 84-85
102-40	List of stakeholder groups engaged by the organisation		57-59
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102-43	Approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group		57-61; 90-91; 99-102; 102-104; 106-109; 109-110
102-44	Key topics and concerns that have been raised through stakeholder engagement and how the organisation has responded to those key topics and concerns, including through its reporting		57-61; 90-91; 99-102; 102-104; 106-109; 109-110
102-45	List of all entities included in the organisation's consolidated financial statements or equivalent documents and whether any entity is not covered by the report		43-44 (Methodological note); Annual Financial Report
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102-47	List of the material topics identified in the process for defining report content		57-61
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102-49	Significant changes (in terms of objective, scope or measurement methods) from previous reporting periods		43-44 (Methodological note)
102-50	Reporting period		43-44 (Methodological note)
102-51	Date of most recent report		43-44 (Methodological note)
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202-1	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation	Information not available for Brazil and Pakistan.	85-86
103-1; 103-2; 103-3	Management Approach *Boosting local suppliers*		102-105
204-1	Proportion of spending on local suppliers in relation to the most significant operating offices	Information not available for China, Argentina, Iran and USA	104
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302-1	Energy and heat consumption for the operation of the offices and structures broken down between renewable/non-renewable and consumption of fuel by company cars	The information relating to the consumption of methane for heating excludes Poland, Argentina, Pakistan, China and Brazil.	114-115

		The information relating to the consumption of fuel excludes the USA, Argentina, Pakistan and Brazil. The information relating to energy consumption excludes Argentina and Brazil	
303-1	Water withdrawn for the offices and structures	This information excludes China, Argentina and Brazil.	119
305-1	Emissions generated by fuel consumption for the functioning of the offices and structures and by fuel for the company car fleet (scope 1)	The information on emissions from the consumption of methane for heating excludes Poland, Argentina, Pakistan, China and Brazil. The information on emissions from the consumption of fuel excludes the USA, Argentina, Pakistan and Brazil.	116-117
305-2	Emissions generated by energy and heat consumption for the operation of the offices and structures (scope 2)	This information excludes Argentina and Brazil.	117
305-4	GHG emissions intensity, calculated by analysing emissions generated with respect to an indicative organisation-specific metric	What is specified in the note for KPI 305-1 and 305-2 applies.	116
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307-1	Monetary value of significant fines and number of non-monetary sanctions for non-compliance with environmental laws and/or regulations	Information not available for the Iranian company	113
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Independent Auditor's report on the consolidated non-financial statement

pursuant to article 3, paragraph 10, of Legislative Decree No. 254/2016 and article 5 of CONSOB Regulation No. 20267 of January 2018

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 "Group" or "Landi Renzo Group") for the year ended 31 December 2018, in accordance with article 4 of the Decree, included in specific section of Management report and approved by the Board of Directors on 14 March 2019 (hereafter the "NFS").

Responsibility of Management and those charged with Governance for the NFS

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

Directors are responsible, in the terms prescribed by law, for such internal control they deem to be 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, performance, 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 are 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 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

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 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. understanding of the following matters:
   - business and organisational model of the Group, with reference to the management of the matters specified by article 3 of the Decree;
   - policies adopted by the 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 4 a) below.

4. 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 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 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, Lovato Gas SpA and Landi Renzo Polska S.p.Z.o.o, 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 walk through procedures 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 2018 has not been prepared, in all material respects, in compliance with articles 3 and 4 of the Decree and with the GRI Standards.

Parma, 29 March 2019

PricewaterhouseCoopers SpA

Signed by

Nicola Madureri
(Partner)

Signed by

Paolo Bersani
(Authorised signatory)

This report has been translated from the original, which was issued in Italian, solely for the convenience of international readers. We have not performed any verification procedures on the English translation of the NFS of Landi Renzo Group as of 31 December 2018.

Significant events after the reporting period and business outlook

At the end of financial year and to date, we note:

- On 6 February 2019, the subsidiary Landi Renzo Brasil entered into an exclusive partnership agreement with Uber, a company which directly connects passengers and drivers at global level. The agreement calls for the conversion of personal cars owned by Uber's partner drivers to CNG throughout Brazil, using the solutions offered by Landi Renzo. Based on the partnership between Landi Renzo and Uber, Uber drivers throughout the South American country will be offered the chance to have Landi Renzo gas fuelled systems installed in their vehicles. In addition, Landi Renzo authorised garages will provide after sales support services. Under this partnership, Uber will also offer its Brazilian partner drivers a special line of credit to purchase and install Landi Renzo CNG systems.

- On 28 February 2019, Landi Renzo and Krishna Landi Renzo, the Landi Renzo Group's Indian joint venture, entered into an exclusive collaboration agreement with Ford India. Under the agreement, Landi Renzo will manufacture and install its solutions for the CNG version of the new Ford Aspire, also providing after sales support through its local authorised garages. The number of vehicles subject to the supply agreement is around 2,000 per year, for a duration of roughly 5 years.

<u>Business outlook</u>

Considering the progress of the reference market and the order book, this year the Group is expecting growth in revenue, which will reach between Euro 185 million and Euro 190 million, with an adjusted EBITDA margin of roughly Euro 27 million.

The proceeds from the joint venture of the Gas Distribution and Compressed Natural Gas division (consolidated with the equity method) are expected to be between Euro 65 million and Euro 67 million with an adjusted EBITDA margin of roughly Euro 8 million.

Chief Executive Officer
Cristiano Musi

Contact details

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Tax Code and VAT Reg. No. IT00523300358

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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 2018

Date of approval of the Report: 14 March 2019

CONTENTS

GLOSSARY

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

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

Borsa Italiana: Borsa Italiana S.p.A.

Civil Code: the Italian Civil Code.

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.

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

Period: the financial period covered by the Report, i.e. the financial year ended on 31 December 2018.

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: this 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 July 2018 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 Issuer falls within the definition of small and medium-sized businesses (PMIs) under Article 1(1)(w)-*quater*.1 of the Consolidated Finance Act and Article 2-*ter* of the Issuers' Regulations, having recorded in 2017 an average market capitalisation of Euro 100,307,968 and a turnover of Euro 206,294,000 as of 31 December 2017.

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 2018

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 Article123-*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, 30 March 2017 and, most recently, on 28 December 2018. In particular, on 30 March 2017, 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 28 December 2018, the Bondholders' Meeting approved to postpone from 31 December 2018 to 31 December 2019 the deadline by which propose to the Shareholders' Meeting the approval of the capital increase envisaged by the terms and conditions of the bonds.

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	68.709
	Gireimm S.r.l.	4.4444	5.5866
Aerius Investment Holding AG	Aerius Investment Holding AG	8.3556	5.2514

(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, respectively, on 8 January 2018 and on 7 September 2018, in relation to additional 700 ordinary shares of Landi Renzo and 5,000 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 179,000,830.00 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. (later merged by absorption into Landi Renzo effective as from 30 October 2018), 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) Mr Stefano Landi, Mrs Giovannina Domenichini and Mrs 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% 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) Mr 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 24 April 2018, after it revoked the resolution it had approved on 28 April 2017 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 in portfolio, possibly 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 14 March 2019 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.

The members of the Board of Directors 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 Aerius 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, Independent 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 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.

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.

Therefore, as of the date of this Report, the Board of Directors of the Company has eight members.

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 of the less represented gender are one-third of the members of the Board of Directors.

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

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

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. In December 2016, he was elected as general manager (*direttore generale*) of Landi Renzo and remained in charge until April 2017, when he was appointed Managing Director. At present, he is also Director of Dulevo International S.p.A., Sole Director of Lovato Gas S.p.A. and Managing Director of Safe S.p.A. and of Safe&Cec S.r.l.

Stefano Landi. 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 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 Safe 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. Self-employed since 2016, she is involved in projects in the field of 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 holds the office of Statutory Auditor of

Leonardo S.p.A., Chairman of the Board of Statutory Auditors of Arnoldo Mondadori Editore S.p.A., member of the Supervisory Board of Abbot Medical Italia S.p.A., BT Enìa Telecomunicazioni S.p.A., Philips S.p.A. and Philips Innovations S.p.A. (already Philips SAECO S.p.A.), and 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. Since July 2018 he has been appointed non-executive independent director of Vimi Fasteners S.p.A., a company listed on the multilateral negotiation system AIM Italia/Mercato Alternativo del Capitale.

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 Elbogross SA Boards of Directors in Zurich. He is also a Director of Sentis Capital PCC and Mira SA.

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

To be noted that, as to diversity policies pursuant to Article 123-*bis*, paragraph 2(d-*bis*) of the Consolidated Finance Act, on 14 March 2019 – also considering that the term of office of the members of the Board of Directors is set to expiry upon approval of the financial statements for the year ended on 31 December 2018 – the Board of Directors of the Company has approved a diversity policy applicable to the Board of Directors, which includes the following principles:

- gender diversity within the Board of Directors must be consistent with the applicable regulations and therefore must ensure that at least one third of the members are members of the less represented gender;
- each member must meet the requirements of good character under Decree of the Ministry of Justice no. 162 of 30 March 2000, and Article 148(4) of the Consolidated Finance Act, as incorporated by reference in Article 147-*quinquies* of the Consolidated Finance Act;

- at least one of the members of the Board of Directors, or at least two if the Board of Directors has more than seven members (or any such other minimum number provided for by applicable law), must meet the independence requirements under Article 148(3) of the Consolidated Finance Act and Article 3 of the Self-Regulatory Code;
- executive directors cannot serve in office as (a) an executive director of another listed company, whether Italian or foreign, bank or financial company, or (b) non-executive director or statutory auditor (or member of another supervisory body) in more than three of the foregoing companies;
- in addition to the office held in the Company, a non-executive director cannot hold office: (a) as executive director of another listed company, whether Italian or foreign, bank or financial company and non-executive director or statutory auditor (or member of another supervisory body) in more than three of the foregoing companies, or (b) as non-executive director or statutory auditor in more than six of the foregoing companies;
- each member must not have any of the reasons for ineligibility, incompatibility or expiry, under Article 14 of the Company by-laws and the applicable provisions of law, including Article 17(5) of Legislative Decree no. 39 of 27 January 2010 on legal audit; and
- to ensure a plurality of approaches and views, as well as an adequate degree of efficiency when analysing the items and subject matters on the agenda, the members should have an adequate degree of diversity and heterogeneity in terms of age, skills and experience; professionals who are sufficiently familiar with the peculiar issues affecting listed companies and international groups as well as of professionals who have a strong connection to the industrial sector in which the Company operates should be favoured to the extent possible.

Moreover, in the context of the re-appointment of the members of the corporate bodies, on 14 March 2019, the outgoing Board of Directors issued guidance as the types of professional that would be suitable as members of the Board of Directors consistently with the recommendations under application criterion 1.C.1(h), of the Self-Regulatory Code.

The Company believes that fostering gender parity and offering equal opportunities is one of the key components of the corporate structure and, to such end, it will evaluate whether in 2019 it should adopt specific measures aiming to further coordinate such components.

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 2018.

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
	Safe S.p.A.	Director
	Safe&Cec S.r.l.	Director
	Società Agricola BIOGUSS S.r.l.	Chairman of the Board of Directors
	Società Agricola C.E.D.R.O – Centro Energie da Rinnovabili S.r.l.	Chairman of the Board of Directors
	Pallacanestro Reggiana S.r.l.	Director
	Vivaticket S.p.A.	Director
	Fondazione Museo Antonio Ligabue	Director
	Landi International BV	Sole Director
	IMW Industries Ltd	Director
Cristiano Musi	Lovato Gas S.p.A.	Sole Director
	Safe S.p.A.	Managing Director
	Safe&Cec S.r.l.	Managing Director

	Duelvo International S.p.A.	Director
	Gruppo Ceramiche Ricchetti S.p.A.	Director
	Landi Renzo Polska	Director
	Landi Renzo PAK	Director
	Landi Renzo Beijing	Director
	IMW Industries Ltd	Managing Director
Silvia Landi	Girefin S.p.A.	Director
Anton Karl	Elbograss SA	Director
	Sentis Capital PCC	Director
	Aerius Holding AG, Zug	Director
	Mira SA	Director
Sara Fornasiero	Leonardo S.p.A.	Statutory Auditor
	Arnoldo Mondadori Editore S.p.A.	Chairman of the Board of Statutory Auditors
	Safe S.p.A.	Member of the Supervisory Board
	Abbott Medical Italia S.p.A.	Member of the Supervisory Board
	BT Enìa Telecomunicazioni S.p.A.	Member of the Supervisory Board
	Philips S.p.A.	Member of the Supervisory Board
	Philips Innovations S.p.A.	Member of the Supervisory Board
Ivano Accorsi	Vimi Fasteners S.p.A.	Director

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, 14 November 2017 and most recently on 13 November 2018:

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.

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. During the Period, although no specific induction training sessions have been held, updates and clarifications were provided during the Board of Directors' meetings on the business sector in which the Issuer operates and on the applicable regulations, where considered worthy of further elaboration by the Board of Directors.

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, pursing 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; and

(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 seven meetings, each lasting approximately 81 minutes on average, generally attended by all directors; indeed, the overall attendance was equal to 86%. 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 five meetings where Eleonora Briolini was excused absent, two meetings where Diana Rizzo was excused absent and one meeting where Domenico Sardano was excused absent.

At least five meetings are scheduled for the current financial period, of which one was held on 14 March 2019.

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 13 November 2018, 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. To this end, starting from 2018, the Board of Directors of the Issuer asked all the Directors in office to complete a questionnaire to evaluate the functioning and efficiency of the Board of Directors and of the Committees, as well as their size and composition.

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 and risk management system 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 identified Lovato Gas S.p.A. and Landi Renzo Polska Sp.Zo.o as strategically relevant companies.

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 15 March 2018, 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 met one time 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

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 13 November 2018.

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 three announcements 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 Iori, Non-Executive Director. Ivano Accorsi, Sara Fornasiero and Angelo Iori 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, four meetings of the Remuneration Committee were held, each lasting on average 45 minutes. During the Period, Ivano Accorsi, Sara Fornasiero and Angelo Iori attended 100% of the meetings. Three of the meetings were attended, without the right to vote, by Cristiano Musi, in his capacity as Managing Director, and one meeting was attended, without the right to vote, by Stefano Landi, in his capacity as the Chairman of the Board of Directors of the Company.

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 three meetings of the Remuneration Committee are planned for the current year, of which one was already held on 11 March 2019. 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 or express opinions 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 and the setting of performance goals related to the variable component of said remuneration; it also periodically appraises the criteria adopted for the remuneration of key executives, supervising their application and making general recommendations on the matter and monitors the application of the decisions adopted by the Board of Directors, verifying, in particular, the actual achievement of the performance goals.

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.

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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)

Except as disclosed in the report on remuneration published pursuant to Article 123-*ter* 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)

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.

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 Iori, Non-Executive Director. Sara Fornasiero, Ivano Accorsi and Angelo Iori have suitable knowledge of and experience in accounting and financial matters, as well as of a commercial and operational nature to enable them to have an organic view of the corporate risks.

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, nine meetings of the Audit and Risk Committee were held, lasting on average 120 minutes each. During the Period, Sara Fornasiero, Ivano Accorsi and Angelo Iori took part to 100% of the meetings. Two meetings were attended, in an advisory capacity and without the right to vote, by Cristiano Musi, as Managing Director and executive director in charge of supervising the internal audit system and risk management and Paolo Cilloni, as Chief Financial Officer and executive in charge of preparing the Financial Statements of the Company in accordance with Italian Law 262/2005. In addition, some meetings were attended, in an advisory capacity and without the right to vote, by Mr Filippo Alliney, as head of internal audit, and by Fiorenzo Oliva, in his capacity as consultant to the Company. Moreover, the following persons attended meetings as representatives of the auditing firm, in an advisory capacity and without the right to vote: (i) Mr Massimo Rota, Mr Stefano Ferro, and Mrs Sara Balducci attended one meeting, (ii) Mr Nicola Madureri attended two meetings and (iii) Mr Giuseppe Ermocida attended three meetings. 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 11 March 2019 and 14 March 2019. 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

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 2018;

– the non-binding opinion to the Board of Directors on the appointment of the head of Internal Audit;

– periodic reports and the working plan prepared by the head of Internal Audit;

– periodic meetings with the auditing firm and the Board of Statutory Auditors;

– compliance with the Privacy Regulation (EU) 2016/679 (GDPR);

– updates of the main projects of the Group relating to regulatory and legislative compliance and accounting matters;

- 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;
- the digitisation project of the documentation for the Board of Directors;
- reports on activities prepared by the Director in charge of the internal audit and risk management system;
- the issuance of the procedure for the conferral of mandates to the auditing firms;
- assessment of the adequacy of the internal audit and corporate risk management system;
- resolutions of the bondholders' meeting held on 28 December 2018; and
- 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.

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, of the Italian Criminal Code). 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;

- Internal Audit function – The Landi Renzo group possesses an internal audit function with the scope of assessing, through continuous monitoring of the corporate risks, the soundness of the internal control system.

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, confidentiality and safeguard data, and the correct utilisation of the system by users.

- 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 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 which is made up of the Manuals of administrative procedures pursuant to Italian Law 262/2005 (hereinafter, the "**Manuals**") that formalise the role of process owners.

- 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 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 mapping, 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.

During the preparation of the latest audit plan by the internal Audit Function for the three-year period 2019-2021, the risks connected to the performance of the main corporate processes 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 mapping, 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.

11.2 HEAD OF THE INTERNAL AUDIT FUNCTION

The Board of Directors, in the meeting of 20 June 2018 – upon proposal of the executive Director in charge of supervising the functioning of the internal audit system, having received the preliminary favourable opinion of the Audit and Risk Committee and having heard the Board of Statutory Auditors – appointed Mr Filippo Alliney (of counsel of Andersen Tax&Legal since 2017) as the Internal Audit Manager, stating that Mr Alliney is not responsible for any area of operations and is not hierarchically under any operations area manager, including the Administration, Finance and Control department.

Mr Filippo Alliney satisfies the requirements of professionalism, independence and organization and lacks any corporate relationships with the Issuer.

The Issuer has decided to appoint Mr Filippo Alliney as Internal Audit Manager also in light of the resignation of Mr Enrico Gardani (who has decided to pursue other professional opportunities), as well as to ensure greater independence, autonomy and professionalism and a wider confrontation with the market's best practices.

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 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 activities of the head of the Internal Audit function, consistently with the three-year Landi Renzo group's audit plan approved by the Board of Directors on 13 November 2018 are aimed, through the audits and the participation in the company's activities, to express an assessment of the soundness of the internal control system.

The nature and purpose of the Internal Audit function is to verify that the internal control system is effective in limiting corporate risks. In this scenario, the Internal Audit function's objective is twofold: on the one hand, of a formal nature, to ensure that market best practices are respected, to guarantee an adequate flow of information to the corporate bodies and confrontation with other control functions, and, on the other hand, of a substantive nature, through verifications, also through testing activities, on the audits existing within the corporate processes (assurance) or by the adequate management of development/operational adjustment projects (control design).

In carrying out the activities provided for in the audit plan, the Internal Audit function will comply with the market practices referred to in the Regulations approved by the Board of Directors, interacting constructively with the stakeholders of the processes or of the activities under review.

The selection of the areas subject to verification took place through a process of risk analysis and assessment (risk mapping) involving the audit bodies (*i.e.* the Internal Audit and Risk Committee and the Supervisory Body) and the Issuer's management. However, the continuous interaction with the corporate bodies and structures allows that the risk assessment becomes subject to continuous updates and, consequently and with the same resources, the audit plan may be subject to adjustments.

Coverage of all corporate risks (audit cycle) requires the preparation of an audit plan with a three-year horizon. The allocation of the audits within the three-year period has been established taking into account the greater or lesser relevance of the risk. The three-year plan will in any case be subject to annual review in relation to the evolution of the company structure and the related risks.

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 the three-year 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, with variable frequency, 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 Jean-Paule Castagno, as chairman, Sara Fornasiero and Domenico Sardano, 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 Modal 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 Criminal 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 five 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, 2 meetings of the Committee for Related Party Transactions were held, on 18 June 2018, and 28 December 2018. The first of the meetings was attended, without the right to vote, by Paolo Cilloni, in his capacity as the Company's Chief Financial Officer. The second meeting was attended, without the right to vote, by Cristiano Musi, in his capacity of Managing Director and by Stefano Landi, in his capacity of Chairman of the Board of Directors of 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.

Members of the less represented gender constitute a third of the standing members and of the alternate members of the Board of Statutory Auditors.

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
Eleonora Briolini	Chairman of the Board of Auditors	29 April 2016	83%
Diana Rizzo	Statutory Auditor	29 April 2016	92%
Domenico Sardano	Statutory Auditor	17 October 2017	83%
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 *Studio Legale Associato* 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 35 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 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 also worked with a number of private equity funds. In particular, since 2002 he has developed his professional activity also in the field of structuring private equity and venture capital transactions both by collaborating with some private equity funds, including foreign ones, and by intervening in corporate transactions in the design and/or structuring of private equity and venture capital transactions and more generally of M&A. From 2013 to 2016 he held office as a member of the Council of the Board of Chartered Accountants of Genova. Moreover, Mr. Sardano currently holds office of Statutory Auditor in several industrial companies.

Andrea Angelillis. Graduated in Law at the Luiss University in Rome, he continued his studies at the *Universitè 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 *Studio Legale Associato* 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.

As to diversity policies pursuant to Article 123-*bis*, paragraph 2(d-*bis*) of the Consolidated Finance Act, on 14 March 2019 – also considering that the term of office of the members of the Board of Statutory Auditors is set to expiry upon approval of the financial statements as at 31 December 2018 – the Board of Directors of the Company has approved a diversity policy applicable to the Board of Statutory Auditors, which includes the following principles:

- each member must meet the requirements of good character and professionalism under Decree of the Ministry of Justice no. 162 of 30 March 2000, and Article 148(4) of the Consolidated Finance Act, as well as the independence requirements under Article 148(3) of the Consolidated Finance Act and Article 3 of the Self-Regulatory Code, recalled by Article 8 of the same Self-Regulatory Code and must not hold office as a member of the supervisory body in more than five listed issuers or widely-held issuers, or hold office as a member of a management or supervisory body in joint stock companies, general partnerships or limited liability companies beyond the maximum limit, equal to six points calculated in accordance with the provisions of Schedule 5-*bis*, Table 1, of the Issuers' Regulations;
- each member must not have any of the reasons for ineligibility, incompatibility or expiry, under Article 22 of the Company by-laws and the applicable provisions of law, including Article 17(5) of Legislative Decree no. 39 of 27 January 2010 on legal audit;
- gender diversity within the Board of the Statutory Auditors must be consistent with the applicable regulations and therefore must ensure that at least one third of the members are members of the less represented gender;
- to ensure a plurality of approaches and views, as well as an adequate degree of efficiency when analyzing the items and subject matters on the agenda, the members should have an adequate degree of diversity and heterogeneity in terms of age, skills and experience, and the presence of professionals who are sufficiently familiar with the peculiar issues affecting listed companies and international groups as well as of professionals who have a strong connection to the industrial sector in which the Company operates should be favoured to the extent possible.

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 2018 (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. Vi.Be.Mac. S.p.A.	Statutory Auditor Statutory Auditor

	Finver S.p.A.	Chairman of the Board of Auditors
Diana Rizzo	Unicom S.r.l.	Chairman of Board of Statutory Auditors
	Autin S.p.A.	Alternate Auditor
	BPER Banca S.p.A.	Statutory Auditor
	Fin Twin S.p.A.	Alternate Auditor
	Finfloor S.p.A.	Alternate Auditor
	Florim Ceramiche S.p.A. with sole shareholder	Alternate Auditor
	Caolino Panciera S.p.A.	Statutory Auditor
	Kerakoll S.p.A.	Chairman of Board of Statutory Auditors
	Ceramiche Speranza S.p.A.	Statutory Auditor Statutory Auditor
	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
	PLT Wind S.p.A.	Statutory Auditor
	Finferel S.p.A.	Chairman of Board of Statutory Auditors
Domenico Sardano	Finoil S.p.A.	Statutory Auditor
	Iplom 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
	Madonnina S.p.A. per l'Edilizia e l'Agricoltura	Statutory Auditor
	Safe S.p.A.	Statutory Auditor
	Safe & Cec S.r.l.	Statutory Auditor
	Lovato Gas S.p.A.	Statutory Auditor
Filomena Napolitano	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
	I Girasoli S.r.l.	Member of the Supervisory Board
	Welfare Italia S.p.A.	Member of the Supervisory Board
	Par. co. S.p.A.	Member of the Supervisory Board
	Carpenfer S.p.A.	Statutory Auditor
	Cooperativa sociale Il Bettolino	Chairman of the Board of Auditors

Twelve meetings of the Board of Statutory Auditors were held during the Period, lasting in average 148 minutes each. At least six meetings of the Board of Auditors are planned for the current year, of which one was already held on 11 March 2019. 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.

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 Paolo Cilloni (Chief Financial Officer of the Group) 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, five 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

No changes to the structure of corporate governance of the Company have been made since the closing of the Period.

19. CONSIDERATIONS ON THE LETTER DATED 21 DECEMBER 2018 FROM THE PRESIDENT OF THE CORPORATE GOVERNANCE COMMITTEE

The recommendations set out in the letter sent on 21 December 2018 by the President of the Corporate Governance Committee were submitted to the attention of the Board of Directors on 14 March 2019 and of the Board of Statutory Auditors on 11 March 2019, as well as to the attention of the Audit and Risk Committee and the Remuneration Committee, for those matters for which each is respectively responsible.

In relation to the first area of improvement identified in the letter and relating to the information being made available before meetings, the Board of Directors found that the documents and information necessary to discuss and vote on the items on the agenda for the meetings of the Board of Directors are provided in due time before the date of the meetings (also taking into account the possible need for urgency in relation to certain matters). In this respect, it is to be noted that pre-board information has been made easier by the adoption of an IT platform, access to which is reserved exclusively to members of the Board of Directors and the Board of Statutory Auditors. The Board of Directors therefore found that the procedures currently adopted are suitable to ensure that pre-board information is duly complete and easy to use, as can be inferred also by the result of the self-evaluation questionnaire completed by the Directors.

In relation to the second area of improvement identified in the above letter, it shall be noted that the Board of Directors and the Board of Statutory Auditors assess whether the independent Directors meet the independence requirements at the earliest opportunity after their appointment, and subsequently assess, the continued existence of the independence requirements at least once a year. For the purposes of assessing independence, the Company has not disapplied any of the criteria provided for in the Self-Regulatory Code.

In relation to the third area of improvement identified in the letter, relating to the board review process, as from 2018 each Director has been required to complete a questionnaire aiming to evaluating the functioning and efficiency of the Board of the Directors and of the Committees, as well as their size and composition. The observations resulting from the completion of this questionnaire were brought to the attention of the Board of Directors on 14 March 2019 by the Managing Director, called upon to supervise the board review process so as to ensure its effectiveness.

In relation to the fourth and last recommendation set out in the letter, relating to whether the remuneration policies should give greater weight to the long-term variable components, the Company believes that it already significantly weighs the long-term variable components. More precisely, also to ensure greater consistency with the pursuit of the medium/long-term interests of the Issuer, on 14 March 2019 the Board of Directors of the Company, subject to the favourable opinion of the Remuneration Committee, resolved to submit to the Shareholders' Meeting the adoption, pursuant to Article 114-*bis* of the Consolidated Finance Act, of a performance shares plan for the three-year period 2019-2021 which provides, in the event of the achievement of certain performance objectives, for the free allocation of Landi Renzo ordinary shares under certain terms and conditions. For further details, please refer to the information document relating to the aforesaid plan drawn up pursuant to Article 84-*bis* and Annex 3A of the Issuers' Regulations, which can be consulted on the Company's website at http://www.landirenzogroup.com/it, Investors section.

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	68.709
	Gireimm S.r.l.	4.4444	5.5866
Aerius Investment Holding AG	Aerius Investment Holding AG	8.3556	5.2514

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			43%	2						
Managing Director	Cristiano Musi	1974	Ord. meeting of 28 April 2017		28/04/2017	M	x				100%	9						
Chairman	Stefano Landi	1958	Ord. meeting of 29 April 2016		16/05/2007	M	x				100%	11						
Director	Silvia Landi	1960			16/05/2007	M		x			71%	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	x	71%	4						
Director	Sara Fornasiero	1968			29/04/2016	M		x	x	x	100%	7	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																		

		Ownership required to present a list of candidates at the last election: 2.5%				
		Number of meetings held during the period	BoD: 7	Audit and Risk Cmt: 6	Remun. Cmt: 4	RPT Cmt: 2
		NOTE * This column shows whether member was elected from the majority shareholder list (M) or the minority shareholder list (m). ** 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). *** 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. **** This column shows with an "X" which Director is a member of this Committee.				

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	83%	3
Statutory Auditor	Diana Rizzo	1959			29/04/2016	M	x	92%	14
Statutory Auditor	Domenico Sardano	1970	17 October 2017		17/10/2017	M	x	83%	8
Alternate Auditor	Filomena Napolitano	1970	Ordinary meeting of 29 April 2016		29/04/2016	M	x	N/A	11
Alternate Auditor	Andrea Angelillis	1977			16/05/2007	Mm	x	N/A	0
AUDITORS WHO CEASED OFFICE DURING REFERENCE PERIOD									
Statutory Auditor									
		Ownership required to present a list of candidates at the last election: 2.5%							
		Number of meetings held during the period: 12							
		NOTE * This column shows whether member was elected from the majority shareholder list (M) or the minority shareholder list (m). ** 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). *** 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.							

Consolidated Financial Statements at 31 december 2018

Landi Renzo Group

Consolidated statement of financial position

Consolidated income statement

Consolidated statement of comprehesive 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	31/12/2018	31/12/2017
Non-current assets			
Land, property, plant, machinery and equipment	2	12,745	14,583
Development expenditure	3	6,932	5,401
Goodwill	4	30,094	30,094
Other intangible assets with finite useful lives	5	14,039	15,769
Equity investments valued using the equity method	6	22,292	24,301
Other non-current financial assets	7	352	428
Other non-current assets	8	3,991	4,560
Deferred tax assets	9	10,538	8,016
Total non-current assets		**100,983**	**103,152**
Current assets			
Trade receivables	10	35,131	29,118
Inventories	11	38,895	36,562
Other receivables and current assets	12	8,016	7,529
Cash and cash equivalents	13	15,075	17,779
Total current assets		**97,117**	**90,988**
TOTAL ASSETS		**198,100**	**194,140**

(Thousands of Euro)

SHAREHOLDERS' EQUITY AND LIABILITIES	Notes	31/12/2018	31/12/2017
Equity			
Share capital	14	11,250	11,250
Other reserves	14	43,931	41,983
Profit (loss) for the period	14	4,671	4,139
Total Equity of the Group		**59,852**	**57,372**
Minority interests	14	-276	-669
TOTAL SHAREHOLDERS' EQUITY		**59,576**	**56,703**
Non-current liabilities			
Non-current bank loans	15	23,055	26,906
Other non-current financial liabilities	16	24,427	29,308
Provisions for risks and charges	17	5,443	11,891
Defined benefit plans for employees	18	1,646	2,446
Deferred tax liabilities	19	339	423
Total non-current liabilities		**54,910**	**70,974**
Current liabilities			
Bank financing and short-term loans	20	16,203	7,741
Other current financial liabilities	21	4,262	2,792
Trade payables	22	55,166	47,829
Tax liabilities	23	2,385	3,003
Other current liabilities	24	5,598	5,098
Total current liabilities		**83,614**	**66,463**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**198,100**	**194,140**

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 Annex 2.

