DRAFT ANNUAL REPORT 2016

OVER **60 YEARS** OF INTERNATIONALIZATION, INNOVATION AND ABILITY TO SEIZE OPPORTUNITIES

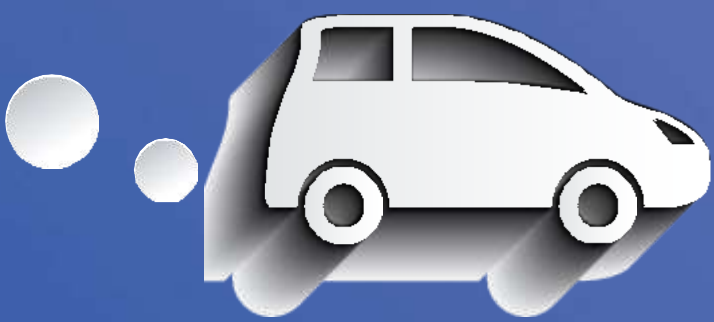
(Translation from italian original which remains the definitive version)

MISSION

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

Our mission offers a tangible contribution 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 environmental footprints.

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



INDEX

LETTER TO SHAREHOLDERS

Dear Shareholders,

2016 was a year characterised by an ongoing climate of difficulties, already evident in the previous two-year period, which marked the sector where our Group operates. However, our intent is not to repeat ourselves in the statements and comments already provided last year.

We reckon it would be more appropriate to share with you the reasons that drive us to look into the future with confidence.

As you are well aware, ecological issues and respect for the environment are increasingly more important in the everyday life of our company, not only in Italy, but also in Europe and the rest of the world.

In this context, international policies are quickly shifting and increasingly directing to more radical actions against atmospheric pollution. News of a possible final stop to diesel vehicles on the road by 2025 has arrived in the sixth edition of the two-year meeting of the C40 at the end of 2016, the organisation that gathers mayors of main urban areas of the planet, announced by cities such as Paris, Athens, Madrid and Mexico City. Many other metropolis or entire nations are expected to follow this trend.

The increased level of attention paid to the environmental aspects, the consequent political actions, as well as technology innovations in progress, are generating many irregularities in the Automotive industry and in our opinion will be more evident in 2017 and in the following years. Despite the significant increase in hybrid and electric car registrations, we must outline that even CNG and LPG fuel systems remain a major alternative option in many countries both European and non-European, particularly in certain segments of the market. It is also worthy of mentioning the growth in the number of models powered by LPG, CNG and LNG both in the passenger car segment and the medium & heavy duty vehicles, as well as special vehicles (buses and compactors).

We are increasingly more convinced that the various types of gas powered vehicles shall remain a very effective option to meet current and future demands for alternatives to diesel vehicles.

Moreover, it is important to mention that new types of power supply units have recently become available such as bio-methane, LNG and hydrogen, which give more room for the future where our group has already set off major research and development projects for new solutions.

The importance of alternative fuels for diesel and petrol is increasingly confirmed by government regulatory policies. The transposition of European Directive DAFI on the part of various governments aimed at the implementation of alternative refuelling infrastructures in the next years is another witness of a common conviction that gas for the automotive sector must be a concrete option for the future. This trend may positively influence the production and trade of methane compressors for filling stations where the Group has been present for years through the company SAFE S.p.A.

With the increasing attention on respect for the environment there is the cost convenience factor, even if in the last three years with the reduction of traditional fuel costs savings of end consumers in using alternative fuels dropped. To that end, we have to point out how the increase in cruel oil prices can represent an additional drive in many geographical areas due to the chosen gas powered vehicle.

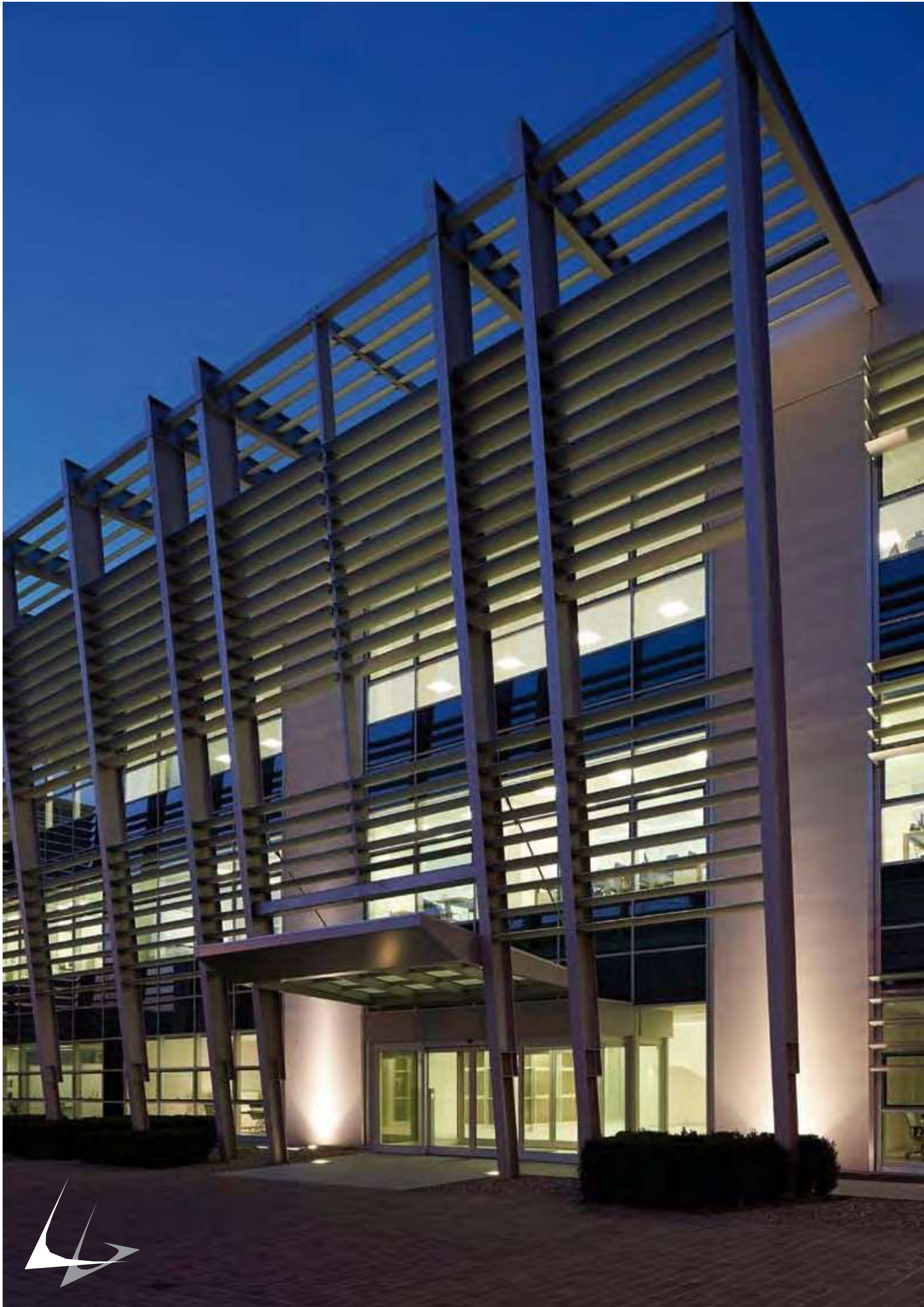
As previously pointed out, this is a shared opinion that 2017 and the years to come will be a period for the automotive industry characterised by a strong discontinuity. Our Group is ready to play a key role in this context with its technological competence and innovation ability.

With of the goal to be ready for changes that await us, we reckoned it would be appropriate to rely on Cristiano Musi, a professional with proven experience, dynamism and success, to whom the Board of Directors has assigned the role of General Manager and possibly with the necessary resolutions, he shall become the future CEO. His role is to set up a restructuring plan to re-launch the Group which should include the revision of strategies and an operative amelioration process which should lead to an efficient and effective structure, able to obtain results in line with best practices of the automotive industry.

In summary, all these elements lead us to believe that the sector and hence the Group which you are part of can undergo a re-launching phase and regain profitability. It is an opinion that we share with the entire staff of our Group convinced that we must be more proactive and prepared for change in order to take the opportunities that the market will offer.

We believe we are ready to face new challenges and more determined than ever with the hope that our trust can become yours.

Chairman and Chief Executive Officer
Stefano Landi



SUMMARY STATEMENT 2016

(thousands of Euro)			
ECONOMIC INDICATORS	**2014**	**2015**	**2016**
Revenue	233,213	205,522	184,242
Adjusted EBITDA (1)	18,293	5,770	2,743
EBITDA	18,293	-1,284	-2,902
EBIT	2,572	-26,901	-18,920
Earnings before Taxes	-108	-32,673	-23,126
Net profit (loss) for the Group and minority interests	-1,744	-35,587	-26,004
Adjusted EBITDA / Revenue	7.8%	2.8%	1.5%
Net profit (loss) for the Group and minority interests / Revenue	-0.7%	-17.3%	-14.1%

(thousands of Euro)			
FINANCIAL POSITION	**2014**	**2015**	**2016**
Net fixed assets and other non-current assets	125,157	104,856	96,967
Operating capital (2)	47,455	38,317	36,442
Non-current liabilities (3)	-17,290	-11,899	-12,611
NET INVESTED CAPITAL	155,322	131,274	120,798
Net financial position (cash) (4)	47,246	59,459	75,716
Equity	108,076	71,815	45,082
FINANCING SOURCES	155,322	131,274	120,798

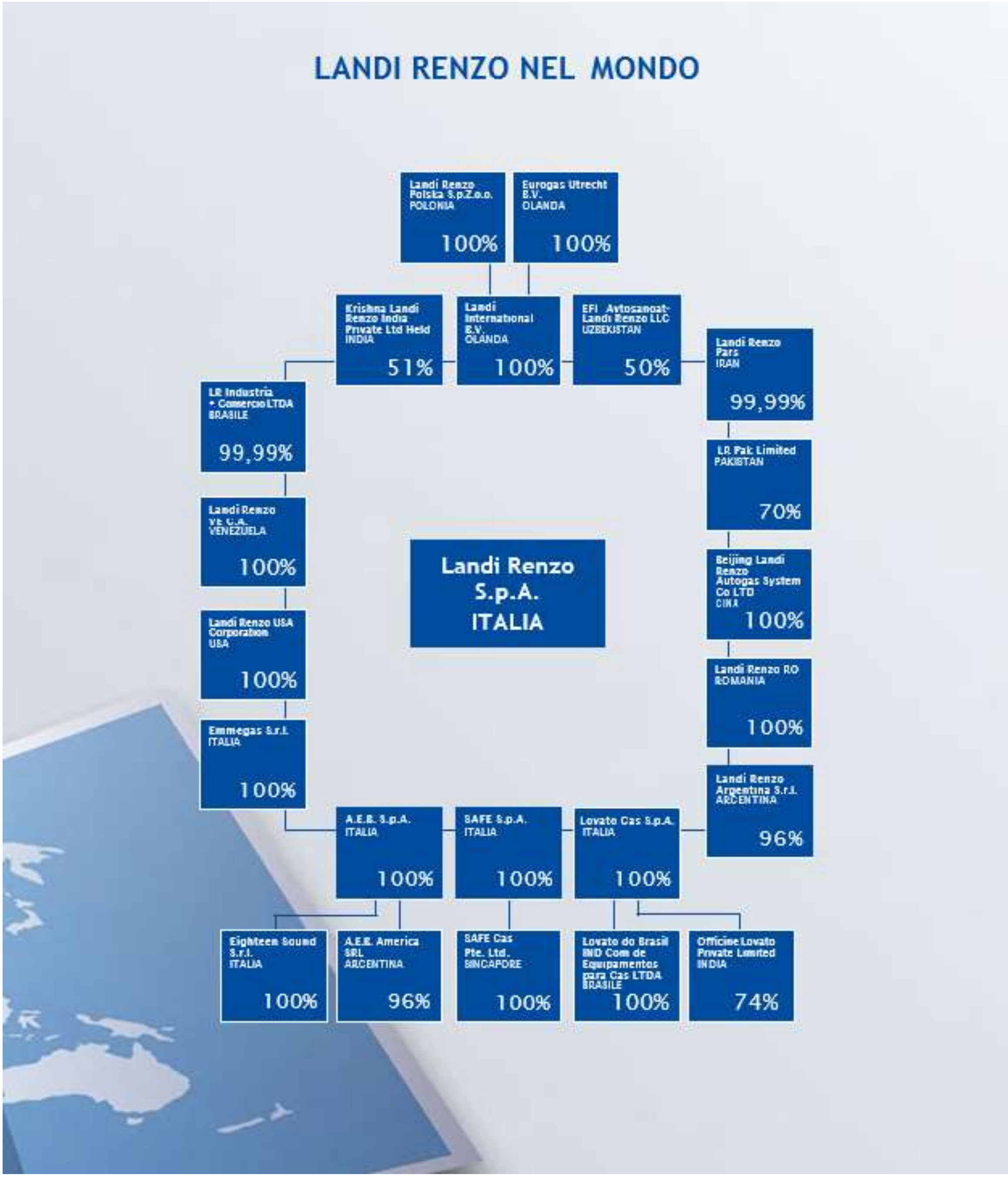
(thousands of Euro)			
KEY INDICATORS	**2014**	**2015**	**2016**
ROI (EBIT (5)/Average net capital employed for the period)	1.6%	-17.1%	-14.0%
Net financial debt / Net equity	43.7%	82.8%	168.0%
Adjusted net financial debt / EBITDA	2.58	10.3	27.60
Gross tangible and intangible investments	13.799	15,523	9,376
Personnel (peak)	910	846	781

(thousands of Euro)			
CASH FLOWS	**2014**	**2015**	**2016**
Operating cash flow	20,060	4,185	-6,104
Cash flow for investment activities	-13,370	-15,223	-9,144
FREE CASH FLOW	6,690	-11,038	-15,248

(1) The figures include the recording of non-recurrent expenses totalling Euro 7,054 thousand in 2015 and Euro 5,645 thousand in 2016.
(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 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) EBIT is represented by the economic result gross of financial management and taxes.

THE GROUP STRUCTURE

The structure of the Group has not changed compared to 31 December 2015. The percentage shareholding in Emmegas S.r.l. increased from 70% to 100%, following the subscription by the parent company Landi Renzo S.p.A. of the entire share capital which has already been fully cancelled out due to losses. There was also a reduction in the percentage shareholding in Officine Lovato Private Limited by Lovato Gas S.p.A. (from 100% to 74%) following the sale of part of the share capital to a historic Indian partner company.



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 years 2016 - 2018 and therefore until the meeting to approve the Financial Statements for the year ended 31 December 2018.
At 31 December 2016, the company appointments are distributed as follows:

Board of Directors

Chairman and Chief Executive Officer	Stefano Landi
Honorary Chairperson - Director	Giovannina Domenichini
Executive Director	Claudio Carnevale
Director	Silvia Landi
Director	Angelo Iori
Director	Anton Karl
Independent Director	Sara Fornasiero (*)
Independent Director	Ivano Accorsi
General Manager	Cristiano Musi

Board of Statutory Auditors

Chairperson of the Board of Statutory Auditors	Eleonora Briolini
Statutory Auditor	Massimiliano Folloni
Statutory Auditor	Diana Rizzo
Alternate Auditor	Filomena Napolitano
Alternate Auditor	Andrea Angelillis

Control and Risks Committee

Chairman	Sara Fornasiero
Committee Member	Ivano Accorsi
Committee Member	Angelo Iori

Remuneration Committee

Chairman	Ivano Accorsi
Committee Member	Sara Fornasiero
Committee Member	Angelo Iori

Committee for Related-Party Transactions

Committee Member	Sara Fornasiero
Committee Member	Ivano Accorsi

Supervisory Body (Italian Legislative Decree 231/01

Chairman	Jean-Paule Castagno
Member of the Board	Sara Fornasiero
Member of the Board	Enrico Gardani

Independent Auditing Firm	PricewaterhouseCoopers S.p.A.

Officer in charge of preparing the financial statements	Paolo Cilloni

(*) The Director also holds the office of *Lead Independent Director*

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 No. IT00523300358
This report is available on the Internet at:
www.landirenzogroup.com

CORPORATE STRUCTURE AT 31 DECEMBER 2016

Company Name	Registered Office	Currency	Share capital at 31 December 2016 (in units of currency)	% ownership at 31 December 2016		% ownership at 31 December 2015		Notes
				Direct investment	Indirect investment	Direct investment	Indirect investment	
Parent Company								
Landi Renzo S.p.A.	Cavriago (RE)	EUR	11,250,000	Parent Company				
Companies consolidated using the line-by-line method								
Landi International B.V.	Utrecht (The Netherlands)	EUR	18,151	100.00%		100.00%		
Eurogas Utrecht B.V.	Utrecht (The Netherlands)	EUR	36,800		100.00%		100.00%	(1)
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 S.p.A.	Cavriago (RE)	EUR	2,800,000	100.00%		100.00%		
AEB America s.r.l.	Buenos Aires (Argentina)	ARS	2,030,220		96.00%		96.00%	(2)
Eighteen Sound S.r.l.	Reggio Emilia	EUR	100,000		100.00%		100.00%	(2)
Lovato Gas S.p.A.	Vicenza	EUR	120,000	100.00%		100.00%		
Officine Lovato Private Limited	Mumbai (India)	INR	19,091,430		74.00%		100.00%	(3)
SAFE S.p.A.	S.Giovanni in Persiceto (BO)	EUR	2,500,000	100.00%		100.00%		
Emmegas S.r.l.	Cavriago (RE)	EUR	60,000	100.00%		70.00%		
Affiliated companies and subsidiaries consolidated using the equity method								
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 by Landi International B.V.

(2) held by AEB S.p.A.

(3) held by Lovato Gas S.p.A.

(4) Company Joint Venture

SIGNIFICANT EVENTS DURING THE YEAR

April On 29 April 2016, the Shareholders' Meeting resolved, amongst other things:

- to approve the coverage of the operating loss of Landi Renzo S.p.A. of €37,702,189.73 by fully utilising the merger surplus reserve which is now cancelled out and the extraordinary reserve, which is reduced to €12,620,747.55;
- renew the authorisation for the purchase and disposal of treasury shares;
- elect company officers until approval of the financial statements for the year ending 31 December 2018;
- appoint the new independent auditing firm, PricewaterhouseCoopers S.p.A., for a nine-year period from 2016 until 2024.

April On 29 April 2016, the Board of Directors re-elected Stefano Landi as the Company's Chief Executive Officer.

April In April, the Group published the 2015 Sustainability Report, in order to strengthen dialogue with stakeholders, as it is fully aware that day-to-day activities directed towards sustainability are a means of creating value not only for companies but, from a broader perspective, for the community as a whole and for stakeholders with whom the Group interacts.

July In July, the company Lovato Gas S.p.A. formalised the sale of a 26% stake in the capital of subsidiary company Officine Lovato Private Limited to the Indian company Ecofuel System India Private Limited, a traditional importer and distributor of Lovato brand products on the local market, but maintained control of this subsidiary. The purpose of the transaction was to develop business and production synergies, particularly on the after-market channel, even by optimising the facilities of the Landi Renzo Group already present locally.

September On 15 September the Italian Council of Ministers approved, on preliminary examination, the legislative decree implementing the European Dafi Directive 2014/94/EU of the European Parliament and of the Council of 22 October 2014, on the implementation of an infrastructure for alternative fuels. Within the scope of EU policies on sustainability, this Directive sets out for Member States to adopt a national strategic framework to develop the alternative fuels market in the transportation industry and build the related infrastructure.

The purpose of the Directive is to reduce dependency of petrol while lessening environmental impact in the transportation industry. The Directive also sets out the minimum requirements for infrastructures for alternative fuels to be implemented thanks to the national strategic frameworks set out by Member States.

The EU measure was drafted in implementation of Italian Law 114 of 9 July 2015 which authorised the Government to enact the European directives and implement the other European Union laws – the delegation law of 2014. It relates to Directive 2014/94/EU (referred to in Annex B of the above-mentioned law) which, in the context of the EU policies on sustainability, provides that Member States should adopt a national strategic framework to develop the alternative fuels market in the transport industry and build the related infrastructure.

The Decree entered into force as final on 14 January 2017.

September During the month of September, the ***Gas Specialist*** project was launched to promote the professionalism and experience of Landi Renzo fitters and create a network of highly specialised workshops able to provide full-spectrum customer support from installation through to testing and maintenance.

November In line with previous decisions, the Board of Directors appointed Mediobanca – Banca di Credito Finanziario S.p.A. as financial *Advisor* of the Group in the context of its financial structure optimisation project, assigning the duty to carry out preliminary meetings with key financial institutions in order to evaluate possible measures designed to redefine the Group's overall financial position. This activity is a component of the project which the Company launched a while ago with the goal of achieving a more balanced financial structure which is consistent with the 2016-2020 Business Plan.

Furthermore, the meeting of the Board of Directors held on 10 November 2016 unanimously resolved to appoint Cristiano Musi as General Manager of the Company effective as of 12 December 2016 and also as CEO following the necessary resolutions. Mr. Musi has extensive experience in a number of sectors related to the Automotive industry and he has acquired significant managerial skills over the course of his career in top management positions in a wide range of business areas.

December On 12 December, Cristiano Musi joined the company with the role of General Manager resolved by the Board of Directors meeting held on 30 December. During the same meeting, the revision of the Business Plan 2016-2020 was approved.

At 31 December 2016, all bank institutions have issued specific waivers relating to the disclosure of financial parameters and missed payment of principal instalments of unsecured loans due in the months of November and December 2016 while the Meeting of Bondholders of 30 December 2016 amended the rules on loans and issued a waiver relating to the missed payment of the instalment due at 31 December 2016, as well as the measuring of financial parameters.