CONSOLIDATED INCOME STATEMENT

(Thousands of Euro)

	Notes	31/12/2018	31/12/2017 (*)
Revenues from sales and services	25	188,079	206,294
Other revenue and income	26	1,482	4,222
Cost of raw materials, consumables and goods and change in inventories	27	-93,092	-100,527
Costs for services and use of third party assets	28	-44,100	-57,307
Personnel costs	29	-28,150	-43,181
Provisions, provision for bad debts and other operating expenses	30	-2,707	-4,802
Gross operating profit		**21,512**	**4,699**
Amortisation, depreciation and impairment	31	-10,243	-16,189
Net operating profit		**11,269**	**-11,490**
Financial income	32	138	91
Financial expenses	33	-4,058	-4,396
Exchange gains (losses)	34	-1,573	-1,873
Income (expenses) from equity investments	35	0	21,134
Income (expenses) from joint ventures valued using net equity method	36	-1,591	8
Profit (loss) before tax		**4,185**	**3,474**
Taxes	37	348	228
Net profit (loss) for the Group and minority interests, including:		**4,533**	**3,702**
Minority interests		-138	-437
Net profit (loss) for the Group		4,671	4,139
Basic earnings (loss) per share (calculated on 112,500,000 shares)	38	0.0415	0.0368
Diluted earnings (loss) per share		0.0415	0.0368

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

(*) The comparative figures were restated in line with the classification set forth in the amendments to IAS 1 applied as of the 2018 financial year

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Thousands of Euro)

	Notes	31/12/2018	31/12/2017
Net profit (loss) for the Group and minority interests:		**4,533**	**3,702**
Gains/losses that will not be subsequently reclassified in the income statement			
Remeasurement of employee defined benefit plans (IAS 19)	18	25	-70
Total gains/losses that will not be subsequently reclassified in the Income Statement		**25**	**-70**
Gains/losses that will be subsequently reclassified in the Income Statement			
Valuation of investments with the net equity method	6	-422	0
Exchange rate differences from conversion of foreign operations	14	-942	-701
Total Gains/losses that will be subsequently reclassified in the Income Statement		**-1,364**	**-701**
Profits/losses recorded directly in Equity after tax effects		**-1,339**	**-771**
Total Consolidated Statement of Comprehensive Income for the period		**3,194**	**2,931**
Profit (loss) for Shareholders of the Parent Company		3,271	3,277
Minority interests		-77	-345

CONSOLIDATED CASH FLOW STATEMENT

(Thousands of Euro)

CONSOLIDATED CASH FLOW STATEMENT	31/12/2018	31/12/2017
Financial flows deriving from operating activities		
Pre-tax profit (loss) for the period	4,185	3,474
Adjustments for:		
Net capital losses from disposal of a business unit	0	1,984
Depreciation of property, plant and equipment	4,752	7,115
Amortisation of intangible assets	5,491	7,090
Loss (Profit) from disposal of tangible and intangible assets	-106	-2,953
Impairment loss on receivables	91	632
Net financial expenses	5,493	6,178
Net income (expenses) from equity investments	1,591	-21,142
	21,497	2,378
Changes in:		
inventories	-2,332	4,310
Trade receivables and other receivables	-5,762	-1,694
Trade payables and other payables	4,225	5,641
Provisions and employee benefits	-7,236	3,036
Cash generated from operations	10,392	13,671
Interest paid	-4,207	-4,195
Interest received	51	55
Income taxes paid	-667	-577
Net cash generated from operating activities	**5,569**	**8,954**
Financial flows from investments		
Proceeds from the sale of property, plant and equipment	110	4,724
Disposal of operations and variations in consolidation area	0	3,948
Increase in capital of subsidiary companies	0	-204
Purchase of property, plant and equipment	-3,128	-2,479
Purchase of intangible assets	-168	-370
Development expenditure	-5,083	-2,300
Net cash absorbed by investment activities	**-8,269**	**3,319**
Free Cash Flow	**-2,700**	**12,273**
Financial flows from financing activities		
Future share capital increase contributions	0	8,867
Bond repayments	-3,674	0
Disbursements (reimbursements) of medium/long-term loans	-3,354	-755
Change in short-term bank debts	7,800	-18,390
Net cash generated (absorbed) by financing activities	**772**	**-10,278**
Net increase (decrease) in cash and cash equivalents	**-1,928**	**1,995**
Cash and cash equivalents as at 1 January	17,779	16,484
Effect of exchange rate fluctuation on cash and cash equivalents	-776	-700
Closing cash and cash equivalents	15,075	17,779

Other information	31/12/2018	31/12/2017
(Increase)/Decrease in trade receivables and other receivables from related parties	-930	323
Increase/(Decrease) in trade payables and other payables to related parties	-844	493

In order to provide better information and for greater conformity with the requirements of IAS 7, slight changes were made to the structure of the cash flow statement, resulting in the restatement of comparative data.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Thousands of Euro)	Share capital	Statutory Reserve	Extraordinary and Other Reserves	Share Premium Reserve	Future share capital increase contribution	Result for the year	Group Equity	Profit (Loss) attributable to minority interests	Capital and reserves attributable to minority interests	Total Equity
Balance 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 overall 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**
Effect of IFRS 9 application			-321				**-321**			**-321**
Balance as at 01 January 2018	**11,250**	**2,250**	**-173**	**30,718**	**8,867**	**4,139**	**57,051**	**-437**	**-232**	**56,382**
Result for the year						4,671	**4,671**	-138		**4,533**
Actuarial profits/losses (IAS 19)			25				**25**			**25**
Translation difference			-1,003				**-1,003**		61	**-942**
Valuation of investments using net equity method			-422				**-422**			**-422**
Total overall profits/losses	**0**	**0**	**-1,400**	**0**	**0**	**4,671**	**3,271**	**-138**	**61**	**3,194**
Other changes			-470				**-470**		470	**0**
Allocation of profit			4,139			-4,139	**0**	437	-437	**0**
Balance as at 31 December 2018	**11,250**	**2,250**	**2,096**	**30,718**	**8,867**	**4,671**	**59,852**	**-138**	**-138**	**59,576**

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018
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), and compressors for fuel stations ("Gas Distribution and Compressed Natural Gas systems" segment) through the joint venture SAFE & CEC S.r.l., consolidated by the Group with the net equity method.
The Group manages all phases of the process that leads to the production and sale of automotive fuel supply systems; it sells to both the main automobile 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.

We inform that the Parent company is not subject to coordination and supervision and that Girefin SpA based in Milan is the company that prepares the consolidated financial statements that includes the figures of Landi Renzo SpA and its subsidiaries. This consolidated financial statement is available at the Milan Business Register.

These financial statements are submitted to auditing carried out by the auditing firm PricewaterhouseCoopers S.p.A.

Significant events in the financial year
The significant events that took place in 2018, which had no effects on the Group's consolidated financial statements, are described below.

Emmegas S.r.l. merger
With accounting and fiscal effects back-dated to 1 January 2018, the subsidiary Emmegas S.r.l. was merged by incorporation into the parent company Landi Renzo S.p.A. in October 2018. This transaction had no effects on the Group's consolidated financial statements.

Amendment to the Debenture Loan Regulations
On 28 December 2018, the Meeting of Bondholders of the "LANDI RENZO 6.10% 2015-2022" loan, ISIN IT0005107237, under the chairmanship of Stefano Landi and in the presence of Notary Giuseppe Chiantera,

unanimously (67.06% of the loan) approved the Board of Directors' proposal regarding amendments to the Debenture Loan Regulations in order to postpone from 31 December 2018 to 31 December 2019 the deadline by which to propose to the Company's shareholders' meeting the approval of the capital increase.
The resolution took effect immediately, as the lending banks had already released their waiver.

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 2018 were approved and authorised for publication by the Board of Directors on 14 March 2019.

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".

Amendments and revised accounting standards applied by the Group for the first time

The accounting standards adopted in preparing the consolidated financial statements at 31 December 2018 are consistent with those adopted for the preparation of the consolidated financial statements in the previous year, with the exception of the adoption of the new accounting standards, amendments, improvements and interpretations applicable as of 1 January 2018 listed below.

EU endorsement regulation	Description
Regulation (EU) 2017/1989	IAS 12 Income taxes – 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 Statement of Cash Flows – 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. In particular, IFRS 9 introduces new criteria for the classification and assessment of financial assets and liabilities, with a new receivables impairment model, based on expected credit losses (ECL) and not on incurred losses as used by the IAS, introducing a new hedge accounting model as well as regulating the effects on financial liabilities subject to renegotiation.
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. The following process is to be followed for the recognition of revenue: 1) Identify the contract(s) with a customer 2) Identify the performance obligation 3) Determine the transaction price 4) Allocate the transaction price to the performance obligations 5) Recognise revenue when (or as) the entity satisfies a performance obligation.

Regulation (EU) 2016/1905	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. The amendment does not apply to the Company.

The accounting principles and modifications to the accounting principles described above, with the exception of IFRS 9, have not had significant effects on the Group's financial statements.

With reference to IFRS 9, the Group determined the effects on the accounts deriving from the application of paragraph B.5.4.6 of the standard, which governs the impact in terms of the amortised cost on financial liabilities deriving from a change in the related financial flow plan, due to both a revised estimate and 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 this paragraph has led to the adjustment of the value of some financial liabilities (convertible bonds and medium and long-term bank loans) renegotiated by the Parent Company during the previous financial years, the effect of which (Euro 422 thousand before tax) was recorded by reducing the equity at 01 January 2018, as permitted by the standard itself.
Application of the Expected Credit Loss ("ECL") methodology to the assessment of trade receivables did not have significant effects on the Group's accounts.

The application of the IFRS 15 accounting standard did not have significant effects on the Group's accounts. It should be noted that management was given support in the analysis of the related effects by a leading international accounting expert.

The table showing the effects of the application of the IFRS 9 standard to the opening balances is reported below.

(Thousands of Euro)

ASSETS	31/12/2017	IFRS 9	01/01/2018
Land, property, plant, machinery and equipment	14,583		14,583
Development expenditure	5,401		5,401
Goodwill	30,094		30,094
Other intangible assets with finite useful lives	15,769		15,769
Equity investments valued using the equity method	24,301		24,301
Other non-current financial assets	428		428
Other non-current assets	4,560		4,560
Deferred tax assets	8,016	101	8,117
Total non-current assets	**103,152**	**101**	**103,253**
Trade receivables	29,118		29,118
Inventories	36,562		36,562
Other receivables and current assets	7,529		7,529
Cash and cash equivalents	17,779		17,779
Total current assets	**90,988**	**0**	**90,988**
TOTAL ASSETS	**194,140**	**101**	**194,241**

SHAREHOLDERS' EQUITY AND LIABILITIES	31/12/2017	IFRS 9	01/01/2018
Share capital	11,250		11,250
Other reserves	41,983	-321	41,662
Profit (loss) for the period	4,139		4,139
Total Equity of the Group	57,372		57,051
Minority interests	-669		-669
TOTAL SHAREHOLDERS' EQUITY	**56,703**	**-321**	**56,382**
Non-current bank loans	26,906		26,906
Other non-current financial liabilities	29,308	422	29,730
Provisions for risks and charges	11,891		11,891
Defined benefit plans for employees	2,446		2,446
Deferred tax liabilities	423		423
Total non-current liabilities	**70,974**	**422**	**71,396**
Bank financing and short-term loans	7,741		7,741
Other current financial liabilities	2,792		2,792
Trade payables	47,829		47,829
Tax liabilities	3,003		3,003
Other current liabilities	5,098		5,098
Total current liabilities	**66,463**	**0**	**66,463**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**194,140**	**101**	**194,241**

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 2019 or thereafter. The Group did not exercise the option to apply them early.

EU endorsement regulation	Description
Regulation (EU) 2017/1986	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. The new standard provides a revised definition of a lease and introduces a criterion based on control (right of use) of an asset in order to distinguish between leasing contracts and service contracts, identifying the following as discriminating factors: the identification of the asset, the right to substitution of the asset, the right to obtain substantially all the economic benefits from that use and the right to direct the use of the asset underlying the contract. The standard establishes a unique leasing contract recognition and assessment model for the lessee, which provides for the entry of the asset that is subject to the lease, including operating, in the assets set-off by a financial debt, with the possibility of not recognising a contract as a lease if the lease term is 12 months or less or the underlying asset to the contract has a low value.
Regulation (EU) 2018/289	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 will come into force on 1 January 2019.
Regulation (EU) 2018/182	The IASB published the Annual Improvements to IFRS Standards 2014-2016 Cycle, amending IFRS 1, IFRS 12 and IAS 28. The amendments will come into force on 1 January 2019.
08 December 2016	IFRIC 22 — Foreign Currency Transactions and Advance Consideration. The interpretation covers foreign currency transactions if an entity recognises a non-monetary asset or liability from the payment or receipt of an advance before the entity recognises 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. The amendments will come into force on 1 January 2019.
08 December 2016	Amendments to IAS 40 regarding transfers of investment property. The amendment covers the following: 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. 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. The amendments will come into force on 1 January 2019.
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 in order to facilitate implementation. The amendments to IFRS 9 Prepayment Features with Negative Compensation aim to allow the measurement at the amortised cost or fair value in the Statement of Comprehensive Income of financial assets characterised by an early repayment option with the so-called "negative compensation". The amendments will come into force on 1 January 2019.
12 October 2017	The IASB published amendments to IAS 28 – Investments in Associates and Joint Ventures to facilitate implementation. 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. The amendments will come into force on 1 January 2019.

With regards to the first time application of IFRS 16, the assessment of the effects of this new international accounting standard on the financial statement is in the final phase. As specified in note 41, at December 31, 2018 the Company has commitments for operating leasing on buildings for 5,065 thousand of Euro of which 1,853 thousand of Euro are planned for 2019, on auto vehicles for Euro 342 thousand, of which Euro 178 thousand due in 2019, and on some machinery and equipment of low value. In 2018 operating lease costs of Euro 2,934 thousand were charged to the income statement.
Please note that at the date on which these financial statements were drafted, negotiations with the related company Gireimm S.r.l. were in an advanced stage for the renegotiation of the lease agreement on the property used as the operating headquarters of Landi Renzo S.p.A., the contractual expiry of which is scheduled for 10 May 2019. This contract, which is highly likely to be renewed, will be subject to the approval of the related parties committee and will entail a significant effect in right of use assets and relative liabilities starting from the second quarter of 2019.

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	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. IFRS 14 allows only entities which adopt IFRS for the first time to continue to recognise rate regulation balances in accordance with the previous accounting standards adopted. To improve comparability with entities that already apply IFRS and do not recognise such balances, the standard requires the effect of rate regulation to be presented separately from other items.
18 May 2017	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, and will come into force on 1 January 2021, but prior application is permitted. This standard is not applicable to the Group.
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.
07 February 2018	The IASB published amendments to IAS 19 – Plan Amendment, Curtailment or Settlement, which clarifies how the costs relating to current labour supply and net interest are determined when there is a change to the defined benefit plan. The amendments are applicable starting from the financial years starting from 1 January 2019. Early application is permitted.
22 October 2018	The IASB published the amendment to IFRS 3 Business Combinations with a view to helping to determine whether a transaction is an acquisition of a business or a group of assets which does not qualify as a business pursuant to IFRS 3. The changes will be applied to acquisitions subsequent to 1 January 2020. However, early application is permitted.
31 October 2018	The IASB published the amendment to IAS 1 and IAS 8 which aims to clarify the definition of "material" to help companies decide whether information needs to be included in the financial statements. The amendments apply as of 1 January 2020. However, early application is permitted.

The Group 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 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 management bodies 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 2018, 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 difference between the purchase cost and the corresponding portion of equity acquired is recognised in the equity attributable to the Group; likewise, the effects arising from the transfer of minority interests with no loss of control are recognised 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 recognised 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.

Intercompany transactions

Profits arising from transactions between companies consolidated on a line-by-line basis, not yet realised 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 realised 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 realised 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 recognised 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) unrealised 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. Unrealised losses are eliminated, except when they represent impairment losses.

(iv) if an associate recognises an adjustment directly in equity, also in this case the Group recognises 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 2018, of which one was not consolidated as it is of minor importance.

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 31/12/2018	Average 2018	At 31/12/2017	Average 2017
Real – Brazil	4.444	4.308	3.973	3.605
Renminbi – China	7.875	7.808	7.804	7.629
Rial - Iran	48,090.000	48,209.878	43,264.000	37,550.600
Rupee - Pakistan	160.115	143.282	132.721	118.991
Zloty – Poland	4.301	4.261	4.177	4.257
Leu - Romania	4.663	4.654	4.659	4.569
Dollar - USA	1.145	1.181	1.199	1.130
Peso - Argentina	43.159	32.909	22.931	18.741
Rupee - India	79.730	80.733	76.606	73.532

LAND, PROPERTY, PLANT, MACHINERY AND OTHER EQUIPMENT

Tangible assets were recognised 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 capitalised 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 capitalised 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 recognised 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 recognised 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 recognised at purchase and/or production cost, inclusive of expenses directly attributable to make the asset ready for use. Intangible assets are amortised on a straight-line basis throughout their estimated useful life; amortisation 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 COSTS

Research and development costs are recognised in the Income Statement for the year in which they are incurred, with the exception of development expenditure recognised 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 amortisation 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. Capitalised development expenditure is stated at cost, minus accumulated amortisation and any accumulated losses from impairment.

GOODWILL

The goodwill deriving from business combination transactions after 1 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.. After the initial recognition, since goodwill is regarded as an intangible asset with an indefinite life, it is no longer amortised 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 recognised. 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 capitalised 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 recognised at purchase or development cost.
Costs incurred subsequently relating to intangible assets are capitalised only if they increase the future economic benefits of the specific asset capitalised and they are amortised 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 amortised 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.
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.

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 recognised 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 in use.
The value in 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 amortisation calculated on the historical cost, in the absence of a prior loss of value. Restorations of value are recognised 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.

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 CURRENT AND NON-CURRENT FINANCIAL ASSETS

On initial recognition, financial assets are classified in one of the three categories listed below on the basis of the following elements:

- the entity's business model for the management of the financial assets;
- the characteristics of the financial asset's contractual cash flows.

Financial assets are subsequently derecognised only if the disposal entails the substantial transfer of all risks and rewards connected to the assets. On the other hand, if a significant portion of the risks and rewards relating to the disposed financial assets has been retained, they continue to be recognised in the financial statements, even if legally their ownership has been effectively transferred.

Financial assets at amortised cost

This category includes the financial assets that meet both of the following conditions:

- the financial asset is held according to a "hold to collect" business model; and
- the contractual terms of the financial asset call for cash flows at specific dates represented solely by payments of principal and interest ("SPPI test" passed).

These assets are initially recognised at fair value inclusive of the transaction costs or income directly attributable to the instrument. Subsequent to initial recognition, the financial assets in question are measured at amortised cost using the effective interest method. The amortised cost method is not used for assets valued at historical cost whose short duration makes the effect of discounting negligible, those without a defined maturity or for revocable credit lines.

Financial assets at fair value through other comprehensive income

This category includes the financial assets that meet both of the following conditions:

- the financial asset is held according to a "hold to collect and sell" business model; and
- the contractual terms of the financial asset call for cash flows at specific dates represented solely by payments of principal and interest ("SPPI test" passed).

This category includes shareholdings, not qualifiable as controlling, associated or of joint control, which are not held for trading, which the entity has opted to designate at fair value through other comprehensive income.

These assets are initially recognised at fair value inclusive of the transaction costs or income directly attributable to the instrument. Subsequently, shareholdings not qualifiable as controlling, associated or of joint control are measured at fair value, and amounts recognised as a matching entry to equity (Statement of comprehensive income) should not be subsequently transferred to the income statement, even in the case of disposal. The only component referring to the equity instruments in question subject to recognition in the income statement is the relative dividends.

For the equity instruments included in this category not listed in an active market, the cost criterion is used to estimate fair value only on a residual basis and in a limited circumstances, or when the most recent information to measure fair value is insufficient, or if there is a broad range of possible fair value measurements and cost represents the best estimate of fair value within that range of values.

Financial assets at fair value through profit or loss

This category includes financial assets other than those classified under "Financial assets at amortised cost" and "Financial assets at fair value through other comprehensive income".

This category includes financial assets held for trading and derivative contracts not qualified as hedges (which are represented as assets if the fair value is positive and as liabilities if the fair value is negative).

Assets at fair value through other comprehensive income are initially recognised at fair value without considering the transaction costs or income directly attributable to the instrument. Subsequently, they are measured at fair value and the valuation effects are attributed to the income statement.

Impairment of financial assets

In accordance with the provisions of IFRS 9, the Group applies a simplified approach to estimate expected credit losses throughout the life of the instrument and takes into consideration its past experience with respect to credit losses, adjusted on the basis of specific forecasts relating to the nature of the Group's receivables and the economic context.

In brief, the Group measures expected losses on financial assets so as to reflect:

- an objective amount weighted on the basis of probabilities determined by assessing a range of possible results;
- the time value of money; and
- reasonable and demonstrable information that is available without excessive cost or effort at the reporting date on past events, current conditions and outlooks on future economic conditions.

A financial asset is impaired when one or more events with a negative impact on the estimated future cash flows of the financial asset takes place. Observable data relating to the following events constitute proof that the financial asset is impaired (it is possible that a single event may not be identifiable: the impairment of a financial asset may be due to the combined effect of different events):

a) significant financial difficulties of the issuer or the debtor;

b) a violation of the contract, such as breach or an unmet deadline;

c) for economic or contractual reasons relating to the financial difficulties of the debtor, the creditor extends a concession to the debtor that the creditor would not have otherwise taken into consideration;

d) it is likely that the debtor will declare bankruptcy or other financial restructuring procedures;

e) the disappearance of an active market for that financial asset due to financial difficulties; or

f) the acquisition or creation of the financial asset with large discounts that reflect the credit losses incurred.

For financial assets at amortised cost, the value of any impairment is measured as the difference between the carrying amount of the asset and the present value of expected future cash flows, discounted on the basis of the original effective interest rate. This value is recognised in the income statement.

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 realisation 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.

TRADE RECEIVABLES

Receivables are initially recognised at fair value. The initial value is subsequently adjusted to take into account repayments of capital, any write-downs and the amortisation of the difference between repayment amount and initial value. Amortisation 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 amortised 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 recognised 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 amortised cost without write-down.

The provision for bad debts, determined in order to measure receivables at their effective realisation value, includes write-downs recognised 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 recognised in such a way as to decrease impaired assets to the present value of future cash flows obtainable from them.

OTHER RECEIVABLES AND OTHER CURRENT ASSETS

Other receivables and other current financial assets are initially recognised at fair value. Subsequently, the receivables are measured with the amortised 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 recognised 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 amortised cost without write-down.

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

Financial assets are derecognised when one of the following conditions is met:

- the contractual right to receive cash flows from the asset has expired;
- the Group has substantially transferred all risks and rewards linked to the asset;
- the Group has not substantially transferred or maintained all risks and rewards connected to the financial asset, but it has transferred control over it.

Financial liabilities are derecognised when they are extinguished, or when the contractual obligation has been met, is cancelled or is time-barred. An exchange of debt instruments with substantially different contractual terms must be accounted for as an extinction of the original financial liability and the recognition of a new financial liability. Likewise, a substantial change in the contractual terms of an existing financial liability, even partial, must be accounted for as an extinction of the original financial liability and the recognition of a new financial liability.

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 IFRS 9 for eliminating financial assets from the balance sheet, since the associated benefits and risks have not been substantially transferred.

Consequently, all the receivables assigned through factoring operations that do not meet the requirements for elimination established by IFRS 9 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 2018, the Group companies had only performed assignments of trade receivables without recourse that meet all the requirements established by IFRS 9 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 recognised on the Income Statement.

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 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 recognised as a direct deduction from Equity under the item “Other Reserves”. Gains or losses are not recognised 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 recognised 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.

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 recognised as a financial expense.

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, realisation timing and the discount rate; revisions of the estimated provisions are recognised 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 recognised 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 recognised 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 amortised 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 recognised at fair value. The initial value is subsequently adjusted to take into account repayments of principal and the amortisation of the difference between repayment amount and initial value. Amortisation 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 amortised 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.

RECOGNITION OF REVENUES

Revenue from contracts with customers is recognised when the following conditions are met:

- the contract with the customer has been identified;
- the performance obligations set forth in the contract have been identified;
- the price has been determined;
- the price has been allocated to the individual performance obligations set forth in the contract;
- the performance obligation set forth in the contract has been met.

The Group recognises revenue from contracts with customers when it fulfils the performance obligation, transferring the good or service (or the asset) to the customer. The asset is transferred when the customer acquires control over it.

The Group transfers control over the good or service over time, and therefore fulfils the performance obligation and recognises revenue over time, when one of the following criteria is met:

- the customer simultaneously receives and uses the benefits arising from the entity's service as it is provided;
- the service of the Group creates or improves the asset that the customer controls as the asset is created or improved;
- the service of the Group does not create an asset which has an alternative use for the Group and the Group has the enforceable right to payment for the service completed until the date considered.

If the performance obligation is not met over time, it is met at a specific moment. In that case, the Group recognises revenue when the customer acquires control over the promised asset.

The contractual consideration included in the contract with the customer may include fixed or variable amounts or both. If the contractual consideration includes a variable amount as discounts, price allowances, incentives, penalties or other similar elements, the Group estimates the amount of the consideration to which it will be entitled in exchange for the transfer of the promised goods or services to the customer. The Group includes the amount of the estimated variable consideration in the transaction price only to the extent to which it is highly likely that when the uncertainty associated with the variable consideration is subsequently resolved, there will not be a significant downward adjustment in the amount of cumulative revenue recognised.

The Group allocates the contractual price to the individual performance obligations on the basis of the stand-alone selling prices (SSP) of the individual performance obligations. When there is no SSP, the Group estimates the SSP using a market adjusted approach.
The Group applies its judgement in determining the performance obligation, variable consideration and the allocation of the transaction price.
Incremental costs for obtaining customer contracts are accounted for as assets and amortised throughout the term of the underlying contract, if the Group expects them to be recovered. Incremental costs for obtaining the contract are costs that the Group incurs to obtain the contract with the customer and which it would not have incurred if it had not obtained the contract. The costs for obtaining the contract which would have been incurred even if the contract had not been obtained should be recognised as a cost at the moment they are incurred, unless they are explicitly chargeable to the customer even if the contract is not obtained.

The costs incurred to perform contracts with customers are capitalised as assets and amortised throughout the term of the underlying contract only if such costs do not fall under the scope of application of another accounting standard (such as IAS 2 - Inventories, IAS 16 - Property, plant and equipment or IAS 38 - Intangible assets) and satisfy all of the following conditions:

- the costs are directly correlated with the contract or an expected contract, which the entity can specifically identify;
- the costs provide the entity with new or greater resources to be used to meet (or continue to meet) performance obligations in the future;

it is expected that such costs will be recovered.

GRANTS

Grants from public and private bodies are recognised 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 recognised 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 recognised in so far as it is possible to reliably determine that economic benefits will flow to the Group. Costs for services are recognised for the year in question at the moment when they are received.

DIVIDENDS

Dividends are recognised 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 recognised 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 realised or the liability is settled. Deferred tax assets (hereafter also called "prepaid taxes") are recognised only when it is likely that taxable profits sufficient to realise 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 recognised.
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 and 129 of the Italian Consolidated Income Tax Act (T.U.I.R) since 2014, 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 recognised 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 recognised.

Non-monetary items measured at fair value are converted using the exchange rates at the date when fair value was determined.

The exchange differences realised 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.

CLASSES OF FINANCIAL INSTRUMENTS

The following elements are accounted for in compliance with the accounting standards on financial instruments.

(Thousands of Euro)

	31 December 2017			
Balance Sheet Assets	**Amortised cost**	**Fair value through OCI**	**Fair value through profit or loss**	**Total**
Other non-current financial assets	428			428
Other non-current assets	4,560			4,560
Trade receivables	29,118			29,118
Other receivables and current assets	7,529			7,529
Cash and cash equivalents	17,779			17,779
Total	**59,414**	**0**	**0**	**59,414**

Balance Sheet Liabilities	**Amortised cost**	**Fair value through OCI**	**Fair value through profit or loss**	**Total**
Non-current bank loans	26,906			26,906
Other non-current financial liabilities	29,308			29,308
Bank financing and short-term loans	7,741			7,741
Other current financial liabilities	2,792			2,792
Total	**66,747**	**0**	**0**	**66,747**

(Thousands of Euro)

	31 December 2018			
Balance Sheet Assets	**Amortised cost**	**Fair value through OCI**	**Fair value through profit or loss**	**Total**
Other non-current financial assets	352			352
Other non-current assets	3,991			3,991
Trade receivables	35,131			35,131
Other receivables and current assets	8,016			8,016
Cash and cash equivalents	15,075			15,075
Total	**62,565**	**0**	**0**	**62,565**

Balance Sheet Liabilities	**Amortised cost**	**Fair value through OCI**	**Fair value through profit or loss**	**Total**
Non-current bank loans	23,055			23,055
Other non-current financial liabilities	24,427			24,427
Bank financing and short-term loans	16,203			16,203
Other current financial liabilities	4,262			4,262
Total	**67,947**	**0**	**0**	**67,947**

USE OF ESTIMATES AND ASSESSMENTS

The preparation of Financial Statements in accordance with IFRS requires the 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 characterised by significant uncertainty. Therefore it cannot be excluded that results different to those estimated may be realised 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 fixes 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.

For an indication of the economic values of these estimates, please refer to the relative points of these notes.

The directors also evaluated the applicability of the going concern assumption in the preparation of the consolidated financial statements, and concluded that this assumption is suitable as there are no doubts as to business continuity.

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 in 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 minimise 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 expenses. Interest rate risks were measured using sensitivity analysis and the potential impacts of Euribor interest rate fluctuations on the financial statements at 31 December 2018 were analysed 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 341 thousand in comparison to an increase in financial income equal to Euro 93 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 exchange rate risk on the balances of the assets and liabilities in foreign currency at year end.

Price risk

The Group makes purchases and sales internationally, and therefore it is exposed to the normal risk of price fluctuation typical of its industry.

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 minimise 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.

The Group has relations with customers of significant size, as it operates in the OEM channel.

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 2018, 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 2017, the Parent Company undersigned a financial structure Optimisation 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 Strategic Plan;
(iii) The review of financial covenants consistent with the performance laid out in the Strategic Plan.
(iv) The maintenance of short-term lines in an amount consistent with the needs laid out in the Strategic Plan.

The financial covenants set forth in the Optimization were all respected at the reporting date.

On 28 December 2018, the Meeting of Bondholders of the “LANDI RENZO 6.10% 2015-2022” loan, ISIN IT0005107237, under the chairmanship of Stefano Landi and in the presence of Notary Giuseppe Chiantera, unanimously (67.06% of the loan) approved the Board of Directors' proposal regarding amendments to the Debenture Loan Regulations in order to postpone from 31 December 2018 to 31 December 2019 the deadline by which to propose to the Company’s shareholders’ meeting the approval of the capital increase. The resolution took effect immediately, as the lending banks had already released their waiver.

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 scope of consolidation 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 scope of consolidation and the relative consolidation method is provided below.

Companies consolidated using the line-by-line method or the net equity method

Company Name	Registered Office	Currency	Shareholders' Funds as at 31 December 2018 (in units of currency)	% stake at 31 December 2018		% stake at 31 December 2017		Notes
				Direct investment	Indirect investment	Direct investment	Indirect investment	
Parent Company								
Landi Renzo S.p.A.	Cavriago (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%		
Landi Renzo Polska Sp.Zo.O.	Warsaw (Poland)	PLN	50,000		100.00%		100.00%	(1)
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 America S.r.l.	Buenos Aires (Argentina)	ARS	2,030,220	96.00%		96.00%		
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%	(2)
Emmegas S.r.l.	Cavriago (RE) - Italy	EUR	60,000			100.00%		(3)
Associates and subsidiaries consolidated using the equity method								
SAFE&CEC S.r.l.	S. Giovanni in Persiceto (Bologna, Italy)	EUR	2,500,000	51.00%				(4)
Krishna Landi Renzo India Private Ltd Held	Gurgaon - Haryana (India)	INR	118,000,000	51.00%		51.00%		(4)

Detailed notes on investments:

(1) Held indirectly by Landi International B.V.

(2) Held by Lovato Gas S.p.A.

(3) merged in Landi Renzo S.p.A.

(4) 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).

As explained above, the Group also 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).

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, currently not operational;
- Lovato do Brasil Ind Com de Equipamentos para Gas Ltda, in which a 100% stake is held, currently not operational;
- Landi Renzo Argentina S.r.l., in which a 100% stake is held, currently in the liquidation phase.

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 . In view of the extraordinary transactions occurring at the end of the previous financial year, leading to the deconsolidation of the “Sound” and “Gas Distribution and Compressed Natural Gas” segments, the financial data for 2018 are not directly comparable to those for the previous financial year.

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.

Since the first half of 2017, the Group has engaged in an organisational evolution which has entailed the reorganisation 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;*
- *Sound.*

Following the above-mentioned disposals of the Sound segment in December 2017 and the business combination 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. (Gas Distribution and Compressed Natural Gas Systems segment), in 2018 the Group worked directly only in the Automotive segment. As a result, the 2018 income statement is not directly comparable with that of the previous year, which included the contribution of 12 months of the Gas Distribution and Compressed Natural Gas Systems segment and 11 months of the Sound segment.

The following table provides an analysis of consolidated revenues by activity segment in comparison to 2017:

(Thousands of Euro)

Distribution of revenues by segment	At 31/12/2018	% of revenues	At 31/12/2017	% of revenues	Change	%
Automotive segment	188,079	100.0%	167,144	81.0%	20,935	12.5%
Gas Distribution and Compressed Natural Gas segment	0	0.0%	28,137	13.7%	-28,137	-100.0%
Sound segment (*)	0	0.0%	11,013	5.3%	-11,013	-100.0%
Total revenues	**188,079**	**100.0%**	**206,294**	**100.0%**	**-18,215**	**-8.8%**

(*) sold in 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 2018 by the Landi Renzo Group are divided by geographical area as follows:

(Thousands of Euro) Geographical distribution of revenues	At 31/12/2018	% of revenues	At 31/12/2017	% of revenues	Change	%
Italy	33,297	17.7%	40,441	19.6%	-7,144	-17.7%
Europe (excluding Italy)	77,896	41.4%	96,875	47.0%	-18,979	-19.6%
America	37,082	19.7%	31,847	15.4%	5,235	16.4%
Asia and Rest of the World	39,804	21.2%	37,131	18.0%	2,673	7.2%
Total revenues	**188,079**	**100.0%**	**206,294**	**100.0%**	**-18,215**	**-8.8%**

In view of the extraordinary transactions occurring at the end of the previous financial year, leading to the deconsolidation of the “Sound” and “Gas Distribution and Compressed Natural Gas” segments, for comparison purposes, a breakdown of sales by geographic area is reported below, for the “Automotive” segment only.

(Thousands of Euro) Geographical distribution of revenues	At 31/12/2018	% of revenues	At 31/12/2017	% of revenues	Change	%
Italy	33,297	17.7%	30,802	18.4%	2,495	8.1%
Europe (excluding Italy)	77,896	41.4%	81,669	48.9%	-3,773	-4.6%
America	37,082	19.7%	25,794	15.4%	11,288	43.8%
Asia and Rest of the World	39,804	21.2%	28,879	17.3%	10,925	37.8%
Total revenues	**188,079**	**100.0%**	**167,144**	**100.0%**	**20,935**	**12.5%**

As regards the geographical distribution of revenues, on a like-for-like basis, during the year the Landi Group realised 82.3% (81.6% in 2017) of its consolidated revenues abroad (41.4% in Europe and 40.9% 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	31/12/2018	31/12/2017	Change
Italy	160,142	151,300	8,842
Europe (excluding Italy)	12,681	13,600	-919
America	16,934	13,712	3,222
Asia and the rest of the world	8,343	15,528	-7,185
Total ASSETS	**198,100**	**194,140**	**3,960**

The values (in thousands of Euro) relating to investments are shown below divided by geographical area:

(Thousands of Euro)

Investments in Fixed Assets	31/12/2018	31/12/2017	Change
Italy	7,149	4,563	2,586
Europe (excluding Italy)	1,075	297	778
America	116	208	-92
Asia and rest of the world	39	81	-42
Total	**8,379**	**5,149**	**3,230**

NON-CURRENT ASSETS

2. LAND, PROPERTY, PLANT, MACHINERY AND OTHER EQUIPMENT

Tangible assets showed an overall net decrease of Euro 1,838 thousand, decreasing from Euro 14,583 thousand at 31 December 2017 to Euro 12,745 thousand at 31 December 2018.

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)	Depreciation rates	Other changes	Variation 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**

The changes in net tangible assets during the financial year 2018 are shown in detail below:

(Thousands of Euro)

Net value	31/12/2017	Acquisitions	(Disposals)	Depreciation rates	Other changes	Variation in the consolidation area	31/12/2018
Land and buildings	723	371	0	-274	-9	0	811
Plant and machinery	7,499	830	0	-2,093	-102	0	6,134
Industrial and commercial equipment	3,948	566	-56	-1,623	133	0	2,968
Other tangible assets	2,240	433	-19	-762	-42	0	1,850
Assets in progress and payments on account	173	928	-100	0	-19	0	982
Total	**14,583**	**3,128**	**-175**	**-4,752**	**-39**	**0**	**12,745**

The main increases in tangible assets during the period in question relate primarily to investments of the parent company, linked to:

- Purchases and improvements to specific plants and machinery for Euro 830 thousand;
- Purchases of industrial and commercial equipment for Euro 566 thousand;

- Purchases of other tangible assets totalling Euro 433 thousand.

The significant decreases for the year 2017 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 around Euro 2.0 million, recognised in the item "Amortisation, depreciation and impairment".

The column "Other Changes" includes mainly the accounting entries for industrial plant and machinery and equipment already in progress at 31 December 2017 and completed during the year, as well as exchange differences.

The item Land and Buildings includes the improvements to real estate leased from third parties.

The significant amount with respect to the previous year in the item Assets in progress and payments on account, totalling Euro 982 thousand as at 31 December 2018 (Euro 173 thousand as at 31 December 2017), primarily includes investments made by the Parent Company in several new work benches for the specific production required to create new products for an important OEM customer. This machinery is currently in the completion phase and is expected to be used in the production process starting in the second quarter of 2019.

3. DEVELOPMENT COSTS

Changes in development expenditure during 2017 are shown in detail below:

(Thousands of Euro)

	31/12/2016	Increases	Depreciation 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**

Changes in development expenditure during 2018 are shown in detail below:

(Thousands of Euro)

	31/12/2017	Increases	Depreciation and write-downs	Other changes	Variation in the consolidation area	31/12/2018
Development expenditure	**5,401**	5,083	-3,552	0	0	**6,932**

Development expenditure, totalling Euro 6,932 thousand (Euro 5,401 thousand at 31 December 2017), 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 recognised in net assets. In particular, costs capitalised during the period refer to innovative projects, not carried out previously, aimed at new market segments, capable of expanding and optimising the product range. Among these, the following main projects were developed by the parent company:

1. After Market Evolution Project (LPG and CNG) for the development of new kits and components, including new reducers, injectors and electronics 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. project for a major OEM customer (LPG) for the development of new kits and components, including new reducers and injectors, and also adaptation to the new vehicle and engine models;
4. project for new gas conversion kits for Heavy Duty (HD) commercial vehicles;
5. project for the expansion of a new range of self-calibrating electronic control units.

Development activities are on the rise due to a significant project for the development of new products for a major OEM customer, currently in the completion phase, as well as the Heavy Duty sector which, consistent with the provisions of the 2018-2022 Strategic Plan, is considered a key project to support group growth and strategic market positioning.

New development activities began during the initial months of 2019 and they are also expected to continue for the rest of the current year.
To evaluate any losses in value of capitalised development costs, the Group attributes such costs to the corresponding specific projects and evaluates their recoverability by calculating the value in use with the discounted cash flow method.

4. GOODWILL

The Goodwill item totalled Euro 30,094 thousand, unchanged compared with 31 December 2017. This goodwill as at 31 December 2017 was allocated to the following CGUs:

- Landi Renzo CGU: established by the parent company Landi Renzo S.p.A. (which in the course of 2017 incorporated the subsidiary AEB S.p.A.) and to which goodwill of Euro 2,373 thousand, deriving from the above-mentioned merger, was allocated;
- Lovato Gas CGU: established by Lovato Gas S.p.A. and to which goodwill of Euro 27,721 thousand was

allocated.

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 results of such tests carried out on the basis of the future operating cash flows deriving from the 2018-2022 Strategic Plan approved by the Board of Directors on 13 September 2017 did not bring to light any impairment for the Lovato Gas CGU or the Landi Renzo CGU.

The group's internal restructuring and reorganisation activities aiming for EBITDA improvement and focusing on meeting industry best practices in terms of Automotive business efficiency levels, which began in 2017 and were completed in the first half of 2018, entailed a significant change in production and organisational processes within the Automotive segment, in particular in the subsidiary Lovato Gas S.p.A., subject to significant personnel downsizing. Indeed, the reorganisation process resulted in a significant change in the organisational structure of Lovato Gas S.p.A. due to the need to concentrate on only commercial activities, especially abroad. Thus, production activities were considerably centralised within the parent company Landi Renzo S.p.A. Also in order to optimise group costs and efficiency, administrative, management, HR, purchasing, logistics and product development activities were also centralised within the Parent Company.
In light of the foregoing, the management deemed it appropriate to reconsider its CGUs previously identified, which are no longer deemed representative of the internal and operational organisation of the business. In particular:

- product manufacturing activities are fully centralised within the Parent Company's plants and the core production assets are currently used indiscriminately;
- commercial management is currently divided between the OEM market and the After Market;
- the various company functions, in particular HR, purchasing R&D, administration and finance, logistics and production, are fully centralised within the Parent Company to ensure greater efficiency and cost curbing;
- the management now manages and monitors the business as a unitary element;
- unlike in the past, the internal budgeting process calls for the definition of costs, especially production costs, at overall level and not in terms of individual entity or sales channel.

Although the Group has reporting by individual brand in terms of sales revenues, as regards production costs, especially with respect to the core assets, the management does not see this distinction as significant. As a result, it does not believe that there are separate revenue streams. Due to the foregoing, given the updated situation with respect to the previous year and the significant mixing between the management of the two brands, the management has decided to qualify the Automotive segment as a new, single CGU, as the distinction between the Landi Renzo CGU and the Lovato Gas CGU has now lost significance from the organisational and operational perspective.

A comparison between the cash generating units ("CGUs") considered in 2018 and those of the previous year is provided below.

(Thousands of Euro)

CGU	31/12/2018	31/12/2017	Change
Automotive	30,094	0	30,094
Lovato Gas S.p.A.	0	27,721	-27,721
Landi Renzo S.p.A. (ex-AEB S.p.A.)	0	2,373	-2,373
Total	**30,094**	**30,094**	**0**

Impairment tests were carried out on goodwill at 31 December 2018 and the results were approved by the Board of Directors of the Parent Company on 14 March 2019.

The recoverable value of goodwill was defined with respect to the value in use, understood as the current net value of operating cash flows for the 2019-2023 period (discounted accordingly using the DCF – Discounted Cash Flow method) deriving from the 2018-2022 Strategic Plan approved by the Board of Directors on 13 September 2017 and updated on the basis of the new assumptions included in the 2019 Budget, approved by the Board of Directors on 14 March 2019. Cash flows for 2023 were prudently considered to be in line with those of 2022.

The forecasts for 2019-2023 were prepared by the governing body of the Group on the basis of the results achieved in previous years, management expectations on market trends and the operating cost rationalisation dynamics envisaged in the Strategic Plan approved by the Company's Board of Directors. 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.

<u>Automotive CGU</u>

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 2018, equal to 2.9%;
- the unlevered beta parameter and the market target financial structure used for the releveraging of that parameter were identified on the basis of a representative panel of comparable companies.

On the basis of the parameters set forth above, the weighted average cost of capital (W.A.C.C.) relating to the Automotive CGU was calculated taking into consideration the risks associated with the cash flows generated in the various geographical areas in which the Group operates ("East Europe", "Asia and Middle East", "South America", "West Europe", "Africa", "North America" and "Rest of The World") and is around 11,8% net of tax effect.

The "g" growth rate was determined by taking as a reference the long-term inflation rate estimated by the International Monetary Fund for the above mentioned geographical areas, resulting in a value of 4.7%.

The results of these tests did not show any loss of value of goodwill for the Automotive CGU.

The changes in the basic assumptions which make the recoverable value equal to the book value are shown below:

(Thousands of Euro)

	Surplus of recoverable value over book value	Terminal value growth rate %	Discount rate including tax %
Automotive CGU	169,217	negative	22.30

Former Lovato Gas S.p.A. CGU and former Landi Renzo CGU

Following the above-mentioned modification of the CGUs, to confirm that this change has not in any event had an impact on the recoverability or otherwise of the values recognised in the financial statements, the management conducted a separate impairment test for the individual former Landi Renzo and Lovato Gas CGUs. For this test, a "g" growth rate of 4.7% and a WACC of 11.7% net of tax effect, were applied for the former Landi Renzo CGU, while a "g" of 5.3% and a WACC of 12.3% net of tax effect were used for the former Lovato CGU. The results of these impairment tests did not show any loss of value for the individual former CGUs.

Moreover, please note that the stock market capitalisation value of Landi Renzo S.p.A. at 31 December 2018 amounts to Euro 126.5 million, significantly higher than the value of the consolidated shareholders' equity of Landi Renzo S.p.A. at the same date. In the initial months of 2019, this stock market capitalisation value remained considerably higher than the corresponding value of consolidated shareholders' equity. As a result, the above-mentioned analysis does not bring to light indicators of impairment with reference to the net invested capital of the Landi Renzo Group at 31 December 2018.

5. OTHER INTANGIBLE ASSETS WITH FINITE USEFUL LIVES

Changes in other intangible assets with finite useful lives that occurred during 2017 are shown in detail below:

(Thousands of Euro)

	31/12/2016	Acquisitions	Amortisation rates	Other changes	Variation in the consolidation area	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**

Changes in other intangible assets with finite useful lives that occurred during 2018 are shown in detail below:

(Thousands of Euro)

	31/12/2017	Acquisitions	Amortisation rates	Other changes	Variation in the consolidation area	31/12/2018
Patents and intellectual property rights	430	151	-251	-13	0	317
Concessions and trademarks	15,339	17	-1,688	54	0	13,722
Total	**15,769**	**168**	**-1,939**	**41**	**0**	**14,039**

Other intangible assets decreased from Euro 15,769 thousand at 31 December 2017 to Euro 14,039 thousand at 31 December 2018, 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 7,251 thousand, and AEB, for Euro 5,330 thousand, in addition to other minor trademarks. These trademarks 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 amortisations. These values are amortised over 18 years, the period deemed to

represent the useful lifetime of the trademarks, with the exception of the minor trademarks, which are amortised over a useful lifetime of seven years.

At the date of preparation of these financial statements no impairment indicators were identified with reference to above mentioned trademarks.

6. EQUITY INVESTMENTS CONSOLIDATED USING THE EQUITY METHOD

This item, equal to Euro 22,292 thousand (Euro 24,301 thousand at 31 December 2017), includes the value of the Joint Venture Krishna Landi Renzo Prv Ltd, and SAFE & CEC S.r.l., assessed using the equity method.

(Thousands of Euro)

Description	31/12/2017	Increases	Decreases	31/12/2018
Krishna Landi Renzo India Private Ltd Held	76	308		384
SAFE & CEC S.r.l.	24,225		-2,317	21,908
Total	**24,301**	**308**	**-2,317**	**22,292**

In particular:

- The stake held in the Joint Venture Krishna Landi Renzo Prv Ltd was revalued by Euro 308 thousand due to the positive results for the period.
- the equity investment held in the joint venture SAFE&CEC S.r.l. was written down by Euro 2,317 thousand, of which Euro 1,895 thousand attributed to the income statement, as it related to the Group's share of the loss for the period, and Euro 422 thousand attributed to the statement of comprehensive income, as it related to changes accounted for directly in equity by the joint venture. It should be noted that the final negative results of the year of the joint venture are essentially linked to the costs incurred for the group restructuring and the initial inefficiencies, connected to the fundamental activities of homogenisation of the production and business processes between the Italian subsidiary SAFE S.p.A. and the assigned foreign companies, a process which is currently being completed. Management believes that with the strength of the order portfolio, it can recover margins over the next year and achieve the forecast data specified in the 2018-2022 Strategic Plan. It should also be noted that the activities connected to the purchase price allocation as provided for by the International Accounting Standard IFRS 3 related to the business combination that led to the establishment of the SAFE&CEC S.r.l. group was completed and did not generate any significant impacts on the profit and loss of the SAFE&CEC S.r.l. group. The income statement and balance sheet data used for the assessment of the joint venture with the equity method include the effects deriving from this process.

In addition, to value the equity investment held in SAFE&CEC S.r.l. at equity, the directors of Landi Renzo S.p.A. requested and obtained (i) the draft separate and consolidated financial statements at 31 December 2018 approved by the Board of Directors on 11 March 2019, (ii) the 2019 budget and (iii) the impairment test at 31 December 2018 prepared with the support of an external advisor. An analysis of the above-mentioned documentation did not bring to light any indicators of impairment on the equity investment in SAFE&CEC S.r.l.

The income statement and balance sheet data of the Group's significant joint ventures are shown below.

(Thousands of Euro)

ASSETS	SAFE & CEC S.r.l.
Tangible and intangible assets	42,573
Deferred tax assets	730
Other non-current financial assets	145
Total non-current assets	**43,448**
Trade receivables	12,845
Inventories and contract work in progress	19,237
Other current assets	2,382
Cash and cash equivalents	2,695
Total current assets	**37,159**
TOTAL ASSETS	**80,607**

(Thousands of Euro)

SHAREHOLDERS' EQUITY AND LIABILITIES	SAFE & CEC S.r.l.
Equity	**42,957**
Non-current financial liabilities	3,014
Provisions for risks and charges and Defined benefit plans for employees	964
Deferred tax liabilities	1,609
Total non-current liabilities	**5,587**
Current financial liabilities	6,324
Trade payables	19,994
Other current liabilities	5,745
Total current liabilities	**32,063**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**80,607**

INCOME STATEMENT	SAFE & CEC S.r.l.
Sales revenues	58,920
Operating costs	-60,366
Gross operating profit	**-1,446**
Amortisation	-1,380
Net operating profit	**-2,826**
Net financial expenses	-313
Exchange gains (losses)	-263
Profit (loss) before tax	**-3,402**
Taxes	-314
Profit (loss)	**-3,716**

7. OTHER NON-CURRENT FINANCIAL ASSETS

This item breaks down as follows:

(Thousands of Euro)

Other non-current financial assets	31/12/2018	31/12/2017	Change
EFI Avtosanoat-Landi Renzo LLC	172	172	0
Landi Renzo Argentina	5	9	-4
Guarantee deposits	167	239	-72
Other financial assets	8	8	0
Total	**352**	**428**	**-76**

Other non-current financial liabilities totalled Euro 352 thousand (Euro 428 thousand at 31 December 2017) and include mainly:

- the share in the Joint Ventures EFI Avtosanoat Landi Renzo LLC in Uzbekistan (Euro 172 thousand) and Landi Renzo Argentina S.r.l. (Euro 5 thousand), not consolidated due to the negligible value and valued at purchase cost, rectified for any lasting loss in value;
- guarantee deposits (totalling Euro 167 thousand).

8. OTHER NON-CURRENT ASSETS

Other non-current assets, totalling Euro 3,991 thousand at 31 December 2018 (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 interest on the residual receivables at the end of each financial year.

9. DEFERRED TAX ASSETS

This item breaks down as follows:

(Thousands of Euro)

Deferred tax assets and liabilities	31/12/2018	31/12/2017	Change
Deferred tax assets	14,253	12,087	2,166
Deferred tax liabilities	-3,715	-4,071	356
Total net deferred tax assets	**10,538**	**8,016**	**2,522**

The following table shows the values of the offsettable prepaid and deferred taxes and their movements from 31 December 2017 to 31 December 2018:

Deferred tax assets	31/12/2017	Uses	Write-downs	Temporary differences	Other changes	31/12/2018
Goodwill and flat-rate tax	1,465	-228				1,237
Temporary differences	4,920	-2,678		913		3,155
Other deferred tax assets	716			270		986
Tax losses	4,985			842	3,047	8,874
a) Total deferred tax assets	**12,087**	**-2,906**	**0**	**2,025**	**3,047**	**14,253**
Adjustments for consolidation and IFRS compliance	15	-15				0
Contract completion evaluation	0					0
Intangible assets	3,943	-432				3,511
b) Total Offsettable deferred tax liabilities	**4,071**	**-512**	**0**	**156**	**0**	**3,715**
a-b) Total net deferred tax assets	**8,016**	**-2,393**	**0**	**1,869**	**3,047**	**10,538**

In particular, net deferred tax assets, totalling Euro 10,538 thousand (Euro 8,016 thousand at 31 December 2017), related to both temporary differences between the book values of assets and liabilities on the balance sheet and the corresponding tax values recognised, and to the losses from the national tax consolidation scheme deemed to be recoverable on the basis of the company plans, the realisation of which is subject to the intrinsic risk of non-implementation inherent in its provisions.

In previous years, the Parent Company prudently decided not to recognise further deferred tax assets on tax losses for the year, especially if not recoverable within the tax consolidation scheme, in which the Parent Company has participated since 2014. Given the positive results accounted for in 2017-2018, which confirm the reliability of the 2018-2022 Strategic Plan forecasts, and considering the forecasts developed by the directors for the 2019-2023 period, the management prepared an analysis with the support of its tax advisors to verify the recoverability of tax losses over the horizon of the above-mentioned plan. Based on these analyses, which confirm the recovery of the tax losses as early as the 2019 financial year and for all years of the plan, the directors decided to recognise on a prudent basis deferred tax assets relating to tax losses that they believe will be substantially recovered over the first three years (2019-2021).

As a result, additional deferred tax assets on previous tax losses of Euro 3,047 thousand are recognised in these financial statements, as the prerequisites for their recoverability were satisfied.

At 31 December 2018 offsettable deferred tax liabilities totalled Euro 3,715 thousand (Euro 4,071 thousand at 31 December 2017), with a decrease of Euro 356 thousand, and are primarily related to temporary differences between the book values of certain tangible and intangible assets and the values recognised for tax purposes.

CURRENT ASSETS

10. TRADE RECEIVABLES

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)

Trade receivables by geographical area	31/12/2018	31/12/2017	Change
Italy	5,281	5,893	-612
Europe (excluding Italy)	5,992	7,611	-1,619
America	15,954	12,168	3,786
Asia and Rest of the World	14,303	9,894	4,409
Provision for bad debts	-6,399	-6,448	49
Total	**35,131**	**29,118**	**6,013**

Trade Receivables totalled Euro 35,131 thousand at 31 December 2018, net of the Provision for Bad Debts equal to Euro 6,399 thousand, compared with Euro 29,118 thousand at 31 December 2017, a value net of a provision for bad debts of Euro 6,448 thousand.

The Group carried out assignment of trade receivables through factoring without recourse and, at 31 December 2018, the amount of assignments, for which there was derecognition of the related receivables, totalled Euro 25,391 thousand at 31 December 2018 (Euro 19,471 thousand at 31 December 2017).

Note that there are no non-current trade receivables or receivables secured by collateral guarantees.

Receivables from related parties totalled Euro 2,605 thousand compared with Euro 1,675 thousand at 31 December 2017 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	31/12/2017	Allocation	Uses	Other changes	31/12/2018
Provision for bad debts	6,448	91	-9	-131	6,399

The allocations made during the period, necessary in order to adjust the book value of receivables to their assumed realisation value, totalled Euro 91 thousand (compared with Euro 632 thousand for 2017). Uses during the year, on the other hand, totalled Euro 9 thousand, compared with Euro 717 thousand in the previous year.

The column "Other changes" includes conversion differences.

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 provision:

(Thousands of Euro)

			Past due		
	Total	**Not past due**	**0-30 days**	**30-60 days**	**60 and beyond**
Trade receivables at 31/12/2018	41,530	26,196	4,690	2,252	8,392
Trade receivables at 31/12/2017	35,566	21,280	2,607	807	10,872

11. INVENTORIES

This item breaks down as follows:

(Thousands of Euro)

Inventories	31/12/2018	31/12/2017	Change
Raw materials and parts	26,675	24,772	1,903
Work in progress and semi-finished products	9,896	7,331	2,565
Finished products	9,643	12,012	-2,369
(Inventory write-down reserve)	-7,319	-7,553	234
Total	**38,895**	**36,562**	**2,333**

Closing inventories at 31 December 2018 totalled Euro 38,895 thousand, net of the inventory write-down reserve of Euro 7,319 thousand, and therefore recorded an increase of Euro 2,333 thousand compared to 31 December 2017 when the value was Euro 36,562 thousand. This increase is due to the increase in the Group's turnover.

The Group estimated 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 with their presumed realisation value.

(Thousands of Euro)

Inventory write-down reserve	31/12/2017	Allocation	Uses	Other changes	31/12/2018
Inventory write-down reserve (raw materials)	5,432			-91	5,341
Inventory write-down reserve (products in progress)	685			3	688
Inventory write-down reserve (finished products)	1,436	44	-55	-135	1,290
Inventory write-down reserve – total	**7,553**	**44**	**-55**	**-223**	**7,319**

The allocations, equal to Euro 44 thousand, were made on items in inventory with a slow turnaround. Uses of the provision for obsolescence instead totalled Euro 55 thousand.
The column "Other changes" includes conversion differences.

12. OTHER RECEIVABLES AND CURRENT ASSETS

This item breaks down as follows:

(Thousands of Euro)

Other receivables and current assets	31/12/2018	31/12/2017	Change
Tax assets	4,704	4,611	93
Receivables from others	2,636	2,071	565
Accruals and deferrals	676	847	-171
Total	**8,016**	**7,529**	**487**

Tax assets

Tax assets consist primarily of VAT recoverable from the tax authorities for Euro 2,699 thousand, income tax credit due to a surplus of advance payments made during the previous years by the Italian companies (Euro 722 thousand) and the Group's foreign companies (Euro 648 thousand). The item also includes the amount due from the tax authorities for IRES refunds relating to the IRAP deduction pursuant to Italian Legislative Decree 201/2011 totalling Euro 566 thousand.

Receivables from others

At 31 December 2018, this item related to advances granted to suppliers, receivables from social security institutes, credit notes to be received and other receivables.

(Thousands of Euro)

Receivables from others	31/12/2018	31/12/2017	Change
Advances to suppliers	756	716	40
Receivables from social security institutes	184	22	162
Credit notes to be received	826	401	425
Other receivables	870	932	-62
Total	**2,636**	**2,071**	**565**

"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.
Credit notes to be received rose compared to the previous year due to higher purchase premiums recognised by suppliers arising from the increase in Group turnover and the resulting increase in the purchase of components.

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.

13. 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	31/12/2018	31/12/2017	Change
Bank and post office accounts	15,033	17,738	-2,705
Cash	42	41	1
Total	**15,075**	**17,779**	**-2,704**

Cash and cash equivalents at 31 December 2018 totalled Euro 15,075 thousand (Euro 17,779 thousand at 31 December 2017).

For analysis of the production and absorption of cash during the year, please refer to the consolidated Statement of Cash Flows.

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.

14. SHAREHOLDERS' EQUITY

The following table provides a breakdown of consolidated shareholders' equity items:

(Thousands of Euro)

Equity	31/12/2018	31/12/2017	Change
Share capital	11,250	11,250	0
Other reserves	43,931	41,983	1,948
Profit (loss) for the period	4,671	4,139	532
Total Group equity	**59,852**	**57,372**	**2,480**
Capital and Reserves attributable to minority interests	-138	-232	94
Profit (loss) attributable to minority interests	-138	-437	299
Total Minority Interests	**-276**	**-669**	**393**
Total Consolidated Equity	**59,576**	**56,703**	**2,873**

The share capital at 31 December 2018 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 each.