Landi Renzo and the future

Going Concern

Business Development

Innovation, Research and Development

Quality

GOING CONCERN

In 2016, the Group experienced a significant decline in revenue compared with the previous year, which entailed a loss of Euro 26,004 thousand and a decline in the Net Financial Position, which reached Euro -75,716 thousand.

In the second half of the year, considering the structure of the financial position as well as the forecasts laid out in the updated Business Plan approved by the Board of Directors on 30 December 2016 (the "**Business Plan**"), a financial structure optimization project was launched with the support of "Mediobanca – Banca di Credito Finanziario S.p.A." as financial advisor.

The above-mentioned Optimization Project entailed the definition of an agreement with the banking sector (the "**Optimization Agreement**"), which calls for, inter alia: the movement of the maturity date of the debt of the Company and the other subsidiaries signatories to the agreement to 2022, the rescheduling of the repayment instalments, on the basis of repayment instalments of increasing amounts in line with the cash generation objectives laid out in the Business Plan, the review of financial parameters to bring them more into line with business outlooks and the Group's sale forecasts and the confirmation of short-term lines until 2022 in accordance with the terms and conditions laid out in the above-mentioned Optimization Agreement and in an amount consistent with the needs laid out in the Business Plan.

Please note that, to date, the Optimization Agreement has been signed by all banks except one, with which the Group has only short-term borrowings and which will complete its approval process in due time for the publication of the Company's separate and consolidated financial statements at 31 December 2016. The Company is currently unaware of any facts or events which could make it reasonable to believe that there are any elements that would prevent the positive conclusion of this authorization procedure and therefore the bank entering into this Optimization Agreement.

When the above-mentioned Optimization Agreement was signed, the controlling shareholders committed to making a total contribution of Euro 8,866,500.00 for the future capital increase or capital increase of the Parent Company by the effective date of the Optimization Agreement. As a further capital strengthening measure, the Optimization Agreement establishes that a share capital increase totalling Euro 15,000,000.00 is to be completed by 31 December 2018; as regards the portion attributable to the controlling shareholders, it will be carried out by converting the above-mentioned future capital increase contribution.

Like the above-mentioned Optimization Agreement with the banking sector, several amendments of the regulation were submitted to the Bondholders, regarding, inter alia, the rescheduling of repayment on the basis of increasing instalment amounts and in line with what is laid out in the Optimization Agreement, the review of financial parameters, also in light of the results of the Business Plan, as well as a temporary reduction of the interest rate in relation to the periods which begin from the payment date of 30 April 2017 until the payment date that will fall on 30 June 2019 from the current 6.10% to 5.50% on an annual basis.

The Meeting of Bondholders called to approve the above-mentioned regulation amendment is scheduled for 30 March 2017 on first call.

The Company is currently unaware of any facts or events which could make it reasonable to believe that there are any elements that would prevent the favourable conclusion of the bondholders' meeting scheduled for 30 March 2017.
As a result, the Company does not believe that there are any facts or elements to date which could make it reasonable to believe that there are any critical issues inherent in the adoption of the going concern assumption as a basis for the preparation of these financial statements.

BUSINESS DEVELOPMENT

Landi Renzo has been a leader in sustainable mobility since 1954.

LPG and CNG, with 26.5 and 23.5 million vehicles circulating throughout the world respectively, are by far the most popular options in the field of ecological transport solutions. These are also areas in which Landi Renzo has considerable expertise, thanks to a combination of research and manufacturing excellence.

The company pursues its international vocation both directly, by operating on main strategic markets and indirectly in more than 50 countries across all five continents. The centrality of environmental issues demonstrates a growing association with the Group's ability to gain a leading position worldwide, thanks both to the continuous technological and qualitative development of its products, the decision to adopt a flexible approach with customers and the determination to cover all geographic areas of potential for the sector, through extensive marketing of the company's technologies.

LANDI RENZO'S MAIN STRENGTHS
• Leadership in the design and manufacture of sustainable LPG and CNG fuel systems.
• Excellence in technological innovation aimed at developing cutting-edge products for the use of energy sources with a lower environmental impact to power cars and heavy vehicles.
• A flexible and efficient business model, capable of coping with market fluctuations while maintaining constant control of the critical phases in the production process.
• Quality and versatility of its products, which make it possible to meet demand and regulation requirements in all reference markets.
• In-depth knowledge of distribution channels, through consolidated relationships with leading customers in the OEM channel and an extensive presence in the After-Market segment.

INNOVATION, RESEARCH AND DEVELOPMENT

In 2016, Research and Development activities benefited from the innovative equipment of the new Technical Centre. The development of new projects is consistent with the company's mission to contribute to sustainable mobility by reducing emissions of pollutants and greenhouse gases.
Thanks to the advanced technological contents, the new Technical Centre was used by major businesses of the automotive industry to conduct testing activities.

The gas management system will work alongside the original power system of the vehicle and is an advanced solution that allows the observance of goals relating to reduction of pollution emissions at the same performance level.
The developments take place by following two main guidelines. On consists in improving the quality of individual components and the other consists in the optimal integration of said components with the vehicle's engine system, the purpose being to generate new technological solutions that the Group safeguards through the registration of own patents, including international patents.

The major components and innovative software contents that were put for production in 2016 were:

- LPG pressure reducers in the version for turbo engines;
- auto-calibration software system aimed primarily to the after-market channel which allows for the automatic calibration of the engine's operation of vehicles while facilitating the work of workshops and reducing installation times;
- the Landi Renzo App allows end-users to connect to the gas control unit using a Smartphone and get information in real time on the operation and performance of the vehicle hence opening a range of possibilities in the gas industry to new social technologies;
- the emulation software system on direct injection engines that allow the expansion of the range of convertible vehicles while reducing consumptions, as applicable also to dual fuel systems with improvements on the installation and operation process on heavy duty vehicles;
- more performing electronic exchange models for the gas control system, particularly in the 6 cylinder engine version.

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. To that end, the Group continued to pursue the evolution of gas control components (such as reducers, injectors, control units, valves, etc.), leveraging both the developing internal technical skills and the new test equipment available at the new Technical Centre.
Study and design activities continued in synergy with various European car manufacturers, aimed at creating gas systems for new models that comply with the “Euro 6” emission standards. In particular, in 2016 systems conforming to the above standard were put into production and are intended for several major European automobile manufacturers.

Technical and business collaborations continue to expand with major local car makers on markets outside Europe, particularly in India, Iran, Russia and China.

As regards to the technological progress of compression systems for CNG refuelling stations it is worthy of mentioning how the company of the Group, SAFE S.p.A., is currently conducting endurance tests on the new line of compressors characterised by greater efficiency and reliability, making maintenance easier with consequent reduction of consumptions and operating costs of systems.

Lastly, collaboration with universities and international research centres on new sustainable mobility projects continued.

During the year, the Group capitalised costs for the development of innovative projects for a total of Euro 4,546 thousand compared to Euro 5,362 thousand in 2015.

QUALITY

Customer satisfaction has always been a significant driving force for Landi Renzo and a reason to strive for continuous improvement. To pursue this objective, the Landi Renzo Quality System has been certified since 1996 according to the ISO 9001 standard.

For a number of years, the company has held ISO/TS 16949 certification, which sets out the requirements for company Quality Systems specifically in the automotive sector and was devised as a tool to enable continuous improvement of Quality Systems, based on the documentation produced by the IATF (International Automotive Task Force - an association that brings together representatives from the various national unions within the automotive industry). The ISO/TS 16949 technical specifications place particular emphasis on the prevention of defects, starting in the design phase, and particularly in the planning and integration phases, in order to comply fully with customer requirements.

In 2006, the ISO 9001 Quality System was extended to Authorised Workshops and Resellers in the Landi Renzo Italian network, in order to guarantee the quality standards already adopted by the Group, the first in the world to achieve this important goal. The certifications, which are renewed regularly, were issued by Bureau Veritas Quality International.

In 2014, the quality management system became corporate, integrating the AEB Group and Lovato Gas as legal entities and facilities in Vicenza and Cavriago as production sites covered by the ISO/TS 16949 technical specifications. In July 2014, the production plant in Tychy, Poland also obtained the ISO/TS 16949 certification after passing the TUV audit.

The new issue of the standard ISO 9001:2015 and subsequently the IATF 16949:2015 have made the goals of the Group even more challenging. The approach to the risk analysis identifies the utmost prevention and protection instrument for the entire business in the Quality System. The future of the quality management systems lies in the understanding of needs and expectations of all parts involved while giving great emphasis on the verification on the effectiveness of all processes. This new approach shall guarantee a consolidation in the corporate organisation towards new challenging goals. The passage and transition of the Landi Renzo Quality System and these new standards shall take place in the following year.

Nevertheless, it must be noted that in the past few years, the Group has incurred and allocated non-recurring costs relating to sales agreements, also due to technical defects, signed with some automotive customers and regarding engines no longer in production.

Relationships with the Stakeholder

Human Resources

Health, Safety and

Environment

Shareholders and Financial Markets

HUMAN RESOURCES

The total number of employees of the Landi Renzo Group at 31 December 2016 was 781 persons compared with 846 at 31 December 2015. In a market that remains critical, over the twelve months of the year three companies of the Group used social protection measures, together with a voluntary mobility procedure in the first semester that has reduced the overall workforce of 65 persons (-7.7%) compared to the end of the previous year.

The following tables show the number of employees in the workforce, for the main companies and by geographical area, not including loaned labour.

Company	As at 31/12/2016	As at 31/12/2015	As at 31/12/2014
Landi Renzo S.p.A.	290	315	348
A.E.B. S.p.A.	100	111	126
Lovato Gas S.p.A.	91	99	108
Emmegas S.r.l.	6	6	13
SAFE S.p.A.	69	73	75
Eighteen Sound S.r.l.	43	44	43
Foreign companies	182	198	197
Total	**781**	**846**	**910**

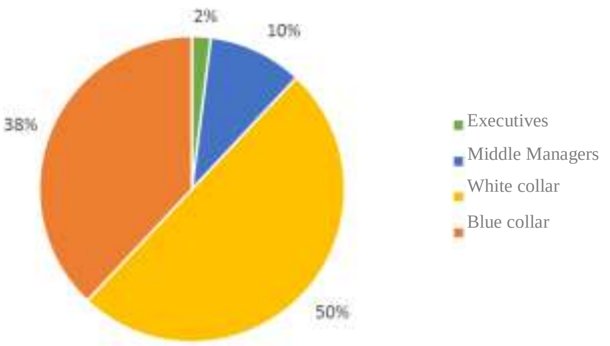
Geographical area	As at 31/12/2016	As at 31/12/2015	As at 31/12/2014
Italy	599	648	713
Europe (excluding Italy)	78	78	75
Asia and the rest of the world	74	82	80
America	30	38	42
Total	**781**	**846**	**910**

In the year ending at 31 December 2016, personnel expenses totalled Euro 36,364 thousand compared to personnel expenses of Euro 43,854 thousand in the year ending at 31 December 2015. It must be noted that the reference date for the previous year included non-recurring costs totalling Euro 3,058 thousand associated with re-organisation of the workforce within the solidarity procedures, CIGO and mobility.

The personnel working within the Group are characterised as follows:

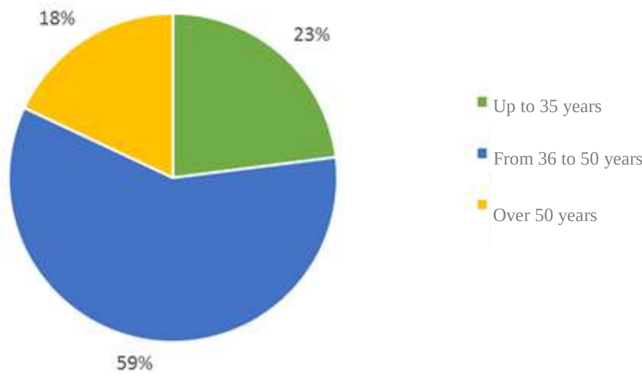
Personnel broken down by professional category:

Professional Category	%
Executives	2%
Middle managers	10%
White collar	50%
Blue collar	38%
Total	**100%**



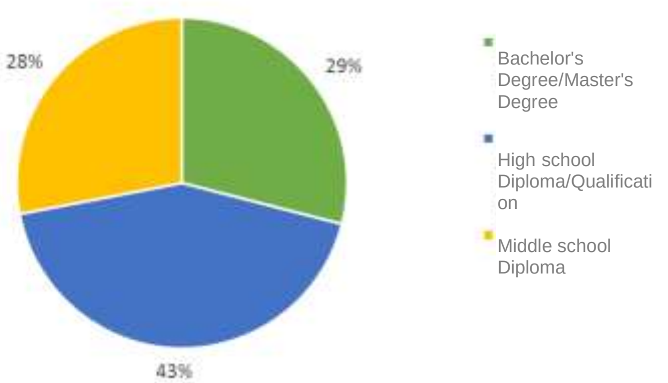
Employees broken down by age group:

Age	%
Up to 35 years	23%
From 36 to 50 years	59%
Over 50 years	18%
Total	**100%**



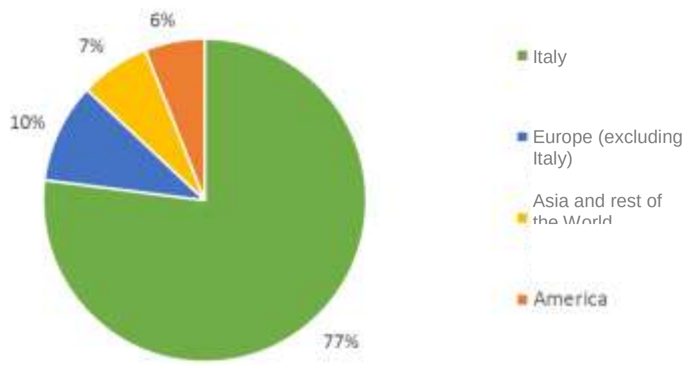
Employees broken down by educational qualifications:

Educational qualification	%
Bachelor's Degree/Master's Degree	29%
High school Diploma/Qualification	43%
Middle school Diploma	28%
Total	**100%**



Group employees broken down by geographical area:

Geographical Areas	%
Italy	77%
Europe (excluding Italy)	10%
Asia and Rest of the World	7%
America	6%
Total	**100%**



The Group's philosophy has always been rooted in the value of continuity and a sense of belonging. As such, it has always favoured stable and long-term contracts: at the end of 2016, only 13% of workers were employed on fixed-term contracts and 87% on open-ended contracts. This figure represents a further increase on the previous year, only in relation to Italy, where most personnel are employed with an increase to 99%.

Despite the heavily unstable climate where personnel were hired exclusively linked to the need for replacement of strategic competences, relations were maintained with Universities and Business Schools through participation in job days and workshops on the various campuses. In 2016, 16 young people participated in internships, a decreasing number compared to the trend in previous years. There were 6 young final-year students/graduates who were offered the opportunity to collaborate with the company projects of great educational value, aimed at enhancing their curriculum.

TRAINING

Throughout 2016, the Corporate University (hereinafter CU) continued to invest in personal development and dissemination of knowledge, through important initiatives in the four Colleges:

- Education and Training;
- First Class for management training;
- Fitters;
- Partnership & Development.

2016 was characterised by ongoing training initiatives and the development of technical skills, both role-specific and transferable. The total number of training hours at year-end totalled 11,125, involving approximately 63% of the Group's employees.

Within the Training and Education College, importance has been placed on the dissemination of technical skills, thanks also to internal training initiatives and the dissemination of a culture on safety and quality at all levels. Great emphasis was given to improving role-specific skills in the sales area and technical area: training courses on major technicalities for the sales area and on technologies and innovative materials for the product development area. Moreover, in line with previous years, more room was given to language training in classrooms and Distance Learning.

Management development initiatives (First Class College) focused on two main strands:

- development of specific skills linked with negotiation, communication and organisational skills in English;
- management training on top level hard and soft skills including economic and business planning, advanced negotiation, public speaking and creative problem solving.

Within the scope of college fitters aimed at workshops, 116 training days were organised in 2016 involving 642 technical fitters for a total of 15,666 hours. The level of satisfaction is kept on standards of excellence of the past years which equals to 3.70 on a scale from 1 to 4.

HEALTH, SAFETY AND ENVIRONMENT

The Group is constantly committed to pursuing amelioration goals on health and safety of workers by providing human resources, all instrumental and economic tools in order to deal with safety and health protection of its personnel in the best possible manner, including those working at the various facilities.

In 2016, the main commitment was to renew the conformity certification of our Environmental Health and Safety System.

In particular, activities were concentrated on verifying the proper implementation and development of the applied management systems (British Standard OHSAS 18001:2007 for Health and Safety; ISO 14001:2004 for the Environment) and conduct training sessions on Occupational Health and Safety Assessment Series standards in addition to the requirements envisaged in Italian Legislative Decree 81/08.

The Environment, Health and Safety Management System was regularly subject to an audit aimed at renewing the system by the certification body Bureau Veritas upon confirmation of its effectiveness and conformity to relevant regulations.

Said certifications have allowed for the structuring of health and safety activities that do not only guarantee the observance of mandatory legislation, but also allow the management and "systematic" improvement of the safety of workers through the identification of hazards, risk assessment and identification of control methods by managers.

Monitoring of certification processes on workplace health and safety and the environment currently done by the Parent Company and Lovato Gas S.p.A. has favoured the development of an approach to these topics within the scope of the entire Group.

To that end, another major organisation procedure was the appointment of a single Service Representative for Prevention and Protection (RSPP) for Landi Renzo S.p.A, A.E.B. S.p.A., Eighteen Sound S.r.l. and Emmegas S.r.l., which allowed for a smooth risk assessment for all managed work processes and smooth out health surveillance for all workers, regardless of their position within the company.

The current structure of the Prevention and Protection Service was set up on two levels. One assigned to central divisions that set out the guidelines and policies by implementing the coordination and monitoring and providing specialist support and technical management assistance, the other is assigned to Staff of the Prevention and Protection Service of the other territorial local units or companies that implement the guidelines received while considering the specificity of the respective locations.

In particular, the coordination action is carried out based on the standardisation of personal protective equipment (PPE) in the management of respective technical opinions during the acquisition phase, the

processing of a unified method on the preparation of Risk Assessment Documents, in the rendering of health surveillance services following the guidance of the Company Doctors and starting from the following year, the guidance of a Coordinator of Company Doctors.
Currently, there is a team within the Group consisting of 7 Risk Prevention and Protections Staff with specific professional qualifications and proper curriculum vitae who also propose training and information programmes of employees and prepare safety procedures for the various corporate activities.

Health and Safety

The trend of safety indicators (KPIs) of the Group for 2016 have revealed a constant improvement in the indicators compared to previous years, as well as the achievement of the set out goals.
Injury cases are assessed as indicated in the table below through the following KPIs:

- incidence rate (II) which represents the percentage of workers who have been exposed to injuries with respect to those exposed to a risk;
- severity rate (IG) which measures the severity of the injuries by considering the work days lost for every 1,000 worked hours.
- frequency rate (IF) which measures the injury trend referred to the number of cases reported every 1,000,000 worked hours.

SAFETY INDICATORS (KPIs) 2016 – LANDI RENZO GROUP

	OBJECTIVES 2016		GOALS 2016
Incidence Rate (II)	≤ 1.0	➡	**0.62**
Severity Rate (IG)	≤ 0.5	➡	**0.03**
Frequency Rate (IF)	≤ 5.0	➡	**3.87**

There were 5 non-serious injuries reported in 2016 primarily due to accident causes.

The Group places constant attention even to risk factors that can lead to occupational diseases thereby setting out projects aimed at removing or reducing said risks, as initiatives aimed at reducing noise and musculoskeletal problems.
It must be noted that following regular medical check-ups envisaged in article 41 of Italian Legislative Decree 81/2008, there were no pathologies attributed to professional activities carried out by the workers. Therefore, in 2016 the occupational disease rate of the Group, calculated as the total number of occupational disease cases / the total number of hours worked x 200,000 - equals to zero, hence unchanged compared to the previous year.

Environment

All companies of the Group are classified in the macro sector called ATECO 4 and their environmental impact can be considered of little significance, in the sense that there are no processes or activities that produce environmental effects with critical concentrations or close to the limits set out by law, such as emissions of pollutants into the air, energy consumption, consumption of water resources, etc.

Notwithstanding the foregoing, the environmental policy of the Group was devised to operate in order to constantly reduce direct and indirect effects on the surrounding environments in strict compliance with EU, national and regional standards.

To that end, it is worthy of mentioning that the production of energy from renewable sources are part of the Group's choices. In fact, major primary energy savings were obtained thanks to the photovoltaic systems installed on the roofs of the corporate building and have produced 377,581 kWh in 12 months reducing CO2 emissions into the atmosphere by 162,359 tons.