The consolidated net equity at 31 December 2018 shows a positive variation of Euro 2,873 thousand compared to 31 December 2017, mainly due to the profit for the period, only partially offset by the change in the conversion reserve, the recognition of part of the valuation with the equity method of the joint venture SAFE&CEC in the statement of comprehensive income and the above-mentioned effect of the initial application of IFRS 9.

The other reserves are shown in detail below:

(Thousands of Euro)

Other reserves	31/12/2018	31/12/2017	Change
Statutory Reserve	2,250	2,250	0
Extraordinary and Other Reserves	10,963	9,015	1,948
Share Premium Reserve	30,718	30,718	0
Total Other Reserves of the Group	**43,931**	**41,983**	**1,948**

The balance of the Statutory Reserve at 31 December 2018 totalled Euro 2,250 thousand and remains unchanged since it has reached one fifth of the share capital.

The Extraordinary Reserve and other reserves refer to the profits made by the Parent Company and by the subsidiaries in previous financial years and rose by Euro 1,948 thousand due to the allocation of the profit from the previous financial year, only partially offset by the change in the conversion reserve, the recognition of part of the valuation with the equity method of the joint venture SAFE&CEC in the statement of comprehensive income and the above-mentioned effect of the initial application of IFRS 9. This reserve also rose by Euro 470 thousand in the course of the year due to the effect on reserves of minority interests of the Parent Company's waiver to the receivable due from the subsidiary Landi Renzo PAK, a 70% subsidiary.

The Share Premium Reserve amounts to Euro 30,718 thousand and is unchanged compared to the previous year.

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 Optimisation Agreement

It is reported that on 30 March 2018, 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 2018 (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 Optimisation Agreement was finalised, 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 consolidated companies 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 Strategic Plan.
(iii) The review of financial covenants consistent with the performance laid out in the Strategic Plan.
(iv) The maintenance of short-term lines in an amount consistent with the needs laid out in the Strategic Plan.

It is noted that, on 02 July 2018, in line with the provisions of the Financial Optimisation Agreement, which provided for repayment as excess liquidity in the case of the sale of the Sound segment and of the business branch of the Technical Centre to AVL (transactions that fall under the so-called "Permitted Transactions"), Landi Renzo S.p.A. paid the holders of the debenture loan an overall additional amount of Euro 1,061 thousand (equal to 26.13% of the net income exceeding Euro 3 million) and the lending banks an overall amount of Euro 969 thousand (23.87% of the net income exceeding Euro 3 million), drawn from the last instalment provided for by the respective repayment schedules.

On 28 December 2018, the Meeting of Bondholders of the "LANDI RENZO 6.10% 2015-2022" loan, ISIN IT0005107237, under the chairmanship of Stefano Landi and in the presence of Notary Giuseppe Chiantera, unanimously (67.06% of the loan) approved the Board of Directors' proposal regarding amendments to the Debenture Loan Regulations in order to postpone from 31 December 2018 to 31 December 2019 the deadline by which to propose to the Company's shareholders' meeting the approval of the capital increase.
The resolution took effect immediately, as the lending banks had already released their waiver.

As previously shown, with reference to IFRS 9, the Group determined the effects on the accounts linked to the provisions of paragraph B.5.4.6 of the standard, which governs the impact on the amortised cost of the financial liabilities deriving from a change in the related financial flow plan, due to both a revised estimate or a contractual amendment. The application of this paragraph resulted in an increase of the value of some financial liabilities (convertible bonds and medium and long-term bank loans) renegotiated by the Parent Company during the previous financial years by around Euro 422 thousand.

15. NON-CURRENT BANK LOANS

This item breaks down as follows:

(Thousands of Euro)

Non-current bank loans	31/12/2018	31/12/2017	Change
Loans and financing	23,259	27,213	-3,954
Amortised cost	-204	-307	103
Total	**23,055**	**26,906**	**-3,851**

This item includes the medium/long term portion of bank debts for unsecured loans and finance. It totalled Euro 23,055 thousand at 31 December 2018, compared with Euro 26,906 thousand at 31 December 2017.
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 financial covenants set forth in the Optimisation Agreement were all respected at the reporting date.
The Annual repayment plan for the medium/long-term loans, based on the balances at 31 December 2018, is shown below.

Maturities	Annual loan repayment instalments post-agreement
2019	3,321
Amortised cost	-109
Total current	**3,212**
2020	5,459
2021	7,536
2022	10,264
Amortised cost	-204
Total non-current	**23,055**
Total	**26,267**

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 2018, the Group had the following further short-term credit facilities, available but not used:

(Thousands of Euro)

Credit facilities	2018
Cash facility	4,298
Facility for various uses	26,261
Total	**30,559**

16. OTHER NON-CURRENT FINANCIAL LIABILITIES

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)

Other non-current financial liabilities	31/12/2018	31/12/2017	Change
Payables to other financial backers (Simest)	210	629	-419
Debenture loan MT Landi Renzo 6.10% 2015-2020	24,365	29,347	-4,982
Amortised cost	-148	-668	520
Total	**24,427**	**29,308**	**-4,881**

At 31 December 2018, other non-current financial liabilities totalled Euro 24,427 thousand (Euro 29,308 thousand at 31 December 2017) and are formed of:

- Euro 210 thousand (Euro 629 thousand at 31 December 2017) 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 24,217 thousand (Euro 28,679 thousand at 31 December 2017), net of the effect of the amortised cost evaluation, for the medium/long-term portion of the "LANDI RENZO 6.10% 2015-2022" Debenture Loan.

The change in the effect of measurement at amortised cost is linked to its recalculation following the initial application of IFRS 9.

The repayment times of the debenture loan, originally issued in May 2015 for an amount of 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 2018, 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 2018 (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 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 Optimisation Agreement, the Meeting of 30 March 2018 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 Debenture Loan and the Simest loan:

(Thousands of Euro)

Maturities	Debenture loan	Simest Loan	Total
2019	3,920	419	4,339
Amortised cost	-77	0	-77
Other Current financial liabilities	**3,843**	**419**	**4,262**
2020	5,226	210	5,436
2021	7,840	0	7,840
2022	11,299	0	11,299
Amortised cost	-148	0	-148
Other Non-current financial liabilites	**24,217**	**210**	**24,427**
Total	**28,060**	**629**	**28,689**

17. PROVISIONS FOR RISKS AND CHARGES

This item and changes in it are shown in detail below:

(Thousands of Euro)

Provisions for risks and charges	31/12/2017	Allocation	Utilisation	Other changes	31/12/2018
Provision for product warranties	4,902	1,790	-2,276	146	4,562
Provision for lawsuits in progress	202		-51	-9	142
Provisions for pensions	57	8		-2	63
Other provisions	6,730	356	-6,234	-176	676
Total	**11,891**	**2,154**	**-8,561**	**-41**	**5,443**

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 with reference to the historical data of the Group companies, on the basis of specific contractual content. At 31 December 2018 this provision totalled Euro 4,562 thousand. Uses of the risk provision totalling Euro 2,276 thousand are due to the coverage of warranty costs correlated with supplies of components in previous years.

The provision for tax risks and lawsuits in progress relates primarily to the probable payment for a dispute with a service provider declared bankrupt.

The pensions reserve relates to the provision accrued for additional customer indemnity, including provisions for the year of Euro 8 thousand.

As described in detail in the Annual Financial Report at 31 December 2017, the Other Provisions item included Euro 4,040 thousand relating to the provision for company restructuring charges for a mobility and voluntary resignation incentive procedure of Landi Renzo S.p.A. and Lovato Gas S.p.A., agreed upon with the unions in December 2017 and January 2018, respectively. The company reorganisation plan was completed in the first half of 2018, with the relative payment of voluntary resignation incentives and the relative TFR (severance indemnity). An agreement was also entered into during the year with a major OEM customer to fully settle all disputes relating to the 2011-2017 period, for which a specific provision had been recognised in the financial statements in previous years. Following that agreement, Euro 1,948 thousand of the provision was used in the course of the year.
In 2018, a further provision of Euro 350 thousand was recognised linked to possible disputes by a major foreign After Market customer, currently under negotiation with the counterparty.

18. 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	31/12/2017	Allocation	Utilisation	Other changes	Variation in the consolidation area	31/12/2017
Employee severance indemnity reserve	2,446	18	-788	-30		1,646

The provision of Euro 18 thousand relates to revaluation of the employee severance indemnity reserve at the end of the period, while use of Euro 788 thousand refers to the amounts paid to employees who ceased working during the year, in particular following voluntary retirements during the year as part of the company restructuring plan agreed upon with the unions. The other changes relate to the actuarial adjustment of the reserve by Euro -30 thousand, accounted for in 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	31/12/2018
Demographic table	SIM AND SIF 2016
Discount rate (Euro Swap)	Curve of the Markit iBoxx € Corporate AA 7-10 rates at 31/12/2018 (1.13%)
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 shows insignificant variances with respect to the value recognised in the financial statements at 31 December 2018.

19. DEFERRED TAX LIABILITIES

At 31 December 2018 deferred tax liabilities that do not meet the offsetting requirements totalled Euro 339 thousand (Euro 423 thousand at 31 December 2017) with a decrease equal to Euro 84 thousand, and are primarily related to temporary differences between the book values of certain intangible assets and the values recognised for tax purposes.

The following table shows the values of the deferred tax liabilities and their movements from 31 December 2017 to 31 December 2018:

(Thousands of Euro)

Deferred tax liabilities	31/12/2017	Uses	Temporary differences	Other changes	31/12/2018
Intangible assets	410	-86			324
Other temporary differences	13		2		15
Total deferred tax liabilities	**423**	**-86**	**2**	**0**	**339**

CURRENT LIABILITIES

20. BANK FINANCING AND SHORT-TERM LOANS

At 31 December 2018 this item, totalling Euro 16,203 thousand, compared with Euro 7,741 thousand in 2017, was made up of the current portion of existing loans and financing totalling Euro 3,212 thousand, net of the effect of amortised cost, and the use of short-term commercial credit lines totalling Euro 12,991 thousand.

(Thousands of Euro)

Bank financing and short-term loans	31/12/2018	31/12/2017	Change
Advances, Import fin. and other current bank payables	12,991	5,648	7,343
Loans and financing	3,321	2,214	1,107
Amortised cost	-109	-121	12
Total	**16,203**	**7,741**	**8,462**

The table below provides the detail of the Group's Net Financial Position:

(Thousands of Euro)

	31/12/2018	31/12/2017
Cash and cash equivalents	15,075	17,779
Bank financing and short-term loans	-16,203	-7,741
Bonds issued (net value)	-3,843	-2,373
Short-term loans	-419	-419
Net short term indebtedness	**-5,390**	**7,246**
Bonds issued (net value)	-24,219	-28,679
Medium-long term loans	-23,263	-27,535
Net medium-long term indebtedness	**-47,482**	**-56,214**
Net financial position	**-52,872**	**-48,968**

The net financial position at 31 December 2018 is negative for Euro 52,872 thousand, basically in line with 31 December 2017 (a negative Euro 48,968 thousand), despite non-recurring expenditure incurred for voluntary resignation incentives and the relative TFR as part of the reorganisation plan for Euro 4,377 thousand and tangible and intangible assets for Euro 8,379 thousand.

For an analysis related to the generation and absorption of liquidity during the year, please refer to the consolidated cash flow statement.

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.

21. OTHER CURRENT FINANCIAL LIABILITIES

This item breaks down as follows:

(Thousands of Euro)

Other non-current financial liabilities	31/12/2018	31/12/2017	Change
Payables to other financial backers (Simest)	419	419	0
Debenture loan MT Landi Renzo 6.10% 2015-2020	3,920	2,613	1,307
Amortised cost	-77	-240	163
Total	**4,262**	**2,792**	**1,470**

At 31 December 2018, other current financial liabilities totalled Euro 4,262 thousand (Euro 2,792 thousand at 31 December 2017) and are mainly formed of:

- Euro 419 thousand in the short-term portion of a subsidised loan disbursed by Simest S.p.A. to support a plan to expand trade in the USA;

Euro 3,843 thousand, net of the effect of the amortised cost evaluation, for the short-term portion of the “LANDI RENZO 6.10% 2015-2022” debenture loan (according to the maturity dates laid out in the loan regulations updated at 30 March 2017).

22. TRADE PAYABLES

Trade payables at 31 December 2018 totalled Euro 55,166 thousand; at 31 December 2017, they totalled Euro 47,829 thousand, and therefore increased by Euro 7,337 thousand, mainly due to the increase in Group business volume.

Trade payables (including trade payables to related parties) can be analysed by geographical segment as follows:

(Thousands of Euro)

Trade payables by geographical area	31/12/2018	31/12/2017	Change
Italy	45,860	38,817	7,043
Europe (excluding Italy)	6,140	7,140	-1,000
America	927	416	511
Asia and Rest of the World	2,239	1,456	783
Total	**55,166**	**47,829**	**7,337**

Trade payables to related parties of Euro 3,820 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.

23. TAX LIABILITIES

At 31 December 2018 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 2,385 thousand, compared with Euro 3,003 thousand at 31 December 2017.

24. OTHER CURRENT LIABILITIES

This item breaks down as follows:

(Thousands of Euro)

Other current liabilities	31/12/2018	31/12/2017	Change
Payables to welfare and social security Social	1,460	1,625	-165
Other payables (payables to employees, to others)	3,889	3,290	599
Payments on account	203	109	94
Accrued expenses and deferred income	46	74	-28
Total	**5,598**	**5,098**	**500**

Other payables are up from Euro 5,098 thousand at 31 December 2017 to Euro 5,598 thousand at 31 December 2018, primarily due to the provision recognised for the medium/long-term performance bonus for the 2016-2018 three-year period recognised to several directors, for a total of Euro 1,000 thousand.

INCOME STATEMENT

Following the extraordinary transactions occurring at the end of the previous financial year, leading to the deconsolidation of the "Sound" and "Gas Distribution and Compressed Natural Gas" segments, the financial data for the year ended at 31 December 2018 are not directly comparable with the same period of 2017.

25. REVENUES FROM SALES AND SERVICES

This item breaks down as follows:

(Thousands of Euro)

Revenues from sales and services	31/12/2018	31/12/2017	Change
Revenues related to the sale of assets	183,271	198,854	-15,583
Revenues for services and other revenues	4,808	7,440	-2,632
Total	**188,079**	**206,294**	**-18,215**

In the financial year which closed on 31 December 2018, the Landi Renzo Group achieved revenues on sales and services of Euro 188,079 thousand, a decrease of 8.8% on the previous year, due to the extraordinary transactions referred to above leading to the deconsolidation of the Sound and Gas Distribution and Compressed Natural Gas segments. For the same scope (Automotive segment), there was, on the other hand, an 12.5% increase in revenues compared with the previous financial 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.

Revenues from related parties totalling Euro 1,987 thousand refer to supplies of goods to the Joint Venture Krishna Landi Renzo India Private Ltd Held and to the Joint Venture EFI Avtosanoat-Landi Renzo LLC, as well as to the supply of services to the joint venture SAFE & CEC S.r.l.
See the Report on Operating Performance for further details on performance of revenues on sales.

26. OTHER REVENUES AND INCOME

Other revenues and income totalled Euro 1,482 thousand, compared with Euro 4,222 thousand at 31 December 2017, and are broken down as follows:

(Thousands of Euro)

Other revenue and income	31/12/2018	31/12/2017	Change
Grants	1,203	551	652
Other income	279	3,671	-3,392
Total	**1,482**	**4,222**	**-2,740**

Contributions relate to tax credits for research and development for development projects relating to innovative components in the *Automotive* segment, totalling Euro 1,203 thousand, of which Euro 637 thousand already used during the year.

The significant amount of the item Other revenue and income at 31 December 2017 mainly due to the capital gain realised 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.

27. COST OF RAW MATERIALS, CONSUMABLES AND GOODS AND CHANGE IN INVENTORIES

This item breaks down as follows:

(Thousands of Euro)

Cost of raw materials, consumables and goods and change in inventories	31/12/2018	31/12/2017	Change
Raw materials and parts	76,003	81,225	-5,222
Finished products intended for sale	15,287	16,861	-1,574
Other materials and equipment for use and consumption	1,802	2,441	-639
Total	**93,092**	**100,527**	**-7,435**

Total costs for consumption of raw materials, consumables and goods (including the change in inventories) decreased from Euro 100,527 thousand at 31 December 2017 to Euro 93,092 thousand at 31 December 2018, a decline of Euro 7,435 thousand due to the extraordinary transactions mentioned above leading to the deconsolidation of the Sound and Gas Distribution and Compressed Natural Gas segments.

28. 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	31/12/2018	31/12/2017	Change
Industrial and technical services	25,953	30,750	-4,797
Commercial services	4,180	5,600	-1,420
General and administrative services	7,755	10,242	-2,487
Costs for use of non-Group assets	3,589	5,264	-1,675
Extraordinary services	2,623	5,451	-2,828
Total	**44,100**	**57,307**	**-13,207**

Costs for services and the use of third party assets at 31 December 2018 totalled Euro 44,100 thousand, compared to Euro 57,307 thousand at 31 December 2017, with a decrease of Euro 13,207 thousand due to the extraordinary transactions mentioned above leading to the deconsolidation of the Sound and Gas Distribution and Compressed Natural Gas segments.

Extraordinary services declined from Euro 5,451 thousand in 2017 to Euro 2,623 thousand in 2018 and mainly include expenses relating to the appointment of a top consulting firm engaged to support the Chief Executive Officer and the company management in preparing and implementing an EBITDA improvement action plan.

29. PERSONNEL EXPENSES

Personnel expenses are shown in detail below:

(Thousands of Euro)

Personnel costs	31/12/2018	31/12/2017	Change
Wages and salaries	16,232	25,314	-9,082
Social security contributions	5,436	7,628	-2,192
Expenses for defined benefit plans	1,029	1,641	-612
Temporary agency work and transferred work	3,372	2,970	402
Directors’ remuneration	979	989	-10
Non-recurrent personnel costs and expenditure	1,102	4,639	-3,537
Total	**28,150**	**43,181**	**-15,031**

In the year ending at 31 December 2018, personnel expenses totalled Euro 28,150 thousand, compared with personnel expenses of Euro 43,181 thousand in the year ending at 31 December 2017.

The significant decrease in personnel costs can be attributed to the benefits resulting from the completion of the mobility procedure regarding the Parent Company and the subsidiary Lovato Gas S.p.A. as well as the deconsolidation of SAFE S.p.A. and the disposal of Eighteen Sound S.r.l.
Non-recurring personnel costs include primarily Euro 1,000 thousand for the medium/long-term incentive plan recognised to several directors for the results achieved in the 2016-2018 period, as well as costs for early resignation incentives settled during the year, amounting to Euro 102 thousand.
It is acknowledged that in 2017 the item in question included Euro 4,040 thousand relating to the provision for the above-mentioned mobility and voluntary resignation incentive procedure involving the Parent Company and the subsidiary Lovato S.p.A., communicated to the unions in 2017 and concluded with the signing of the relative agreements with the unions in December 2017 and January 2018, respectively. These incentives were disbursed in full in the first half of 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:

	Average			Precise			
Number of employees	**31/12/2018**	**31/12/2017**	**Change**	**31/12/2018**	**31/12/2017**	**31/12/2017 (*)**	**Change**
Executives and Clerical Staff	304	475	-171	292	365	433	-73
Manual workers	199	293	-94	202	234	277	-32
Total	**503**	**768**	**-265**	**494**	**599**	**710**	**-105**

(*) 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 the mobility procedures involving the Parent Company and Lovato Gas S.p.A., as well as the extraordinary transactions mentioned above leading to the deconsolidation of SAFE S.p.A. and the Sound segment.

30. ACCRUALS, WRITE-DOWNS OF RECEIVABLES AND OTHER OPERATING EXPENSES

This item breaks down as follows:

(Thousands of Euro)

Accruals, write-downs and other operating expenses	31/12/2018	31/12/2017	Change
Other taxes and duties	220	357	-137
Other operating expenses	251	1,082	-831
Losses on receivables	5	51	-46
Provision for product warranties	1,790	1,780	10
Other accruals	350	0	350
Bad debts	91	632	-541
Accruals, write-downs and other non-recurrent operating expenses	0	900	-900
Total	**2,707**	**4,802**	**-2,095**

The costs included in this item totalled Euro 2,707 thousand at 31 December 2018, compared with Euro 4,802 thousand at 31 December 2017, with a decrease of Euro 2,095 thousand.

As regards provisions for funds for risks and charges refer to paragraph 17. Other accruals relates to a provision of Euro 350 thousand linked to possible disputes by a major foreign After Market customer, currently under negotiation with the counterparty.

31. AMORTISATION, DEPRECIATION AND IMPAIRMENT

This item breaks down as follows:

(Thousands of Euro)

Amortisation, depreciation and impairment	31/12/2018	31/12/2017	Change
Amortisation of intangible assets	5,491	7,090	-1,599
Depreciation of tangible assets	4,752	7,115	-2,363
Impairment of tangible assets	0	1,984	-1,984
Total	**10,243**	**16,189**	**-5,946**

Amortisation, depreciation and impairment at 31 December 2018 totalled Euro 10,243 thousand, compared with Euro 16,189 thousand at 31 December 2017.

The amortisation of intangible assets, of Euro 5,491 thousand, refers primarily to the amortisation 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 4,752 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.

Impairment of tangible assets in the previous year refers 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. This sale entailed a significant reduction in the depreciation of property, plant and equipment during the current year.

32. FINANCIAL INCOME

This item breaks down as follows:

(Thousands of Euro)

Financial income	31/12/2018	31/12/2017	Change
Interest income on bank deposits	60	8	52
Other income	78	83	-5
Total	**138**	**91**	**47**

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 2018 they amount to Euro 138 thousand, compared with Euro 91 thousand at 31 December 2017.

33. FINANCIAL EXPENSES

This item breaks down as follows:

(Thousands of Euro)

Financial expenses	31/12/2018	31/12/2017	Change
Interest on bank overdrafts and loans and loans from other financiers	3,112	3,437	-325
Bank charges and commissions	934	950	-16
Other operating expenses	12	9	3
Total	**4,058**	**4,396**	**-338**

Financial expenses at 31 December 2018 amounted to Euro 4,058 thousand (Euro 4,396 thousand at 31 December 2017) and essentially include bank interest charges, interest on bonds and non-recourse factoring, actuarial losses deriving from the discounting of the employee severance indemnity reserve and bank charges.

34. EXCHANGE GAINS AND LOSSES

This item breaks down as follows:

(Thousands of Euro)

Exchange gains and losses	31/12/2018	31/12/2017	Change
Positive exchange differences realised	2,065	976	1,089
Positive exchange differences from valuation	1,523	734	789
Negative exchange differences realised	-1,814	-789	-1,025
Negative exchange differences from valuation	-3,347	-2,794	-553
Total	**-1,573**	**-1,873**	**300**

The Group realises its revenues mainly in Euro.

The impact of rate differences on the year was negative and totalled Euro 1,573 thousand, compared with exchange losses of Euro 1,873 thousand in 2017.

At 31 December 2018, 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)

	31/12/2018	31/12/2017
Interest income on cash and cash equivalents	60	8
Interest expenses from financial liabilities valued at the amortised cost	-3,112	-3,437
Exchange gains (losses)	-1,573	-1,873
Total	**-4,625**	**-5,302**

35. INCOME (EXPENSES) FROM EQUITY INVESTMENTS

At 31 December 2017, this item, totalling Euro 21,134 thousand, included:

- Euro 21.8 million, for the non-recurrent capital gains from the aggregation of SAFE & CEC, which led to the loss of control over the company SAFE S.p.A., previously owned 100% by the Parent Company, and the accounting of the fair value of 51% of the stake in the newco SAFE & CEC;
- Euro 0.7 thousand, for the non-recurrent capital loss deriving from the sale of 100% of the stake in Eighteen Sound S.p.A. and its subsidiary Sound & Vision S.p.A.

These transactions are described in detail in the Financial Report as at 31 December 2017.

36. INCOME (EXPENSES) FROM JOINT VENTURES VALUED USING NET EQUITY METHOD

This item, totalling Euro -1,591 thousand (Euro 8 thousand as at 31 December 2017), includes the valuation using the equity method of the Group's equity investments and joint ventures, or mainly:

- the write-down of the equity investment in the joint venture SAFE&CEC S.r.l. of Euro 1,895 thousand;
- the revaluation of the equity investment in the company Krishna Landi Renzo India Private Ltd for Euro 308 thousand (revaluation of Euro 33 thousand at 31 December 2017).

37. TAXES

Income taxes are shown in detail below:

(Thousands of Euro)

Taxes	31/12/2018	31/12/2017	Change
Current taxes	4,938	1,623	3,315
Deferred (prepaid) taxes	-5,286	-1,851	-3,435
Total	**-348**	**-228**	**-120**

Taxes totalled a positive Euro 348 thousand at 31 December 2018, compared with a positive Euro 228 thousand at 31 December 2017.

As already highlighted, the Parent Company recognised deferred tax assets on previous tax losses on the basis of a specific tax plan prepared with the support of tax advisors, for Euro 3,047 thousand.

Current taxes are shown in detail in the table below:

(Thousands of Euro)

Current taxes	31/12/2018	31/12/2017	Change
IRES	3,421	587	2,834
IRAP	267	149	118
Current taxes of foreign companies	1,250	887	363
Total	**4,938**	**1,623**	**3,315**

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.

38. EARNINGS (LOSS) PER SHARE

The "basic" 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 "basic" earnings share, which corresponds to the "diluted" loss per share, since there are no convertible bonds, was Euro 0.0415 at 31 December 2018, compared with a loss per share of Euro 0.0368 at 31 December 2017.

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	31/12/2018	31/12/2017
Consolidated profit/(loss) for the period attributable to the Parent Company shareholders (Euro/thousand)	4,671	4,139
Average number of shares in circulation	112,500,000	112,500,000
Basic earnings/(loss) per share for the period	0.0415	0.0368

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)	31/12/2018		31/12/2017	
	Book value	Fair value	Book value	Fair value
Receivables and other current assets	42,471	42,471	35,800	35,800
Cash and cash equivalents	15,075	15,075	17,779	17,779
Trade payables	60,718	60,718	52,853	52,853
Financial liabilities valued at the amortised cost - non-current portion	23,055	23,055	26,906	26,906
Financial liabilities valued at the amortised cost - current portion	20,465	20,465	10,533	10,533

Note that the book value of bank overdrafts and short-term loans and loans and financing approximates their fair value at 31 December 2018, since such classes of financial instruments are indexed at the Euribor market rate.

40. COMMITMENTS

At 31 December 2018, 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:

Commitments for rental	within 12 months	from 1 to 5 years	over 5 years
Year 2018	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 2,934 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, for buildings and auto vehicles and other assets, to be paid totalled Euro 2,031thousand within one year and Euro 3,376 thousand after one year.

42. ANALYSIS OF THE MAIN DISPUTES IN PROGRESS

At 31 December 2018, the Group is involved in proceedings, brought both by and against it, for non-significant amounts.

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 and a portion of the New Technical Centre of the Parent Company and the subsidiaries;
- 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 production plant on Via dell’Industria in Cavriago;

- the transactions 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.
- transactions for the supply of services between Landi Renzo S.p.A. and SAFE&CEC S.r.l. relating to the chargeback of service and IT costs.

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 summarises the relationships with related parties:

Company	Sales revenues	Revenues for services and other revenues	Purchase of finished products	Costs for use of third party assets	Costs for services	Expense (Income) from JVs valued using the net equity method	Receivables	Payables
SAFE&CEC S.r.l.		398				-1,895	1	
Gestimm S.r.l.				622				156
Krishna Landi Renzo India Priv. Ltd	1,102		137		3	308	1,790	59
Efi Avtosanoat	462						551	
Reggio Properties LLC				101				
Gireimm S.r.l.				1,279				3,605
Landi Renzo Argentina						-4		
Autofuels							263	
	1,564	**398**	**137**	**2,002**	**3**	**-1,591**	**2,605**	**3,820**

44. NON-RECURRING SIGNIFICANT EVENTS AND TRANSACTIONS

Pursuant to CONSOB communication no. 6064293 of 28 July 2006, regarding non-recurrent significant events or transactions occurring during 2018, we highlight the existence of non-recurring transactions specified in paragraph “Non-current liabilities” – “Financial Optimization Agreement” and in Notes 28 and 29 of the Consolidated Income Statement, related respectively to the modification of the regulation of the Bond Loan and costs incurred for strategic consultancy to support the Chief Executive Officer and the company management (Euro 2,623 thousand) and provisions for medium/long-term performance bonuses relating to the 2016-2018 three-year period recognised to several directors (Euro 1,000 thousand), plus some redundancy payments paid during the year (Euro 102 thousand).

Also in light of CONSOB communication no. 0031948 of 10 March 2018, 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 2018 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	Remuneration 2018
Auditing	PricewaterhouseCoopers S.p.A.	278
Other services	PricewaterhouseCoopers S.p.A. and PwC network	31

Annex 1

Consolidated Income Statement at 31 December 2018, 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 thousands of Euro).

(Thousands of Euro)

CONSOLIDATED INCOME STATEMENT	Notes	31/12/2018	of which transactions with related parties	Weight %	31/12/2017	of which transactions with related parties	Weight %
Revenues from sales and services	25	188,079	1,987	1.1%	206,294	554	0.3%
Other revenue and income	26	1,482			4,222		
Cost of raw materials, consumables and goods and change in inventories	27	-93,092	-137	0.1%	-100,527		
Costs for services and use of third party assets	28	-44,100	-2,005	4.5%	-57,307	-2,897	5.1%
Personnel costs	29	-28,150			-43,181		
Provisions, provision for bad debts and other operating expenses	30	-2,707			-4,802		
Gross operating profit		**21,512**			**4,699**		
Amortisation, depreciation and impairment	31	-10,243			-16,189		
Net operating profit		**11,269**			**-11,490**		
Financial income	32	138			91		
Financial expenses	33	-4,058			-4,396		
Exchange gains (losses)	34	-1,573			-1,873		
Profit (loss) attributable to investments	35	0			21,134	21,818	103.2%
Profit (loss) attributable to joint ventures valued using net equity method	36	-1,591	-1,591	100.0%	8		
Profit (loss) before tax		**4,185**			**3,474**		
Current and deferred taxes	37	348			228		
Net profit (loss) for the Group and minority interests, including:		**4,533**			**3,702**		
Minority interests		-138			-437		
Net profit (loss) for the Group		4,671			4,139		
Basic earnings (loss) per share (calculated on 112,500,000 shares)	38	0.0415			0.0368		
Diluted earnings (loss) per share		0.0415			0.0368		

Annex 2

Consolidated Statement of Financial Position at 31 December 2018, 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 thousands of Euro).

(Thousands of Euro)

ASSETS	Notes	31/12/2018	of which transactions with related parties	Weight %	31/12/2017	of which transactions with related parties	Weight %
Non-current assets							
Land, property, plant, machinery and equipment	2	12,745			14,583		
Development expenditure	3	6,932			5,401		
Goodwill	4	30,094			30,094		
Other intangible assets with finite useful lives	5	14,039			15,769		
Equity investments valued using the equity method	6	22,292			24,301		
Other non-current financial assets	7	352			428		
Other non-current assets	8	3,991			4,560		
Deferred tax assets	9	10,538			8,016		
Total non-current assets		**100,983**			**103,152**		
Current assets							
Trade receivables	10	35,131	2,605	7.4%	29,118	1,675	5.8%
Inventories	11	38,895			36,562		
Other receivables and current assets	12	8,016			7,529		
Cash and cash equivalents	13	15,075			17,779		
Total current assets		**97,117**			**90,988**		
TOTAL ASSETS		**198,100**			**194,140**		

(Thousands of Euro)

SHAREHOLDERS' EQUITY AND LIABILITIES	Notes	31/12/2018	of which transactions with related parties	Weight %	31/12/2017	of which transactions with related parties	Weight %
Equity							
Share capital	14	11,250			11,250		
Other reserves	14	43,931			41,983		
Profit (loss) for the period	14	4,671			4,139		
Total Equity of the Group		**59,852**			**57,372**		
Minority interests	14	-276			-669		
TOTAL SHAREHOLDERS' EQUITY		**59,576**			**56,703**		
Non-current liabilities							
Non-current bank loans	15	23,055			26,906		
Other non-current financial liabilities	16	24,427			29,308		
Provisions for risks and charges	17	5,443			11,891		
Defined benefit plans for employees	18	1,646			2,446		
Deferred tax liabilities	19	339			423		
Total non-current liabilities		**54,910**			**70,974**		
Current liabilities							
Bank financing and short-term loans	20	16,203			7,741		
Other current financial liabilities	21	4,262			2,792		
Trade payables	22	55,166	3,820	6.9%	47,829	4,664	9.8%
Tax liabilities	23	2,385			3,003		
Other current liabilities	24	5,598			5,098		
Total current liabilities		**83,614**			**66,463**		
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**198,100**			**194,140**		

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 2018.

In addition, the undersigned state that the consolidated financial statements at 31st December 2018:

- have been prepared in accordance with the international accounting standards acknowledged by the European Community 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, 14th March 2019

CEO	The Officer in Charge
Cristiano Musi	Paolo Cilloni

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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 also the "Company") and its subsidiaries (hereinafter also the "Landi Renzo Group"), which comprise the consolidated statement of financial position as of 31 December 2018, 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 2018 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.

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 (hereinafter also "CGU") "Lovato Gas SpA" and "Landi Renzo SpA" amounted to Euro 27.7 million and Euro 2.4 million, respectively. These figures aren't changed at 31 December 2018. During the financial year ended at 31 December 2018 the Landi Renzo Group has completed a reorganization process at Group level that has deeply changed the organizational and production cycles inside the "Automotive" segment and, particularly, of the subsidiary Lovato Gas SpA. Following the completion of the reorganization process above mentioned, the directors of Landi Renzo SpA have reviewed the CGUs formerly detected and, particularly, have identified the "Automotive" segment as new and sole CGU where allocate the goodwill recorded in the consolidated financial statements amounting to total Euro 30.1 million. 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 significant impact of this caption on the Group consolidated statement of financial position and in consideration of the revenue growth forecasts	Our audit approach preliminarily consisted of understanding and evaluating the methods and procedures defined by the Company to determine the recoverable amounts of the CGU including the goodwill, as approved by the statutory board of directors on 14 March 2019, in compliance with IAS 36 as adopted by the European Union. In particular, we verified the reasonableness of the main assumptions of the directors of Landi Renzo SpA underlying the mentioned aggregation process of those CGUs previously identified to a sole CGU, and the consistency of these assumptions with those effects generated by the completion of the reorganization process at Group Level. Moreover, 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. In particular, 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 Economic and Financial Plan.

included in the Economic and Financial Plan 2019-2023. The valuation models underlying the determination of the recoverable amounts (value in use) of the CGU including the goodwill are based on complex evaluations and estimates of management, having as a reference the business plan approved by the Company's board of directors on 13 September 2017, revised in order to take in account values from the Budget 2019 approved by the Company's board of directors on 14 March 2019 and values for the financial year 2023. In particular, the valuation models of the recoverable amounts of the CGU including the 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.	Considering that forecast cash flows are a particularly significant parameter for the determination of the recoverable amounts of the CGU including the 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 Economic-Financial 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 the CGU including the 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 2018 amounted to Euro 14.2 million, partially offset by deferred tax liabilities equal to Euro 3.7 million, giving a net deferred tax asset equal to Euro 10.5 million. Deferred tax assets relate for Euro 5.3 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 8.9 million to prior tax losses,considered as substantially recoverable during the first three years of the above mentioned Economic and Financial Plan. 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 significant impact of this caption on the	 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 is closely related to the existence of future taxable income and, therefore, to the achievement of the prospective results included in the above mentioned Economic and Financial 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 13.5 million to Italian subsidiaries included in the

consolidated statement of the financial position and on the consolidated income statement of Landi Renzo Group, 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 Economic and Financial Plan.	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 2019-2023, which are based on the net results included in the mentioned Economic and Financial Plan. We verified the reasonableness of the net results included in the Economic and Financial 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 Economic and Financial Plan. Finally, we verified the disclosures provided by the Company in the consolidated financial statements about the elements supporting the recoverability of deferred tax assets.

Evaluation of investment in SAFE&CEC Srl

See notes 6 and 36 of the explanatory notes

At December 31, 2018, the carrying amount of the investment in the company SAFE&CEC Srl measured with the equity method amounted to € 21.9 million. The Company verifies for the presence of impairment indicators that could give rise to doubts about the recoverability of the value of the investment. This aspect was considered of particular relevance for the statutory audit of the consolidated financial statements in consideration of the significant impact of the item on the consolidated statement of financial position and on the consolidated income statement of the Landi Renzo Group, also considering the value of goodwill included in the participation. The directors of Landi Renzo SpA have requested and obtained the following documentation approved by the statutory board of	The audit approach preliminarily consisted of understanding and evaluating of the methods adopted by the directors of Landi Renzo SpA for the purpose of recording the value of the equity investment of the company SAFE&CEC Srl with the equity method and the analyses carried out by the same with reference to the presence of any impairment indicators. We also verified the reasonableness of the methods adopted and of the main assumptions reflected in the impairment test evaluation model (method of discounting cash flows) prepared by the directors of SAFE&CEC Srl with the support of external advisors, also involving PwC network valuation experts. In particular, we verified the reasonableness of the discount rate and the perpetual growth rate with respect to the

directors of SAFE&CEC Srl on 11 March 2019, for the purpose of evaluating the carrying value of the equity investment held in SAFE&CEC Srl and of the analysis of any presence of impairment indicators: (i) statutory and consolidated financial statements at 31 December 2018; (ii) budget 2019 and (iii) impairment test on the goodwill recorded in the consolidated financial statements of SAFE&CEC Srl at 31 December 2018. Following the aforementioned analysis, no impairment indicators were identified with reference to the book value of the equity investment of SAFE&CEC Srl.	valuation practices usually adopted for companies belonging to the industry in which Landi Renzo Group operates. We also verified that the cash flow included in the valuation model were consistent with those included in the plans approved by the directors. Considering that the forecast cash flows are a particularly significant parameter for the determination of the recoverable amount as it depends on to future and uncertain events, we analysed the reasonableness of the estimated future cash flow through interviews with company management of Landi Renzo SpA and SAFE&CEC Srl, with the consultants used by the directors of SAFE&CEC Srl also through the involvement of PwC network experts of the Automotive segment, who supported us in the critical analysis about the reasonableness of the forecasts included in the plans. Finally, we verified the disclosures provided by the Company in the consolidated financial statements about the analyses carried out to identify the lack of impairment indicators.

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 2018, 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 2018 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 2018 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, 29 March 2019

PricewaterhouseCoopers SpA

Signed by

Nicola Madureri
(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 2018 Landi Renzo S.p.A.

STATEMENT OF FINANCIAL POSITION

(Euro)

ASSETS	Notes	31/12/2018 (*)	31/12/2017
Non-current assets			
Land, property, plant, machinery and equipment	2	9,672,207	9,964,851
Development expenditure	3	6,771,765	4,953,932
Goodwill	4	2,372,845	2,372,845
Other intangible assets with finite useful lives	5	5,882,887	6,483,969
Investments in subsidiaries	6	54,271,892	56,013,238
Equity investments in associated companies and joint ventures	7	22,464,490	24,473,316
Other non-current financial assets	8	395,874	395,874
Other non-current assets	9	3,991,430	4,561,430
Deferred tax assets	10	10,825,852	7,751,453
Total non-current assets		**116,649,242**	**116,970,908**
Current assets			
Trade receivables	11	15,709,738	12,799,945
Receivables from subsidiaries	12	12,035,068	13,434,065
Inventories	13	24,750,381	20,271,041
Other receivables and current assets	14	4,974,651	5,179,972
Cash and cash equivalents	15	8,531,249	7,225,430
Total current assets		**66,001,087**	**58,910,453**
TOTAL ASSETS		**182,650,329**	**175,881,361**

SHAREHOLDERS' EQUITY AND LIABILITIES	Notes	31/12/2018 (*)	31/12/2017
Equity			
Share capital	16	11,250,000	11,250,000
Other reserves	16	39,652,474	38,032,481
Profit (loss) for the period	16	226,353	1,938,986
TOTAL SHAREHOLDERS' EQUITY		**51,128,827**	**51,221,467**
Non-current liabilities			
Non-current bank loans	17	19,450,413	23,338,908
Other non-current financial liabilities	18	26,578,337	32,257,572
Provisions for risks and charges	19	4,073,038	9,012,497
Defined benefit plans for employees	20	1,497,376	1,999,508
Total non-current liabilities		**51,599,164**	**66,608,485**
Current liabilities			
Bank financing and short-term loans	21	13,165,543	6,129,157
Other current financial liabilities	22	4,262,312	2,792,482
Trade payables	23	45,295,377	35,924,139
Payables to subsidiaries	24	11,939,673	8,391,553
Tax liabilities	25	918,682	1,153,057
Other current liabilities	26	4,340,751	3,661,021
Total current liabilities		**79,922,338**	**58,051,409**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**182,650,329**	**175,881,361**

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 a specific table in Annex 2.

(*) This table includes data from the merger by incorporation of the subsidiary Emmegas S.r.l.

INCOME STATEMENT

(Euro)

		31/12/2018 (*)	31/12/2017 (**)
Revenues from sales and services	27	135,986,583	111,073,954
Other revenue and income	28	1,359,938	915,334
Cost of raw materials, consumables and goods and change in inventories	29	-67,142,786	-53,624,202
Costs for services and use of third party assets	30	-36,062,677	-35,903,190
Personnel costs	31	-20,351,955	-24,632,353
Provisions, provision for bad debts and other operating expenses	32	-1,894,779	-2,577,608
Gross operating profit		**11,894,324**	**-4,748,065**
Amortisation, depreciation and impairment	33	-7,427,851	-11,270,976
Net operating profit		**4,466,473**	**-16,019,041**
Financial income	34	92,259	201,481
Financial expenses	35	-3,451,011	-3,641,463
Exchange gains (losses)	36	427,115	-1,298,666
Income (expenses) from equity investments	37	-2,098,344	21,166,701
Income (expenses) from joint ventures valued using net equity method	38	-1,590,836	7,860
Profit (loss) before tax		**-2,154,344**	**416,872**
Taxes	39	2,380,697	1,522,114
Profit (loss) for the year		**226,353**	**1,938,986**

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

(*) This table includes data from the merger by incorporation of the subsidiary Emmegas S.r.l.

(**) The comparative figures were restated in line with the classification set forth in the amendments to IAS 1 applied as of the 2018 financial year

STATEMENT OF COMPREHENSIVE INCOME

(Euro)

		31/12/2018	31/12/2017
Net profit (loss) for the Group and minority interests:		**226,353**	**1,938,986**
Gains/losses that will not be subsequently reclassified in the income statement			
Remeasurement of employee defined benefit plans (IAS 19)	20	15,683	-79,056
Total gains/losses that will not be subsequently reclassified in the Income Statement		**15,683**	**-79,056**
Gains/losses that will be subsequently reclassified in the Income Statement			
Valuation of joint ventures using the net equity method	7	-421,951	0
Total Gains/losses that will be subsequently reclassified in the Income Statement		**-421,951**	**0**
Profits/losses recorded directly in Equity after tax effects		**-406,268**	**-79,056**
Total Statement of Comprehensive Income for the period		**-179,915**	**1,859,930**

STATEMENT OF CASH FLOWS

(Thousands of Euro)

	31/12/2018 (*)	31/12/2017 (**)
Financial flows deriving from operating activities		
Pre-tax profit (loss) for the period	-2,155	417
Adjustments for:		
Net capital losses from disposal of a business unit	0	1,984
Depreciation of property, plant and equipment	3,265	4,574
Amortisation of intangible assets	4,163	4,713
Dividends distributed	-2,981	0
Loss (Profit) from disposal of tangible and intangible assets	-44	0
Exchange difference	-427	0
Impairment loss on receivables	44	139
Net financial expenses	3,359	4,739
Net income (expenses) from equity investments	6,670	-21,175
	11,894	**-4,609**
Changes in:		
inventories	-4,081	553
Trade receivables and other receivables	-2,309	2,323
Trade payables and other payables	13,058	6,015
Provisions and employee benefits	-5,440	1,680
Cash generated from operations	**13,122**	**5,962**
Interest paid	-3,799	-3,721
interest received	24	35
taxes paid	-118	0
Net cash generated from operating activities	**9,229**	**2,276**
Financial flows from investments		
Dividends cashed	2,981	0
Proceeds from the sale of property, plant and equipment	416	663
Receipts from sale of shares	0	6,788
Purchase of property, plant and equipment	-3,299	-1,174
Purchase of intangible assets	-162	-316
Loans to subsidiary companies	-1,173	-1,536
Development expenditure	-5,084	-1,910
Net cash absorbed by investment activities	**-6,321**	**2,515**
Free Cash Flow	**2,908**	**4,791**
Financial flows from financing activities		
Future share capital increase contributions	0	8,867
Bond repayments	-3,674	0
Disbursements (reimbursements) of medium/long-term loans	-3,312	-755
Cash contribution from merger	57	987
Change in short-term bank debts	5,327	-10,850
Net cash generated (absorbed) by financing activities	**-1,602**	**-1,751**
Net increase (decrease) in cash and cash equivalents	**1,306**	**3,040**
Cash and cash equivalents as at 1 January	7,225	4,185
Cash and cash equivalents al 31 December	8,531	7,225

(*) 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 Emmegas S.r.l. to represent the effective financial flows in the year.
(**) In order to provide better information and for greater conformity with the requirements of IAS 7, slight changes were made to the structure of the cash flow statement, resulting in the restatement of comparative data.

STATEMENT OF CHANGES IN EQUITY

(Thousands of Euro)

	Share capital	Statutory Reserve	Extraordinary and Other Reserves	Share Premium Reserve	Future share capital increase contribution	Result for the year	Equity
Balance 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 overall 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**
Effect of IFRS 9 application			-321				**-321**
Balance as at 01 January 2018	**11,250**	**2,250**	**-4,124**	**30,718**	**8,867**	**1,939**	**50,900**
Result for the year						226	**226**
Actuarial profits/losses (IAS 19)			16				**16**
Valuation of joint ventures using the net equity method			-422				**-422**
Total overall profits/losses	**0**	**0**	**-406**	**0**	**0**	**226**	**-180**
Allocation of profit			1,939			-1,939	**0**
Merger of Emmegas			409				**409**
Total effects deriving from transactions with shareholders	**0**	**0**	**2,348**	**0**	**0**	**-1,939**	**409**
Balance as at 31 December 2018	**11,250**	**2,250**	**-2,182**	**30,718**	**8,867**	**226**	**51,129**

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

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 2018.
We inform that the Company is not subject to coordination and supervision and that Girefin SpA based in Milan is the company that prepares the consolidated financial statements that includes the figures of Landi Renzo SpA and its subsidiaries. This consolidated financial statement is available at the Milan Business Register.

These financial statements are submitted to auditing carried out by the auditing firm PricewaterhouseCoopers S.p.A.

Significant events in the financial year
With a view to simplifying and optimising the group structure, as also set forth in the 2018-2022 Strategic Plan, in 2018 the subsidiary Emmegas S.r.l. was merged by incorporation into Landi Renzo S.p.A.
In addition, although it had no effects on the Company's separate financial statements, in December the meeting of bondholders of the Debenture loan "LANDI RENZO 6.10% 2015-2022", ISIN IT0005107237 approved the amendment of the regulation to postpone by one year the obligation to increase the share capital set forth in the financial structure optimisation agreement.
The effects of that transaction are described in detail below in these notes.

Emmegas S.r.l. merger

With accounting and tax effects from 1 January 2018, the subsidiary Emmegas S.r.l. 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 409 thousand, was classified as an increase of the net worth.

Following this extraordinary transaction the economic and asset values of the financial statements of the Company at 31 December 2018 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 Emmegas S.r.l. are indicated.

The accounting values, drafted in conformity with IAS/IFRS accounting standards, of the subsidiary Emmegas S.r.l. at 1 January 2018, are given below.

Emmegas S.r.l.

ASSETS (thousands of Euro)	01/01/2018
Non-current assets	
Land, property, plant machinery and equipment	45,613
Other intangible assets with finite useful lives	132,411
Other non-current financial assets	1,291
Deferred tax assets	63,350
Total non-current assets	**242,665**
Current assets	
Trade receivables	568,038
Inventories	399,403
Other receivables and current assets	107,035
Cash and cash equivalents	56,966
Total current assets	**1,131,442**
TOTAL ASSETS	**1,374,107**

ASSETS AND LIABILITIES (thousands of Euro)	01/01/2018
Equity	
Share capital	60,000
Other reserves	106,206
Profit for the year	243,210
Total Shareholders' Equity	**409,416**
Non-current bank loans	77,448
Provisions for risks and charges	13,665
Deferred tax liabilities	32,990
Total non-current liabilities	**124,103**
Current liabilities	
Bank financing and short-term loans	98,844
Trade payables	218,307
Payables to parent companies	514,651
Payables to associated companies	995
Tax liabilities	4,099
Other current liabilities	3,692
Total current liabilities	**840,588**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,374,107**

Amendment to the Debenture Loan Regulations

On 28 December 2018, the Meeting of Bondholders of the "LANDI RENZO 6.10% 2015-2022" loan, ISIN IT0005107237, under the chairmanship of Stefano Landi and in the presence of Notary Giuseppe Chiantera, unanimously (67.06% of the loan) approved the Board of Directors' proposal regarding amendments to the Debenture Loan Regulations in order to postpone from 31 December 2018 to 31 December 2019 the deadline by which to propose to the Company's shareholders' meeting the approval of the capital increase.

The resolution took effect immediately, as the lending banks had already released their waiver.

B) GENERAL CRITERIA FOR PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS 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 of Landi Renzo S.p.A. as of 31 December 2018 were approved and authorised for publication by the Board of Directors on 14 March 2019.

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".

Amendments and revised accounting standards applied by the Company for the first time

The accounting standards adopted in preparing the separate financial statements at 31 December 2018 are consistent with those adopted for the preparation of the financial statements in the previous year, with the exception of the adoption of the new accounting standards, amendments, improvements and interpretations applicable as of 1 January 2018 listed below.

EU endorsement regulation	**Description**
Regulation (EU) 2017/1989	IAS 12 Income taxes – 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 Statement of Cash Flows – 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. In particular, IFRS 9 introduces new criteria for the classification and assessment of financial assets and liabilities, with a new receivables impairment model, based on expected credit losses (ECL) and not on incurred losses as used by the IAS, introducing a new hedge accounting model as well as regulating the effects on financial liabilities subject to renegotiation.
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. The following process is to be followed for the recognition of revenue: 1) Identify the contract(s) with a customer 2) Identify the performance obligation 3) Determine the transaction price 4) Allocate the transaction price to the performance obligations 5) Recognise revenue when (or as) the entity satisfies a performance obligation.
Regulation (EU) 2016/1905	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. The amendment does not apply to the Company.

The accounting principles and modifications to the accounting principles described above, with the exception of IFRS 9, have not had significant effects on the Company's financial statements.

With reference to IFRS 9, the Company determined the effects on the accounts deriving from the application of paragraph B.5.4.6 of the standard, which governs the impact in terms of the amortised cost on financial liabilities deriving from a change in the related financial flow plan, due to both a revised estimate and 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 this paragraph has led to the adjustment of the value of some financial liabilities (convertible bonds and medium and long-term bank loans) renegotiated by the Company during the previous financial years, the effect of which (Euro 422 thousand) was recorded (before tax) by reducing the equity at 01 January 2018, as permitted by the standard itself.
Application of the Expected Credit Loss ("ECL") methodology to the assessment of trade receivables did not have significant effects on the Company's accounts.

The application of the IFRS 15 accounting standard did not have significant effects on the Company's accounts. It should be noted that management was given support in the analysis of the related effects by a leading international accounting expert.

The table showing the effects of the application of the IFRS 9 standard to the opening balances is reported below.

(Euro)

ASSETS	31/12/2017	IFRS 9	01/01/2018
Non-current assets			
Land, property, plant, machinery and equipment	9,965		9,965
Development expenditure	4,954		4,954
Goodwill	2,373		2,373
Other intangible assets with finite useful lives	6,484		6,484
Investments in subsidiaries	56,013		56,013
Equity investments in associated companies and joint ventures	24,473		24,473
Other non-current financial assets	396		396
Other non-current assets	4,561		4,561
Deferred tax assets	7,751	101	7,852
Total non-current assets	**116,970**	**101**	**117,071**
Current assets			
Trade receivables	12,800		12,800
Receivables from subsidiaries	13,434		13,434
Inventories	20,271		20,271
Other receivables and current assets	5,180		5,180
Cash and cash equivalents	7,225		7,225
Total current assets	**58,910**	**0**	**58,910**
TOTAL ASSETS	**175,881**	**101**	**175,982**

SHAREHOLDERS' EQUITY AND LIABILITIES	31/12/2017	IFRS 9	01/01/2018
Equity			
Share capital	11,250		11,250
Other reserves	38,032	-321	37,711
Profit (loss) for the period	1,939		1,939
TOTAL SHAREHOLDERS' EQUITY	**51,221**	**-321**	**50,900**
Non-current liabilities			
Non-current bank loans	23,339		23,339
Other non-current financial liabilities	32,258	422	32,680
Provisions for risks and charges	9,012		9,012
Defined benefit plans for employees	2,000		2,000
Total non-current liabilities	**66,608**	**422**	**67,030**
Current liabilities			
Bank financing and short-term loans	6,129		6,129
Other current financial liabilities	2,792		2,792
Trade payables	35,924		35,924
Payables to subsidiaries	8,392		8,392
Tax liabilities	1,153		1,153
Other current liabilities	3,661		3,661
Total current liabilities	**58,051**	**0**	**58,051**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**175,881**	**101**	**175,982**

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 2019 or thereafter. The Company did not exercise the option to apply them early.

EU endorsement regulation	Description
Regulation (EU) 2017/1986	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. The new standard provides a revised definition of a lease and introduces a criterion based on control (right of use) of an asset in order to distinguish between leasing contracts and service contracts, identifying the following as discriminating factors: the identification of the asset, the right to substitution of the asset, the right to obtain substantially all the economic benefits from that use and the right to direct the use of the asset underlying the contract. The standard establishes a unique leasing contract recognition and assessment model for the lessee, which provides for the entry of the asset that is subject to the lease, including operating, in the assets set-off by a financial debt, with the possibility of not recognising a contract as a lease if the lease term is 12 months or less or the underlying asset to the contract has a low value.
Regulation (EU) 2018/289	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 will come into force on 1 January 2019.
Regulation (EU) 2018/182	The IASB published the Annual Improvements to IFRS Standards 2014-2016 Cycle, amending IFRS 1, IFRS 12 and IAS 28. The amendments will come into force on 1 January 2019.
08 December 2016	IFRIC 22 — Foreign Currency Transactions and Advance Consideration. The interpretation covers foreign currency transactions if an entity recognises a non-monetary asset or liability from the payment or receipt of an advance before the entity recognises 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 separate financial statements. The amendments will come into force on 1 January 2019.
08 December 2016	Amendments to IAS 40 regarding transfers of investment property. The amendment covers the following:

	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. 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 separate financial statements. The amendments will come into force on 1 January 2019.
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 in order to facilitate implementation. The amendments to IFRS 9 Prepayment Features with Negative Compensation aim to allow the measurement at the amortised cost or fair value in the Statement of Comprehensive Income of financial assets characterised by an early repayment option with the so-called "negative compensation". The amendments will come into force on 1 January 2019.
12 October 2017	The IASB published amendments to IAS 28 – Investments in Associates and Joint Ventures to facilitate implementation. 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. The amendments will come into force on 1 January 2019.

Whit regards to application of IFRS 16 the first time, the assessment of the effects of this new international accounting standard on the financial statement is in the final phase. As specified in note 42, at December 31, 2018 the Company has commitments for operating leasing on buildings for 3,616 thousands of Euro of which 1,279 thousand of Euro due in for 2019, on autoveicles for Euro 320 thousand, of which Euro 165 thousands due in 2019, and on some machinery and equipment of low value. In 2018 operating lease costs of Euro 2,346 thousand were charged to the income statement.

Please note that at the date on which these financial statements were drafted, negotiations with the related company Gireimm S.r.l. were in an advanced stage for the renegotiation of the lease agreement on the property used as the operating headquarters of Landi Renzo S.p.A., the contractual expiry of which is scheduled for 10 May 2019. This contract, which is highly likely to be renewed, will be subject to the approval of the related parties committee and will entail a significant effect in right of use assets and the relative liabilities starting from the second quarter of 2019.

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	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. IFRS 14 allows only entities which adopt IFRS for the first time to continue to recognise rate regulation balances in accordance with the previous accounting standards adopted. To improve comparability with entities that already apply IFRS and do not recognise such balances, the standard requires the effect of rate regulation to be presented separately from other items.
18 May 2017	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, and will come into force on 1 January 2021, but prior application is permitted. This standard is not applicable to the Company.
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.
07 February 2018	The IASB published amendments to IAS 19 – Plan Amendment, Curtailment or Settlement, which clarifies how the costs relating to current labour supply and net interest are determined when there is a change to the defined benefit plan. The amendments are applicable starting from the financial years starting from 1 January 2019. Early application is permitted.
22 October 2018	The IASB published the amendment to IFRS 3 Business Combinations with a view to helping to determine whether a transaction is an acquisition of a business or a group of assets which does not qualify as a business pursuant to IFRS 3. The changes will be applied to acquisitions subsequent to 1 January 2020. However, early application is permitted.

31 October 2018	The IASB published the amendment to IAS 1 and IAS 8 which aims to clarify the definition of "material" to help companies decide whether information needs to be included in the financial statements. The amendments apply as of 1 January 2020. However, early application is 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.

LAND, PROPERTY, PLANT, MACHINERY AND OTHER EQUIPMENT

Tangible assets were recognised 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 capitalised and depreciated on the basis of the useful life of the asset to which it refers.

The following annual depreciation rates are used:

Categorie	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 capitalised 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 recognised 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 recognised 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 recognised at purchase and/or production cost, inclusive of expenses directly attributable to make the asset ready for use. Intangible assets are amortised on a straight-line basis throughout their estimated useful life; amortisation 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 COSTS

Research and development costs are recognised in the Income Statement for the year in which they are incurred, with the exception of development expenditure recognised 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 amortisation 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. Capitalised development expenditure is stated at cost, minus accumulated amortisation and any accumulated losses from impairment.

GOODWILL

The goodwill deriving from business combination transactions after 1 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. After the initial recognition, since goodwill is regarded as an intangible asset with an indefinite life, it is no longer amortised 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 recognised. 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 capitalised 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 recognised at purchase or development cost.

Costs incurred subsequently relating to intangible assets are capitalised only if they increase the future economic benefits of the specific asset capitalised and they are amortised 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 amortised 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.

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.

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 recognised 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 in use.

The value in 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 amortisation calculated on the historical cost, in the absence of a prior loss of value. Restorations of value are recognised 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.
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 CURRENT AND NON-CURRENT FINANCIAL ASSETS

On initial recognition, financial assets are classified in one of the three categories listed below on the basis of the following elements:

- the entity's business model for the management of the financial assets; and
- the characteristics of the financial asset's contractual cash flows.

Financial assets are subsequently derecognised only if the disposal entails the substantial transfer of all risks and rewards connected to the assets. On the other hand, if a significant portion of the risks and rewards relating to the disposed financial assets has been retained, they continue to be recognised in the financial statements, even if legally their ownership has been effectively transferred.

Financial assets at amortised cost

This category includes the financial assets that meet both of the following conditions:

- the financial asset is held according to a "hold to collect" business model; and
- the contractual terms of the financial asset call for cash flows at specific dates represented solely by payments of principal and interest ("SPPI test" passed).

These assets are initially recognised at fair value inclusive of the transaction costs or income directly attributable to the instrument. Subsequent to initial recognition, the financial assets in question are measured at amortised cost using the effective interest method. The amortised cost method is not used for assets valued at historical cost whose short duration makes the effect of discounting negligible, those without a defined maturity or for revocable credit lines.

Financial assets at fair value through other comprehensive income

This category includes the financial assets that meet both of the following conditions:

- the financial asset is held according to a "hold to collect and sell" business model; and
- the contractual terms of the financial asset call for cash flows at specific dates represented solely by payments of principal and interest ("SPPI test" passed).

This category includes shareholdings, not qualifiable as controlling, associated or of joint control, which are not held for trading, which the entity has opted to designate at fair value through other comprehensive income.

These assets are initially recognised at fair value inclusive of the transaction costs or income directly attributable to the instrument. Subsequently, shareholdings not qualifiable as controlling, associated or of joint control are measured at fair value, and amounts recognised as a matching entry to equity (Statement of comprehensive income) should not be subsequently transferred to the income statement, even in the case of disposal. The only component referring to the equity instruments in question subject to recognition in the income statement is the relative dividends.

For the equity instruments included in this category not listed in an active market, the cost criterion is used to estimate fair value only on a residual basis and in a limited circumstances, or when the most recent information to measure fair value is insufficient, or if there is a broad range of possible fair value measurements and cost represents the best estimate of fair value within that range of values.