Training provided on safety

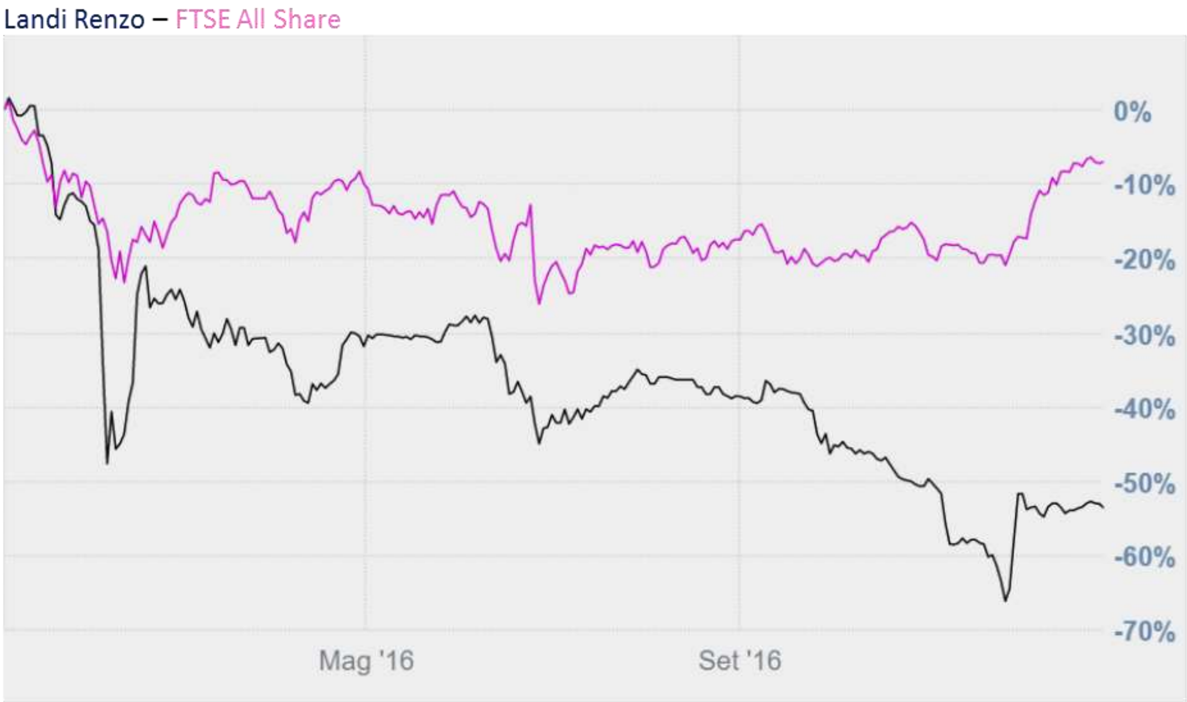
Based on the provisions of the Italian **Regions-State Agreement of 20 December 2011** in compliance with article 37, paragraph 2 of Italian Legislative Decree 81/08, each Italian company of the Group has developed a detailed training plan on workplace, health and safety.

The training activities addressed to newly hired employees were concentrated particularly on risk assessment, awareness of specific risks of each site, personal protective equipment, first aid, fire prevention and use of lifts.

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 more 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 at the website www.landirenzo.com.

The following is a graphical representation of the performance of Landi Renzo stock over the period from 4 January - 30 December 2016, compared with the performance of the FTSE Italy All-Share index. At 31 December 2016, Stock Exchange capitalisation totalled Euro 38,857,500.



Note: The chart shows the trend of the share from 1 January 2016 to 24 March 2017.

In the period from 4 January – 30 December 2016 (the last trading day of 2016), the official Landi Renzo share price dropped by 53.7% from Euro 0.7465 to Euro 0.3454. Over the same period, the index relating to the reference segment, FTSE Italy All-Share, recorded a decrease of 7.1%

The following table summarises the main share and stock market data for 2016. The stock market capitalisation value as at 24 March 2017 is also provided.

Share Price and Stock Market Information (source Borsa Italiana S.p.A.)	24 March 2017	2016	2015
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)		45,082,405	71,814,040
Net result for the Group and minority interests (Euro)		-26,003,527	-35,587,437
Earnings per share (Euro)		-0.22	-0.31
Closing price		0.3454	0.744
Maximum price		0.7575	1.249
Minimum price		0.2517	0.709
Closing stock market capitalisation		38,857,500	83,700,000
Stock market capitalisation as at 24 March 2017	54,450,000		

All shares issued were fully paid up.

At 27 March 2017, holders of ordinary shares that represent more than 2%, as provided for by the Consob regulations, are the following:

Shareholder	27 March 2017
Girefin S.p.A.	54.667%
Gireimm S.r.l.	4.444%
Aerius Investment Holding AG	8.356%
Others - Market	32.533%

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 on the Financial Statement for the year 2016

Methodological Note

Operating Performance

Statement of Reconciliation between the data of the Parent Company's FinancialStatements and the data of the Consolidated

The Companies of the Landi Group

Other Information

Signifi cant Events after closing of the Period and Forecast for Operations

Proposal for Approval of the Financial Statements and Allocation of the Result for the Year

MANAGEMENT REPORT

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

Dear Shareholders,

The year just ended was characterised by a major drop in sales by more than 10% compared to the previous year, which has significantly influenced the development and activities of the Group in a general economic scenario and market that is still negative.

The assessment of the 2016-2020 Business Plan approved by the Board of Directors sets out a set of measures aimed at intervening in the short term on the current organisational model, and particularly on the cost structure to reduce the break-even point on the one hand, and on the other at optimising the Group's technological competences in order to affect market shares, especially in the countries and segments considered to have the greatest growth potential.
On the basis of this plan, the financial structure optimisation project was started up. It is aimed at improving the competitiveness level of the Group while achieving full sustainability of the business. This project whose guidelines were prepared with the help of the financial advisor Mediobanca - Banca di Credito Finanziario S.p.A., was set up in line with the Business Plan approved by the Board of Directors and submitted to an independent business review by KPMG Advisory S.p.A.
Afterwards, discussion with the banks for rescheduling the financial debt relating to the bank component came to a positive conclusion. As of today, the Agreement is signed by all banks except for one that will complete its approval procedure in time for publication of the Company Financial Report as at 31 December 2016. The Meeting of the Bondholders has also been called for 30 March 2017 with reference to the bond component.

The consolidated financial statements of the Group for the period ended 31 December 2016 show a net loss of the Group and minority interest of Euro -26,004 thousand after including non-recurring costs of Euro -5,645 thousand primarily for various sales agreements related to technical defects of several supply components on the automotive sector which, due to their specific nature, do not occur frequently in common business practices.

In order to provide additional comparative information on the results for the 2016 financial year compared to the previous periods, this Report on Operating Performance provides some adjusted data, which does not include non-recurrent expenses.

Revenues from sales and services totalled Euro 184,242 thousand, with a decrease of Euro 21,280 thousand, down by 10.4% compared with 2015.

Despite the savings totalling Euro 4.4 million achieved on cost of personnel thanks to the progressive downsizing of the workforce, the results of 2016 were negatively influenced in addition to the significant reduction in turnover, even due to the above non-recurring expenses.

Adjusted EBITDA was positive totalling Euro 2,743 thousand (non-adjusted negative result of Euro -2,902 thousand) compared to Euro 5,770 thousand in 2015 (non-adjusted negative result of Euro -1,284 thousand) leading to a reduction of Euro 3,027 thousand.

The EBIT was negative and totalled Euro -18,920 thousand compared to Euro -26,901 thousand in 2015 with a recovery of Euro 7,981 thousand. Amortisation and depreciation and impairment losses totalled Euro 16,018 thousand (Euro 15,439 thousand, net of non-recurring Euro 10,178 thousand at 31 December 2015).

The net financial position at 31 December 2016, representing a significant improvement on 30 September 2016, when it totalled a negative result of Euro 87,065 thousand, was a negative result of Euro 75,716 thousand compared to a negative net financial position of Euro 59,459 thousand at 31 December 2015.

Directors continue to believe that the alternative fuels sector, led by new projects presented by car manufacturers, as well as CNG supply programmes which governments of various countries continue to pursue, offers good prospects for a future that is increasingly focused on environmental ethics and therefore on sustainable and environmentally friendly mobility. To that end, the Group believes that it is essential to continue to strengthen actions for economic recovery and financial efficiency.

OPERATING PERFORMANCE

Consolidated results

2016 was characterised by instability in various markets, particularly in America. The Gas and In-car Systems segment showed a reduction in demand primarily in the after-market channel with the same negative dynamics which affected other main markets.

For these reasons, difficult market conditions will persist in the short term. However, the Group still has confidence in the assumptions on the development expected for the mid-term.

In view of the failure to achieve the expected financial results which has consequently influenced the cash flow from ordinary operations, a leading financial adviser has been commissioned to optimise and rebalance the financial and asset structure in order to bring it in line with the Group's growth and development objectives.

In this context, strengthening the management team has been prioritised by introducing a General Manager on 12 December, with the task to identify and implement development guidelines for the Group, together with the Chief Executive Officer and therefore prepare strategic, business and financial plans while assuming the organisational responsibilities needed to guarantee the growth and management of the business.

The table below shows the trends of key performance indicators with the values adjusted as referred to above.

(thousands of Euro)

	2016	Non-recurring	2016 ADJ	%	2015	Non-recurring	2015 ADJ	%	ADJ changes	%
Revenues from sales and services	**184,242**		**184,242**	**100%**	**205,522**		**205,522**	**100%**	**-21,280**	-10.4%
Other revenue and income	1,217		1,217	**0.7%**	1,883		1,883	0.9%	-666	-35.4%
Operating costs	-188,361	-5,645	-182,716	**-99.2%**	-208,689	-7,054	-201,635	-98.1%	18,919	-9.4%
EBITDA	**-2,902**		**2,743**	**1.5%**	**-1,284**		**5,770**	**2.8%**	**-3,027**	-52.5%
Amortization, depreciation and impairment	-16,018		-16,018	**-8.7%**	-25,617	-10,178	-15,439	-7.5%	-579	3.8%
Net Operating Profit	**-18,920**		**-13,275**	**-7.2%**	**-26,901**		**-9,669**	**-4.7%**	**-3,606**	
Financial income	117		117	**0.1%**	412		412	0.2%	-295	-71.6%
Financial Expenses	-5,161		-5,161	**-2.8%**	-4,966		-4,966	-2.4%	-195	3.9%
Exchange gains (losses)	904		904	**0.5%**	-930		-930	-0.5%	1,834	
Gain (loss) on equity investments valued using the equity method	-66		-66	**0.0%**	-288		-288	-0.1%	222	
Profit (Loss) before tax	**-23,126**		**-17,481**	**-9.5%**	**-32,673**		**-15,441**	**-7.5%**	**-2,040**	
Current and deferred taxes	-2,878				-2,914					
Net profit (loss) for the Group and minority interests, including:	**-26,004**				**-35,587**					
Minority interests	-759				-299					
Net profit (loss) for the Group	**-25,245**				**-35,288**					

Revenues from sales and services totalled Euro 184,242 thousand with a decrease of Euro 21,280 thousand, down by 10.4% compared to 2015.

The adjusted EBITDA totalled Euro 2,743 thousand compared to Euro 5,770 thousand in 2015, recording a decrease of Euro 3,027 thousand, mainly due to lower sales volumes, only partially offset by the above-mentioned reduction in costs of personnel and a lesser effect of the sales on the after-market channel, historically characterised by higher margins than other channels.

EBITDA was negative at Euro -2,902 thousand. This result was affected not only by the above factors but also by the non-recurring costs of Euro 5,645 thousand, primarily relating to the commercial agreements expenses and allocations for technical defects of several supply components in the automotive sector.

The EBIT was negative and totalled Euro -18,920 thousand compared to the negative EBIT of Euro -26,901 thousand reported in 2015 after amortisation/depreciation and impairment losses totalling Euro 16,018 thousand.

Breakdown of revenues

The division of revenues into areas of activity reflects the "management approach", on which the IFRS 8 international accounting standard is based. According to this accounting standard, the segments must be shown in relation to the organisational structure and internal reporting used by management to measure performance and manage it.

In particular, the gas sector is composed of the "systems for cars", both GPL and CNG and "distribution systems" which include sales revenues from compressors for refuelling stations made by the company SAFE S.p.A.

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

(thousands of Euro)

Distribution of revenues by area of activity	As at 31/12/2016	% of revenues	As at 31/12/2015	% of revenues	Changes	%
Gas Segment - Car systems	143,278	77.8%	161,720	78.7%	-18,442	-11.4%
Gas Segment - Distribution systems	24,153	13.1%	23,345	11.3%	808	3.5%
Total revenues - GAS sector	***167,431***	***90.9%***	***185,065***	***90.0%***	***-17,634***	***-9.5%***
Other (Alarms, Sound, Robotics, Oil and Gas and others)	16,811	9.1%	20,457	10.0%	-3,646	-17.8%
Total revenues	**184,242**	**100.0%**	**205,522**	**100.0%**	**-21,280**	**-10.4%**

Revenues from sales of products and services in the Gas Segment are lower compared to the previous year going from Euro 185,065 thousand down to Euro 167,431 thousand.

The decrease in sales in the Gas - Car Systems Sector (-11.4%), is mainly due to the contraction of revenues in the After-Market channel, as well as the slowdown recorded in the first semester in supplies to OEM channels due to the transition from Euro 5 to Euro 6 engines.

Revenues in the gas segment – Distribution Systems showed a growth of 3.5% compared to the same period in 2015, thanks to good sales performance in Eastern Europe markets.

Compared to the previous year, sales revenues in other divisions went from Euro 20,457 thousand to Euro 16,811 thousand, a 17.8% decrease linked mainly with the fall in sales of Oil & Gas systems.

In view of the limited importance of sales in other divisions, we can conclude that the Group's sole segment of activity is manufacture of car systems and distribution systems (Gas Segment).

Below remarks regarding sales by geographical area:

(thousands of Euro)

Geographical distribution of revenues	As at 31/12/2016	% of revenues	As at 31/12/2015	% of revenues	Changes	%
Italy	38,467	20.9%	41,734	20.3%	-3,267	-7.8%
Europe (excluding Italy)	83,508	45.3%	84,326	41.0%	-818	-1.0%
America	30,834	16.7%	43,362	21.1%	-12,528	-28.9%
Asia and the rest of the world	31,433	17.1%	36,100	17.6%	-4,667	-12.9%
Total	**184,242**	**100%**	**205,522**	**100%**	**-21,280**	**-10.4%**

With reference to the geographical breakdown of revenues, the Group obtained 79.1% (79.7% in 2015) of its consolidated revenue (45,3% in Europe and 33.8% outside Europe), further details of which are provided below:

- Italy

Sales on the Italian market, which totalled Euro 38,467 thousand in 2016 (compared to Euro 41,734 thousand in the previous year), a decrease of 7.8%, primarily reflect the negative trend in supply in the domestic market for Distribution Systems and Oil & Gas systems.

As for sales of Car Systems, a significant increase compared to 2015 (-2.7%) was registered in Italy, despite the significant drop in the supply in the domestic market.

In fact, on the Aftermarket channel, according to Ecogas data, there was a 6.7% reduction in conversions for the period compared with the previous year. The Group's domestic market share on the After-Market channel remained mostly stable and greater than 33%.

With reference to new OEM bi-fuel registrations at 31 December 2016, the sales mix of new vehicles equipped with LPG and CNG systems saw a 20.7% decrease compared with the same period in 2015, according to data published by ANFIA (the Italian National Association for the Automotive Industry) settling at 8% of total vehicles registered.

- Europe

Although, overall, European revenues fell by 1% compared to 2015, they recovered well in the fourth quarter (+8.1% compared to the same quarter of 2015). This was mainly driven by the positive trend in the sales of distribution systems in Spain, France, Russia, Romania and Slovakia.

- America

Sales in the American market in 2016 totalling Euro 30,834 thousand, fell by 28.9% mainly as a result of negative sales performance in Bolivia, Argentina and Colombia, as well as a slowdown in North America which was only partially offset by growth in Brazil.

- Asia and the rest of the world

There was a 12.9% decrease in the Asia and Rest of the World markets compared to 2015, mainly due to lesser sales of distribution systems. Conversely, it should be pointed out that the In-car Systems segment is experiencing favourable revenue trends in India, Algeria and Kazakhstan. Lastly, slow though constant progress goes forward on reopening of the Iranian market, and is being helped by the slackening of international tension.

Profitability

Despite the already described reduction in sales by Euro 21,280 thousand which did not allowed the Group to reach the economic and financial goals pre-set at the start of the year, in the financial statement for the year ended 31 December 2016 adjusted EBITDA showed a positive result of Euro 2,743 thousand, equals to 1.5% of revenues, a decrease of Euro 3,027 thousand compared to the same period in the previous year. This result was achieved thanks the savings on costs of personnel for Euro 4.4 million obtained through the implementation of the corporate restructuring plan set off as of the second semester of 2015.

The EBITDA was negative and totalled Euro -2,902 thousand, including Euro 5,645 thousand in non-recurrent expenses, compared with a negative Gross Operating Profit of Euro -1,284 thousand, including Euro 7,054 thousand for non-recurring expenses at 31 December 2015.

EBIT was negative and totalled Euro -18,920 thousand following amortisation, depreciation and impairment of Euro -16,018 thousand compared to a negative EBIT of Euro -26,901 thousand (of which Euro 10,178 thousand was non-recurrent) in 31 December 2015.

Results before tax were negative and totalled Euro -23,126 thousand (negative by Euro -32,673 thousand at 31 December 2015), after taking net financial charges of Euro -5,044 thousand into account, representing an increase compared to the previous year due to the issue of the Bonded Loan in May 2015, as well as exchange profits of Euro 904 thousand, associated with exchange profits recorded in the foreign currency items and finally losses on equity investments stated using the net equity method totalling Euro -66 thousand.

The net result of the Group and minority interests at 31 December 2016 showed a loss of Euro -26,004 thousand, which, net of non-recurrent expenses, totals Euro 5,645 thousand, would equal Euro -20,359 compared to a net loss for the Group and minority interests totalling Euro -35,587 thousand at 31 December 2015, without including Euro 17,232 thousand for non-recurring expenses, would be Euro -18,355 thousand.

Invested capital

(thousands of Euro)

Statement of Financial Position	31/12/2016	31/12/2015
Trade receivables	37,551	33,764
Inventories	49,872	57,528
Contract work in progress	1,281	2,904
Trade payables	-53,090	-58,351
Other net current assets	828	2,472
Net operating capital	**36,442**	**38,317**
Property, plant and equipment	30,500	35,364
Intangible assets	58,873	61,194
Other non-current assets	7,594	8,298
Fixed capital	**96,967**	**104,856**
TFR (severance pay) and other provisions	-12,611	-11,899
Net invested capital	**120,798**	**131,274**
Financed by:		
Net Financial Position	75,716	59,459
Group shareholders' equity	45,405	71,390
Minority interests equity	-323	425
Financing sources	**120,798**	**131,274**

Ratios	31/12/2016	31/12/2015
Net operating capital	36,442	38,317
Net operating capital/Turnover	20.0%	18.6%
Net invested capital	120,798	131,274
Net capital employed/Turnover	65.6%	63.9%

Net operating capital (Euro 36,442 thousand) decreased by Euro 1,875 thousand compared to 31 December 2015 and the percentage indicator, calculated on turnover, increased from 18.6% in 2015 to the current 20%.

Trade receivables at 31 December 2016 total Euro 37,551 thousand, an increase of Euro 3,787 thousand compared to Euro 33,764 thousand at 31 December 2015, mainly as a result of the reduced use of factoring operations with maturity credit for which there was derecognition of the respective receivables, totalling Euro 22.2 million compared to Euro 35.5 million in December 2015.

Value of closing inventory decreased by Euro 9.3 million due to the benefits deriving from the stock reduction plan implemented during the year.

Net capital employed at 31 December 2016 (Euro 120,798 thousand), the fixed portion of which decreased by Euro 7,889 thousand compared to 31 December 2015, while the percentage indicator, calculated on turnover, increased from 63.9% to 65.6%.

Net Financial Position and cash flows

(thousands of Euro)	31/12/2016	31/12/2015
Cash and cash equivalents	16,484	38,264
Bank overdrafts and short-term loans	-40,662	-50,797
Bonds issued (net value)	-9,614	-33,098
Short-term loans	-425	-425
Net short term indebtedness	**-34,217**	**-46,056**
Bonds issued (net value)	-21,764	
Medium-Long term loans	-19,735	-13,403
Net medium-long term indebtedness	**-41,499**	**-13,403**
Net Financial Position	**-75,716**	**-59,459**

The net financial position at 31 December 2016 is negative for Euro 75,716 thousand compared to a negative net financial position at 31 December 2015 of Euro 59,459 thousand.

It must be noted that at 31 December 2016, all bank institutions have issued specific waivers relating to the disclosure of financial parameters and missed payment of principal instalments of unsecured loans due in the months of November and December 2016 while the Meeting of Bondholders of 30 December 2016 amended the rules on loans and issued a waiver relating to the missed payment of the instalment due at 31 December 2016, as well as the disclosure of financial parameters. No reclassification was made from the mid-long term financial debt to short-term financial debt.

Short-term net financial debt (see previous table), including cash and cash equivalents totalling Euro 16,484 thousand is negative for Euro 34,217 thousand compared to the negative value of Euro 46,056 thousand at 31 December 2015 which gathered short term reclassifications correlated to the misalignment of the financial covenants for the unsecured loan instalments (Euro 17,529 thousand) and the Bonded Loan (Euro 33,098 thousand) included among current liabilities in line with the forecast of IAS 1 paragraphs 74-75.

Instalments on outstanding loans were repaid for Euro 17,320 thousand during the year, along with the first six monthly repayment of the bonded loan of Euro 2 million. The available liquidity at the end of the period was Euro 16,484 thousand.

The slowdown in the cash flow from ordinary operations have led the directors to launch a project designed to optimise the financial structure of the parent company and of the Group companies.

To that end, during the fourth quarter, a major financial advisor was commissioned to implement the guidelines and finalise the project concerning primarily the entire financial debt of the Group (e.g. the one represented by the bond component and the one represented by the bank components) and requires the following:

- the re-scheduling of the Company's debts and subsidiaries based on the repayment instalments of increasing amount in line with the cash flow goals set out in the Business Plan;
- re-scheduling of financial covenants in line with the performance set out in the Business Plan;
- the maintenance of short-term lines of credit with a consistent amount based on the needs set out in the Business Plan.