Financial assets at fair value through profit or loss

This category includes financial assets other than those classified under "Financial assets at amortised cost" and "Financial assets at fair value through other comprehensive income".

This category includes financial assets held for trading and derivative contracts not qualified as hedges (which are represented as assets if the fair value is positive and as liabilities if the fair value is negative).

Assets at fair value through other comprehensive income are initially recognised at fair value without considering the transaction costs or income directly attributable to the instrument. Subsequently, they are measured at fair value and the valuation effects are attributed to the income statement.

Impairment of financial assets

In accordance with the provisions of IFRS 9, the Group applies a simplified approach to estimate expected credit losses throughout the life of the instrument and takes into consideration its past experience with respect to credit losses, adjusted on the basis of specific forecasts relating to the nature of the Group's receivables and the economic context.

In brief, the Group measures expected losses on financial assets so as to reflect:

- an objective amount weighted on the basis of probabilities determined by assessing a range of possible results;
- the time value of money; and
- reasonable and demonstrable information that is available without excessive cost or effort at the reporting date on past events, current conditions and outlooks on future economic conditions.

A financial asset is impaired when one or more events with a negative impact on the estimated future cash flows of the financial asset takes place. Observable data relating to the following events constitute proof that the financial asset is impaired (it is possible that a single event may not be identifiable: the impairment of a financial asset may be due to the combined effect of different events):

a) significant financial difficulties of the issuer or the debtor;

b) a violation of the contract, such as breach or an unmet deadline;

c) for economic or contractual reasons relating to the financial difficulties of the debtor, the creditor extends a concession to the debtor that the creditor would not have otherwise taken into consideration;

d) it is likely that the debtor will declare bankruptcy or other financial restructuring procedures;

e) the disappearance of an active market for that financial asset due to financial difficulties; or

f) the acquisition or creation of the financial asset with large discounts that reflect the credit losses incurred.

For financial assets at amortised cost, the value of any impairment is measured as the difference between the carrying amount of the asset and the present value of expected future cash flows, discounted on the basis of the original effective interest rate. This value is recognised in the income statement.

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 realisation 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.

TRADE RECEIVABLES

Receivables are initially recognised at fair value. The initial value is subsequently adjusted to take into account repayments of capital, any write-downs and the amortisation of the difference between repayment amount and initial value. Amortisation 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 amortised 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 recognised 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 amortised cost without write-down.

The provision for bad debts, determined in order to measure receivables at their effective realisation value, includes write-downs recognised 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 recognised in such a way as to decrease impaired assets to the present value of future cash flows obtainable from them.

OTHER RECEIVABLES AND OTHER CURRENT ASSETS

Other receivables and other current financial assets are initially recognised at fair value. Subsequently, the receivables are measured with the amortised 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 recognised 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 amortised cost without write-down.

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

Financial assets are derecognised when one of the following conditions is met:

- the contractual right to receive cash flows from the asset has expired;
- the Group has substantially transferred all risks and rewards linked to the asset;
- the Group has not substantially transferred or maintained all risks and rewards connected to the financial asset, but it has transferred control over it.

Financial liabilities are derecognised when they are extinguished, or when the contractual obligation has been met, is cancelled or is time-barred. An exchange of debt instruments with substantially different contractual terms must be accounted for as an extinction of the original financial liability and the recognition of a new financial liability. Likewise, a substantial change in the contractual terms of an existing financial liability, even partial, must be accounted for as an extinction of the original financial liability and the recognition of a new financial liability.

ASSIGNMENT OF RECEIVABLES

The Company 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 IFRS 9 for eliminating financial assets from the balance sheet, since the associated benefits and risks have not been substantially transferred.

Consequently, all the receivables assigned through factoring operations that do not meet the requirements for elimination established by IFRS 9 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 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 Company.

At 31 December 2018, the Company had only performed assignments of trade receivables without recourse that meet all the requirements established by IFRS 9 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 recognised on the Income Statement.

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 recognised as a direct deduction from Equity under the item "Other Reserves". Gains or losses are not recognised 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 recognised 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.

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 recognised as a financial expense.
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, realisation timing and the discount rate; revisions of the estimated provisions are recognised 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 recognised 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 recognised 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 amortised 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 recognised at fair value. The initial value is subsequently adjusted to take into account repayments of principal and the amortisation of the difference between repayment amount and initial value. Amortisation 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 amortised 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.

RECOGNITION OF REVENUES

Revenue from contracts with customers is recognised when the following conditions are met:

- the contract with the customer has been identified;
- the performance obligations set forth in the contract have been identified;
- the price has been determined;
- the price has been allocated to the individual performance obligations set forth in the contract;

- the performance obligation set forth in the contract has been met.

The Company recognises revenue from contracts with customers when it fulfils the performance obligation, transferring the good or service (or the asset) to the customer. The asset is transferred when the customer acquires control over it.
The Company transfers control over the good or service over time, and therefore fulfils the performance obligation and recognises revenue over time, when one of the following criteria is met:

- the customer simultaneously receives and uses the benefits arising from the entity's service as it is provided;
- the service of the Company creates or improves the asset that the customer controls as the asset is created or improved;
- the service of the Company does not create an asset which has an alternative use for the Company and the Company has the enforceable right to payment for the service completed until the date considered.

If the performance obligation is not met over time, it is met at a specific moment. In that case, the Company recognises revenue when the customer acquires control over the promised asset.

The contractual consideration included in the contract with the customer may include fixed or variable amounts or both. If the contractual consideration includes a variable amount as discounts, price allowances, incentives, penalties or other similar elements, the Company estimates the amount of the consideration to which it will be entitled in exchange for the transfer of the promised goods or services to the customer. The Group Company the amount of the estimated variable consideration in the transaction price only to the extent to which it is highly likely that when the uncertainty associated with the variable consideration is subsequently resolved, there will not be a significant downward adjustment in the amount of cumulative revenue recognised.

The Company allocates the contractual price to the individual performance obligations on the basis of the stand-alone selling prices (SSP) of the individual performance obligations. When there is no SSP, the Company estimates the SSP using a market adjusted approach.
The Company applies its judgement in determining the performance obligation, variable consideration and the allocation of the transaction price.
Incremental costs for obtaining customer contracts are accounted for as assets and amortised throughout the term of the underlying contract, if the Company expects them to be recovered. Incremental costs for obtaining the contract are costs that the Company incurs to obtain the contract with the customer and which it would not have incurred if it had not obtained the contract. The costs for obtaining the contract which would have been incurred even if the contract had not been obtained should be recognised as a cost at the moment they are incurred, unless they are explicitly chargeable to the customer even if the contract is not obtained.

The costs incurred to perform contracts with customers are capitalised as assets and amortised throughout the term of the underlying contract only if such costs do not fall under the scope of application of another accounting standard (such as IAS 2 - Inventories, IAS 16 - Property, plant and equipment or IAS 38 - Intangible assets) and satisfy all of the following conditions:

- the costs are directly correlated with the contract or an expected contract, which the entity can specifically identify;
- the costs provide the entity with new or greater resources to be used to meet (or continue to meet) performance obligations in the future;

it is expected that such costs will be recovered.

GRANTS

Grants from public and private bodies are recognised 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 recognised 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 recognised in so far as it is possible to reliably determine that economic benefits will flow to the company. Costs for services are recognised for the year in question at the moment when they are received.

DIVIDENDS

Dividends are recognised 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 recognised 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 realised or the liability is settled. Deferred tax assets (hereafter also called "prepaid taxes") are recognised only when it is likely that taxable profits sufficient to realise 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 recognised.
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.

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 recognised 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 recognised.
Non-monetary items measured at fair value are converted using the exchange rates at the date when fair value was determined.
The exchange differences realised 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.

CLASSES OF FINANCIAL INSTRUMENTS

The following elements are accounted for in compliance with the accounting standards on financial instruments.

(Thousands of Euro)

	31 December 2017			
Balance Sheet Assets	**Amortised cost**	**Fair value through OCI**	**Fair value through profit or loss**	**Total**
Other non-current financial assets	396			396
Other non-current assets	4,561			4,561
Trade receivables	12,800			12,800
Receivables from subsidiaries	13,434			13,434
Other receivables and current assets	5,180			5,180
Cash and cash equivalents	7,225			7,225
Total	**43,597**	**0**	**0**	**43,597**

Balance Sheet Liabilities	**Amortised cost**	**Fair value through OCI**	**Fair value through profit or loss**	**Total**
Non-current bank loans	23,339			23,339
Other non-current financial liabilities	32,258			32,258
Bank financing and short-term loans	6,129			6,129
Other current financial liabilities	2,792			2,792
Total	**64,518**	**0**	**0**	**64,518**

(Thousands of Euro)

	31 December 2018			
Balance Sheet Assets	**Amortised cost**	**Fair value through OCI**	**Fair value through profit or loss**	**Total**
Other non-current financial assets	396			396
Other non-current assets	3,991			3,991
Trade receivables	15,710			15,710
Receivables from subsidiaries	12,035			12,035
Other receivables and current assets	4,975			4,975
Cash and cash equivalents	8,531			8,531
Total	**45,638**	**0**	**0**	**45,638**

Balance Sheet Liabilities	**Amortised cost**	**Fair value through OCI**	**Fair value through profit or loss**	**Total**
Non-current bank loans	19,450			19,450
Other non-current financial liabilities	26,578			26,578
Bank financing and short-term loans	13,166			13,166
Other current financial liabilities	4,262			4,262
Total	63,457			63,457

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 characterised by significant uncertainty. Therefore it cannot be excluded that results different to those estimated may be realised 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.

For an indication of the economic values of these estimates, please refer to the relative points of these notes.

The directors also evaluated the applicability of the going concern assumption in the preparation of the consolidated financial statements, and concluded that this assumption is suitable as there are no doubts as to business continuity.

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 minimise 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.

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 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 2018 were analysed 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 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 Company, therefore the sensitivity analysis required by IFRS 7 is not provided as it is considered non-significant. 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.

Price risk

The Company makes purchases and sales internationally, and therefore it is exposed to the normal risk of price fluctuation typical of its industry.

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.
<u>Trade receivables and other receivables</u>
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 minimise 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 uses non-recourse assignment of debts.

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.

The Group distributes and sells its systems and components to the main vehicle manufacturers worldwide (OEM channel).

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 2018, 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 2017, the Company undersigned a financial structure Optimisation 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 Strategic Plan;

(iii) The review of financial covenants consistent with the performance laid out in the Strategic Plan;

(iv) The maintenance of short-term lines in an amount consistent with the needs laid out in the Strategic Plan.

The financial covenants the set forth in the Optimization were all respected at the reporting date.

On 28 December 2018, the Meeting of Bondholders of the “LANDI RENZO 6.10% 2015-2022” loan, ISIN IT0005107237, under the chairmanship of Stefano Landi and in the presence of Notary Giuseppe Chiantera, unanimously (67.06% of the loan) approved the Board of Directors' proposal regarding amendments to the Debenture Loan Regulations in order to postpone from 31 December 2018 to 31 December 2019 the deadline by which to propose to the Company’s shareholders’ meeting the approval of the capital increase. The resolution took effect immediately, as the lending banks had already released their waiver.

See the Directors' Report for all further information on risk factor analysis pursuant to art. 154-ter TUF (Finance Consolidation Act).

E) NOTES TO THE FINANCIAL STATEMENTS

1. SEGMENT REPORTING

Please refer, as provided for by IFRS 8, 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 Emmegas S.r.l. are included in a specific column, giving the relative values with reference to the effective date of the merger.

2. LAND, PROPERTY, PLANT, MACHINERY AND OTHER EQUIPMENT

Tangible assets showed an overall decrease of Euro 293 thousand, decreasing from Euro 9,965 thousand at 31 December 2017 to Euro 9,672 thousand at 31 December 2018.

The changes in net tangible assets during the financial year 2017 are shown in detail below:

(Thousands of Euro)

Net value	31/12/2016	Merger of AEB	Acquisitions	(Disposals)	Depreciation rates	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 changes in net tangible assets during the financial year 2018 are shown in detail below:

(Thousands of Euro)

Net value	31/12/2017	Merger of Emmegas	Acquisitions	(Disposals)	Depreciation rates	Other changes	31/12/2018
Land and buildings	407	0	23	0	-131	0	299
Plant and machinery	5,144	38	1,440	-5	-1,476	25	5,165
Industrial and commercial equipment	2,971	3	503	0	-1,249	120	2,349
Other tangible assets	1,341	4	163	-10	-409	9	1,099
Assets in progress and payments on account	102	0	1,169	-358	0	-154	759
Total	**9,965**	**46**	**3,299**	**-373**	**-3,265**	**0**	**9,672**

The main increases in tangible assets during the period in question relate to:

- Acquisitions and improvements on specific plants and machinery for Euro 1,440, also from subsidiaries following the group's production and logistical reorganisation;
- Purchase of new moulds and templates for Euro 288 thousand;
- Purchase of equipment for Euro 90 thousand;
- Purchase of motor vehicles for Euro 99 thousand.

The significant decreases for the year 2017 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 around Euro 2.0 million, recognised in the item "Amortisation, depreciation and impairment".

The item Land and Buildings includes the improvements to real estate leased from third parties.

The significant amount with respect to the previous year in the item Assets in progress and payments on account, totalling Euro 759 thousand as at 31 December 2018, includes investments made in benches for the specific production required to create new products for an important OEM customer. This machinery is currently in the completion phase and is expected to be used in the production process starting in the second quarter of 2019.

3. DEVELOPMENT COSTS

Changes in development expenditure during 2017 are shown in detail below:

(Thousands of Euro)

	31/12/2016	Merger of AEB	Acquisitions	(Amortisation)	Other changes	31/12/2017
Development expenditure	**5,822**	**886**	1,910	-3,664	0	**4,954**

Changes in development expenditure during 2018 are shown in detail below:

(Thousands of Euro)

	31/12/2017	Merger of Emmegas	Acquisitions	(Amortisation)	Other changes	31/12/2018
Development expenditure	**4,954**	0	5,084	-3,266	0	**6,772**

Development expenditure, totalling Euro 6,772 thousand (Euro 4,954 thousand at 31 December 2017), 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 recognised in net assets. In particular, costs capitalised during the period refer to innovative projects, not carried out previously, aimed at new market segments, capable of expanding and optimising the product range. Among these, the following main projects were developed by the parent company:

1. After Market Evolution Project (LPG and CNG) for the development of new kits and components, including new reducers, injectors and electronics 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. project for a major OEM customer (LPG) for the development of new kits and components, including new reducers and injectors, and also adaptation to the new vehicle and engine models;
4. project for new gas conversion kits for Heavy Duty (HD) commercial vehicles;
5. project for the expansion of a new range of self-calibrating electronic control units.

Development activities are on the rise due to a significant project for the development of new products for a major OEM customer, currently in the completion phase, for the Heavy Duty (HD) sector which, consistent with the provisions of the 2018-2022 Strategic Plan, is considered a key project to support group growth and strategic market positioning.

New development activities began during the initial months of 2019 and they are also expected to continue for the rest of the current year.

To evaluate any losses in value of capitalised development costs, the Company attributes such expenses to the corresponding specific projects and evaluates their recoverability, calculating the value of use with the discounted financial flows method.

4. GOODWILL

This item breaks down as follows:

(Thousands of Euro)

Goodwill	Net Value at 31/12/2017	Acquisitions	(Amortisation)	Other changes	(Write-downs)	Net Value at 31/12/2018
Goodwill	2,373	0	0	0	0	2,373
Total	**2,373**	**0**	**0**	**0**	**0**	**2,373**

Impairment tests were carried out goodwill and the results were approved by the Board of Directors of the Company on 14 March 2019.

In this regard, reference should be made to what is extensively described in the explanatory note to the

Consolidated Financial Statements, where it is reported that during 2018 a restructuring and reorganization process within the Group was completed which involved a significant change in production and organisational processes within the Automotive segment, in particular in the subsidiary Lovato Gas S.p.A., subject to significant personnel downsizing. Indeed, the reorganisation process resulted in a significant change in the organisational structure of Lovato Gas S.p.A. due to the need to concentrate on only commercial activities, especially abroad. Thus, production activities were considerably centralised within the parent company Landi Renzo S.p.A. Also in order to optimise group costs and efficiency, administrative, management, HR, purchasing, logistics and product development activities were also centralised within the Parent Company.

In light of the foregoing, the management deemed it appropriate to reconsider its CGUs previously identified, which are no longer deemed representative of the internal and operational organisation of the business. In particular:

- product manufacturing activities are fully centralised within the Parent Company's plants and the core production assets are currently used indiscriminately;
- commercial management is currently divided between the OEM market and the After Market;
- the various company functions, in particular HR, purchasing R&D, administration and finance, logistics and production, are fully centralised within the Parent Company to ensure greater efficiency and cost curbing;
- the management now manages and monitors the business as a unitary element;
- unlike in the past, the internal budgeting process calls for the definition of costs, especially production costs, at overall level and not in terms of individual entity or sales channel.

Although the Group has reporting by individual brand in terms of sales revenues, as regards production costs, especially with respect to the core assets, the management does not see this distinction as significant. As a result, it does not believe that there are separate revenue streams. Due to the foregoing, given the updated situation with respect to the previous year and the significant mixing between the management of the two brands, the management has decided to qualify the Automotive segment as a new, single CGU, as the distinction between the Landi Renzo CGU and the Lovato Gas CGU has now lost significance from the organisational and operational perspective.

Consequently, the goodwill recorded in these Financial Statements for Euro 2,373 thousand, togher with the other goodwill recorded in the Consolidated Financial Statement (relating to the former Lovato Gas CGU), is allocated to the new "Automotive" segment CGU.

In light of this, in order to confirm that this change in CGU did not have an impact omn the recoverability or otherwise of the values recorded in these Financial Satements, the management has prepared a separate impairment test for individual former CGU's Landi Renzo and Lovato Gas.

Below is information on the impairment test performed on the former Landi Renzo CGU as at 31 December 2018.

The recoverable value of goodwill was defined with respect to the value in use, understood as the current net value of operating cash flows for the 2019-2023 period (discounted accordingly using the DCF – Discounted Cash Flow method) deriving from the 2018-2022 Strategic Plan approved by the Board of Directors on 13 September 2017 and updated on the basis of the new assumptions included in the 2019 Budget, approved by the Board of Directors on 14 March 2019. Cash flows for 2023 were prudently considered to be in line with those of 2022.

The forecasts for 2019-2023 were prepared 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 cost rationalisation dynamics envisaged in the Strategic Plan approved by the Company's Board of Directors. 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 Company 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 2018, equal to 2.9%;
- the unlevered beta parameter and the market target financial structure used for the releveraging of that parameter were identified on the basis of a representative panel of comparable companies.

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., was calculated taking into consideration the risks associated with the cash flows generated in the various geographical areas in which the Group operates ("East Europe", "Asia and Middle East", "South America", "West Europe", "Africa", "North America" and "Rest of The World") and is around 11,7% net of tax effect.

The "g" growth rate was determined by taking as a reference the long-term inflation rate estimated by the International Monetary Fund for Italy, resulting in a value of 4.6%.

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 %
Landi Renzo (former A.E.B.) goodwill	118,029	negative	39.8

Moreover, please note that the stock market capitalisation value of Landi Renzo S.p.A. at 31 December 2018 amounts to Euro 126.5 million, significantly higher than the value of the shareholders' equity of Landi Renzo S.p.A. at the same date. In the initial months of 2019, this stock market capitalisation value remained considerably higher than the corresponding value of shareholders' equity. As a result, the above-mentioned analysis does not bring to light indicators of impairment with reference to the net invested capital of Landi Renzo S.p.A. at 31 December 2018.

5. OTHER INTANGIBLE ASSETS WITH FINITE USEFUL LIVES

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	31/12/2016	Merger of AEB	Acquisitions	(Amortisation)	Other changes	(Write-downs)	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**

Changes in other intangible assets with finite useful lives that occurred during 2018 are shown in detail below:

(Thousands of Euro)

Other intangible assets with finite useful lives	31/12/2017	Merger of Emmegas	Acquisitions	(Amortisation)	Other changes	(Write-downs)	31/12/2018
Patents and intellectual property rights	410	2	145	-244	-17	0	296
Concessions and trademarks	6,074	133	17	-654	17	0	5,587
Total	**6,484**	**135**	**162**	**-898**	**0**	**0**	**5,883**

This item, totalling Euro 5,883 thousand at 31 December 2018 (Euro 6,484 thousand at 31 December 2017), includes primarily concessions and trademarks for Euro 5,587 thousand, as well as rights to use intellectual property and the purchase of licences concerning operating applications for Euro 296 thousand. The significant increase in 2017 was due primarily to the A.E.B. trademark (Euro 5,330 thousand), acquired following the merger by incorporation of the latter.

A the date of preparation of these financial statements no the impairment indicators were identified with reference to above mentioned trademark.

6. INVESTMENTS IN SUBSIDIARIES

This item breaks down as follows:

(Thousands of Euro)

Investments in subsidiaries	31/12/2017	Increases	Decreases	Impairment losses	Other changes	31/12/2018
Equity investments	56,013	1,691		-3,432		54,272

The following are the changes in equity investments:

Thousands of Euro	Initial value	Increases	Decreases	Impairment losses	Other changes	Final value	Investment
LR Industria e Comercio 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	1,691		-1,691		0	70.00%
Landi Renzo Pars Private Joint Stock Company	3,000			-1,737		1,263	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 America S.r.l.	535					535	96.00%
Emmegas S.r.l.	0				0	0	-
Landi Renzo Argentina Srl	8			-4		4	96.00%
Total equity investments	**56,013**	**1,691**	**0**	**-3,432**	**0**	**54,272**	

The following changes occurred during the financial year:

- merger by incorporation of Emmegas S.r.l., with accounting and tax effects from 1 January 2018;
- waiver of the receivables due from the subsidiary Landi Renzo PAK (Pvt) Limited, for Euro 1,691 thousand, amount taken directly to increase the value of the investment, subsequently written down in the same amount;

- given the uncertainty generated by the sanctions imposed against Iran by the United States, the Company wrote down the equity investment in Landi Renzo Pars by Euro 1,737 thousand;
- decrease of Euro 4 thousand of the stake in Landi Renzo Argentina S.r.l., currently in the liquidation phase.

At 31 December 2018, the stake in the subsidiary Lovato Gas S.p.A. was subject to impairment testing to verify any loss in value, wich was prepared by the administrative body in accordance with what illustrated in the previous paragraph.

The recoverable value of the equity investment was defined with respect to the value in use, understood as the current net value of operating cash flows for the 2019-2023 period (discounted accordingly using the DCF – Discounted Cash Flow method) deriving from the 2018-2022 Strategic Plan approved by the Board of Directors on 13 September 2017 and updated on the basis of the new assumptions included in the 2019 Budget, approved by the Board of Directors on 14 March 2019. Cash flows for 2023 were prudently considered to be in line with those of 2022.

The forecasts for 2019-2023 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 cost rationalisation dynamics envisaged in the Strategic 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.
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 Company in terms of risk profile and sector of activity.
In particular, considering that Lovato Gas S.p.A. 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 4.6%.

The main parameters used to determine the rates used as a reference in the impairment tests are shown below:

Subsidiary company	Risk Free rate %	Levered beta	Market premium %	WACC %
Lovato Gas S.p.A.	4.1	1.06	6.3	12.3

The results of the impairment tests highlighted that the recoverable value is higher than the book value of the equity investment analysed, and therefore no impairment was recognised.

At the bottom of these Explanatory Notes there is a specific table summarising 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	31/12/2017	Increases	Decreases	Valuation using the net equity method	31/12/2018
SAFE&CEC S.r.l.	24,225			-2,317	21,908
EFI Avtosanoat - Landi Renzo LLC	172				172
Krishna Landi Renzo India Private Ltd Held	76			308	384
Total	**24,473**	**0**	**0**	**-2,009**	**22,464**

At 31 December 2018, this item totalled Euro 22,464 thousand and relates to the stakes in the joint ventures SAFE&CEC S.r.l. for Euro 21,908 thousand, EFI Avtosanoat Landi Renzo LLC for Euro 172 thousand and in Krishna Landi Renzo India Private Ltd for Euro 384 thousand. The changes for the period relate to the valuation of the joint ventures SAFE&CEC S.r.l. and Krishna Landi Renzo India Private Ltd using the equity method, in particular:

- The stake held in the Joint Venture Krishna Landi Renzo Prv Ltd was revalued by Euro 308 thousand due to the positive results for the period.
- the equity investment held in the joint venture SAFE&CEC S.r.l. was written down by Euro 2,317 thousand, of which Euro 1,895 thousand attributed to the income statement, as it related to the Company’s share of the loss for the period, and Euro 422 thousand attributed to the statement of comprehensive income, as it related to changes accounted for directly in equity by the joint venture. It should also be noted that the final negative results of the year of the joint venture are essentially linked

to the costs incurred for the group restructuring and the initial inefficiencies, connected to the fundamental activities of homogenisation of the production and business processes between the Italian subsidiary SAFE S.p.A. and the assigned foreign companies, a process which is currently being completed. Management believes that with the strength of the order portfolio, it can recover margins over the next year and achieve the forecast data specified in the 2018-2022 Strategic Plan. It should be noted that the activities connected to the purchase price allocation as provided for by the International Accounting Standard IFRS 3 related to the business combination that led to the establishment of the SAFE&CEC group was completed and did not generate any significant impacts on the profit and loss of the SAFE&CEC group. The income statement and balance sheet data used for the assessment of the joint venture SAFE&CEC group with the equity method include the effects deriving from this process.

In addition, to value the equity investment held in SAFE&CEC S.r.l. at equity, the directors of Landi Renzo S.p.A. requested and obtained (i) the draft separate and consolidated financial statements at 31 December 2018 approved by the Board of Directors on 11 March 2019, (ii) the 2019 budget and (iii) the impairment test at 31 December 2018 prepared with the support of an external advisor. An analysis of the above-mentioned documentation did not bring to light any indicators of impairment on the equity investment in SAFE&CEC S.r.l.

The income statement and balance sheet data of the Company's significant joint ventures are shown below.

(Thousands of Euro)

ASSETS	SAFE & CEC S.r.l.
Tangible and intangible assets	42,573
Deferred tax assets	730
Other non-current financial assets	145
Total non-current assets	**43,448**
Trade receivables	12,845
Inventories and contract work in progress	19,237
Other receivables and current assets	2,382
Cash and cash equivalents	2,695
Total current assets	**37,159**
TOTAL ASSETS	**80,607**

(Thousands of Euro)

SHAREHOLDERS' EQUITY AND LIABILITIES	SAFE & CEC S.r.l.
Equity	**42,957**
Non-current financial liabilities	3,014
Provisions for risks and charges and Defined benefit plans for employees	964
Deferred tax liabilities	1,609
Total non-current liabilities	**5,587**
Current financial liabilities	6,324
Trade payables	19,994
Other current liabilities and tax liabilities	5,745
Total current liabilities	**32,063**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**80,607**

INCOME STATEMENT	SAFE & CEC S.r.l.
Revenues from sales and services	58,920
Operating costs	-60,686
Gross operating profit	**-1,446**
Amortisation, depreciation and impairment	-1,380
Net operating profit	**-2,826**
Net financial expenses	-313
Exchange gains (losses)	-263
Profit (loss) before tax	**-3,402**
Current and deferred taxes	-314
Profit (loss)	**-3,716**

8. OTHER NON-CURRENT FINANCIAL ASSETS

This item breaks down as follows:

(Thousands of Euro)

Other non-current financial assets	31/12/2017	Decreases	Increases	Other changes	Impairment losses	31/12/2018
Loan to Landi Renzo Usa Co.	0		1,173	478	-1,651	0
Loan to Landi Renzo Pars	387					387
Total equity investments in other companies	9					9
Total	**396**	**0**	**1,173**	**478**	**-1,651**	**396**

At 31 December 2018, 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 387 thousand.

The company performed an impairment test on the value of non-current financial assets at 31 December 2018 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 financial position, the profitability of previous financial years and this year at 31 December 2018, the ability to service the debt and the future short/medium term prospects, the financial receivables of Euro 11,616 thousand (equal to USD 13,300 thousand), of which Euro 1,173 thousand (USD 1,350 thousand) disbursed in 2018, were entirely written off.

The other changes relate to exchange effects on the loan denominated in USD granted by the Company to Landi Renzo USA.

9. OTHER NON-CURRENT ASSETS

This item breaks down as follows:

(Thousands of Euro)

Other non-current assets	31/12/2018	31/12/2017	Change
Other non-current assets	3,991	4,561	-570

At 31 December 2018 the other non-current assets amount to Euro 3,991 thousand relating entirely to receivables beyond the financial year from AVL Italia S.r.l. in relation to the sale of the company branch "Technical Centre", the relative contract of which provides for receipt in ten annual instalments and the charging of interest on the residual credit at the end of each year.

10. DEFERRED TAX ASSETS

This item breaks down as follows:

(Thousands of Euro)

Net deferred tax assets and liabilities	31/12/2018	31/12/2017	Change
Deferred tax assets	12,510	9,445	3,065
Deferred tax liabilities	-1,684	-1,694	10
Total net deferred tax assets	**10,826**	**7,751**	**3,075**

The following table shows the values of the offsettable prepaid and deferred taxes and their movements from 31 December 2017 to 31 December 2018 (in thousands of Euro):

Deferred tax assets	Deferred tax assets 31/12/2017	Merger of Emmegas	Uses	Temporary differences	Other changes	Deferred tax assets 31/12/2018
Inventory write-down reserve	1,326	56	0	0	0	1,382
Provision for product warranties	760	4	-368	333	0	728
Provision for bad debts - taxed	603	0	-1	0	2	604
Provision for other risks and lawsuits	752	0	-689	98	0	160
Other temporary differences	1,019	3	-740	330	107	719
Tax losses	4,985	0	0	885	3,047	8,917
Total deferred tax assets	**9,445**	**63**	**-1,799**	**1,646**	**3,156**	**12,510**
Offsettable deferred tax liabilities	**Deferred tax liabilities 31/12/2017**	**Merger of Emmegas**	**Uses**	**Temporary differences**	**Other changes**	**Deferred tax liabilities 31/12/2018**
Non-deductible amortisation of trademarks	1,643	33	-172	0	0	1,505
TFR - Equity reserve	23	0	0	0	0	23
Other temporary differences	28	0	-26	154	0	156
Total deferred tax liabilities	**1,694**	**33**	**-198**	**154**	**0**	**1,684**
Total net deferred tax assets	**7,751**	**29**	**-1,601**	**1,491**	**3,156**	**10,826**

At 31 December 2018, net deferred tax assets, totalling Euro 10,826 thousand (Euro 7,751 thousand at 31 December 2017), related to both temporary differences between the book values of assets and liabilities on the balance sheet and the corresponding tax values recognised, and to the losses from the national tax consolidation scheme deemed to be recoverable on the basis of the company plans, the realisation of which is subject to the intrinsic risk of non-implementation inherent in its provisions.

In previous years, the Company prudently decided not to recognise further deferred tax assets on tax losses for the year, especially if not recoverable within the tax consolidation scheme, in which the Parent Company has participated since 2014. Given the positive results accounted for in 2017-2018, which confirm the reliability of the 2018-2022 Strategic Plan forecasts, and considering the forecasts developed by the directors for the 2019-2023 period, the management prepared an analysis with the support of its tax advisors to verify the recoverability of tax losses over the horizon of the above-mentioned plan. Based on these analyses, which confirm the recovery of the tax losses as early as the 2019 financial year and for all years of the plan, the directors decided to recognise on a prudent basis deferred tax assets relating to tax losses that they believe will be substantially recovered over the first three years (2019-2021).
As a result, additional deferred tax assets on previous tax losses of Euro 3,047 thousand are recognised in these financial statements, as the prerequisites for their recoverability were satisfied.

At 31 December 2018 deferred tax liabilities totalled Euro 1,684 thousand (Euro 1,694 thousand at 31 December 2017) and are primarily related to temporary differences between the book values of certain assets, particularly the difference between the book value and the value recognised for tax purposes of the A.E.B. trademark.

The column "Other movements" relates mainly to Euro 3,047 thousand in deferred tax assets on prior losses.

CURRENT ASSETS

11. TRADE RECEIVABLES

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	31/12/2018	31/12/2017	Change
Italy	4,416	5,452	-1,036
Europe (excluding Italy)	1,892	4,344	-2,452
Asia and Rest of the World	7,088	4,726	2,362
America	5,860	1,680	4,180
Provision for bad debts	-3,546	-3,402	-144
Total	**15,710**	**12,800**	**2,910**

Trade Receivables totalled Euro 15,710 thousand at 31 December 2018, net of the Provision for Bad Debts equal to Euro 3,546 thousand, compared with Euro 12,800 thousand, net of a provision for bad debts of Euro 3,402 thousand in 2017. The increase on the previous financial year is mainly due to the increase in the Company's turnover.

The Company carried out assignment of trade receivables through factoring without recourse and, at 31 December 2018, the amount of assignments with credit maturity, for which there was derecognition of the related receivables, totalled Euro 19,735 thousand, compared with Euro 13,644 thousand at 31 December 2017.

Note that there are no non-current trade receivables or receivables secured by collateral guarantees.

Trade receivables from related parties totalled Euro 2,200 thousand at 31 December 2018, compared with Euro 1,025 thousand in 2017 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	31/12/2017	Merger of Emmegas	Provisions	Uses	31/12/2018
Provision for bad debts	3,402	106	44	-5	3,546

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 Emmegas S.r.l. (Euro 106 thousand), amounted to Euro 44 thousand.

In accordance with the requirements of IFRS 7, the following table provides information on the maximum credit risk divided by past due credit classes, gross of the bad debt provision:

(Thousands of Euro)

Trade receivables ageing for 2018 - 2017			Past due		
	Total	Not past due	0-30 days	30-60 days	60 and beyond
Trade Receivables at 31/12/2018 (gross of provision)	19,256	10,277	1,723	904	6,352
Trade Receivables at 31/12/2017 (gross of provision)	16,202	9,093	1,073	177	5,859

12. RECEIVABLES FROM SUBSIDIARIES

This item breaks down as follows:

(Thousands of Euro)

Receivables from subsidiaries	31/12/2018	31/12/2017	Change
Lovato Gas S.p.A.	1,625	437	911
Landi Renzo Beijing	94	765	-671
LR Industria e Comercio Ltda	4,977	4,560	399
Landi Renzo Pars	1,169	1,177	-8
LR PAK Pakistan	1,257	3,348	-2,138
Landi Renzo Usa Corp.	1,923	1,685	238
AEB America	990	850	140
SAFE S.r.l.	0	97	-97
Emmegas S.r.l.	0	515	-515
Total	**12,035**	**13,434**	**-1,741**

Receivables from subsidiaries totalled Euro 12,035 thousand at the end of the period compared with Euro 13,434 thousand for the previous year. Receivables from the subsidiary Landi Renzo PAK (Pvt) Limited decreased due to amounts collected during the year, totalling around Euro 450 thousand, and the agreement entered into with the parent company to waive a Euro 1,691 thousand receivable in order to replenish the shareholders' equity.

For details on relations with the subsidiaries, please refer to the "Other Information" section (note 44).

13. INVENTORIES

This item breaks down as follows:

(Thousands of Euro)

Inventories	31/12/2018	31/12/2017	Change
Raw materials and parts	17,499	13,769	3,730
Work in progress and semi-finished products	7,189	5,127	2,062
Finished products	5,013	6,126	-1,113
(Inventory write-down reserve)	-4,951	-4,751	-200
Total	**24,750**	**20,271**	**4,479**

The table shows an increase in stocks totalling Euro 4,479 thousand compared to 31 December 2017, due to the increase in Company turnover as well as the merger of the subsidiary Emmegas S.r.l.

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 realisation value.

(Thousands of Euro)

Inventory write-down reserve	31/12/2017	Merger of Emmegas	Provisions	Uses	31/12/2018
Inventory write-down reserve (raw materials)	3,980	200	-	-	4,180
Inventory write-down reserve (finished products In progress)	487	-	-	-	487
Inventory write-down reserve (finished products)	284	-	-	-	284
Inventory write-down reserve – total	**4,751**	**200**	**0**	**0**	**4,951**

The inventory write-down reserve rose compared to the previous year entirely as a result of the merger of the subsidiary Emmegas S.r.l.

14. OTHER RECEIVABLES AND CURRENT ASSETS

This item breaks down as follows:

(Thousands of Euro)

Other receivables and current assets	31/12/2018	31/12/2017	Change
Tax assets	2,749	3,134	-385
Receivables from others	1,893	1,531	362
Accruals and deferrals	332	515	-182
Total	**4,975**	**5,180**	**-205**

Tax assets

Tax receivables are represented by receivables from the Tax Authorities for VAT (Euro 1,576 thousand), receivables for IRES and IRAP credits (Euro 607 thousand) as well as receivables from the Tax Authorities for IRES refunds related to the IRAP deduction pursuant to Italian Legislative Decree 201/2011 totalling Euro 1,203 thousand, of which Euro 637 thousand offset in the course of 2018.

(Thousands of Euro)

Tax assets	31/12/2018	31/12/2017	Change
IR c/VAT recoverable	1,576	2,335	-759
IR c/IRES and IRAP payments on account and tax credits	1,173	799	374
Total	**2,749**	**3,134**	**-385**

Receivables from others

At 31 December 2018 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, in addition to advances granted to suppliers of Euro 260 thousand and credit notes to be received for Euro 814 thousand.

(Thousands of Euro)

Receivables from others	31/12/2018	31/12/2017	Change
Advances to suppliers	260	385	-124
Receivables from social security institutes	91	10	80
Credit notes to be received	814	381	433
Other receivables	728	755	-27
Total	**1,893**	**1,531**	**362**

Credit notes to be received rose compared to the previous year due to higher purchase premiums recognised by suppliers arising from the increase in Company turnover.

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	31/12/2018	31/12/2017	Change
Bank and post office accounts	8,529	7,219	1,310
Cash	2	6	-4
Total	**8,531**	**7,225**	**1,306**

Cash and cash equivalents at 31 December 2018 totalled Euro 8,531 thousand (Euro 7,225 thousand at 31 December 2017).

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 equity items:

(Thousands of Euro)

Equity	31/12/2018	31/12/2017	Change
Share capital	11,250	11,250	0
Statutory reserve	2,250	2,250	0
Extraordinary reserve	1,939	0	1,939
IAS transition reserve	-743	0	-743
OPI reserve 2	-3,217	-3,626	409
Share premium reserve	30,718	30,718	0
Discounted profit/loss reserve (IAS 19)	-161	-177	16
Future share capital increase contribution	8,867	8,867	0
Profit (loss) for the period	226	1,939	-1,713
Total Equity	**51,129**	**51,221**	**-92**

Share capital

The share capital stated in the Financial Statements at 31 December 2018 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 2018 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 increased by Euro 1,939 thousand following allocation of the profit for the year 2017.

IAS transition reserve

As described in the section "Amendments and revised accounting standards applied by the Company for the first time", to which reference is made, the IAS Transition Reserve includes the effect of initial application of IFRS 9 (Euro 321 thousand).
This reserve also includes the share recognised in the statement of comprehensive income arising from the valuation of the joint venture SAFE&CEC S.r.l. with the net equity method (Euro 422 thousand) due to effects accounted for by that company directly in equity.

OPI reserve 2

As explained above, with accounting and tax effects from 1 January 2018, the subsidiary Emmegas S.r.l. 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, positive and totalling Euro 409 thousand, was classified in net worth.

This reserve also includes the effect of accounting for the A.E.B. merger in the course of 2017 on the basis of the provisions set forth in Assirevi document OPI no. 2R, which entailed the recognition of a negative reserve for Euro 3,626 thousand.

Share Premium Reserve

The Share Premium Reserve amounts to Euro 30,718 thousand and is unchanged compared to the previous year.

Future share capital increase contribution

During the financial year, on 30 March 2017, coinciding with the Financial Structure Optimisation 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.

As described previously, the share capital increase, which based on the Optimisation Agreement should have taken place by 31 December 2018, was postponed to 31 December 2019 after the regulation amendment was approved by the meeting of bondholders on 28 December 2018 in light of the waiver issued by the lending banks.

The following table shows the individual equity items, distinguishing them according to origin, availability and their using in the three previous years.

Nature and description	*Amount (in thousands)*	*Possibility of utilisation (*)*	*Portion available*	*Summary of utilisations carried out in the three previous years*
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	1,939	A,B,C	1,939	*** 31.543
IAS transition reserve	-743	A,B,C	-743	
OPI reserve 2	-3,217	A,B,C	-3,217	*** 28,045
Discounted profit/loss reserve (IAS 19)	-161		-161	
Future share capital increase contribution	8,867	A	8,867	
Profit (Loss) for the year 2017	226		226	
Total	**51,129**		**37,629**	
Non-distributable portion (**)			-15,638	
Residual distributable portion			**21,991**	

(*) Possibility of use: A - for share capital increases B -for covering losses C - for distribution to shareholders
(**) Non-amortisable development costs and future capital increase contributions
(***) for coverage of losses

NON-CURRENT LIABILITIES

Financial Optimisation 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 Optimisation Agreement was finalised, 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.

It is noted that, on 02 July 2018, in line with the provisions of the Financial Optimisation Agreement, which provided for repayment as excess liquidity in the case of the sale of the Sound segment and of the business branch of the Technical Centre to AVL (transactions that fall under the so-called "Permitted Transactions"), Landi Renzo S.p.A. paid the holders of the debenture loan an overall additional amount of Euro 1,061 thousand (equal to 26.13% of the net income exceeding Euro 3 million) and the lending banks an overall amount of Euro 969 thousand (23.87% of the net income exceeding Euro 3 million), drawn from the last instalment provided for by the respective repayment schedules.

On 28 December 2018, the Meeting of Bondholders of the "LANDI RENZO 6.10% 2015-2022" loan, ISIN IT0005107237, under the chairmanship of Stefano Landi and in the presence of Notary Giuseppe Chiantera, unanimously (67.06% of the loan) approved the Board of Directors' proposal regarding amendments to the Debenture Loan Regulations in order to postpone from 31 December 2018 to 31 December 2019 the deadline by which to propose to the Company's shareholders' meeting the approval of the capital increase.

The resolution took effect immediately, as the lending banks had already released their waiver.

As previously shown, with reference to IFRS 9, the Company determined the effects on the accounts linked to the provisions of paragraph B.5.4.6 of the standard, which governs the impact on the amortised cost of the financial liabilities deriving from a change in the related financial flow plan, due to both a revised estimate or a contractual amendment. The application of this paragraph resulted in an increase of the value of some financial liabilities (convertible bonds and medium and long-term bank loans) renegotiated by the Company during the previous financial years by around Euro 422 thousand.

17. NON-CURRENT BANK LOANS

This item breaks down as follows:

(Thousands of Euro)

Non-current bank loans	31/12/2018	31/12/2017	Change
Loans and financing	19,649	23,646	-3,997
Amortised cost	-198	-307	109
Total	**19,450**	**23,339**	**-3,889**

This item includes the medium/long term portion of bank debts for unsecured loans and finance. It totalled Euro 19,450 thousand at 31 December 2018, compared with Euro 23,339 thousand at 31 December 2017.
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 financial covenants set forth in the Optimisation Agreement were all respected at the reporting date.

The Annual repayment plan for the medium/long-term loans, based on the balances at 31 December 2018, is shown below on the basis of the rescheduling set forth in the Financial Optimisation Agreement described previously.

Maturities	Annual loan repayment instalments post-agreement
2019	3,284
Amortised cost	-109
Total current	**3,175**
2020	4,257
2021	6,332
2022	9,060
Amortised cost	-198
Total non-current	**19,450**
Total	**22,625**

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 2018, the Company had the following further short-term credit facilities, available but not used:

(Thousands of Euro)

Credit facilities	2018
Cash facility	2,435
Facility for various uses	17,792
Total	**20,227**

18. OTHER NON-CURRENT FINANCIAL LIABILITIES

This item breaks down as follows:

(Thousands of Euro)

Other non-current financial liabilities	31/12/2018	31/12/2017	Change
Payables to other financial backers	210	629	-419
Lovato S.p.A. loan	2,150	2,950	-800
Debenture loan MT Landi Renzo 6.10% 2015-2022	24,366	29,347	-4,981
Amortised cost of the debenture loan MT	-148	-668	521
Total	**26,578**	**32,258**	**-5,679**

At 31 December 2018, other non-current financial liabilities totalled Euro 26,578 thousand (Euro 32,258 thousand at 31 December 2017) and are formed of:

- Euro 210 thousand (Euro 629 thousand at 31 December 2017) 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 2,150 thousand for the intercompany loan granted by the subsidiary Lovato Gas S.p.A.;
- Euro 24,218 thousand (Euro 28,679 thousand at 31 December 2017), net of the effect of amortised cost, 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 an amount of 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 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 Optimisation 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)

Maturities	Debenture loan
2019	3,920
Amortised cost	-77
Other current financial liabilities	**3,843**
2020	5,226
2021	7,840
2022	11,299
Amortised cost	-147
Other non-current financial liabilities	**24,218**
Total	**28,061**

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. PROVISIONS FOR RISKS AND CHARGES

The breakdown and changes in this item are shown in detail below:

(Thousands of Euro)

Provisions for risks and charges	31/12/2017	Merger of Emmegas	Allocation	Utilisation	Other changes	31/12/2018
Provision for pensions and similar obligations	57	0	8	-1	0	64
Provision for product warranty risks	3,225	14	1,192	-1,320	176	3,287
Provision for tax risks and lawsuits in progress	195	0	0	-51	0	144
Other provisions	5,535	0	350	-5,132	-176	578
Total	**9,012**	**14**	**1,550**	**-6,503**	**0**	**4,073**

The pensions reserve relates to the provision accrued for additional customer indemnity, including provisions for the year of Euro 8 thousand.

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 2018 this provision totalled Euro 3,287 thousand, of which Euro 14 thousand due to the effect of the merger with Emmegas S.r.l. Uses of the risk provision totalling Euro 1,320 thousand are due to the coverage of warranty costs correlated with supplies of components in previous years.

The provision for tax risks and lawsuits in progress relates primarily to the probable payment for a dispute with a service provider declared bankrupt.

As described in detail in the Annual Financial Report at 31 December 2017, the Other Provisions item included Euro 2,940 thousand relating to the provision for company restructuring charges for a mobility and voluntary resignation incentive procedure, agreed upon with the unions in December 2017. The company reorganisation plan was completed in the first half of 2018, with the relative payment of voluntary resignation incentives.

An agreement was also entered into during the year with a major OEM customer to fully settle all disputes relating to the 2011-2017 period, for which a specific provision had been recognised in the financial statements in previous years. Following that agreement, Euro 1,948 thousand of the provision was used in the course of the year.

In 2018, a further provision of Euro 350 thousand was recognised linked to possible disputes by a major foreign After Market customer, currently under negotiation with the counterparty.

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	31/12/2017	Allocation	Utilisation	Other changes	31/12/2018
Employee severance indemnity reserve	2,000	20	-504	-19	1,497

The provision of Euro 20 thousand relates to revaluation of the employee severance indemnity reserve (tfr9 at the end of the period, while use of Euro 504 thousand refers to the amounts paid to employees who ceased working during the year. The significant decrease during the year was due primarily to the disbursement of TFR to employees involved in the company reorganisation plan described above. The other changes relate to the actuarial adjustment of the reserve by Euro -19 thousand, accounted for in 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	
Demographic table	SIM AND SIF 2016
Discount rate (Euro Swap)	Curve of the Markit iBoxx € Corporate AA 7-10 rates at 31/12/2018 (1.13%)
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 shows insignificant variances with respect to the value recognised in the financial statements at 31 December 2018.

CURRENT LIABILITIES

21. BANK FINANCING AND SHORT-TERM LOANS

This item breaks down as follows:

(Thousands of Euro)

Non-current bank loans	31/12/2018	31/12/2017	Change
Advances, Import fin. and other current bank payables	9,990	4,091	5,899
Loans and financing	3,284	2,159	1,125
Amortised cost	-109	-121	12
Total	**13,165**	**6,129**	**7,036**

At 31 December 2018 this item, totalling Euro 13,165 thousand, compared with Euro 6,129 thousand in 2017, was made up of the current portion of existing loans and financing totalling Euro 3,175 thousand, net of the effect of amortised cost, and the use of short-term commercial credit lines totalling Euro 9,990 thousand.

22. OTHER CURRENT FINANCIAL LIABILITIES

This item breaks down as follows:

(Thousands of Euro)

Other non-current financial liabilities	31/12/2018	31/12/2017	Change
Payables to other financial backers (Simest)	419	419	0
Debenture loan ST Landi Renzo 6.10% 2015-2022	3,843	2,373	1,470
Total	**4,262**	**2,792**	**1,470**

At 31 December 2018, other current financial liabilities totalled Euro 4,262 thousand (Euro 2,792 thousand at 31 December 2017) and are formed of:

- Euro 419 thousand in the short-term portion of a subsidised loan disbursed by Simest S.p.A. to support a plan to expand trade in the USA.
- for Euro 3,843 thousand, net of the effect of amortised cost, for the short-term portion of the "LANDI RENZO 6.10% 2015-2022" debenture loan (according to the maturity dates laid out in the loan regulations amended by the Meeting of Bondholders on 30 March 2017).

23. TRADE PAYABLES

The changes in this item relate to:

(Thousands of Euro)

Trade payables	31/12/2018	31/12/2017	Change
Trade payables	45,295	35,924	9,371

Trade payables (including trade payables to related parties) totalled Euro 45,295 thousand and can be analysed by geographical segment as follows:

(Thousands of Euro)

Trade payables by geographical area	31/12/2018	31/12/2017	Change
Italy	40,903	32,070	8,833
Europe (excluding Italy)	2,188	2,971	-783
Asia and Rest of the World	2,068	880	1,188
America	136	3	133
Total	**45,295**	**35,924**	**9,371**

Trade payables to related parties of Euro 3,809 thousand (Euro 4,654 at 31 December 2017) refer mainly to relations with the companies Gireimm S.r.l. and Gestimm S.r.l. for property lease payments.

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 11,940 thousand (Euro 8,392 at 31 December 2017). 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 chapter "Other information" (Note 44).

25. TAX LIABILITIES

This item breaks down as follows:

(Thousands of Euro)

Tax liabilities	31/12/2018	31/12/2017	Change
for employee IRPEF (personal income tax) deductions	909	1,061	-152
for self-employed workers' IRPEF (personal income tax) deductions	8	26	-18
for lieu tax and income tax	2	66	-64
Total	**919**	**1,153**	**-234**

At 31 December 2018 the tax payables amount to Euro 919 thousand, a decrease of Euro 234 thousand compared to 31 December 2017, above all by effect of the IRPEF payables to employees which declined following the above-mentioned business reorganisation, which entailed a significant reduction in personnel.

26. OTHER CURRENT LIABILITIES

This item breaks down as follows:

(Thousands of Euro)

Other current liabilities	31/12/2018	31/12/2017	Change
Advance payments from customers	150	45	105
Payables to welfare and social security institutes	1,062	1,172	-110
Other payables (payables to employees, to others)	3,129	2,428	701
Accrued expenses and deferred income	0	16	-16
Total	**4,341**	**3,661**	**680**

At 31 December 2018 other current liabilities totalled Euro 4,341 thousand, an increase of Euro 680 thousand compared with 31 December 2017.

Other payables are up from Euro 2,428 thousand at 31 December 2017 to Euro 3,129 thousand at 31 December 2018, primarily due to the provision recognised for the medium/long-term performance bonus for the 2016-2018 three-year period recognised to several directors, for a total of Euro 1,000 thousand.

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 FROM SALES AND SERVICES

This item breaks down as follows:

(Thousands of Euro)

Revenues from sales and services	31/12/2018	31/12/2017	Change
Revenues related to the sale of assets	130,233	103,214	27,019
Revenues for services and other revenues	5,754	7,860	-2,107
Total	**135,987**	**111,074**	**24,913**

At 31 December 2018, revenues from sales and services rose by 22.4% compared with the year ending on 31 December 2017 as a result of the increase in the Company’s turnover.

Revenues for services and other revenues consist of:

(Thousands of Euro)

Revenues for services and other revenues	31/12/2018	31/12/2017	Change
Services rendered	1,102	995	107
Technical consultancy	1,905	4,066	-2,161
Intercompany services rendered	1,291	1,715	-425
Reimbursement of transport expenses	236	177	59
Reimbursement of other costs	221	216	5
Reimbursement of employee canteen costs	70	92	-22
Other income	930	599	331
Total	**5,754**	**7,860**	**-2,107**

Income from services rendered include primarily technical consultancy and charges of services for the testing of components supplied to leading automobile manufacturers.

Technical consultancy refers to services charged to OEM customers for technical services on new components designed for gas systems.

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.

Reimbursements of other costs relate primarily to revenue from incentives for the production of electricity by the photovoltaic system (Euro 186 thousand).

Other income refers mainly to payments to recover costs related to production activity.

28. OTHER REVENUES AND INCOME

Other revenue and income totalled Euro 1,360 thousand at 31 December 2018, compared to Euro 915 thousand at 31 December 2017 and are shown in detail below:

(Thousands of Euro)

Other revenue and income	31/12/2018	31/12/2017	Change
Grants	1,203	551	652
Other income	157	364	-208
Total	**1,360**	**915**	**445**

Contributions relate to tax credits for research and development for development projects relating to innovative components in the Automotive segment.

Other income refers to capital gains on the sale of fixed assets, contingent gains and non-existent liabilities.

29. COST OF RAW MATERIALS, CONSUMABLES AND GOODS AND CHANGE IN INVENTORIES

This item breaks down as follows:

(Thousands of Euro)

Cost of raw materials, consumables and goods and change in inventories	31/12/2018	31/12/2017	Change
Raw materials and parts	49,555	36,756	12,799
Finished products	20,548	15,354	5,194
Other materials	1,119	961	158
Change in inventories	-4,080	553	-4,633
Total	**67,143**	**53,624**	**13,519**

Total costs for purchase and consumption of raw materials, consumables and goods (including the change in inventories) increased from Euro 53,624 thousand at 31 December 2017 to Euro 67,143 thousand at 31 December 2018.

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	31/12/2018	31/12/2017	Change
Industrial and technical services	22,120	19,590	2,530
Commercial services	3,696	2,451	1,245
General and administrative services	5,278	5,552	-274
Costs for use of non-Group assets	2,346	2,860	-514
Extraordinary services	2,623	5,450	-2,827
Total	**36,063**	**35,903**	**160**

The item Costs for services and use of third party assets totalled Euro 36,063 thousand at 31 December 2018 and Euro 35,903 thousand at 31 December 2017.

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.

Extraordinary services declined from Euro 5,450 thousand in 2017 to Euro 2,623 thousand in 2018 and mainly include expenses relating to the appointment of a top consulting firm engaged to support the Chief Executive Officer and the company management in preparing and implementing an EBITDA improvement action plan.

31. PERSONNEL EXPENSES

Personnel expenses are analysed as follows:

(Thousands of Euro)

Personnel costs	31/12/2018	31/12/2017	Change
Wages and salaries	11,550	14,034	-2,484
Social security contributions	4,395	4,660	-266
Expenses for defined benefit plans	939	1,100	-160
Temporary agency work and transferred work	1,489	364	1,125
Directors' remuneration	979	934	45
Non-recurrent personnel costs and expenditure	1,000	3,539	-2,539
Total	**20,352**	**24,632**	**-4,280**

In the year closed at 31 December 2018, personnel expenses decreased by Euro 4,280 thousand compared to the year closed at 31 December 2017. As already described, personnel expenses for the previous year included a non-recurring provision of Euro 2,940 thousand relating to expected financial expenditure for voluntary resignation incentives, following the agreements signed in December 2017 with the trade unions implementing the company restructuring plan.

The increase in costs for temporary agency work and transferred work was due to the significant increase in the Company's turnover which, given the business and logistical reorganisation in the course of the year, made it necessary to make more recourse to temporary agency work to handle some production peaks.
Non-recurring personnel costs relate to the medium/long-term performance bonus for the 2016-2018 three year period recognised to several directors, totalling Euro 1,000 thousand.

The average number of employees in the Company workforce, divided by qualification in the two years analysed, is shown below:

	Average (*)			Peak		
Number of employees	**31/12/2018**	**31/12/2017**	**Change**	**31/12/2018**	**31/12/2017**	**Change**
Executives and Clerical Staff	187	181	6	172	227	-55
Manual workers	122	110	12	128	142	-14
Total	**309**	**291**	**18**	**300**	**369**	**-69**

(*) These values do not include temporary workers, fixed contract collaborators or the directors.

The precise number of employees compared to the previous year declined due to the completion of the business reorganisation plan agreed upon with the trade unions.
It is specified that the figures for 2017 are effected by the merger of AEB S.p.A. in to Landi Renzo S.p.A..

32. ACCRUALS, WRITE-DOWNS AND OTHER OPERATING EXPENSES

This item breaks down as follows:

(Thousands of Euro)

Accruals, write-downs and other operating expenses	31/12/2018	31/12/2017	Change
Other taxes and duties	86	100	-14
Other operating expenses	145	191	-46
Losses on receivables	77	0	77
Provisions, write-downs and various operating expenses	1,542	2,148	-605
Bad debts	44	139	-95
Total	**1,895**	**2,578**	**-683**

The costs included in this item totalled Euro 1,895 thousand at 31 December 2018 compared to Euro 2,578 thousand at 31 December 2017. For more information please refer to paragraph 19.

33. AMORTISATION, DEPRECIATION AND IMPAIRMENT

This item breaks down as follows:

(Thousands of Euro)

Amortisation, depreciation and impairment	31/12/2018	31/12/2017	Change
Amortisation of intangible assets	4,163	4,713	-550
Depreciation of tangible assets	3,265	4,574	-1,309
Capital losses from the disposal of fixed assets	0	1,984	-1,984
Total	**7,428**	**11,271**	**-3,843**

Amortisation of intangible assets, totalling Euro 4,163 thousand, refers primarily to the amortisation of development and design costs incurred by the Company, as well as the costs for the purchase of software (applications and management) acquired over time, industrial patents and the amortisation of trademarks.

Depreciation of tangible assets, totalling Euro 3,265 thousand, refers to plant and machinery, including automated lines, for the production, assembly and testing of products, industrial and commercial equipment, moulds for production, testing and control instruments and electronic processors.

The capital losses for sale of fixed assets recognised un the previous year refer to financial losses relating to tangible fixed assets not yet amortised, 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	31/12/2018	31/12/2017	Change
Interest income on bank deposits	1	0	1
Other income	91	201	-110
Total	**92**	**201**	**-109**

Financial income includes, primarily, bank interest income and interest on intercompany loans. Financial income at 31 December 2018 amounts to Euro 92 thousand (Euro 201 thousand at 31 December 2017).

35. FINANCIAL EXPENSES

This item breaks down as follows:

(Thousands of Euro)

Financial expenses	31/12/2018	31/12/2017	Change
Interest on bank overdrafts and loans and loans from other financiers	2,802	3,045	-243
Bank charges and commissions	649	596	53
Total	**3,451**	**3,641**	**-190**

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 2018, the Company did not have interest rate hedging derivatives.

36. EXCHANGE GAINS AND LOSSES

This item breaks down as follows:

(Thousands of Euro)

Exchange gains and losses	31/12/2018	31/12/2017	Change
Positive exchange differences realised	42	109	-67
Positive exchange differences from valuation	496	-34	530
Negative exchange differences realised	-79	-31	-49
Negative exchange differences from valuation	-31	-1,343	1,312
Total	**427**	**-1,299**	**1,726**

The Company realises over 95% of its revenues and costs in Euro.

The significant exchange losses from valuation accounted for in the previous year referred mainly to the negative variations in the loan in USD to the subsidiary Landi Renzo Usa Co. The effect of this change on the year 2018 is positive and amounts to Euro 478 thousand.

At 31 December 2018 the Company did not have any financial instruments to cover of exchange rate fluctuation.

37. INCOME (EXPENSES) FROM EQUITY INVESTMENTS

This item breaks down as follows:

(Thousands of Euro)

Income (expenses) from equity investments	31/12/2018	31/12/2017	Change
Income on equity investments	2,981	21,199	-18,218
Expenses from investments	-5,079	-32	-5,047
Total	**-2,098**	**21,167**	**-23,265**

Income on equity investments refers to dividends of Euro 2,981 thousand paid over the year by the subsidiary Landi Renzo Beijing.

Expenses from investments at 31 December 2018 totalled Euro 5,079 thousand and included:

- the write-down of the equity investment in the subsidiary Landi Renzo PAK (Pvt) Limited for Euro 1,691 thousand;
- the write-down of the equity investment in the subsidiary Landi Renzo Pars for Euro 1,737 thousand;
- the write-down on the loan granted to the American subsidiary for Euro 1,651 thousand, including the effect of fluctuations in the Euro/USD exchange rate during the year.