The following table shows the total cash flow for 2016 compared to 2015:

(thousands of Euro)	31/12/2016	31/12/2015
Operating cash flow	-6,104	4,185
Cash flow for investment activities	-9,144	-15,223
Free cash flow	***-15,248***	***-11,038***
Cash flow generated (absorbed) by financing activities	-5,523	18,657
Overall cash flow	**-20,771**	**7,619**

The cash flow absorbed by operations was negative totalling Euro 6,104 thousand, net of improvements compared to the same date of September 2016 (Euro -20,676 thousand) based on the recovery actions taken on the Net Working Capital, particularly the last part of the year, although decreased by Euro 10,289 thousand compared to 31 December 2015.

The policy of investing in tangible and intangible assets (Euro 4,546 thousand of which are attributable to development expenditure) absorbed financial resources of Euro 9,144 thousand, while net cash flows generated by borrowing activities totalled Euro 5,523 thousand.

Investments

Investments in property, plants and machinery and other equipment undertaken in order to support production and business needs totalled Euro 4,412 thousand (compared to Euro 9,053 thousand in 31 December 2015).

Increases in intangible assets totalled Euro 4,964 thousand (Euro 6,470 thousand at 31 December 2015) and are related primarily to capitalised costs for the development of new products totalling Euro 4,546 thousand.

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 table between the result for the period and net equity of the Group with the corresponding values of the Parent Company.

(thousands of Euro)

RECONCILIATION STATEMENT	Net equity at 31/12/2016	Results for the year at 31/12/2016	Net equity at 31/12/2015	Results for the year at 31/12/2015
Net equity and results for the year of the Parent Company	**44,121**	**-28,986**	**73,164**	**-37,702**
Difference in value between book value and pro rata value of the accounting equity of the consolidated companies	2,905	1	716	28
Pro rata results achieved by investees	0	-4,227	0	-9,748
Elimination of intercompany dividends	0	-1,113	0	-275
Elimination of the effects of intercompany commercial transactions	-1,457	194	-1,651	174
Elimination of revaluation/write-down of investments and recognition of impairment of goodwill	0	8,200	0	11,885
Elimination of the effects of intercompany assets	-487	-73	-414	51
Equity and result for the year from Consolidated Financial Statements	**45,082**	**-26,004**	**71,815**	**-35,587**
Equity and result for the year of minority interests	-323	-759	425	-299
Equity and result for the year of the Group	**45,405**	**-25,245**	**71,390**	**-35,288**

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 20 companies, including four of minor interest – not consolidated because they are not significant – and two joint ventures, one of which is not consolidated for the same reason. The main figures on these 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.

Description	Registered Office		Share capital	Investment	Turnover 2016 (Euro thousands)**	Turnover 2015 (Euro thousands)**	Net result 2016 (Euro thousands)**	Net result 2015 (Euro thousands)**	Notes
Landi Renzo S.p.A.	Cavriago (RE)	EUR	11,250,000	Parent Company	72,819	82,452	-28,986	-37,702	
Landi International B.V.	Utrecht (The Netherlands)	EUR	18,151	100.00%	-	-	484	-320	
Eurogas Utrecht B.V.	Utrecht (The Netherlands)	EUR	36,800	100.00%	-	1,482	-57	-488	(1)
Landi Renzo Polska Sp.zo.o.	Warsaw (Poland)	PLN	50,000	100.00%	22,494	20,391	546	176	(1)
LR Industria e comercio Ltda	Espirito Santo (Brazil)	BRL	4,320,000	99.99%	10,804	6,509	1,993	-1,661	
Beijing Landi Renzo Autogas System Co. Ltd	Beijing (China)	USD	2,600,000	100.00%	3,375	5,758	-812	-375	
L.R. Pak (Pvt) Limited	Karachi (Pakistan)	PKR	75,000,000	70.00%	797	1,514	-2,429	-527	
Landi Renzo Pars Private Joint Stock Company	Tehran (Iran)	IRR	55,914,800,000	99.99%	904	450	79	94	
Landi Renzo Ro Srl	Bucharest (Romania)	RON	20,890	100.00%	3,603	4,581	129	580	
Landi Renzo VE C.A.	Caracas (Venezuela)	VEF	2,035,220	100.00%	-	-	-	-	(2)
Landi Renzo USA Corporation	Wilmington - DE (USA)	USD	3,067,131	100.00%	3,609	7,210	-2,539	-1,700	
AEB S.p.A.	Cavriago (RE)	EUR	2,800,000	100.00%	37,345	36,526	2,063	935	
AEB America s.r.l.	Buenos Aires (Argentina)	ARS	2,030,220	96.00%	2,323	7,667	-112	638	(3)
Eighteen Sound S.r.l.	Reggio Emilia	EUR	100,000	100.00%	12,677	11,766	73	9	(3)
Lovato Gas S.p.A.	Vicenza	EUR	120,000	100.00%	34,566	35,024	630	-508	
Lovato do Brasil Ind Com de Equipamentos para Gas Ltda	Curitiba (Brazil)	BRL	100,000	100.00%	-	-	-	-	(4) (2)
Officine Lovato Private Limited	Mumbai (India)	INR	19,091,430	76.00%	31	-	-98	-48	(4)
SAFE S.p.A.	S.Giovanni Persic. (BO)	EUR	2,500,000	100.00%	26,379	29,494	-2,791	299	
Safe Gas (Singapore) Pte. Ltd.	Singapore	SGD	325,000	100.00%	-	-	-	-	(5) (2)
Emmegas S.r.l.	Cavriago (RE)	EUR	60,000	100.00%	2,144	2,462	-526	-519	
Landi Renzo Argentina S.r.l.	Buenos Aires (Argentina)	ARS	1,378,000	100.00%	-	-	-	-	(2)
Krishna Landi Renzo India Private Ltd Held (&)	Gurgaon - Haryana (India)	INR	118,000,000	51.00%	46	2,177	-125	-722	(6)
EFI Avtosanoat-Landi Renzo LLC (&)	Navoi Region - Uzbekistan	USD	800,000	50.00%	-	0	-	0	(2) (6)

Detailed notes:
(**) the turnover and the net result for foreign companies are converted to Euro at the average exchange rate for the period for various currencies used to draw up the consolidation Reporting Packages.

(1) Held by Landi International B.V.
(2) Not consolidated because not significant
(3) Held by AEB S.p.A.
(4) Held by Lovato Gas S.p.A.
(5) Held by Safe S.p.A.
(6) Company Joint Venture

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

In 2016, Landi Renzo S.p.A. achieved revenues from sales and services totalling Euro 72,819 thousand compared to Euro 82,452 thousand in 2015, a decrease of Euro 9,633 thousand or 11.7%.

EBITDA was negative and equal to Euro -9,143 thousand (including non-recurrent costs of Euro 5,645 thousand), compared with a negative result of Euro -10,839 thousand in 2015 (including non-recurring costs totalling Euro 5,732 thousand).

EBIT, negative and equal to Euro -17,848 thousand, was influenced by amortisation and depreciation recorded during the year for an overall total of Euro 8,706 thousand, of which Euro 3,896 thousand for intangible assets and Euro 4,810 thousand for tangible assets.

The net operating result of Euro -28,986 thousand includes financial charges totalling Euro 4,042 thousand and charges for write-downs and coverage of losses in shareholdings totalling Euro 9,162 thousand.

The net financial position at the end of 2016 is negative and equals to Euro 71,598 thousand compared to a negative net financial position of Euro 60,344 thousand at 31 December 2015. Assignment of trade receivables without recourse by the company totalled Euro 13,574 thousand at year-end.

The workforce was smaller at the end of the financial year compared to the previous year and totalled 290 members.

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.

Net revenues gross of intercompany sales totalled Euro 34,566 thousand, mainly in line with the previous year.

Net operating results totalled Euro 1,368 thousand compared to Euro 131 thousand in 2015 with a major increase due to the improvement in the margins and reduction activities on overhead costs, as well as less amortisation of intangible assets.

The financial statements for the period ended 31 December 2016 closed with a profit of 630 thousand compared to a loss of Euro 508 thousand in 2015.

The workforce was smaller at the end of the financial year compared to the previous year and totalled 91 members.

A.E.B. S.p.A.

A.E.B. S.p.A. has been operating for more than 30 years in the design, manufacture and sale of electronic components for eco-sustainable LPG and CNG systems for the automotive sector. The financial statements for 2016 reported turnover of Euro 37,345 thousand, gross of intercompany sales, with an increase of 2.2% compared with the corresponding figure for 2015. 49.6% of sales were made in Italy and 50.4% abroad, particularly in European and Asian countries. EBIT totalled Euro 2,963 thousand compared with Euro 1,444 thousand in 2015 after amortisation totalling Euro 1,262 thousand. 2016 closed with a pre-tax profit equal to Euro 3,028 thousand and a net profit of Euro 2,063 thousand compared to a net profit of Euro 935 thousand reported in the previous year. The number of employees at the end of 2016 was 100.

Eighteen Sound S.r.l.

The company Eighteen Sound S.r.l. resulted from the spin-off of the "Sound" branch of the subsidiary AEB S.p.A., which owns 100% of its share capital. It operates in the professional speakers sector, focusing on sound diffusion. The financial statements for 2016 recorded a turnover of Euro 12,677 thousand compared to Euro 11,766 thousand in 2015. EBIT was positive and totalled Euro 476 thousand compared to an EBIT of Euro 248 thousand in the previous year. 2016 closed with a net profit of Euro 73 thousand compared to a net profit of Euro 9 thousand in 2015.

The workforce at end of the year numbered 43 members.

SAFE S.p.A.

SAFE S.p.A., founded in July 2012 and operating in the production of compressors for gas treatment, achieved sales revenues of Euro 26,379 thousand in 2016, a decrease of 10.6% compared to Euro 29,494 thousand in 2015. The company suffered the downturn in the Oil&Gas segment both in minor margins made on orders with respect to those expected and greater allocations for obsolesce of warehouse products.

EBIT totalled Euro -3,035 thousand, after amortisation totalling Euro 1,111 thousand.

2016 closed with a net loss of Euro 2,791 thousand compared to a net profit of 299 thousand at 31 December 2015.

The number of employees at the end of 2016 was 69.

Emmegas S.r.l.

In June 2016, the parent company Landi Renzo S.p.A. acquired a 30% stake in Emmegas S.r.l., a company with registered office in Reggio Emilia, which has been manufacturing vehicle LPG and CNG components for vehicles for over twenty years. Sales revenues totalled Euro 2,144 thousand with a negative EBIT of Euro 148 thousand and a net loss of Euro 526 thousand following the write-off of assets due to pre-paid taxes totalling Euro 399 thousand.

Landi International B.V.

The Dutch holding company, a parent company holding 100% of Landi Renzo Polska Sp.zo.o. and of Eurogas Utrecht B.V., did not achieve any revenues (excluding the dividends of the subsidiary companies).

Eurogas Utrecht B.V.

The company, held since 1995, sold LPG fuel supply systems for motor vehicles under the "Eurogas" brand in Northern Europe. During the year 2016, the company was placed under liquidation and the respective trademark was acquired by the Parent Company.

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 2016 was Euro 22,494 thousand compared to Euro 20,391 thousand in 2015, recording an increase of 10.3% linked with a good performance in sales both in the installation of LPG systems and in the After-Market channel. The year closed with a net profit of Euro 546 thousand, compared with a net profit of Euro 176 thousand in 2015, after amortisation of Euro 520 thousand.

LR Industria e comercio Ltda

The Brazilian company, in which a stake has been held since 2003, increased its turnover significantly by 66% from Euro 6,509 thousand in 2015 to Euro 10,804 thousand in 2016 thanks to good performance in sales in the local market. The year closed with a net profit of Euro 1,993 thousand compared to a net loss of Euro 1,661 thousand in 2015.

Beijing Landi Renzo Autogas System Co. Ltd

This company, which was founded 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. The year 2016 closed with a net loss of Euro 812 thousand and with revenues totalling Euro 3,375 thousand.

L.R. Pak (Private) Limited

The company, 70% owned by the Group, has been active since 2006, manufactures and sells CNG fuel systems both for car manufacturers (OEM customers) and for the After-Market. The year 2016 closed with a loss of Euro 2,429 thousand compared to a loss of Euro 527 thousand in 2015 and with revenues from sales and services totalling Euro 797 thousand (Euro 1,514 thousand at 31 December 2015).
Major critical issues persist in the market due to the lack of methane gas distribution for vehicles along with the barriers on importation of several components intended for the after-market.

Landi Renzo Pars Private Joint Stock Company

Since 2008, this company has been engaged in the production and marketing of CNG systems, on both the OEM and After-Market channels. Landi Renzo Pars received protection of its invested capital based on the "FIPPA" (*Foreign Investment Protection and Promotion Act*) regulations. 2016 closed with sales revenues totalling Euro 904 thousand and a net profit of Euro 79 thousand. Despite favourable developments in the political climate, revenues for the period in question were once again negatively affected by commercial and financial restrictions associated with the Western Countries' embargo.

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. 2016 closed with a net profit of Euro 129 thousand compared to a net profit of Euro 580 thousand in the previous year. Revenues from sales and services totalled Euro 3,603 thousand, a drop of 21.3% compared to the previous year due to a slowdown in sales volumes linked with the transition from Euro 5 to Euro 6 engines in the OEM sector, particularly in the first part of the year.

Landi Renzo USA Corporation

In January 2010, Landi Renzo USA Corporation was founded with the aim of developing productive and commercial opportunities in the American market. In 2016, the company earned revenues of Euro 3,609 thousand and reported a loss of Euro 2,539 thousand due to the difficulties in the market relating to a more widespread use of methane eco-compatible systems.

A.E.B. America srl

A.E.B. America srl, controlled at 96% by A.E.B. S.p.A. engages in production and marketing activities in the Argentine market. In 2016, the company earned sale revenues totalling Euro 2,323 thousand, a decrease of 69.7% due to a persisting negative market trend in the Argentine market with a net negative result of Euro 112 thousand.

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 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. As for relationships with the parent company Girefin S.p.A., it should also be noted that the Directors of Landi Renzo S.p.A. reckoned that it does not exercise management and coordination activities envisaged in article 2497 of the Italian Civil Code. 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's 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 2016, 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 2016 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, enclosed 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 and, in particular, on the CoSo framework indicated by the Sarbanes-Oxley Act of 2002 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 pursue 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").

In addition to these activities, there are those of the Manager in charge of drafting corporate documents and his staff (so-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 cyclical 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 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 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 50 countries, in 14 of which it operates directly, including through its own companies. In 2016, the Group achieved 79.1% 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, nationalization, 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 deriving thereof.

• **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 major vehicle manufacturers worldwide (OEM customers). In the year ending at 31 December 2016, the sales of systems and components made by the Group to OEM customers represented approximately 27.2% of the total sales of such products. The Group boasts long-standing relationships with major 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 delocalization 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 view of the foregoing and given 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 business 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 manage the risk by pursuing a policy of progressive diversification and enrichment of its product portfolio in order to minimize 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 coverage has been put in place, centred on master policies negotiated and contracted centrally and local first risk policies. The above guarantee the immediate activation of the coverage 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 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 unauthorized 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**

Intangible assets totalling Euro 58,873 thousand are reported in the consolidated financial statements at 31 December 2016, including Euro 8,420 thousand for development costs, Euro 30,094 thousand for goodwill, Euro 22,359 thousand for trademarks and patents, as well as net deferred tax assets totalling Euro 6,887 thousand. The recoverability of such values is related to the materialisation of future business 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.

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 for the exposure to the risk of interest rate volatility, it must be noted 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, with resulting limited access to sources of funding, as well as increasing financial charges.

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 2016 were analysed with particular reference to cash and cash equivalents and to loans. The increase of 50 basis points on the Euribor, like all other variables, would have produced an increase in financial costs for the Group of Euro 271 thousand in comparison to an increase in financial income equal to Euro 21 thousand.

• **Exchange risk**

The Group sells part of its production and although to a much lesser degree, also purchases some components in Countries outside the Euro zone. In relation to the exchange risk, note that the amount of the consolidated equity balances expressed in currency other than the functional currency is to be considered as insignificant. 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 which, in any case, as mentioned, are not to be considered as significant.

Please also note that several Group companies are located in countries outside the European Monetary Union: USA, Argentina, Brazil, Venezuela, Iran, Pakistan, China, India, Poland, Romania and Uzbekistan. Since the reference currency is the Euro, the income statements of such companies are converted to Euro at the average exchange rate for the period and, with the same revenues and margins in local currency, exchange rate fluctuations may impact the Euro value of revenues, costs and economic results.

• **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 customers who do not satisfy the creditworthiness conditions established by the Group can then make purchases only by payment in advance. In addition, the balance of the receivables is monitored on a fortnightly basis over the period, in order to minimize exposure to the risk of losses. Finally, regarding new customers and those not operating in EU countries, a letter of credit to guarantee successful collection is normally used, where possible.

As of 2008, the Parent Company insures part of its foreign receivables not guaranteed by letters of credit through a leading Insurance Company and 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.

Lastly, we point out that the persistence or deterioration of the current economic and financial crisis could have an impact, even significantly, on the capacity of some client companies to regularly meet their obligations to the Group.

<u>Other financial assets</u>

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.

<u>Guarantees</u>

If necessary, the policies of the Group require the issue of financial guarantees in favour of subsidiary companies. At 31 December 2016, 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.

The recent economic and financial performance of the Group led to a decline in the level of available liquidity associated with a reduction in the credit rating assigned by financial institutions, limiting access to sources of funding.

To that end, the Group prepared and launched a project to optimize the financial structure of the entire 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 project 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 and its subsidiaries signatories to the agreement to 2022

(ii) The rescheduling of the debt of the Group, on the basis of repayment instalments of increasing amounts in line with the cash generation objectives laid out in the Business Plan

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

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

The project was also prepared in light of and consistent with the Group's Business Plan, the update of which was approved by the Board of Directors on 30 December 2016. The Business Plan was subject to an independent business review by KPMG Advisory S.p.A. in the capacity of independent third-party business advisor, and the results of that analysis and the relative documentation were considered by the Group's management in developing and finalizing the Financial Optimization Project.

With regard to the bank component, negotiations with the financier banks led to the finalization of the Agreement on 27 March 2017, which was signed by all banks with the exception of one, which will complete its approval process in due time for the publication of the Company's separate and consolidated financial statements at 31 December 2016, while as regards the payable for bonds of the Parent Company, it was necessary to call the Bondholders' Meeting on 30 March 2017 to align certain provisions of the Loan Regulations with what was laid out in the Agreement and thus to be able to complete the project.

Please note that at 31 December 2016, all bank institutions have issued specific waivers relating to the disclosure of financial parameters and missed payment of principal instalments due in November and December 2016 while the Meeting of Bondholders of 30 December 2016 amended the Loan Regulations and issued a waiver relating to the missed payment of the instalment due at 31 December 2016, as well as the disclosure of financial parameters.

SIGNIFICANT EVENTS AFTER THE END OF THE PERIOD AND FORECAST FOR OPERATIONS

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

- Following the appointment of Cristiano Musi as General Manager of the Group and the outlook of appointing him as Chief Executive after the Meeting for the approval of the financial statements with the goal of guiding the restructuring and re-launching of the Group, even through the revision of strategic guidelines during the course of the first period of 2017 a restructuring project of the Automotive business has been launched. The new model requires organisation for each business unit (OEM, AM and Electronic Equipment) with the purpose of bringing the Group closer to the market while improving its ability to meet different market requirements and reducing the time to market and in general bring efficiency levels of the Automotive business area closer to best market practices. The new organisational model will also help with the strategic integration of the management of the various automotive companies of the Group (Landi Renzo S.p.A., Lovato Gas S.p.A. AEB S.p.A., Emmegas S.r.l.) and foreign subsidiaries with the purpose of having a common strategic vision, improving efficiency, effectiveness and the ability to innovate;
- At the same time, the new management team set off a project aimed at improving management efficiency by significantly reducing the breakeven point while identifying a series of actions aimed at reducing product overhead costs, both fixed and variable, in order to align them to best Automotive practices internationally. The project requires measures to be taken on the structure of SG&A costs, review of the production footprint and processes, sourcing and procurement strategies and supply chain internationally with the purpose of fully utilising the synergies deriving from the possibility of managing production and acquisitions in various parts of the world. In order to quickly set off the amelioration plan and the "EBITDA Improvement" a Top Consulting Firm was commissioned to help the new General Manager and future Chief Executive Officer, as well as the company's Top Management in preparing and implementing a proper action plan. The initial benefits may be already visible during the course of the 4Q of 2017 with full benefits evident in 2018;

As far as sales, in the initial months of the year, the client portfolio of the automotive sector has already shown signs and a trend slightly against the market compared to 2016, both for the OEM and AM distribution channel, nationally and internationally;

Likewise in terms of sales strategies, greater emphasis was placed on the following:

- For the "OEM" distribution channel with strengthening of the LPG segment and increasing focus on the CNG segment, for the passenger cars as well as the medium-heavy duty internationally, even through development of liquid methane systems.

- For the "AM" distribution channel, the increase in cruel oil prices, as well as for more pressing policies on regulating emissions are favouring an increase in the use of alternative power systems, including LPL and CNG systems.
- As for Gas Distribution and production and trade of Methane compressors, actions are being implemented to launch SAFE S.p.A., a leader company in the production of compressors for methane gas refuelling, oil & gas and biomethane, sectors where there are great opportunities for growth worldwide. To that end, Mr. Musi has taken on the role of Chairman and CEO and has strengthened the company's management.

In view of all the actions taken, the Group is expecting moderate growth of its business and a slight recovery of profitability in terms of EBITDA, already normalised in 2017. Performance of sales and orders in the first quarter of 2017 confirm the outlook for 2017.

PROPOSAL FOR APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS AND ALLOCATION OF THE RESULT FOR THE YEAR

Dear Shareholders,

In concluding our report we propose that you:

- approve the Financial Statements for the period ended 31 December 2016;
- propose to the Shareholders' Meeting that they approve the plan to cover Landi Renzo S.p.A.'s losses for the year, totalling Euro 28,985,860.92, by using the Extraordinary and IAS Transition Reserves, which will be reduced to zero, and the Share Premium Reserve, which will be reduced to Euro 30,718,198.13.

Cavriago (RE), 27 March 2017

For the Board of Directors

The Chairman
Stefano Landi

ANNEX

Report on corporate governance and ownership structure

CONTENTS

GLOSSARY

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

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

Borsa Italiana: Borsa Italiana S.p.A.

Civil Code: the Italian Civil Code.

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

Consob Market Regulations: the regulations issued by Consob by virtue of Resolution 16191/2007 (and subsequent amendments) regarding legislation for the stock markets.

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

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

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

Period: the financial period covered by the Report, i.e. the financial year ended on 31 December 2016.

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

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

Self-Regulatory Code: the self-regulatory code for listed companies approved by the Corporate Governance Committee in March 2006 (and subsequent amendments) and promoted by Borsa Italiana, Abi, Ania, Assogestioni, Assonime and Confindustria, publicly available on the internet website of Borsa Italiana www.borsaitaliana.it.

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

1. ISSUER PROFILE

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

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

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

2. INFORMATION ON THE OWNERSHIP STRUCTURE (PURSUANT TO ARTICLE 123-*BIS*, SUBSECTION 1, OF THE CONSOLIDATED FINANCE ACT) AS AT 31 DECEMBER 2016

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 and 30 December 2016.

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 ordinary share capital	% of shares with voting rights
Trust Landi (trust regulated by Jersey law, in which trustee is Stefano Landi)	Girefin S.p.A. Gireimm S.r.l.	54.667 4.444	54.667 4.444

Aerius Investment Holding AG	Aerius Investment Holding AG	8.356	8.356

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

As of the date of this Report, the Company's Shares are registered, freely transferable and indivisible. 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 by-laws 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/maggioranzione_del_voto.

It should be noted that, as of the date of this Report, the number of Landi Renzo's shares is 112,500,000, corresponding to 112,500,000 voting rights at the Company's ordinary and extraordinary shareholders' meetings.

(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 Text.

(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 two loan agreements entered into on 16 April 2015 (the "**First Loan**") and 26 June 2015 (the "**Second Loan**") which will remain in force, respectively, until 16 April 2020 and 26 June 2020, aimed at, as for the First Loan, providing partial financial support for investments envisaged during the term of the agreement and, as for the Second Loan, financing the financial requirements related to the Company's ordinary business operations.

The First Loan contains a clause providing for full repayment of the loan in the event that the Landi Trust reduces its shareholding in the Company to below 50.1% of the Issuer's voting share capital.

The Second Loan contains a clause providing for the full repayment of the loan in the event that (i) Mr. Stefano Landi (trustee of the Landi Trust) reduces his shareholding in the Company to under 50.1% of the Issuer's share voting capital or (ii) at any time, one or more persons (including in concert), other than Mr. Stefano Landi, acquire control over the Company within the meaning set forth in art. 2359, paragraph 1, numbers 1 and/or 2 of the Italian Civil Code and/or art. 93 of the Consolidated Finance Act.

It should be noted that, in relation to both loan agreements referred to above, the right to full repayment can be exercised by the lender at its own discretion and that, upon occurrence of the aforesaid events, should the Company not comply with its repayment obligation, the lender is also entitled to terminate the relevant agreement pursuant to article 1456 of the Italian Civil Code.

(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 29 April 2016, after it revoked the resolution it had approved on 24 April 2015 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 Italian

Civil Code, to purchase Company's treasury shares, in quantities, at the price, and under the terms and conditions reported below:

(i) 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 Directive 2003/6/EC, 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;

(ii) the purchase price of each share shall be no more than 20% higher or lower than the reference price recorded by the security on the Stock Market in the session preceding each transaction;

(iii) 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:

(i) under Article 2357-*ter*, subsection 1, of the Italian Civil Code, to authorise the Board of Directors to dispose, in whole or in part, without any time limits, of its treasury shares purchased even before having completed the purchases; 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;

(ii) under Article 2357-*ter*, subsection 3, of the Italian 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 27 March 2017 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.

(l) **Management and coordination (pursuant to articles 2497 ff. of the Italian 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 www.borsaitaliana.it/borsaitaliana/regolamenti/corporategovernance/corporategovernance.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 decided 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 Italian 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, letter d) 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, 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 by-laws. However, on 8 April 2016 a notice was received containing Herbert Paierl's waiver to nomination as director due to unexpected professional commitments. As a result of such waiver, the list included therefore two candidates: Anton Karl, born in Mistelbach (Austria), on 16 March 1976, and Mark Kerekes, born in Lienz (Austria), on 30 May 1976.

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

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

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

Full surname	**Title**	**Place and date of birth**	**Director Type**	**Audit and Risk Committee**	**Remuneration Committee**
Giovannina Domenichini	Honorary Chairman	Casina (Reggio Emilia), 6 August 1934	Non-Executive		
Stefano Landi	Chairman of the Board of Directors & Managing Director	Reggio Emilia, 30 June 1958	Executive		

Claudio Carnevale	Director	Nole Canavese (Turin), 5 April 1961	Executive		
Silvia Landi	Director	Reggio Emilia, 8 June 1960	Executive		
Angelo Iori	Director	Reggio Emilia, 11 December 1954	Non -Executive	Member	Member
Anton Karl	Director	Mistelbach (Austria), 16 March 1976	Non - Executive		
Sara Fornasiero	Director	Merate (Lecco), 9 September 1968	Non-Executive and Independent[1]	Chairman	Member
Ivano Accorsi	Director	Correggio (Reggio Emilia), 14 July 1938	Non-Executive and Independent[1]	Member	Chairman

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

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

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

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

Stefano Landi. A founder member of the Issuer, he has been Managing Director from 1987 to 2010. Since 24 April 2013 he holds the office both of Managing Director and of Chairman, in addition to positions in other companies of the Landi Renzo group. 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 Best Union Company S.p.A.

Claudio Carnevale. A graduate in Electronic Engineering at Turin Polytechnic, where he specialised in automatic controls, whilst person in charge of a research team at the FIAT Research Centre (1988-1996) developed a series of projects and products within the automotive sector, concerning modern control methods applied to engine control and modern control techniques applied to vehicle control. As head of a research and development team at SAGEM SA, France (1996-1998), he developed projects and products within the automotive sector, concerning torque-based and direct injection engine control systems, and cylinder-by-cylinder A/F control using a linear oxygen sensor. He was director of the business unit Engine Control Systems at SAGEM SA, France, from 1998 to 2000. From 2000 to 2002 he was Worldwide Marketing Director for Texas Instruments in the "vehicle motion" sector. From 2002 to 2008 he was the Landi Renzo group's Sales and Marketing Director, and since 2008 he has been Director of the Landi Renzo group's Business and Product Development department. He is currently also Managing Director of the Company for its OEM business.

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 rejoined the Company as sales and marketing manager until 2003. In 2004 he was appointed CEO of MED SpA, 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 SpA, also holding the position of director of operations of Landi Renzo Group. From 2014 to 2016 he was Sales and Marketing Aftermarket Director at the Issuer and at Lovato Gas S.p.A., A.E.B. S.p.A. and Emmegas S.r.l.

Sara Fornasiero. Graduated in Economics at *Università Cattolica del Sacro Cuore* in Milan, she began her work experience in KPMG S.p.A. in 1993 as statutory auditor; from 1995 to 1998 in the due diligence field; from 1998 to 2001 in the Forensic Accounting department; from 2001 in the Corporate Responsibility/Sustainability department; and from 2004 in the Risk & Compliance department. From 2006 to 2015 she joined KPMG Quality & Risk Management function as Senior Manager. In 2016, she started her private practice, working on corporate governance, risk management, anti-bribery and corruption, and sustainability projects for listed and unlisted companies. Since 1995 she has been enrolled in the Register of Auditors and since 1996 she has been enrolled in the National Register of Certified Chartered Accountants and Auditors in Milan. At present, she is a member of the Supervisory Board of St Jude Medical Italy SpA, and a member of the Italian Association of Internal Auditors and of the "Governance of Listed Companies" and "Compliance and Organizational 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 SpA, as well as of Chairman of the Control and Risk Committee, the Remuneration Committee and the Independent Directors Committee. From 2004 to 16 December 2016 he acted as Treasurer of the Committee for the Restoration of the Reggio Emilia Cathedral.

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

Anton Karl. He graduated in Law at the University of Salzburg (Austria) and continued his studies at Rice University in Houston, where he earned a Business Administration Master degree. From 2002 to 2008 he held the position of Associate and then of Vice President at Lehman Brothers International, moving from New York to London and later to Frankfurt and Zurich. From 2008 to 2012 he held the psotion of executive director at Nomura Bank (Switzerland) in Zurich. Since 2013 he has been a member of Aerius Holding AG Board of

Directors and since 2014 has been a member of Brustorm SA and Elbogross SA Boards of Directors in Zurich.

In line with shareholders' meeting resolution of 29 April 2016, which appointed the new Board of Directors in replacement of the previous Board which had ceased office upon approval of the financial statements as at 31 December 2015, during the Period Antonia Fiaccadori, Alessandro Ovi, Tomaso Tommasi di Vignano and Herbert Paierl ceased their office as directors of the Company, following expiry of their term.

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

The table below shows the managerial and auditing positions held in listed and unlisted companies by member of the Company's Board of Directors as of 31 December 2016.

Full name	**Company in which an external position is held**	**Title**
Giovannina Domenichini	Girefin S.p.A. Immobiliare L.D. Parma S.r.l.	Chairman of the Board of Directors Sole Director
Stefano Landi	Girefin S.p.A.	Managing Director
	Gireimm S.r.l.	Sole Director
	Lovato Gas S.p.A.	Chairman of the Board of Directors
	Best Union Company S.p.A.	Director
	Esselle S.r.l.	Sole Director
	SAFE S.p.A.	Chairman of the Board of Directors and Managing 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
	Trust Landi	Trustee

	Co.Mark S.p.A.	Director
	Fondazione Museo Antonio Liguabue	Director
Claudio Carnevale	Emmegas S.r.l.	Director
	Ti sostengo società cooperativa sociale	Managing Director
Silvia Landi	Girefin S.p.A.	Director
Anton Karl	Brustorm SA (Zurich) Elbogross (Zurich)	Director Director
Sara Fornasiero	St. Jude Medical Italia S.p.A.	Member of the Supervisory Board

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

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 15 September 2016, on the initiative of the Chairman and managing director, a specific "induction training" session was held at the Issuer's premises, in which Claudio Carnevale, Angelo Iori, Ciro Barberio, and Sebastiano Rossi intervened as speakers, in order to help new members of the Board of Directors and Board of Auditors gain greater insight into corporate dynamics, their development, regulatory and self-regulatory framework, as well as proper risk management principles.

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 Italian Civil Code, including those mentioned for demergers in Article 2506 *ter* of the Italian Civil Code;

ii. opening and closing secondary offices;

iii. reducing the share capital in the event of the withdrawal of a shareholder;

iv. adapting the articles of association in accordance with new provisions of law;

v. identifying the Directors with the power to represent the Company;

vi. moving the registered office within the country;

vii. appointing and discharging the executive in charge of preparing corporate accounting documents.

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

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

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

(a) the Issuer's strategic, business and financial plans, as well for periodically monitoring their implementation;

(b) the strategic, business and financial plans of the Group that the Issuer leads as well for periodically monitoring their implementation;

(c) ;the Issuer's system of corporate governance;

(d) the structure of the Group.

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

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

During the last Financial Period, the Board of Directors held 10 meetings, each lasting 79 minutes on average, duly attended by all directors; indeed, the overall attendance was equal to 82.4%. 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 Board Meetings, with the exception of two board meetings where Mrs. Briolini was excused absent and one board meeting where Mr. Rizzo was excused absent. In addition, Mr. Gaiani took part to two board meetings and Ms Torelli to one Board Meeting until expiry of their office on 29 April 2016.

At least five meetings are scheduled for the current financial period, of which two were held on 21 March 2017 and 27 March 2017.

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 organized 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 10 November 2016, completed a successful review of the size, composition and workings of the Board of Directors, of the Audit and Risk Committee and of the Remuneration Committee, including in relation to the independent directors. Moreover, on the same date, the Board of Directors, also on the basis of reports from the executive manager in charge of supervising the internal audit system and risk management and from the Chairman of the Audit and Risk Committee, reviewed the adequacy of the general organisational, administrative and accounting structure of the Issuer and that of its strategically relevant subsidiaries, in relation to the internal audit system and the management of conflicts of interest and has approved the Company's overall system of governance. In addition to the delegation of powers and functions, including provision for the formation of committees within the Board of Directors, of which further mention will be made below, this system also includes rules of procedure governing transactions with related parties and transactions in which a Director has an interest.

The Issuer's Board of Directors has also identified the subsidiaries that are strategically relevant based on criteria which take into account the revenues, independence of production, research, development and innovation of products, as well as the range of products, the positioning of the product and of the brand. In light of the above-mentioned criteria, the Board of Directors has confirmed the identification of A.E.B. S.p.A., Lovato Gas S.p.A. and Safe S.p.A. as companies having strategic relevance.

In the meeting on 29 April 2016 the Board of Directors - having reviewed the proposals from the appropriate committee and having heard the opinion of the Board of Statutory Auditors – decided how to allocate the aggregate compensation to be paid to the members of the Board of Directors and decided on the compensation to be paid to the Managing Director and to the other Directors who have special roles and responsibilities.

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 Italian 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 29 April 2016 vested the Managing Director, Stefano Landi, with the powers necessary for the day-to-day management of the Company.

The following are Mr. Stefano Landi's principal duties, together with the ceilings for the amounts and issues in respect of the powers bestowed:

(a) 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, marketing and financial sectors;

(b) 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 10,000,000 per transaction, agreeing upon the conditions, prices and terms of payment;

(c) the acquisition of services, stocks, basic components and raw materials, semi-finished goods and materials required by the Company for its production; the handling of all bureaucracy and procedures concerning the importation of basic components and raw materials, and the implementation and completion of all measures regarding said activities, including those related to manufacturing and consumer taxes, inland revenue and state monopoly duties;

(d) 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, and of insurance policies, for a sum of no more than Euro 10,000,000 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;

(e) 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;

(f) the stipulation, amendment and termination of contracts for services, works, consultancy, hire, supply, transport, storage and shipping, for a sum of no more than Euro 10,000,000 per transaction;

(g) purchases and sales, and foreign currency transactions in general, within the framework of the currency regulations in force at the time;

(h) the purchase, underwriting, transfer or swapping of shares, quotas, bonds or other financial instruments and holdings in other companies, including newly-incorporated companies, within the framework of the day-to-day management of the Company's financial liquidity;

(i) the registration of trademarks and patents, the granting and 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; the purchase and sale of licences pertaining to patents, trademarks, models and any intellectual property rights related to the corporate purpose, and 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;

(j) 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;

(k) the performance of all banking operations – 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 20,000,000 per single operation. The Managing Director may carry out transactions on the credit lines within the above limits per operation and may also terminate relations;

(l) 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;

(m) 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;

(n) 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;

(o) the issue of sureties, guarantees and patronage letters to subsidiaries, for sums of up to Euro 10,000,000 per transaction;

(p) the execution and settlement 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;

(q) the hiring and firing of executives, 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;

(r) the signing of correspondence and any other document requiring the Company's signature and with regard to any business coming within the delegated powers;

(s) 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;

(t) 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;

(u) 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;

(v) 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;

(w) 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, barristers and experts, the revocation of their powers, and their replacement; 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;

(x) 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;

(y) the execution of any necessary formalities before the Companies' Register and any other competent office;

(z) 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;

(aa) 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, 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 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;

- to ensure financial coverage for all activities which exceed the managerial and financial independence of the delegates pursuant to the above sub-paragraph 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, 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;

(bb) full powers and discretion, in performing the functions in subparagraph (aa) above, 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;

(cc) the power, in exercising the functions in subparagraph (aa) 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;

(dd) the power to commit the company, both regarding the Managing Director and the parties that may be delegated by him and any sub-delegates, 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 malicious damage and/or serious fault;

(ee) 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, Stefano Landi, qualifies as the main responsible of corporate governance. It should also be noted that no interlocking situation occurs with regard to Mr Stefano Landi.

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 Chairman of the Board of Directors and Managing Director Stefano Landi.

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 of the company.

The powers granted to Mr Stefano Landi, as Managing Director of the Company, are described above at "Managing Directors."

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

The Company's Board of Directors includes an executive director, Mr Claudio Carnevale, in office until approval of the financial statements at 31 December 2018 who also acts as managing director in charge for the development of the OEM segment. Mr Claudio Carnevale reports to the Board of Directors periodically and, in any case when requested by the Board in relation to activities implemented during the period in the fulfilment of his duties. Mr Claudio Carnevale has been vested with the following powers:

(a) to directly supervise and/or through his collaborators, with personal responsibility for these latter, the OEM segment.

(b) to carry out all the operations of a commercial nature necessary to the OEM segment, including exports, stipulating the relative contracts within the limits of Euro 5,000,000 for each operation.

(c) to stipulate, change and dissolve contracts, also exclusive agency ones, for distribution, representation, mediations and business finding for the best placement of the company’s products that are necessary for the OEM segment, within the limits of Euros 1,000,000 for each operation.

(d) to stipulate, change and dissolve consultancy contracts, necessary for the OEM segment for an amount no greater than Euro 1,000,000 for each operation.

(e) to sign the correspondence that requires the appending of the company’s signature and relative to the affairs contained in his delegated powers.

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 two directors, Sara Fornasiero and Ivano Accorsi, 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 have verified the said directors' possession 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 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..

In the course of the Period, the independent directors meet once without the other Directors of the Company. The independent directors had provided evidence of their eligibility as independent directors in the lists for the appointment of the Board of Directors and, as far as the Issuer is aware, they committed themselves to preserving their independence during the term of their office.

4.7 Lead Independent Director

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

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

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

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

4.8 **General Manager**

On 10 November 2016, the Board of Directors resolved to employ Mr Cristiano Musi as executive of the Company and appoint him as general manager of the Company effective from 12 December 2016.

In addition, the Board of Directors' meeting of 30 December 2016 vested the general manager Mr Cristiano Musi, under the direct supervision of the Managing Director Stefano Landi, with some powers for the ordinary day-to-day management of the Company as listed below:

(a) 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, marketing and financial sectors;

(b) 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;

(c) the acquisition of services, stocks, basic components and raw materials, semi-finished goods and materials required by the Company for its production; the handling of all bureaucracy and procedures concerning the importation of basic components and raw materials, and the implementation and completion of all measures regarding said activities, including those related to manufacturing and consumer taxes, inland revenue and state monopoly duties;

(d) 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, and of insurance policies, 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;

(e) 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;

(f) the stipulation, amendment and termination of contracts for services, works, consultancy, hire, supply, transport, storage and shipping, for a sum of no more than Euro 5,000,000 per transaction;

(g) purchases and sales, and foreign currency transactions in general, within the framework of the currency regulations in force at the time;

(h) the registration of trademarks and patents, the granting and 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; the purchase and sale of licences pertaining to patents, trademarks, models and any intellectual property rights related to the corporate purpose, and 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;

(i) 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;

(j) the performance of all banking operations – 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 operation. The General Manager may carry out transactions on the credit lines within the above limits per operation and may also terminate relations;

(k) 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;

(l) 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;

(m) 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;

(n) the issue of sureties, guarantees and patronage letters to subsidiaries, for sums of up to Euro 10,000,000 per transaction;

(o) the execution and settlement 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;

(p) the hiring and firing of executives, 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;

(q) the signing of correspondence and any other document requiring the Company's signature and with regard to any business coming within the delegated powers;

(r) 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;

(s) 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;

(t) 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, barristers and experts, the revocation of their powers, and their replacement; 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;

(u) the delegation and revocation, 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 skills and capability;

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, also establishing procedures for the registration of persons with access to inside information, last updated on 27 September 2016 by the Board of Directors.

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

In compliance with the provisions of market abuse law, the Company has adopted an Internal Dealing Code, drafted pursuant to Regulation (EU) No. 596/2014 of the European Parliament and the Council of 16 April 2014 and Articles 152 *sexies* et seq. of the Issuers' Regulations, lastly amended by the Board of Directors on 27 September 2016.

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 6 releases 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 Non-Executive and Independent Directors, and Angelo Iorio, Non-Executive Director. Ivano Accorsi, Sara Fornasiero and Angelo Iorio have suitable knowledge of and experience in accounting and financial matters. The members of the Remuneration Committee receive an annual gross remuneration for their work, as resolved by the Board of Directors on 29 April 2016.

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

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

During the Period, three meetings of the Remuneration Committee were held, each lasting on average 38 minutes. During the Period and until expiry of their term on 29 April 2016 when the financial statements as at 31 December 2015 were approved, Mr Alessandro Ovi and Mr Tommasi attended 100% of the meetings. Likewise, starting from their appointment on 29 April 2016, Mr Ivano Accorsi, Ms Sara Fornasiero and Mr Angelo Iorio attended 100% of the meetings. The meetings of the Remuneration Committee were attended also by the members of the Board of Statutory Auditors.

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

At least two meetings of the Remuneration Committee are planned for the current year, of which one was already held on 27 March 2017. Minutes of the Remuneration Committee's meeting have been duly kept.