38. INCOME (EXPENSES) FROM JOINT VENTURES VALUED USING NET EQUITY METHOD

This item breaks down as follows:

(Thousands of Euro)

Income (expenses) from joint ventures valued using net equity method	31/12/2018	31/12/2017	Change
Revaluation of equity investments	308	33	275
Write-down of equity investments	-1,899	-25	-1,874
Total	**-1,591**	**8**	**-1,599**

At 31 December 2018, this amounts to a negative Euro 1,591 thousand (positive Euro 8 thousand at 31 December 2017) and mainly includes:

- the revaluation of the equity investment in the company Krishna Landi Renzo India Private Ltd for Euro 308 thousand (Euro 33 thousand at 31 December 2017) following its valuation at equity;
- the write-down of the equity investment in the joint venture SAFE&CEC S.r.l. of Euro 1,895 thousand following its valuation at equity.

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)

Financial income and expenses	31/12/2018	31/12/2017
Interest income on cash and cash equivalents	1	1
Other financial income	92	201
Exchange gains/losses	427	-1,299
Bank interest charges	-94	-155
Interest expenses from financial liabilities valued at the amortised cost	-638	-662
Interest charges on factoring without recourse and other interest charges	-377	-408
Interest charges on bonds	-1,693	-1,822
Total	**-2,282**	**-4,143**

39. TAXES

Income taxes are shown in detail below:

(Thousands of Euro)

Taxes	31/12/2018	31/12/2017	Change
Current taxes	2,205	-123	2,082
Deferred (prepaid) taxes	-4,585	-1,399	-5,984
Total	**-2,381**	**-1,522**	**-3,903**

Total taxes in the income statement at 31 December 2018 were positive, amounting to Euro 2,381 thousand (a positive Euro 1,522 thousand at 31 December 2017), mainly due to deferred tax assets on previous tax losses recognised in the amount of Euro 3,047 thousand by the Company.

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 summarised data is shown below:

	31/12/2018		
(Thousands of Euro)	**Taxable**	**Taxes**	**%**
Result before tax	-2,154		
Taxes calculated at the tax rate in force		-517	24.0%
Permanent differences			
- non-deductible costs	673	163	-7.5%
- write-downs and non-recurrent losses	6,978	1,675	-77.7%
- share of non-taxed financial income	-1,898	-456	21.1%
- other non-taxable income	-1,543	-370	17.2%
-taxes from reduction of Ires rate			0.0%
- write-off of prepaid taxes on tax losses		-3,047	141.5%
Tax loss without taxation		0	0.0%
Benefits from undersigning the consolidated tax regime			0.0%
IRAP calculated on a different basis from the pre-tax result		172	-8.0%
Total current taxes/Effective rate		**-2,381**	**110.5%**

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)	31/12/2018		31/12/2017	
	Book value	Fair value	Book value	Fair value
Loans and Receivables	32,387	32,387	30,858	30,858
Cash and cash equivalents	8,531	8,531	7,225	7,225
Trade payables	61,726	61,726	48,038	48,038
Financial liabilities valued at the amortised cost - non-current portion	43,879	43,879	52,646	52,646
Financial liabilities valued at the amortised cost - current portion	6,997	6,997	4,891	4,891
Other short term amounts owed to banks	10,011	10,011	4,091	4,091

Note that the book value of the loans and financing approximates their fair value at 31 December 2018, 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. for rental of the Operating Headquarters and the New Technical Centre situated in Cavriago (RE):

The first contract, currently in the renegotiation phase, expires on 10 May 2019 and the remaining instalments total Euro 341 thousand, while the second, signed on 03 August 2017 after the sale of the company branch to AVL Italia, expires on 31 July 2023, with residual instalments of Euro 1,385 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.

From December 2017, there is also a lease contract for an industrial building on 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 1,855 thousand, of which Euro 618 thousand within one year.

Also the Company has commitments for operating leasing on autoveicles for Euro 320 thousand, of which Euro 165 thousands due in 2019, and on some machinery and equipment of low value.

43. ANALYSIS OF THE MAIN DISPUTES IN PROGRESS

At 31 December 2018, the Company is not involved in proceedings, brought by or against it, for significant amounts with the Tax Authorities, social security institutions or other public authorities, or third parties.

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 summarises 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	Expense and Income from Equity Investments	Expense and Income from JVs valued using the net equity method	Financial Assets	Financial Liabilities	Receivables	Payables
SAFE&CEC S.r.l.		398									-1,895			1	
Gestimm S.r.l.						622									156
Krishna Landi Renzo India Priv. Ltd	1,006				137			3			308			1,665	49
Efi Avtosanoat	462													534	
Gireimm S.r.l.						1,279									3,605
Total related parties	**1,467**	**398**	**0**	**0**	**137**	**1,901**	**0**	**3**	**0**	**0**	**-1,587**	**0**	**0**	**2,200**	**3,809**
Lovato Gas S.p.A.	7,704	573		37	2,886				79				2,150	1,625	8,078
Landi International B.V.															
Landi Renzo Polska	4,348	495		11	5,063			24							2,927
Beijing Landi Renzo Cina	1,515	1								2,981				94	
LR Industria e Comercio Ltda	7,707	185			48									4,977	18
Landi Renzo Pars	125		20							-1,737		387		1,169	
LR PAK Pakistan	19	9			466			2		-1,691				1,257	451
Landi Renzo Ro Srl.	416	2			6			68							351
Landi Renzo Usa Corp.	63	175						70		-1,651				1,923	70
Landi Renzo VE C.A.															
AEB America	1,046	5												990	44
Landi Renzo Argentina S.r.l.											-4				
Total subsidiaries	**22,943**	**1,445**	**20**	**48**	**8,469**	**0**	**0**	**164**	**79**	**-2,098**	**-4**	**387**	**2,150**	**12,035**	**11,939**

45. NON-RECURRING SIGNIFICANT EVENTS AND TRANSACTIONS

Pursuant to CONSOB communication no. DEM/6064293 of 28 July 2006, concerning significant non-recurrent events or transactions happened during 2018, we highlight the existence of non-recurring transactions specified in the paragraph " Non-current liabilities" – "Financila Optimisation Agreement" and in notes 30 and 31 of the Consolidated Income Statement, related respectively to the modification of the regulation of the Bond Loan and the costs for the strategic consultancy to support of the Chief Executive Officer and the management and to the accrual for medium/long-term performance bonus for the 2016-2018 recognised to several directors.
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 2006, note that, during 2018, 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

Under 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 the 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.

LIST OF EQUITY HOLDINGS IN SUBSIDIARIES AT 31/12/2018

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	2,055,529	360,360	99.99%		1,708,862
Landi International B.V.	Utrecht (The Netherlands)	EUR	18,151	6,891,850	1,728,329	100%		17,972
Beijing Landi Renzo Autogas System Co. Ltd	Beijing (China)	USD	2,600,000	3,546,890	-120,934	100%		2,057,305
Landi Renzo Polska Sp.Zo.O.	Warsaw (Poland)	PLN	50,000	6,805,687	1,666,614		100% (*)	
L.R. Pak (Pvt) Limited	Karachi (Pakistan)	PKR	75,000,000	-853,844	1,158,868	70%		1
Landi Renzo Pars Private Joint Stock Company	Tehran (Iran)	IRR	55,914,800,000	1,263,072	191,198	99.99%		1,263,072
Landi Renzo Ro S.r.l.	Bucharest (Romania)	RON	20,890	946,102	-32,731	100%		5,000
Landi Renzo USA Corporation	Wilmington - DE (USA)	USD	3,067,131	-13,239,418	60,408	100%		1
AEB America S.r.l.	Buenos Aires (Argentina)	ARS	2,030,220	686,058	225,583	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	18,281,258	1,171,020	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	-184,611	-94,427		74% (#)	
Landi Renzo Argentina S.r.l.	Buenos Aires (Argentina)	ARS	1,378,000	-798	-	96%	4% (#)	4,447

(*) 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 2018 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 2018
Auditing	PricewaterhouseCoopers S.p.A.	Parent Company	191
Other services	PricewaterhouseCoopers S.p.A. and PwC network	Parent Company	31
Total			**208**

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 Statutory Auditors in 2018 and the equity investments held by them in the year are shown in the tables attached to the "Report on Remuneration", which will be provided to the shareholders' meeting called to approve the Financial Statements at 31 December 2018.

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 you:

- the approval of the Financial Statement as at 31 December 2018;
- the approval at the Shareholders' Meeting of the allocation of profit equivalent to Euro 226,353.61 made by Landi Renzo S.p.A. to an Extraordinary Reserve given that the Statutory Reserve has already reached one fifth of share capital.

Cavriago (RE), 14 March 2019

For the Board of Directors
The Chairman
Stefano Landi

Annex 1

Income Statement at 31 December 2018, 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)

INCOME STATEMENT		31/12/2018	of which transactions with related parties	Weight %	31/12/2017	of which transactions with related parties	Weight %
Revenues from sales and services	27	135,986,583	24,218,790	17.8%	111,073,954	17,706,005	15.9%
Other revenue and income	28	1,359,938			915,334		
Cost of raw materials, consumables and goods and change in inventories	29	-67,142,786	-8,494,413	12.7%	-53,624,202	-8,362,647	15.6%
Costs for services and use of third party assets	30	-36,062,677	-2,084,236	5.8%	-35,903,190	-2,539,744	7.1%
Personnel costs	31	-20,351,955	-5,122	0.0%	-24,632,353	-241,645	1.0%
Provisions, provision for bad debts and other operating expenses	32	*-1,894,779*			*-2,577,608*		
Gross operating profit		**11,894,324**			**-4,748,065**		
Amortisation, depreciation and impairment	33	*-7,427,851*			*-11,270,976*		
Net operating profit		**4,466,473**			**-16,019,041**		
Financial income	34	*92,259*	*19,644*	*21.3%*	*201,481*	*171,159*	*85.0%*
Income on equity investments	35	3,289,300	3,289,300	100%	21,232,561	21,232,561	100.0%
Financial expenses	36	-3,451,011			-3,641,463	-105,136	
Expenses from investments	37	*-6,978,480*			-58,000		
Exchange gains (losses)	38	427,115			-1,298,666		
Profit (Loss) before tax		**-2,154,344**			**416,872**		
Taxes	39	2,380,697			1,522,114		
Profit (loss) for the year		**226,353**			**1,938,986**		

Annex 2

Statement of Financial Position at 31 December 2018, 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	31/12/2018	of which transactions with related parties	Weight %	31/12/2017	of which transactions with related parties	Weight %
Non-current assets							
Land, property, plant, machinery and equipment	2	9,672,207			9,964,851		
Development expenditure	3	6,771,765			4,953,932		
Goodwill	4	2,372,845			2,372,845		
Other intangible assets with finite useful lives	5	5,882,887			6,483,969		
Investments in subsidiaries	6	54,271,892			56,013,238		
Equity investments in associated companies and joint ventures	7	22,464,490			24,473,316		
Other non-current financial assets	8	395,874	387,500	97.9%	395,874	387,500	97.9%
Other non-current assets	9	3,991,430			4,561,430		
Deferred tax assets	10	10,825,852			7,751,453		
Total non-current assets		**116,649,242**			**116,970,908**		
Current assets							
Trade receivables	11	15,709,738	2,199,889	14.0%	12,799,945	1,024,652	8.0%
Receivables from subsidiaries	12	12,035,068	12,035,068	100%	13,434,065	13,434,065	100.0%
Inventories	13	24,750,381			20,271,041		
Other receivables and current assets	14	4,974,651			5,179,972		
Cash and cash equivalents	15	8,531,249			7,225,430		
Total current assets		**66,001,087**			**58,910,453**		
TOTAL ASSETS		**182,650,329**			**175,881,361**		

SHAREHOLDERS' EQUITY AND LIABILITIES	Notes	31/12/2018	of which transactions with related parties	Weight %	31/12/2017	of which transactions with related parties	Weight %
Equity							
Share capital	16	11,250,000			11,250,000		
Other reserves	16	39,652,473			38,032,481		
Profit (loss) for the period	16	226,353			1,938,986		
TOTAL SHAREHOLDERS' EQUITY		**51,128,826**			**51,221,467**		
Non-current liabilities							
Non-current bank loans	17	19,450,413			23,338,908		
Other non-current financial liabilities	18	26,578,337	2,150,000	8.1%	32,257,572	2,950,000	9.1%
Provisions for risks and charges	19	4,073,038			9,012,497		
Defined benefit plans for employees	20	1,497,376			1,999,508		
Total non-current liabilities		**51,599,164**			**66,608,485**		
Current liabilities							
Bank financing and short-term loans	21	13,165,543			6,129,157		
Other current financial liabilities	22	4,262,312			2,792,482		
Trade payables	23	45,295,377	3,809,494	8.4%	35,924,139	4,653,682	13.0%
Payables to subsidiaries	24	11,939,673	11,939,673	100%	8,391,553	8,391,553	100.0%
Tax liabilities	25	918,682			1,153,057		
Other current liabilities	26	4,340,751			3,661,021		
Total current liabilities		**79,922,337**			**58,051,409**		
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**182,650,327**			**175,881,361**		

LANDIRENZO

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 2018.

In addition, the undersigned state that the separate financial statements at 31 December 2018:

- have been prepared in accordance with the international accounting standards acknowledged by the European Community 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, 14th March 2019

CEO	**The Officer in Charge**
Cristiano Musi	**Paolo Cilloni**

LANDI RENZO S.P.A. lpg and ngv systems
via Nobel, 2/4/6 | 42025 Corte Tegge | Cavriago (RE) | Italia | Tel +39 0522 9433 | Fax +39 0522 944044 www.landi.it | e-mail: info@landi.it | Capitale Sociale € 11.250.000 i.v. | C.F. e partita IVA IT 00523300358

pwc

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 (hereinafter also the "Company"), which comprise the statement of financial position as of 31 December 2018, 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 2018 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.

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 investment in the subsidiary Lovato Gas *See notes 4 and 6 and the paragraph titled "Accounting standards and valuation criteria" of the explanatory notes*	
As of 31 December 2018 the book values of goodwill and equity investments in subsidiaries recognised in the financial statements amounted to Euro 2.4 million and Euro 54.3 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 significant impact of this caption on the statement of the financial position of Landi Renzo SpA and in consideration of the revenue growth forecasts included in the 2019-2023 Economic and Financial Plan deriving from the business plan approved by the Company's board of directors on 13 September 2017, revised in order to take in account values from the Budget 2019 approved by the Company's board of directors on 14 March 2019 and values for the financial year 2023. The valuation models underlying the determination of the recoverable amounts (value in use) of the Cash Generating Unit (CGU) including the goodwill and of the equity	Our audit approach preliminarily consisted of understanding and evaluating the methods and the procedures defined by the Company to determine the recoverable amounts of the CGU including the goodwill and of the equity investments in subsidiaries, as approved by the statutory board of directors on 14 March 2019 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 of the directors of Landi Renzo SpA underlying the mentioned aggregation process of those CGUs previously identified to a sole CGU, and the consistency of these assumptions with those effects generated by the completion of the reorganization process at Group Level. Moreover, we verified the reasonableness of the methods adopted and of the main assumptions reflected in the valuation model (discounted cash flow method), both for goodwill both for investment in Lovato Gas, also involving PwC network valuation experts. In particular, we verified the reasonableness of the discount rate and perpetuity growth rate in relation to the valuation practices usually adopted for companies belonging to

investments in subsidiaries are based on complex evaluations and estimates of management, having as a reference the Economic and Financial Plan mentioned above. In particular, the valuation models of the recoverable amounts of the CGU including the goodwill and of the equity investments in subsidiaries and the assumptions included in the same models are influenced by future market conditions as regards the expected cash flows, the perpetuity growth rate and the discount rate. In this regard, it should be noted that during the financial year ended at 31 December 2018 the Landi Renzo Group has completed a reorganization process at Group level that has deeply changed the organizational and production cycles of the subsidiary Lovato Gas SpA. Following the completion of the reorganization process above mentioned, the directors of Landi Renzo Group have aggregated the mentioned subsidiary in the CGU called "Automotive" that includes also Landi Renzo SpA. In order to evaluate the recoverability of goodwill and of the subsidiary in Lovato Gas SpA, the directors of Landi Renzo, however, have prepared specific impairment tests on Landi Renzo SpA and on the separated subsidiary, respectively.	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 Economic and Financial Plan above mentioned. Considering that forecast cash flows are a particularly significant parameter for the determination of the recoverable amounts of the CGU including the goodwill and the 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 PwC network, who supported us in the critical analysis of the reasonableness of the forecasts included in the Economic and Financial 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 the CGU including the goodwill and the 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 2018 amounted to Euro 12.5 million, partially offset by deferred tax liabilities equal to Euro 1.7 million, giving a net deferred tax asset equal to Euro 10.8 million. Deferred tax assets relate for Euro 3.6 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 8.9 million to prior tax losses considered	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 is closely related to the existence of future taxable income and, therefore, to the achievement of the

as substantially recoverable during the first three years of the above mentioned Economic and Financial Plan. 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 significant impact of this caption on the statement of the financial position and on the income statement of Landi Renzo SpA, 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 above mentioned Economic and Financial Plan.

prospective results included in the above mentioned Economic and Financial 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 2019-2023, which are based on the net results included in the Economic and Financial Plan.
We verified the reasonableness of the net results included in the Economic and Financial 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 Economic and Financial Plan.
Finally, we verified the disclosures provided by the Company in the financial statements about the elements supporting the recoverability of deferred tax assets.

Evaluation of investment in SAFE&CEC Srl

See notes 7 and 35 of the explanatory notes

At December 31, 2018, the carrying amount of the investment in the company SAFE&CEC Srl measured with the equity method amounted to € 21.9 million.
The Company verifies for the presence of impairment indicators that could give rise to doubts about the recoverability of the value of the investment.
This aspect was considered of particular relevance for the statutory audit of the financial statements in consideration of the significant impact of the item on the statement of financial position and on the income statement of the Landi Renzo SpA, also considering the value of goodwill included in the participation. The directors of Landi Renzo SpA have requested and obtained the following documentation approved by the statutory board of

The audit approach preliminarily consisted of understanding and evaluating of the methods adopted by the directors of Landi Renzo SpA for the purpose of recording the value of the equity investment of the company SAFE&CEC Srl with the equity method and of the analyses carried out by the same with reference to the presence of any impairment indicators.
We also verified the reasonableness of the methods adopted and of the main assumptions reflected in the impairment test evaluation model (method of discounting cash flows) prepared by the directors of SAFE&CEC Srl with the support of external advisors, also involving PwC network valuation experts. In particular, we verified

directors of SAFE&CEC Srl on 11 March 2019, for the purpose of evaluating the carrying value of the equity investment held in SAFE&CEC Srl and of the analysis of any presence of impairment indicators: (i) statutory and consolidated financial statements at 31 December 2018; (ii) budget 2019 and (iii) impairment test on the goodwill recorded in the consolidated financial statements of SAFE&CEC Srl at 31 December 2018. Following the aforementioned analysis, no impairment indicators were identified with reference to the book value of the equity investment of SAFE&CEC Srl.	the reasonableness of the discount rate and the perpetual growth rate with respect to the valuation practices usually adopted for companies belonging to the industry in which Landi Renzo Group operates. We also verified that the cash flow included in the valuation model were consistent with those included in the plans approved by the directors. Considering that the forecast cash flows are a particularly significant parameter for the determination of the recoverable amount as it depends on to future and uncertain events, we analysed the reasonableness of the estimated future cash flow through interviews with company management of Landi Renzo SpA and SAFE&CEC Srl, with the consultants used by the directors of SAFE&CEC Srl also through the involvement of PwC network experts of the Automotive segment, who supported us in the critical analysis about the reasonableness of the forecasts included in the plans. Finally, we verified the disclosures provided by the Company in the consolidated financial statements about the analyses carried out to identify the lack of impairment.

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 2018, 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 2018 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 2018 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, 29 March 2019

PricewaterhouseCoopers SpA

Signed by

Nicola Madureri
(Partner)

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

LANDI RENZO S.P.A.

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING

Fiscal year ended on 31 December 2018

(article 153 of Legislative Decree 58/1998)

Dear Shareholders,

We report to you on the activity performed by the Board of Statutory Auditors of Landi Renzo S.p.A. (hereinafter "Landi Renzo" or "Company") during the fiscal year ended on 31 December 2018.

The Company's shares are listed on Borsa Italiana's MTA - STAR segment.

PWC S.p.A. was appointed to perform the independent audit.

Activities performed

a) We performed the supervision activity established in article 149 of Legislative Decree 58/1998 (hereinafter TUF - Finance Consolidation Act) and other applicable legal and regulatory provisions, also taking into account the principles of conduct recommended by the National Association of Certified Accountants and accounting experts.

b) We participated in all Board of Directors meetings (held 7 times in 2018) during which we were appropriately informed, with the frequency established by law and the articles of association, regarding the activity performed by the directors and in relation to the most relevant operations conducted by the Company and its subsidiaries. In these meetings, we ascertained that the resolutions passed and the operations actually performed complied with the law and the articles of association, as well as proper management principles.

c) We ascertained the appropriateness of the organizational and administrative/accounting structure and the internal control system by meeting with various corporate department heads. During our meetings (n. 12 in 2018) we have maintained an ongoing flow of information with the Audit firm managers, the Officer in charge of preparing the corporate financial statements, the Internal audit function, the Control and risks committee and the members of the Board of Statutory Auditors of the Italian subsidiaries, also thanks to the presence of a member of our Board in them.

d) We participated to meetings of the Control and Risks Committee (held 6 times in 2018), of the Remuneration Committee (held 4 times in 2018) and of the Committee for transactions with related parties (held 2 times in 2018). We also were in contact with members of the Supervisory Board, established in accordance with Legislative Decree 231/2001.

e) We verified implementation of the corporate governance rules established by the Corporate Governance Code, to which the Company is bound to comply, since it is listed in the STAR segment.
f) We ascertained the appropriateness of provisions imposed upon subsidiaries pursuant to article 114, paragraph 2, of the TUF.
g) During the 2018 fiscal year, the Board of Statutory Auditors issued mandatory opinions in accordance with article 2389, paragraph 3, of the Civil Code and issued an opinion as required by the Corporate Governance Code.
h) In our capacity as Internal Control and Audit Committee (article 19 of Legislative Decree 39/2010), we performed ongoing supervision, also with meetings with Audit firms, the Officer in charge of preparing the corporate financial statements, and various corporate department managers, on the financial reporting process, the effectiveness of internal control, internal audit and risk management systems, the independent audit activities of annual and consolidated financial statements, as well as the independence of the Audit firm. We also acknowledge timely receipt of the supplemental report of the audit firm and in accordance with article 19 indicated above, then forwarded it to the Board of Directors, with no observations.
i) With regard to the non-financial consolidated report our role was that of summary oversight of non-financial reporting systems and processing within the context of controlling proper management. The Board of Statutory Auditors acknowledges that the above-mentioned declaration is included in the Management Report as provided in article 5, paragraph 1, letter a) of Legislative Decree 254/2016.

Indications and information

Based upon the activity described in the previous paragraph, we can confirm the following:

1. The most relevant economic, financial and equity operations performed by the Company, comprehensively described in the Management Report, were shown to be compliant with the law, the articles of association and the resolutions of the shareholders' meeting. They were not imprudent, random or such as to compromise the integrity of the company assets. In particular, these operations include the following:
    - On 20 June 2018, the Board of Directors of Landi Renzo S.p.A. approved project of merger by incorporation of the wholly owned company Emmegas S.r.l., finalized by

public act on 30 October 2018 in the presence of Notary Giuseppe Chiantera. The transaction falls within the scope of the Landi Renzo Group 2018-2022 Strategic Plan, with continuation of the policy of improved efficiency, streamlining, and simplification of production flows and processes, allowing synergies to be achieved as well as a reduction in overall costs;

- In line with the provisions of the Financial Optimisation Agreement, on 2 July 2018 Landi Renzo S.p.A. paid the holders of the debenture loan an overall additional amount of Euro 1,061 thousand (equal to 26.13% of the net income exceeding Euro 3 million) and the lending banks an overall amount of Euro 969 thousand (23.87% of the net income exceeding Euro 3 million), drawn from the last instalment provided for by the respective repayment schedules;
- On 28 December 2018, the Meeting of Bondholders for the "LANDI RENZO 6.10% 2015-2022" loan, ISIN IT0005107237, under the chairmanship of Stefano Landi and in the presence of Notary Giuseppe Chiantera, unanimously approved the Board of Directors' proposal regarding amendments to the Debenture Loan Regulations in order to postpone from 31 December 2018 to 31 December 2019 the deadline by which to propose to the Company's shareholders' meeting the approval of a capital increase. The resolution took effect immediately, as the lending banks had already released their waiver.

2. The Board of Statutory Auditors did not find the operations to be atypical or unusual, performed wither with third parties or with group companies or affiliated parties. Ordinary operations, both intercompany and with affiliated parties, are appropriately described in the Notes to the consolidated financial statements and the Notes to the separate financial statements, to which we refer.
3. The Board did not receive any reports during the year pursuant to art. 2408 c.c. nor instances.
4. The fees recognized in 2018 for the statutory audit of the financial statements of the parent company and of the consolidated financial statements amount to Euro 191 thousand and Euro 27 thousand respectively. To the audit firm PWC were also agreed fees for the tax return forms and consulting provided for Euro 31 thousand. The aforementioned services have been previously authorized by the Board of Statutory Auditors pursuant to art. 4 and 5 of Regulation (EU) n. 537/2014. In this regard, the Company adopted in 2018 a procedure for the assignement of engagements to the Audit firm and its network.

5. Likewise, no relevant aspect emerged in contacts with the Supervisory Board regarding the progress of the respective control activities. The semi-annual reports prepared by said Board did not mention any objectionable facts or violations of the Organizational Model pursuant to Legislative Decree 231/2001. The Model is updated on an ongoing basis in order to take into account regulatory changes.
6. Our control and supervision activity showed compliance with the principles of proper administration.
7. We believe that the Company's organizational structure is appropriate in relation to its size and activities performed. The Company has kept the internal control system efficient, based upon the indications from the Control and Risks Committee and the Supervisory Board. We believe that Landi Renzo’s internal control system is appropriate for the Company's size and activities. After Mr. Gardani resigned, in the meeting held on 20 June 2018 – based on the proposal of the Executive Director responsible for supervising the functionality of the internal control system and subject to the prior favorable opinion of the Control and risks committee and having consulted the Board of Statutory Auditors - the Board of Directors appointed Mr. Filippo Alliney as Head of the Internal Audit function, stating that he is not responsible for any operational area and does not report hierarchically to any operating area manager, including the administration, finance and control area. Furthermore, the Board of Directors and the Board of Statutory Auditors of the Company, which expires with the approval of the financial statements as at 31 December 2018, must be appointed by the Shareholders' Meeting at the next meeting for the three-year period 2019-2021.
8. We believe that Landi Renzo's administrative/accounting system is appropriate and reliable to properly represent management events.
9. On 29 March 2018, the audit firm PWC S.p.A. issued its reports on the consolidated financial statements and the separate financial statements, without any significant indication or emphasis of matter paragraph. On the same date, were issued the report on non-financial consolidated report pursuant to art. 3, paragraph 10, of Legislative Decree 30 December 2016, n. 254 and of the art. 5 Consob Regulation n. 20267, the Supplemental Report provided by Legislative Decree n. 135/2016 as well as the report as established in article 19, paragraph 4, of said Legislative Decree 39/2010 that confirms that the Audit firm maintained the independence requirements and had no reason for incompatibility throughout 2018.

10. In contacts and exchanges of information with audit firm managers and members of the control bodies of the Italian subsidiaries, no significant aspects emerged that require reporting to shareholders.
11. In accordance with article 19 of Legislative Decree 39//2010, the Board of Statutory Auditors, in its capacity as Internal Control and Audit Committee, ascertained that there are no significant shortcomings in the internal control system in relation to the financial reporting process. In particular, this Board, based upon the activity performed during the year and based upon information obtained from the audit firm, believes that the independent audit procedure and activity on the separate and consolidated financial statements are appropriate. The statutory auditors also acknowledged that the financial reporting process was performed properly, the interim reports were prepared and made public in timely manner as required by law, and the procedures adopted for preparing them are appropriate.
12. The Company regularly performed the requirements of article 36 of CONSOB Regulation 16191/2007 regarding accounting documentation for subsidiaries outside of the EU included in the consolidated financial statements with significant relevance.
13. The Company has implemented appropriate procedures, considered adequate by the Board of Statutory Auditors, for gathering information from the subsidiaries that must be made public in accordance with article 114 of the TUF.
14. In regard to the Corporate Governance Code, the Company complies with indications regarding the number of independent directors and has established the Control and Risks Committee and the Remuneration Committee. No Appointment Committee was established.
15. During 2018, the Board of Statutory Auditors examined and considered appropriate the procedures adopted by the Board of Directors to verify that the two independent directors continued to meet the requirements.

    During 2018, we also verified that the members of the Board of Statutory Auditors met and continued to meet said requirements.
16. During 2018, all members of the Board of Statutory Auditors complied with, and continue to comply with, the requirements on cumulative duties contained in article 148-bis, paragraph 2 of the TUF and articles 144-duodecies et seq. of the CONSOB Issuer Regulation, also taking into consideration the provisions established in CONSOB resolution no. 18079/2012.
17. Supervision activity did not show any event to be mentioned in our report to the shareholders' meeting.

18. With regard to the draft of the separate financial statements as of 31 December 2018 prepared by the Board of Directors within the term prescribed by law, the Board of Statutory Auditors, taking into account the findings of the audit firm's report, has no objections or observations to make.
19. We agree with the contents of the management report, which meets the requirements of article 2428 of the Civil Code and is consistent with the information in the financial statements, and we also agree with the proposed allocation of profit for the year.
20. The Company prepared the Report on Corporate Governance and Ownership Structures containing the information required by article 123-bis of the TUF. The audit firm expressed its opinion on the consistency of this report as established in paragraph 4 of said article 123-bis.

    The Company also prepared the Remuneration Report established by article 123-*ter* of the TUF and the Corporate Governance Code, which contains, among others, indications on the general remuneration policy.

Consolidated Financial Statements

Landi Renzo prepared the consolidated financial statements for fiscal year 2018, which it made available to us within the term prescribed by law.

The consolidated financial statements, according to the IFRS international accounting principles adopted by the European Union, was submitted for an audit by PWC S.p.A., which, in the above-mentioned report, expressed an opinion without any significant indication or emphasis of matter paragraph.

Therefore, we refer to the findings of said report, in accordance with the provisions of article 41 of Legislative Decree 127/91, since the Board of Statutory Auditors did not perform specific controls on the consolidated financial statements.

Cavriago 29 March 2019

Board of Statutory Auditors

Eleonora Briolini

Domenico Sardano

Diana Rizzo

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