Duties of the Remuneration Committee

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

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

9. DIRECTORS' REMUNERATION

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

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

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

***

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

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

10. AUDIT AND RISK COMMITTEE

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

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

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

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

During the Period, 11 meetings of the Audit and Risk Committee were held, lasting on average 64 minutes each. During the Period and until expiry of their term on 29 April 2016, Mr Alessandro Ovi and Mr Tommasi took part to 100% of the meetings. Likewise, starting from their appointment on 29 April 2016, Ms Sara Fornasiero, Mr Ivano Accorsi and Mr Angelo Iorio took part to 100% of the meetings. 5 meetings were attended, with no voting rights, by Mr Fiorenza Oliva, as advisor of the Company, and by Mr Paolo Ciloni, as Chief Financial Officer of the Company. 6 meetings were attended, without voting rights, by Mr. Enrico Gardani, as internal audit manager and member of the Supervisory Board. Two meetings were attended, without voting rights, and by Mr. Massimo Rota and Mr Giuseppe Ermocida, as Statutory Auditors. One meeting was attended, without voting right, by Mr Stefano Landi, as Chairman of the Board of Directors and Managing Director. 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 21 March 2017 and 27 March 2017. Minutes of the Audit and Risk Committee's meetings have been duly kept.

Duties and powers of the Audit and Risk Committee

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

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

(a) sets down the guidelines for the internal audit and risk management system so that the main risks faced by the Issuer and its subsidiaries are correctly identified and properly measured, managed and monitored, also deciding on the degree of compatibility of these risks with a corporate governance in line with the strategic objectives set;

(b) at least once a year assesses the adequacy of the internal audit and risk management systems in consideration of the characteristics of the company and its risk profile, as well as effectiveness of the same;

(c) at least once a year, approves the working plan prepared by the head of internal audit, having heard the Board of Statutory Auditors and the director in charge of the internal audit and risk management system;

(d) in its corporate governance report, describes the main features of the internal audit and risk management system and the procedures of coordination among the persons involved, expressing its opinion on the adequacy of the same;

(e) having heard the Board of Statutory Auditors, assesses the results laid down by the legal auditor in the letter of recommendations and in the report on the fundamental issues highlighted by the legal audit.

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

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

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

a) with the executive in charge of the preparation of the corporate accounting records and having heard the legal auditor and the Board of Statutory Auditors, verifies that accounting principles have been correctly followed and, in the case of groups, that they are consistent for the purposes of the consolidated financial statements;

b) expresses opinions regarding specific aspects involving the identification of the main corporate risks;

c) reviews periodic reports concerning the assessment of the internal control and risk management system, and periodic reports of particular relevance prepared by the internal audit function;

d) monitors the independence, adequacy, effectiveness and efficiency of the internal audit function;

e) may request the internal audit function to perform controls on specific operational areas, concurrently notifying the chairman of the Board of Statutory Auditors thereof;

f) reports to the Board of Directors at least every six months on the occasions of the approval of the annual and half-year reports regarding the activities carried out and the adequacy of the internal audit and risk management system;

g) supports, with adequate activity, the evaluations and decisions of the Board of Directors relating to the management of risks resulting from prejudicial facts that the Board of Directors has come to know.

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

During the meetings held in 2016, 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 2015;
- periodic reports and the working plan prepared by the head of internal audit;
- periodic reports of the Supervisory Body pursuant to Legislative Decree 231/2001;
- updates of the Organizational, Management and Control Model pursuant to Legislative Decree 231/2001;
- reports on activities prepared by the Director in charge of the internal audit and risk management system; and
- assessment of the adequacy of the internal audit and corporate risk management system;
- proposal of amendment to the terms and conditions of the bond;
- update of the Internal Dealing Code;
- resolutions of the bondholders' meeting held on 30 December 2016;
- attribution of powers to the general directors;
- update of the 2016-2020 industrial plan and the connected Independent Business Review.

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), and in particular on the Framework CoSo indicated by the 2002 Sarbanes-Oxley Act as the reference best practice for the architecture of internal audit systems. The internal audit system and risk management is designed to help the group achieve its own performance and profitability targets, obtain reliable economic-financial information and ensure conformity with the laws and regulations in force, thus avoiding damage to the company's image and financial losses. Within the framework of this process, particular importance is given to the identification of company objectives and to the classifications and management of those risks associated with these objectives, through the implementation of specific actions designed to contain such risks. Corporate risks may be of various kinds: strategic risks, operating risks (associated with the efficacy and efficiency of corporate operations), reporting risks (associated with the reliability of economic-financial information), and finally, compliance risks (concerning observance of the laws and regulations in force, thus avoiding financial losses and/or damage to the company's image). All risks may also be of an exogenous or endogenous nature vis-à-vis the Landi Renzo group.

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

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

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

The structural features of the control environment

- Code of Ethics – The Landi Group's Code of Ethics, approved in March 2008, sets out the principles and values underlying its way of doing business, together with the rules of conduct and implementation rules pertaining to said principles. The Code of Ethics is an integral part of the Organizational, Management and Control Model pursuant to Italian Legislative Decree 231/2001. The Code of Ethics, which is binding on the conduct of all the employees of the Group, has been revised within the framework of the programme for the updating of 231 Model, following the introduction of the new crime of self-money laundering (art. 648-ter, 1, c.p.). The new Code of Ethics is in force from 12 November 2015.

- Organisational structure - The Landi Renzo group's general organisational arrangements are defined by a series of internal organisational communications issued by the Human Resources Department, as recommended by the Managing Director. The Landi Renzo group's structure, the organisational charts and the organisational measures can be consulted by all employees on the Company's Intranet site;

- Powers and powers of attorney – The internal system to grant powers and powers of attorney ensures compliance with the principle of segregation of duties.

- Human Resources – The Landi Renzo group possesses a formal procedure for the selection and hiring of personnel, and the planning and management of training. Pay policy, in keeping with best practices and the market, envisage a share of variable remuneration for senior managers and executives.

Instruments designed to safeguard operating targets

- Strategic planning, management control and reporting – During the Period, the Landi Renzo group utilised a reporting instrument aimed at tracking the accounting figures and comparing them to the budget and forecasting figures. This reporting instrument also supports processing of "what if analysis" at a high degree of detail, processing different hypothetical scenarios on main items of the profit and loss accounts on a rolling basis over 12 months.

- Enterprise Risk Management (ERM) – On the basis of a project that was started and completed in 2008, those companies within the Landi Renzo group deemed to be of importance for this purpose were the beneficiaries of a newly-created risk management system based on the principles of ERM. This system includes management of risks relating to the financial data disclosure process pursuant to Article 123-*bis*, subsection 2(b) of the Consolidated Finance Act, the main characteristics of which are described in a separate paragraph below. This system has led to the identification of the risks related to the performance of the main corporate processes and the control actions to be undertaken in order to contain residual risks. The Landi Renzo group's main risks and uncertainties are listed in a special chapter of the Management Report;

- Company operating procedures system – The administrative procedure manuals, drawn up in accordance with Italian Law 262/2005 on the safeguarding of savings, together with the working procedures and instructions issued by the Quality System, and finally the organisational guidelines issued by the Human Resources department, ensure the correct implementation of corporate guidelines, and thus the reduction of risks associated with the achievement of company objectives;

- Information systems – The Landi Renzo group's information system has been created using the very latest technologies and packages. Use of the system is governed by a series of internal procedures that help improve safety and safeguard data, privacy and the correct utilisation of the system by users.

Instruments designed to safeguard compliance targets

- Corporate Ethics and Compliance Model pursuant to Italian Legislative Decree 231/2001 – See section 11.3 below.

- Accounting control model pursuant to Italian Law 262/2005 regarding the protection of savings – during the course of 2008, the Landi Renzo group began, and completed, a project designed to conform the system to the requirements of Italian Law 262/2005. This project was conducted in the following stages:

  - identification of the Landi Renzo group's entities constituting the subject-matter of the analysis (scoping);

  - determination of the relevant accounting items, of the processes that feed said items, and of the respective process owners;

  - overview of the existing control system through an interview with the head of administration;

  - scheduling and conducting of interviews with the process owners in order to identify the following for each process: the activities (objectives) and their respective product inputs and outputs, the risks inherent in each activity, the existing controls aimed at containing said risks, the controls suggested by best practices, and in the case of gaps, the corrective measures to be taken in order to manage the residual risk;

  - drafting of the Manuals of administrative procedures pursuant to Italian Law 262/2005 (hereinafter "**Manuals**") for the validation of the process owners and the subsequent issue of the final version of said Manuals, approved by the latter and by the executive appointed to edit accounting and corporate documents.

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

Instruments designed to safeguard reporting targets

- Accounting information and financial reporting – The aforesaid Manuals of administrative procedures pursuant to Italian Law 262/2005, together with the Landi

Renzo group's Accounting Manual, safeguard the correct drafting and reporting of accounts and of statutory and consolidated financial statements;

- Inside information – The procedures for the internal handling, and the communication to the outside world, of inside information are constantly updated, in order to maintain said procedures in line with Community directives on market abuse;
- Internal communications – The head of internal audit has easy and direct access to all information which is expedient for the performance of his/her duties. This aids the prompt acquisition of information concerning company management which, at the same time, is promptly analysed in order to identify the associated risks and, where deemed opportune, included in the economic-financial reporting.

Instruments for monitoring the internal audit system and risk management

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

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

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

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

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

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

- first-level control (the so-called "primary line control") inherent in the performance of operating processes and assigned on an on-going basis by the operating management/ process owner;

- second-level control, i.e., those checks performed by the manager in charge of the preparation of corporate accounting documents and his/her team, to monitor the risk management and control process in relation to the financial reporting process, securing consistency of the same with the company objectives;

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

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

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

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

At the 29 April 2016 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 Mr Stefano Landi, vesting him with the functions set forth by the Self-Regulatory Code.

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

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

11.2 HEAD OF THE INTERNAL AUDIT FUNCTION

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

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

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

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

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

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

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

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

The head of the internal audit function:

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

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

11.3 COMPLIANCE MODEL PURSUANT TO LEGISLATIVE DECREE 231/2001

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

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

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

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

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

The Model has been updated over the years in order to take into account changes introduced from time to time by lawmakers. In particular, at the meeting held on 28 August 2012, the Board of Directors acknowledged and approved a number of amendments to the Model aimed at including environmental crimes among conditions of corporate liability pursuant to

Legislative Decree 231/2001; later, on 27 August 2013, the Model was again updated following the entry into force of Law 190/2012 ("Measures for the repression of corruption"). Lastly, the most recent update to the 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 Penal Code).

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

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

Pursuant to article IA.2.10.2, subsection 2, of the Instructions to the Stock Exchange Regulations of, on 8 June 2016 the representative Mr Stefano Landi duly certified the Company's approval on 20 March 2008 of the Organisational, Management and Control Model pursuant to article 6 of Legislative Decree 231/2001 and the composition of the Supervisory Board. 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 six 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.

11.5 EXECUTIVE IN CHARGE OF PREPARING CORPORATE ACCOUNTING DOCUMENTS

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, one meeting of the Committee for Related Party Transactions was held on 28 November 2016. Moreover, the Committee for Related Party Transactions held a meeting on 18 January 2017.

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 Italian 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*, SUBSECTION 2(D) OF THE CONSOLIDATED FINANCE ACT)

The Company's Board of Auditors, appointed by the Ordinary Shareholders' Meeting on 29 April 2016, whose term will expire on the approval of the financial statements at 31 December 2018, 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	100%
Massimiliano Folloni	Statutory Auditor	29 April 2016	100%
Diana Rizzo	Statutory Auditor	29 April 2016	100%
Andreas Angelillis	Alternate Auditor	29 April 2016	-
Filomena Napolitano	Alternate Auditor	29 April 2016	-

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 marzo 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.

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

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

Massimiliano Folloni. Graduate in Economics and Commerce at the University of Modena, he has been enrolled as chartered certified accountant since 1981. Since 1987, he has held office as judicial commissioner and receiver/liquidator. Since 1992 and 1995, he has been official auditor and accounting auditor, respectively. From 1997 to 2000 he held office as director in the Board of Chartered Certified Accountants of Reggio Emilia. He acts as statutory auditors in various companies.

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

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 Law Firm Bird & Bird. At present he does not hold any administration and control office in any company.

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

In line with shareholders' meeting resolution of 29 April 2016 which appointed the new Board of Statutory Auditors in replacement of the previous Board which ceased office upon approval of the financial statements as at 31 December 2015, Mr Luca Gaiani, Ms Marina Torelli and Mr Pietro Gracis ceased their office as auditors of the Company following expiry of their term during the Period.

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

The table below shows the administrative and auditing positions held in listed and unlisted companies by members of the Company's Board of Auditors as of 31 December 2016 (for additional information, see table 3, attached to this Report).

Full name	**Company for which the external work is carried out**	**Title**
Eleonora Briolini	Tefor S.p.A.	Statutory Auditor
	San Lorenzo S.p.A.	Statutory Auditor
	Consorzio del prosciutto di San Daniele	Member of the Supervisory Board
	SCL Italia S.p.A. with sole shareholder	

	Reggiani Macchine S.p.A.	Statutory Auditor
	K.R.E. S.p.A.	Chairman of the Board of Auditors
	Sintesi società di investimenti e partecipazioni S.p.A.	Statutory Auditor
		Alternate Auditor
Massimiliano Folloni	T.I.E. S.p.A.	Chairman of the Board of Auditors
	Girefin S.p.A.	Chairman of the Board of Auditors
	Systema S.p.A.	Chairman of the Board of Auditors
	Dulevo International S.p.A.	Chairman of the Board of Auditors
	A.E.B. S.p.A.	Chairman of the Board of Auditors
	Lovato Gas S.p.A.	Chairman of the Board of Auditors
	Confagricoltura Reggio Emilia	Chairman of the Board of Auditors
	Safe S.p.A.	Statutory Auditor
	Settala Gas S.p.A	Statutory Auditor
	Tecnogas S.p.A.	Statutory Auditor
	Welfare Italia S.p.A.	Statutory Auditor
	Carpenfer S.p.A.	Alternate Auditor

	I.R.S. S.p.A.	Alternate Auditor
	Tecnove S.r.l.	Alternate Auditor
Diana Rizzo	Finfloor S.p.A.	Alternate Auditor
	Fin Twin S.p.A.	Alternate Auditor
	EDI.CER. S.p.A.	Alternate Auditor
	Autin S.p.A.	Alternate Auditor
	Florim S.p.A.	Alternate Auditor
	Unicom S.r.l.	Chairman of Board of Statutory Auditors
	BPER Banca S.p.A.	Statutory Auditor
	Caolino Panciera S.p.A.	Statutory Auditor
	Carimonte Holding S.p.A.	Statutory Auditor
	Kerakoll S.p.A.	Chairman of Board of Statutory Auditors
	Ceramiche Speranza S.p.A.	Statutory Auditor
	I.S. Holding S.p.A.	Statutory Auditor
	Kronos 2 Ceramiche S.p.A.	Statutory Auditor
	Sitma Machinery S.p.A.	Chairman of Board of Statutory Auditors
	Sitma S.p.A.	Chairman of Board of Statutory Auditors
	Speranza S.p.A.	Statutory Auditor
Filomena Napolitano	T.I.E. S.p.A.	Alternate Auditor
	Girefin S.p.A.	Alternate Auditor
	I Tulipani S.r.l.	Sole Auditor and member of the Supervisory Board

A.E.B. S.p.A.	Alternate Auditor
I.R.S. S.p.A.	Statutory Auditor
Lovato Gas S.p.A.	Alternate Auditor
I Ciclamini S.r.l.	Member of the Supervisory Board
I Girasoli S.r.l.	Member of the Supervisory Board
Carpenfer S.p.A.	Statutory Auditor
Lodi S.p.A.	Alternate Auditor
Cooperativa sociale Il Bettolino	Chairman of the Board of Auditors
Safe S.p.A.	Alternate Auditor

Thirteen meetings of the Board of Auditors were held during the Period, lasting an average 154 minutes each. At least 6 meetings of the Board of Auditors are planned for the current year, and one has already been held on 20 February 2017. 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. During the Period and, in any event, on the first useful occasion after its appointment, the Board of Auditors verified continuing compliance of its members with independence requirements, in line with the directors' independence criteria set out in the Self-Regulatory Code, and submitted the results of its assessment to the Board of Directors. In addition, on 29 April 2016 the Board of Directors verified auditors' compliance with independence requirements, and, since this was its first control after appointment, published the results of such control on same date by way of a press release.

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 Board and the head of the internal audit.

15. RELATIONS WITH SHAREHOLDERS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

18. CHANGES SINCE THE CLOSING OF THE REFERENCE PERIOD

On 27 March 2017, the Board of Directors of the Company has positively verified the existence, in relation to the director Anton Karl, of the requirements of independence pursuant to the applicable laws and the Self-Regulatory Code, taking into account (i) the controls carried out within the Board of Directors; (ii) the controls carried out in this regard by the Board of Statutory Auditors; and (iii) the statements made by the same Anton Karl.

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

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 Italian Civil Code and regulations**
Shares with limited voting rights	-	-	-	-
Shares with no voting rights	-	-	-	-

MAJOR HOLDINGS

Declarant	Direct shareholder	% of ordinary capital	% of voting capital
Landi Trust (trust regulated by Jersey law, with Stefano Landi as trustee)	Girefin S.p.A.	54.667	54.667
	Gireimm S.r.l.	4.444	4.444
Aerius Investment Holding AG	Aerius Investment Holding AG	8.356	8.356

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

	BOARD OF DIRECTORS												AUDIT AND RISK COMMITEE		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.	Independence under Self-Reg. Code	Independence under consolidated finance act	** (%)	Number of other offices held ***	****	**	****	**	****	**
Honorary Chairman	Giovannina Domenichini	1934	Ord. meeting of 29 April 2016	Appr. of fin. statements as at 31 December 2018	16/05/2007	M		x			70%	2						
Chairman	Stefano Landi	1958			16/05/2007	M	x				100%	11						
Managing Director	Claudio Carnevale	1961			24/04/2009	M	x				100%	2						
Director	Silvia Landi	1960			16/05/2007	M		x			86%	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			100%	2						
Director	Sara Fornasiero	1968			29/04/2016	M		x	x	x	100%	1	x	100%	x	100%	x	100%
Director	Ivano Accorsi	1938			29/04/2016	M		x	x	x	100%	0	x	100%	x	100%	x	100%
DIRECTORS WHO CEASED OFFICE DURING REFERENCE PERIOD																		
Director	Antonia Fiaccadori	1962	Ord. meeting of 24 April 2013	Appr. of fin. statements as at 31 December 2015	24/04/2013	M		x			67%	2						
Director	Alessandro Ovi	1944			16/05/2007	M		x	x	x	67%	3	x	100%	x	100%	x	100%
Director	Tomaso Tommasi di Vignano	1947			16/05/2007	M		x	x	x	33%	7	x	100%	x	100%	x	100%
Director	Herbert Paierl	1952			24/04/2013	m		x			67%	1						
Ownership required to present a list of candidates at the last election: 2,5%																		
Number of meetings held during the period									BoD: 10				Audit and Risk Cmt 11		Remun. Cmt: 3		RPT Cmt: 1	

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	100%	7
Statutory Auditor	Massimiliano Folloni	1950			16/05/2007	M	x	100%	14
Statutory Auditor	Diana Rizzo	1959			29/04/2016	M	x	100%	16
Alternate Auditor	Andrea Angelillis	1977			29/04/2016	m	x	N/A	0
Alternate Auditor	Filomena Napolitano	1970			16/05/2007	M	x	N/A	12
AUDITORS WHO CEASED OFFICE DURING REFERENCE PERIOD									
Statutory Auditor	Luca Gaiani	1960	Ordinary meeting of 24 April 2013	Approval of Financial Statements as at 31 December 2015	22/04/2010	M	x	100%	26
Statutory Auditor	Marina Torelli	1961			16/05/2007	M	x	100%	17
Alternate Auditor	Pietro Gracis	1984			24/04/2013	m	x	N/A	6
		Ownership required to present a list of candidates at the last election: 2.5%							
		Number of meetings held during the period: 13							
		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 Statement of Financial Position

Income statement

Statement of comprehensive income

Statement of cash flows

Statement of changes in shareholders' equity

Explanatory notes

ANNEXES

Certifi cation on the Consolidated Financial Statements pursuant to art. 154-bis of Legislative Decree 58/98

Independent Auditors' Report

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *

(Thousands of Euro)

ASSETS	Notes	31/12/2016	31/12/2015
Non-current assets			
Land, property, plant and equipment	2	30,500	35,364
Development expenditure	3	8,420	8,404
Goodwill	4	30,094	30,094
Other intangible assets with finite useful lives	5	20,359	22,696
Equity investments valued using the equity method	6	43	109
Other non-current financial assets	7	664	574
Prepaid taxes	8	6,887	7,615
Total non-current assets		**96,967**	**104,856**
Current assets			
Receivables from customers	9	37,551	33,764
Inventories	10	49,872	57,528
Contract work in progress	11	1,281	2,904
Other receivables and current assets	12	10,082	16,347
Cash and cash equivalents	13	16,484	38,264
Total current assets		**115,270**	**148,807**
TOTAL ASSETS		**212,237**	**253,663**

(Thousands of Euro)

EQUITY AND LIABILITIES	Notes	31/12/2016	31/12/2015
Shareholders' equity			
Share capital	14	11,250	11,250
Other reserves	14	59,400	95,428
Profit (loss) for the period	14	-25,245	-35,288
Total Equity attributable to the Group		**45,405**	**71,390**
Minority interests		-323	425
TOTAL EQUITY		**45,082**	**71,815**
Non-current liabilities			
Non-current bank loans	15	18,687	11,935
Other non-current financial liabilities	16	22,812	1,468
Provisions for risks and charges	17	8,973	8,059
Employee defined benefit plans	18	3,124	3,313
Deferred tax liabilities	19	514	527
Total non-current liabilities		**54,110**	**25,302**
Current liabilities			
Bank overdrafts and short-term loans	20	40,662	50,797
Other current financial liabilities	21	10,039	33,523
Trade payables to suppliers	22	53,090	58,351
Tax liabilities	23	2,604	4,990
Other current liabilities	24	6,650	8,885
Total current liabilities		**113,045**	**156,546**
TOTAL EQUITY AND LIABILITIES		**212,237**	**253,663**

* 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	31/12/2016	31/12/2015
Revenues from sales and services	25	184,242	205,522
Other revenues and income	26	1,217	1,883
Cost of raw materials, consumables and goods and change in inventories	27	-94,236	-100,439
of which non-recurring	27	*-1,000*	
Costs for services and use of third party assets	28	-51,601	-58,483
of which non-recurring	28	*-2,345*	*-1,296*
Personnel cost	29	-36,364	-43,854
of which non-recurring	29	*0*	*-3,058*
Provisions, provision for bad debts and other operating expenses	30	-6,160	-5,913
of which non-recurring	30	*-2,300*	*-2,700*
Gross operating profit		**-2,902**	**-1,284**
Amortization, depreciation and impairment	31	-16,018	-25,617
of which non-recurring	31	*0*	*-10,178*
Net Operating Profit		**-18,920**	**-26,901**
Financial income	32	117	412
Financial charges	33	-5,161	-4,966
Exchange gains (losses)	34	904	-930
Gain (loss) on equity investments valued using the equity method	35	-66	-288
Profit (Loss) before tax		**-23,126**	**-32,673**
Current and deferred taxes	36	-2,878	-2,914
Net profit (loss) for the Group and minority interests, including:		**-26,004**	**-35,587**
Minority interests		-759	-299
Net profit (loss) for the Group		-25,245	-35,288
Basic earnings (loss) per share (calculated on 112,500,000 shares)	37	-0.2244	-0.3137
Diluted earnings (loss) per share		-0.2244	-0.3137

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Thousands of Euro)	Notes	31/12/2016	31/12/2015
Net profit (loss) for the Group and minority interests:		**-26,004**	**-35,857**
Gains/losses that will not be subsequently reclassified in the income statement			
Restatement of defined employee benefit plans (IAS 19)	18	-127	351
Total gains/losses that will not be subsequently reclassified on the income statement		**-127**	**351**
Profits/losses that could subsequently be reclassified on the Income Statement			
Exchange rate differences from conversion of foreign operations		-1,020	-1,320
Total profits/losses that could subsequently be reclassified on the Income Statement		**-1,020**	**-1,320**
Profits/Losses recorded directly to Equity net of tax effects		**-1,147**	**-969**
Total Consolidated Statement of Comprehensive Income for the period		**-27,151**	**-36,556**
Profit (loss) for Shareholders of the Parent Company		-26,354	-36,276
Minority interests		-797	-280

CONSOLIDATED STATEMENT OF CASH FLOW

(Thousands of Euro)

CONSOLIDATED CASH FLOW STATEMENT	31/12/2016	31/12/2015
Financial flows from operations		
Profit (loss) for the period	-26,004	-35,587
Adjustments for:		
Depreciation of property, plant and equipment	8,522	8,463
Amortization of intangible assets	7,191	6,966
Impairment losses on intangible assets	305	10,178
Impairment loss on receivables	1,985	800
Net financial charges	4,140	5,484
Income tax for the year	2,878	2,914
	-983	-782
Changes in:		
Work in progress on orders	9,279	5,427
Trade receivables and other receivables	1,717	3,345
Trade payables and other payables	-10,900	-1,281
Provisions and employee benefits	598	2,850
Cash generated from operations	-289	9,559
Interest paid	-4,754	-4,233
Interest received	56	314
Income taxes paid	-1,117	-1,455
Net cash generated from operating activities	**-6,104**	**4,185**
Financial flows from investments		
Proceeds from the sale of property, plant and equipment	166	228
Increase in capital of subsidiary companies	66	72
Purchase of property, plant and equipment	-4,412	-9,053
Purchase of intangible assets	-418	-1,108
Development expenditure	-4,546	-5,362
Net cash absorbed by investment activities	**-9,144**	**-15,223**
Financial flows from financing activities		
Receipts from bond issue	0	**33,098**
Bond repayments	-2,040	**0**
Disbursements (reimbursements) of medium/long-term loans	-17,320	4,200
Change in short-term bank debts	13,837	-18,641
Net cash generated (absorbed) by financing activities	**-5,523**	**18,657**
Net increase (decrease) in cash and cash equivalents	**-20,771**	**7,619**
Cash and cash equivalents as at 1 January	38,264	31,820
Effect of exchange rate fluctuation on cash	-1,009	-1,175
Closing cash and cash equivalents	16,484	38,264

Other information	31/12/2016	31/12/2015
(Increase)/Decrease in trade receivables and other receivables from related parties	426	-438
(Increase)/Decrease in trade payables and other payables to related parties	2,080	787

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Thousands of Euro)	Share capital	Statutory Reserve	Extraordinary and Other Reserves	Share Premium Reserve	Result for the year	Group Equity	Profit (Loss) attributable to minority interests	Capital and reserves attributable to minority interests	Total Equity
Balance as at 31 December 2014	**11,250**	**2,250**	**49,170**	**46,598**	**-1,783**	**107,485**	**39**	**552**	**108,076**
Result for the year					-35,288	**-35,288**	-299		**-35,587**
Actuarial profits/losses (IAS 19)			337			**337**		14	**351**
Translation difference			-1,325			**-1,325**		5	**-1,320**
Total comprehensive profits/losses	**0**	**0**	**-988**	**0**	**-35,288**	**-36,276**	**-299**	**19**	**-36,556**
Other changes			181			**181**		114	**295**
Other share capital increases						**0**		0	**0**
Allocation of profit			-1,783		1,783	**0**	-39	39	**0**
Total effects deriving from transactions with shareholders	**0**	**0**	**-1,602**	**0**	**1,783**	**181**	**-39**	**153**	**295**
Balance as at 31 December 2015	**11,250**	**2,250**	**46,580**	**46,598**	**-35,288**	**71,390**	**-299**	**724**	**71,815**
Result for the year					-25,245	**-25,245**	-759		**-26,004**
Actuarial profits/losses (IAS 19)			-127			**-127**			**-127**
Translation difference			-982			**-982**		-38	**-1,020**
Total comprehensive profits/losses	**0**	**0**	**-1,109**	**0**	**-25,245**	**-26,354**	**-759**	**-38**	**-27,151**
Other changes			369			**369**		49	**418**
Other share capital increases						**0**			**0**
Allocation of profit			-35,288		35,288	**0**	299	-299	**0**
Total effects deriving from transactions with shareholders	**0**	**0**	**-34,919**	**0**	**35,288**	**369**	**299**	**-250**	**418**
Balance as at 31 December 2016	**11,250**	**2,250**	**10,552**	**46,598**	**-25,245**	**45,405**	**-759**	**436**	**45,082**

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2016
LANDI RENZO GROUP

A) GENERAL INFORMATION

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 ("car systems" division of the Gas Sector), compressors for fuel stations through the SAFE trademark ("distribution systems" division of the Gas Sector), and, as a secondary business, audio systems through its subsidiary Eighteen Sound S.r.l. and alarm systems through the MED trademark. The Group manages all the phases of the process leading to the production and sale of motor propulsion fuel supply systems. The Group sells both to the main car manufacturers at a world-wide level (OEM customers) and to independent retailers and importers (After Market customers).

There has been no change in the structure of the Landi Group compared with 31 December 2015. However, the percentage shareholding in Emmegas S.r.l. has increased from 70% to 100%, following the subscription by the parent company Landi Renzo S.p.A. of the entire share capital which has already been fully cancelled out due to losses. There was also a reduction in the percentage shareholding in Officine Lovato Private Limited by Lovato Gas S.p.A. (100% to 74%) following the sale of part of the share capital to a historic Indian partner company.

The parent company of the Landi Renzo Group is Landi Renzo S.p.A. with its registered office in Cavriago (RE), hereinafter the "Parent Company" or the "Company". The company is listed on the Milan Stock Exchange in the FTSE Italy STAR segment.

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

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 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”.

Going Concern

In 2016, the Group experienced a significant decline in revenue compared with the previous year, which entailed a loss of Euro 26,004 thousand and a decline in the Net Financial Position, which reached Euro -75,716 thousand.
In the second half of the year, considering the structure of the financial position as well as the forecasts laid out in the updated Business Plan approved by the Board of Directors on 30 December 2016 (the "**Business Plan**"), a financial structure optimization project was launched with the support of "Mediobanca – Banca di Credito Finanziario S.p.A." as financial advisor.

The above-mentioned Optimization Project entailed the definition of an agreement with the banking sector (the "**Optimization Agreement**"), which calls for, inter alia: the movement of the maturity date of the debt of the Company and the other subsidiaries signatories to the agreement to 2022, the rescheduling of the repayment instalments, on the basis of repayment instalments of increasing amounts in line with the cash generation objectives laid out in the Business Plan, the review of financial parameters to bring them more into line with business outlooks and the Group's sale forecasts and the confirmation of short-term lines until 2022 in accordance with the terms and conditions laid out in the above-mentioned Optimization Agreement and in an amount consistent with the needs laid out in the Business Plan.
Please note that, to date, the Optimization Agreement has been signed by all banks except one, with which the Group has only short-term borrowings and which will complete its approval process in due time for the publication of the Company's separate and consolidated financial statements at 31 December 2016. The Company is currently unaware of any facts or events which could make it reasonable to believe that there are any elements that would prevent the positive conclusion of this authorization procedure and therefore the bank entering into this Optimization Agreement.
When the above-mentioned Optimization Agreement was signed, the controlling shareholders committed to making a total contribution of Euro 8,866,500.00 for the future capital increase or capital increase of the Parent Company by the effective date of the Optimization Agreement. As a further capital strengthening measure, the Optimization Agreement establishes that a share capital increase totalling Euro 15,000,000.00 is to be completed by 31 December 2018; as regards the portion attributable to the controlling shareholders, it will be carried out by converting the above-mentioned future capital increase contribution.
Like the above-mentioned Optimization Agreement with the banking sector, several amendments of the regulation were submitted to the Bondholders, regarding, inter alia, the

rescheduling of repayment on the basis of increasing instalment amounts and in line with what is laid out in the Optimization Agreement, the review of financial parameters, also in light of the results of the Business Plan, as well as a temporary reduction of the interest rate in relation to the periods which begin from the payment date of 30 April 2017 until the payment date that will fall on 30 June 2019 from the current 6.10% to 5.50% on an annual basis.
The Meeting of Bondholders called to approve the above-mentioned regulation amendment is scheduled for 30 March 2017 on first call.

The Company is currently unaware of any facts or events which could make it reasonable to believe that there are any elements that would prevent the favourable conclusion of the bondholders’ meeting scheduled for 30 March 2017.
As a result, the Company does not believe that there are any facts or elements to date which could make it reasonable to believe that there are any critical issues inherent in the adoption of the going concern assumption as a basis for the preparation of these financial statements.

Recently issued accounting standards

The accounting standards adopted in preparing the consolidated financial statements are consistent with those adopted for the preparation of the consolidated financial statements for the year ending on 31 December 2015, with the exception of the adoption of the new standards and interpretations applicable as of 1 January 2016 listed below.

EU endorsement regulation	Description
Regulation (EU) 2016/1703	Commission Regulation (EU) 2016/1703 of 22 September 2016, published in Official Journal L 257 of 23 September 2016, adopts the document "Investment Entities: Applying the Consolidation Exception", which amends IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures. The amendments aim to specify requirements for accounting for investment entities and to establish exemptions for specific situations. Companies are required to apply the amendments, at the latest, starting in annual periods beginning on or after 1 January 2016.
Regulation (EU) 2015/2441	Commission Regulation (EU) 2015/2441 of 18 December 2015, published in Official Journal L 336 of 23 December, adopts the Amendments to IAS 27 Separate Financial Statements: Equity method in separate financial statements. The amendments are intended to allow entities to apply the equity method described in IAS 28 Investments in associates and joint ventures to account for investments in subsidiaries, joint ventures and associates in their respective separate financial statements.
Regulation (EU) 2015/2406	Commission Regulation (EU) 2015/2406 of 18 December 2015, published in Official Journal L 333 of 19 December, adopts the Amendments to IAS 1 Presentation of Financial Statements: Disclosure initiative. The changes are aimed at improving the effectiveness of information and at encouraging companies to decide on the information to include in the financial statements with professional judgment, in application of IAS 1.
Regulation (EU) 2015/2343	Commission Regulation (EU) 2015/2343 of 15 December 2015, published in Official Journal L 330 of 16 December, adopts the Annual Improvements to IFRS Standards 2012-2014 Cycle, within the context of the ordinary streamlining and clarification of the international accounting standards.

EU endorsement regulation	**Description**
Regulation (EU) 2015/2231	Commission Regulation (EU) 2015/2231 of 2 December 2015, published in Official Journal L 317 of 3 December, adopts the Amendments to IAS 16 Property, plant and equipment and IAS 38 Intangible assets: Clarification on Acceptable Methods of Depreciation and Amortization.
Regulation (EU) 2015/2173	Commission Regulation (EU) 2015/2173 of 24 November 2015, published in Official Journal L 307 of 25 November, adopts the Amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations.* The amendments provide guidance on accounting for acquisitions of interests in joint control operations which constitute a business.
Regulation (EU) 2015/2113	Regulation (EU) 2015/2113 of 24 November 2015. The amendments to IAS 16 and IAS 41 establish that, unlike what was done in the past, bearer plants must be accounted for as self-constructed elements of property, plant and equipment before they are in the location and condition required to be able to function in the manner intended by company management as laid out in IAS 16 "Property, Plant and Equipment".
Regulation (EU) 2015/29	Commission Regulation (EU) 2015/29 of 17 December 2014, published in Official Journal L 5 of 9 January, adopts the *Amendments to IAS 19 - Defined benefit plans: employee contributions.* The amendments are intended to simplify and clarify accounting for contributions of employees or third parties connected to defined benefit plans.
Regulation (EU) 2015/28	Commission Regulation (EU) 2015/28 of 17 December 2014, published in Official Journal L 5 of 9 January, adopts the ***Annual Improvements to IFRS Standards 2010-2012 Cycle***. The objective of the annual improvements is to deal with necessary issues relating to inconsistencies identified in IFRSs or provide terminological clarifications, which are not urgent, but were discussed by the IASB during the planning cycle that started in 2011. The amendments to IFRS 8 and IAS 16, 24 and 38 are clarifications or corrections of the standards in question. The amendments to IFRS 2 and 3 entail changes to the provisions in force or provide further instructions regarding their application.

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 already in force, which must begin being applied on 1 January 2017 or thereafter (if the financial statements do not coincide with the calendar year). The Group did not exercise the option to apply them early.

EU endorsement regulation	Description
Regulation (EU) 2016/2067	Commission Regulation (EU) 2016/2067 of 22 November 2016, published in Official Journal L 323 of 29 November 2016, adopts IFRS 9 Financial instruments, to improve the financial disclosure on financial instruments by dealing with problems that arose on this matter during the financial crisis. In particular, IFRS 9 responds to the recommendation of the G20 to transition to a more forward-looking model for the recognition of expected losses on financial assets. Companies are required to apply the standard, at the latest, starting in annual periods beginning on or after 1 January 2018.
Regulation (EU) 2016/1905	Commission Regulation (EU) 2016/1905 of 22 September 2016, published in Official Journal L 295 of 29 October 2016, adopts IFRS 15 Revenue from Contracts with Customers, meant to improve the accounting representation of revenue and therefore the overall comparability of revenue in the financial statements. Companies are required to apply the standard, at the latest, starting in annual periods beginning on or after 1 January 2018.
Regulation (EU) 1905 of 22 September 2016	IFRS 15, which will enter into force on 1 January 2018, 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 obligations in the contract; 3) Determine the transaction price; 4) Allocate the transaction price to the performance obligations in the contract; 5) Recognize revenue when (or as) the entity satisfies a performance obligation.
Regulation (EU) 1905 of 22 September 2016	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.

During the year, the IASB made amendments to several IAS/IFRSs issued previously and published new international accounting standards.

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 recognize regulatory deferral account balances in accordance with the previous accounting standards adopted. To improve comparability with entities that already apply IFRS and do not recognize such balances, the standard requires the effect of rate regulation to be presented separately from other items.
13 January 2016	The IASB published the new standard IFRS 16 Leases, to replace IAS 17. IFRS 16 applies as of 1 January 2019. Early application is permitted for entities which also apply IFRS 15 Revenue from contracts with customers. The Group initiated an analysis to estimate the impacts arising from the application of IFRS 16, particularly with reference to lease agreements payable on non-owned shopping centres.
19 January 2016	The IASB published several amendments to IAS 12 Income Tax. The document Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12) is meant to clarify how to account for deferred tax assets relating to debt instruments measured at fair value. The amendments apply as of 1 January 2017. Early application is permitted.
29 January 2016	The IASB published several amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative. The amendments apply as of 1 January 2017.
21 June 2016	The IASB published the amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions, which aim to clarify the accounting of certain types of share-based payment transactions. The amendments apply as of 1 January 2018. However, early application is permitted.
09 December 2016	The IASB published several amendments to the standards and an IFRIC interpretation to clarify certain provisions of the IFRSs. In particular, these include: - Annual Improvements to IFRSs 2014-2016 Cycle, which amends IFRS 1, IFRS 12 and IAS 28;

	- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration, which enters into force on 1 January 2018; - Amendment to IAS 40 Investment Property: Transfers of Investment Property, which enters into force on 1 January 2018.

Please note that accounting standards and/or interpretations whose application is compulsory for periods that begin subsequent to 1 January 2016 were not applied early.

The Group is evaluating the effects that the application of such standards may have on its financial statements.

C) CONSOLIDATION PRINCIPLES AND VALUATION CRITERIA

The accounting standards described hereafter were applied uniformly for all the periods included in these consolidated financial statements and by all the entities of the Group.

CONSOLIDATION PRINCIPLES

The Consolidated Financial Statements include the separate financial statements of the Company and the subsidiaries approved by the Boards of Directors of the individual companies, adjusted accordingly, when required, to bring them into line with the accounting standards adopted by the Company. The financial years of all Group companies end on 31 December, except for the Indian company Officine Lovato Private Limited, whose financial year closes on 31 March. The consolidated companies are listed in the "Consolidation scope" section below.

Subsidiary companies

Subsidiaries are the companies in which the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The existence of control is checked every time facts and circumstances point to a change in one or more of the three elements constituting control. Generally, the existence of control is assumed when the Group directly or indirectly holds more than half of the voting rights, also taking into consideration potential rights which are immediately exercisable or convertible.

Assets and liabilities and income and expenses of the subsidiaries are consolidated line-by-line, from the date on which the Parent Company gains direct or indirect (i.e., through one or more other subsidiaries) control over them until the date on which that control no longer exists, attributing, when applicable, the applicable portion of equity and net profit (loss) for the period to the minority shareholders and highlighting these separately in dedicated items of equity and the consolidated statement of comprehensive income. If shareholdings are acquired subsequent to the assumption of control (acquisition of minority interests), any positive difference between the purchase cost and the corresponding portion of equity acquired is recognized in the equity attributable to the Group; likewise, the effects arising from the transfer of minority interests with no loss of control are recognized in equity.

However, disposals of shares entailing the loss of control results in the recognition in the Income Statement:

- of any capital gain/loss calculated as the difference between the consideration received and the corresponding portion of consolidated equity transferred;
- of the effect of remeasuring any remaining investment to align it with its fair value;

- of any values recognized in other comprehensive income relating to the former subsidiary for which transfer to the Income Statement is permitted, or if transfer to the Income Statement is not permitted, in profit (loss) carried forward.

The value of any remaining equity investment, aligned with its fair value at the date of loss of control, represents the new carrying amount of the investment and therefore the reference value for the subsequent measurement of the investment in accordance with applicable valuation criteria.

The portion of capital and reserves attributable to minority interests in subsidiaries and the portion attributable to minority interests of the value of profit or loss for the year of consolidated subsidiaries are identified separately on the Statement of Financial Position, the Income Statement and the Statement of Comprehensive Income. When the losses attributable to minority interests exceed their share of the capital of the investee, the surplus, or the deficit, is recorded as charged to the shareholders of the parent company, except in the case and to the extent to which the minority shareholders have a binding obligation and are able to make an additional investment to cover the losses, in which case the surplus is recorded under the assets in the consolidated Financial Statements. In the former case, should profits be realized in the future, the portion of such profits attributable to minority interests is attributed to the portion of profit of the parent company shareholders for the amount necessary in order to recover the losses previously attributed to them. Changes in stakes of the Group in a subsidiary company which do not lead to a loss of control are stated as transactions performed between shareholders, as such.

Investments in subsidiary companies that have not been consolidated due to their limited significance are stated at the fair value, represented substantially by the value calculated by applying the equity method.

Intercompany transactions

Profits arising from transactions between companies consolidated on a line-by-line basis, not yet realized with respect to third parties, are eliminated, as are the receivables, payables, income and expenses, guarantees, commitments and risks between consolidated companies.

In particular, profits not yet realized with third parties deriving from transactions between companies of the Group, including those deriving from the valuation of inventories at the date of the Financial Statements, were eliminated.

Profits and losses not yet realized with regard to third parties deriving from transactions with companies measured using the equity method are eliminated to the extent of the share pertaining to the Group.

Associates

Associates are companies in which the Group, even though it does not hold control or joint control, exercises significant influence over administrative and management decisions. Generally, the existence of significant influence is assumed when the Group directly or indirectly holds 20% to 50% of the voting rights.

Equity investments in associates are valued using the equity method.

The methodology for the application of the equity method is described below:

(i) the carrying amount of the equity investments is aligned with the equity of the investee company adjusted, when necessary, to reflect the application of accounting standards compliant with those applied by the Company and includes, when applicable, any goodwill identified at the moment of acquisition;

(ii) profit or loss attributable to the Group is accounted for in the consolidated income statement from the date on which significant influence begins until the date on which it ends. If, due to losses, the company's equity is negative, the carrying amount of the equity investment is cancelled out and any excess pertaining to the Group is recognized in a dedicated provision only when the Group has committed to meeting legal or implicit obligations of the investee or in any event to cover its losses. Changes in the equity of investees not resulting from profit and loss are accounted for as a direct adjustment of the Group's equity reserves;

(iii) unrealized gains generated on transactions between the Company and subsidiaries or investees are eliminated on the basis of the value of the Group's shareholding in the investee companies. Unrealized losses are eliminated, except when they represent impairment losses.

(iv) if an associate recognizes an adjustment directly in equity, also in this case the Group recognizes its share and presents it when applicable in the statement of changes in shareholders' 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 two joint ventures at 31 December 2016, 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 €)	As at 31/12/2016	Average 2016	As at 31/12/2015	Average 2015
Real – Brazil	3.431	3.856	4.312	3.700
Renminbi – China	7.320	7.352	7.061	6.973
Rial - Iran	34,127.500	34,213.690	32,802.500	32,203.477
Rupee - Pakistan	110.470	115.916	114.118	113.999
Zloty – Poland	4.410	4.363	4.264	4.184
Leu - Romania	4.539	4.490	4.524	4.445
Dollar - USA	1.054	1.107	1.089	1.110
Peso - Argentina	16.749	16.342	14.097	10.260
Rupee - India	71.594	74.372	72.022	71.196
Dollar - Singapore	1.523	1.528	1.542	1.526

NON-CURRENT ASSETS

LAND, PROPERTY, PLANT, MACHINERY AND EQUIPMENT

Tangible assets were recognized in accordance with the cost criterion at the purchase price or the production cost inclusive of directly attributable accessory costs necessary to make the assets ready for use.

The carrying amount of tangible assets is subsequently adjusted for systematic depreciation, calculated on a straight-line basis from the moment in which the asset is available and ready for use, based on its useful life, understood as the estimated period in which the asset will be used by the company, and any accumulated loss for impairment.

When the asset to be depreciated consists of distinctly identifiable elements whose useful life differs significantly from that of the other parts of the asset, each of those parts are depreciated separately in application of the component approach method.
Any financial expense directly attributable to the purchase and production of tangible assets is capitalized and depreciated on the basis of the useful life of the asset to which it refers.

The following annual depreciation rates are used:

Categories	Depreciation period	Depreciation rates
Land		Indefinite useful life
Buildings	Straight-line basis	3 - 20%
Plant and machinery	Straight-line basis	10 - 20%
Industrial and commercial equipment	Straight-line basis	10 - 25%
Other assets	Straight-line basis	12 - 33%

The residual value and the useful life of tangible assets are reviewed at least annually and updated, when applicable, at the end of each year.

Costs incurred for maintenance and repairs are charged in their entirety to the Income Statement for the year in which they are incurred. Costs for improvements, upgrades and transformation having an incremental nature are attributed to the tangible assets to which they refer, when it is probable that they will increase the future economic benefits expected from the use or the sale of the asset, and depreciated based on the remaining useful life of the assets.

Costs capitalized for leasehold improvements are classified under property and depreciated at the lower of the residual economic usefulness of the improvement and the residual duration of the underlying contract.

The financial expenses directly attributable to the acquisition, construction or production of a tangible asset are recognized in the income statement at the moment at which they are incurred, in accordance with the appropriate accounting treatment provided for by IAS 23.

The book value of tangible assets is subjected to verification in order to discover any possible impairment, using the methods described in the paragraph "Impairment of assets".

At the moment of sale or when no future economic benefits are expected from the use of an asset, it is eliminated from the financial statements and any loss or profit (calculated as the difference between the sale value and the book value) is recognized in the income statement in the year of the aforementioned elimination.

INTANGIBLE FIXED ASSETS

Intangible assets consist of identifiable non-monetary elements with no physical consistency, which can be controlled and can generate future economic benefits. These elements are initially recognized at purchase and/or production cost, inclusive of expenses directly attributable to make the asset ready for use. Intangible assets are amortized on a straight-line basis throughout their estimated useful life; amortization rates are reviewed on an annual basis and are amended if the current useful life differs from that estimated previously. The useful life estimated by the Group for the various categories of intangible assets, valid for all periods presented, is shown below.

Categories	Useful Life
Development expenditure	3 years
Industrial patents and rights to use intellectual property	from 3 to 10 years
Software, licenses and others	from 3 to 5 years
Trademarks	from 7 to 18 years

DEVELOPMENT EXPENDITURE

Research and development costs are recognized in the Income Statement for the year in which they are incurred, with the exception of development expenditure recognized under intangible assets if the conditions established in IAS 38, reported below, are satisfied:

- the project is clearly identified and the costs relating to it are identifiable and can be measured reliably;
- the technical feasibility of the product is demonstrated;
- there is evidence of the Group’s intention to complete the development project and to sell the intangible assets generated by the project;
- there is a potential market or, in the case of internal use, the utility of the intangible asset for the production of intangible assets generated by the project can be demonstrated;
- the technical and financial resources required to complete the project are available.

No cost incurred in the research phase is recorded as an intangible asset.

The amortization period starts only when the development phase is completed and the result generated by the project can be marketed, and is usually three years, based on the estimated duration of the benefits linked with the product developed. Capitalized development expenditure is stated at cost, minus accumulated amortization and any accumulated losses from impairment.

GOODWILL

The goodwill deriving from business combination transactions after 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. Taking into account the Group organizational structure and the methods in which control of operations is exercised, the CGU are identified as the individual legal entities forming the Group. After the initial recognition, since goodwill is regarded as an intangible asset with an indefinite life, it is no longer amortized and is decreased by any accumulated losses in value, determined as described below.

Goodwill is subjected to an analysis of recoverability on at least an annual basis, or even more frequently if events or changes in circumstances arise that could result in possible losses of value, identifying the CGUs which benefit from acquisition synergies. Cash flows are discounted to the cost of capital as a function of the specific risks of the unit concerned. Impairment is stated when it emerges from the check on discounted cash flows that the recoverable value of the CGU is less than the book value and is stated as a priority under goodwill.

Any loss in value is identified through valuations that take as a reference the ability of each CGU to produce financial flows capable of recovering the portion of goodwill allocated to it. If the value recoverable by the CGU is less than the book value attributed, the corresponding loss in value is recognized. Such loss of value is restored if the reasons that generated it cease to exist.

On disposal of the company or a company unit from the acquisition of which goodwill emerged, the gains and losses are determined taking the residual value of goodwill into account. Any losses in value of goodwill stated on the Income Statement are not restored if the reasons that generated them cease to exist.

OTHER INTANGIBLE FIXED ASSETS

Other intangible assets with finite useful life, acquired or self-created, are capitalized when it is probable that use of the asset will generate future economic benefits and its cost can be measured reliably. These assets are initially recognized at purchase or development cost.

Costs incurred subsequently relating to intangible assets are capitalized only if they increase the future economic benefits of the specific asset capitalized and they are amortized on the basis of the aforementioned criteria according to the assets to which they refer.

LEASING

Financial leasing contracts are accounted for according to the provisions of IAS 17.

This accounting treatment implies that:

- the cost of the assets that are the subject of the financial leasing is entered under tangible assets and amortized on a straight-line basis according to the estimated useful life; a financial debt to the lessor for an amount equal to the value of the leased asset is entered in a matching entry;
- the leasing fees are accounted for in such a way as to separate the financial element from the capital portion, to be considered as a repayment of the recorded debt to the lessor.

Those leasing contracts in which the lessor substantially maintains all the risks and benefits of ownership are classified as operational leasing and the corresponding fees are recorded in the Income Statement on a straight-line basis, distributed according to the duration of the contract.

IMPAIRMENT OF ASSETS

At each reporting date, tangible and intangible assets with a finite useful life are analysed in order to identify the existence of any indicators of impairment originating from sources external or internal to the Group. When these indicators are identified, the recoverable value of the above-mentioned assets is estimated, and any impairment loss is recognized in the Income Statement.

A tangible or intangible asset suffers a reduction in value if it is not possible to recover, either through use or sale, the book value at which said asset is recorded in the financial statements. Therefore, the aim of the test (impairment test) provided for by IAS 36 is to assure that tangible and intangible fixed assets are not entered at a value greater than their recoverable value, which is the greater of the net sale price and the value of use.

The value of use is the current value of future financial flows that are expected to be generated by the asset or by the cash generating unit to which the asset belongs. The expected cash flows are discounted using a discount rate that reflects the current estimate of the market of reference referring to the cost of the money in proportion to the time and risks specific to the asset.

Management uses various assumptions in applying this method, including estimates of changes in revenues, the gross profit margin, operating costs, the growth rate of terminal values, investments, changes in operating capital and the weighted average cost of capital (discount rate) which combine in defining a medium-term plan, specifically aimed at performing an impairment test, revised at least annually and approved by the Board of Directors of the Parent Company. The principal hypotheses formulated in relation to the plans of CGUs relevant for the impairment test are indicated in note 4 of these financial statements, to which reference should be made for further details.

If the book value exceeds the recovery value, the assets or the cash generating units to which they belong are written down until they reflect the recovery value. Such losses are accounted for on the Income Statement.

The impairment test is carried out when conditions occur inside or outside the company that suggest that the assets have suffered a reduction in value. In the case of goodwill or other intangible assets with an indefinite useful life, the impairment test is carried out at least annually. If the conditions that resulted in the loss of value cease to exist, the same value is restored proportionally on the previously devalued assets until it reaches, at most, the value that such goods would have had, net of amortization calculated on the historical cost, in the absence of a prior loss of value. Restorations of value are recognized in the income statement.

The value of previously devalued goodwill is not restored, as provided for by the international accounting standards.

EQUITY INVESTMENTS IN SUBSIDIARY AND ASSOCIATED COMPANIES AND JOINT VENTURES

Investments in subsidiary companies are evaluated using the cost method including directly related costs, adjusted according to impairment losses. Applying the cost method, the parent company states income on the investment solely if the subsidiary has resolved to pay out dividends.

In the case where there is evidence of events indicative of long term impairment, the value of the investments is subjected to an impairment test according to the provisions of IAS 36. The original value is restored in subsequent years if the reasons for write-down cease to exist.

The risk deriving from any losses exceeding the cost is recorded under provisions, to the extent to which the Company is obliged or intends to be responsible for it.

Equity investments in joint ventures are companies for which an agreement existed at the date when the financial statements were prepared, whereby Landi Renzo S.p.A. has similar rights on net assets, rather than rights on assets, and accepts obligations for liabilities.

Equity investments in joint ventures are stated using the equity method, considered to represent their fair value.

OTHER NON-CURRENT FINANCIAL ASSETS

This category includes loans granted to Group companies which are due for repayment beyond 12 months and equity investments in other ventures.
Non-current financial assets are initially stated at their fair value at the date of negotiation (which is the purchase cost), minus the costs of the transaction directly attributable to purchase.
After the initial recognition, financial instruments held until they fall due are measured at amortized cost, using the effective interest method.
The effective interest rate is the rate which discounts future cash flows precisely, estimated for the entire expected life of the instrument, at its net book value.
An impairment test is performed at the date of the financial statements to ascertain whether there is any objective evidence of a loss in value of each non-current financial asset.
If there is objective evidence of this impairment, the amount of the loss is measured as the difference between the book value of the investment held until maturity and the discounted future cash flows, estimated as discounted to the original effective interest rate of the financial asset.
Any impairment is stated immediately on the income statement.
If total impairment decreases in subsequent years and said decrease is linked to an event occurring after the loss in value has been stated, said loss is reversed and the value is restored on the Income Statement.

OTHER RECEIVABLES AND OTHER NON-CURRENT ASSETS

Loans and receivables are recognized when they occur. All other financial assets are recognized for the first time when the Group companies become a party to the contractual provisions of the instrument.
Financial assets are initially measured at cost, which corresponds to their fair value increased by ancillary charges.
After the initial recognition, assets held for trading are classified under current financial assets and measured at fair value; gains or losses from this measurement are stated on the income statement.
Assets possessed with the intention to keep them until expiry are classified among the current financial assets if the expiry date is within less than one year, and non-current if greater, and

are subsequently valued with the principle of amortized cost. Consequently, the initial value is then adjusted to take into account repayments of capital, any write-downs and amortization of the difference between the repayment amount and the initial book value. Amortization is performed on the basis of the internal effective interest rate, represented by the interest rate that aligns, on initial recognition, the present value of expected cash flows and the initial value (so-called amortized cost method). If there is objective evidence indicating impairment, the asset value is decreased to the discounted value of the future flows obtainable from it. Such losses are recognized on the Income Statement. If, in subsequent periods, the reasons for the preceding write-down no longer exist, the value of the asset is restored to the amount that would have derived from applying the amortized cost without write-down.

CURRENT ASSETS

INVENTORIES

The item inventories includes raw materials and materials used in the production process, semi-finished products, spare parts and finished products.

Inventories are stated at the lower value between purchase or manufacturing cost, inclusive of accessory costs, measured according to the FIFO method, and the realization value that can be inferred from market performance.

The measurement of inventories includes the direct costs of materials and labour and the indirect costs of production (variable and fixed), determined on the basis of normal production capacity.

Where necessary, depreciation funds are calculated for obsolete stocks or those with a slow turnaround taking account of their future possibility of use or recovery.

WORK IN PROGRESS ON ORDERS

Work in progress on orders, with annual and multi-year performance times, is stated on a percentage of completion basis, which includes costs, revenues and the profit margin based on the state of progress of production activity, according to the best estimate at the date of the financial statements, determined with reference to the ratio between costs incurred and total expected costs on the contract. If there are contracts for which a final loss is expected, said loss is fully recognized in the period in which it becomes known. Amounts paid by customers on the basis of state-of-progress reports on contracts which are still not completed are stated minus closing inventories.

TRADE RECEIVABLES AND OTHER RECEIVABLES

Receivables are initially recognized at fair value. The initial value is subsequently adjusted to take into account repayments of capital, any write-downs and the amortization of the difference between repayment amount and initial value. Amortization is performed on the basis of the internal effective interest rate, represented by the interest rate that aligns, on initial recognition, the present value of expected cash flows and the initial value (so-called amortized cost method). If there is objective evidence indicating impairment, the asset value is decreased to the discounted value of the future flows obtainable from it. Such losses are recognized on the Income Statement. If, in subsequent periods, the reasons for the preceding write-down no longer exist, the value of the asset is restored to the amount that would have derived from applying the amortized cost without write-down.

The provision for bad debts, determined in order to measure receivables at their effective realization value, includes write-downs recognized in order to take account of objective indications that trade receivables are impaired. Write-downs, which are based on the most recent information available and management's best estimate, are recognized in such a way as to decrease impaired assets to the present value of future cash flows obtainable from them.

The provision for bad debts is classified in the reduction of the item “Trade receivables”.

Allocations made to the provision for bad debts are classified in the Income Statement under the item “Accruals, write-downs and other operating expenses”; the same classification was used for any utilizations and permanent losses of trade receivables.

OTHER RECEIVABLES AND OTHER CURRENT ASSETS

Other receivables and other current financial assets are initially recognized at fair value. Subsequently, the receivables are measured with the amortized cost method on the basis of the internal effective interest rate, represented by the interest rate that aligns, on initial recognition, the present value of expected cash flows and the initial value.

If there is objective evidence indicating impairment, the asset value is decreased to the discounted value of the future flows obtainable from it. Such losses are recognized on the Income Statement. If, in subsequent periods, the reasons for the preceding write-down no longer exist, the value of the asset is restored to the amount that would have derived from applying the amortized cost without write-down.

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES FROM THE BALANCE SHEET ASSETS AND LIABILITIES

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

- the contractual right to receive cash flows from the asset has expired;
- the Group Company has substantially transferred all risks and benefits connected with the asset, transferring its rights to receive cash flows from the asset or assuming a contractual obligation to transfer the cash flows received to one or more beneficiaries by virtue of a contract that meets the requirements of IAS 39 (“pass through test”);

– the Group Company has not substantially transferred or maintained all risks and benefits connected to the financial asset, but it has transferred control over it.

Financial liabilities are derecognized when they are settled and when the Group Company has transferred all risks and charges relating to the instrument.

ASSIGNMENT OF RECEIVABLES

The Group is permitted to assign part of its trade receivables through factoring transactions. The operations for assignment of receivables can be with or without recourse; some non-recourse assignments include deferred payment clauses (for example, the payment by the factor of a minority part of the purchase price is subordinate to the total collection of receivables), requiring an exemption on the part of the assignor or implying the maintenance of significant exposure to the progress of the financial flows deriving from the receivables assigned.

This type of operation does not meet the requirements laid down by IAS 39 for eliminating assets from the balance sheet, since the associated benefits and risks have not be transferred substantially.

Consequently, all the receivables assigned through factoring operations that do not meet the requirements for elimination established by IAS 39 continue to be recorded in the Financial Statements of the Group, although they have been legally assigned; a financial liability for the same amount is recorded in the financial statements as Payables for Advances on Assignment of Receivables. Profits and losses related to the assignment such assets are recorded only when the same assets are removed from Statement of Financial Position of the Group.

At 31 December 2016, the Group companies had only performed assignments of trade receivables without recourse that meet all the requirements established by IAS 39 for the derecognition of such receivables.

CASH AND CASH EQUIVALENTS

The item relating to cash and cash equivalents includes, primarily, bank deposits repayable on demand, as well as cash on hand and other short-term investments that are highly convertible (convertible into cash and cash equivalents within ninety days). Cash and cash equivalents are valued at fair value, which usually coincides with their nominal value; any changes are recognized on the Income Statement. The current account overdraft, if utilized, is shown among the “Short-term financial liabilities”.

For the purposes of representing cash flows for the period, when drawing up the 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 recognized as a direct deduction from Equity under the item "Other Reserves". Gains or losses are not recognized on the Income Statement when treasury shares are purchased, sold or cancelled.

The consideration paid or received, including any cost directly incurred and attributable to the capital transaction, net of any related tax benefit, is directly recognized as an Equity transaction.

(ii) Statutory reserve and other reserves

The statutory reserve is formed from the allocation of part of the Group companies' profit for the year (5% each year until it has reached 20% of the share capital) and may be used exclusively to cover losses. The other reserves include the reserves of profits and capital for a specific use, the profit (loss) of previous years not distributed or allocated to a reserve, as well as the reserve generated upon first-time application of IFRS.

CURRENT AND NON-CURRENT LIABILITIES

PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges are set aside to cover current obligations - legal or implicit - deriving from past events, for which a reliable estimate of the amount required to settle the obligation can be made at the end of the year. Provisions for risks and charges are stated if said charges are likely to be incurred. Any change in the estimate of provisions is reflected on the Income Statement in the period when it occurs.

If a liability is regarded as merely potential, no allocation to provisions for risk and charges is made and only adequate information is provided in these notes to the financial statements.

When the financial effect of time is significant and the date of cash outflows associated with the obligation can be reliably determined, the estimated cost is discounted to the present value using a rate reflecting the current market values and includes the additional effects relating to the specific risk that may be associated with each liability. After discounting, the increase in the provision due to the passage of time is recognized as a financial charge.

The product warranty provision is stated on sale of the underlying goods or supply of the underlying services. The provision is determined using historical information on warranties and by weighting the probability associated with possible results.

The provisions are periodically updated to reflect changes in estimated costs, realization timing and the discount rate; revisions of the estimated provisions are recognized in the same item of the Income Statement which previously included the provision or, when the liability relates to an asset, as a matching entry to the asset to which it refers.

EMPLOYEE BENEFITS

Short-term benefits are represented by salaries, wages, the relative social security contributions, compensation in lieu of holidays and incentives provided in the form of a bonus payable in twelve months after the reporting date. These benefits are accounted for as components of personnel cost in the period in which the work activity is provided.

Post-employment benefits are broken down into two types: defined contribution plans and defined benefit plans.

In defined contribution plans, social security contributions are recognized in the Income Statement when they are incurred, based on the relative nominal value.

Defined benefit plans

Defined benefit plans are represented by the TFR (employee severance indemnity) contributions accrued up to 31 December 2006 for the employees of the Group. These are valued in accordance with IAS 19 by independent actuaries, using the projected unit funding method.

This calculation consists in estimating the amount of benefit that an employee will receive at the expected retirement date, using demographic assumptions (such as, for example, death rate and personnel turnover rate) and financial assumptions (such as, for example, discount rate and future salary increases). The amount thus determined is discounted to the present value and re-proportioned based on the accrued length of service compared to the total length of service and represents a reasonable estimate of the benefits that each employee has already accrued because of his/her service. The discount rate used derives from the curve of rates on Markit iBoxx € Corporate AA 10+ bonds at year's end, with a similar maturity date to the bond held for employees.

Discounted profits and losses, returns on the assets servicing the plan (excluding interest) and the effect of the maximum amount of the asset (excluding any interest) which emerge following revaluation of net liabilities for defined benefit plans are stated immediately in other items of the Statement of Comprehensive Income. Net interest and other costs of defined benefit plans are stated under profit/(loss) for the year.

Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the entity pays fixed contributions into a separate entity and has no legal or implicit obligation to pay further contributions. The contributions to defined contribution plans are recognized as an expense in profit or loss in the periods in which the employees provide their work. Contributions paid in advance are recorded as assets to the extent that the advance payment will result in a reduction in future payments or a refund.

TRADE PAYABLES

Trade payables are stated at the fair value of the initial consideration received in exchange and subsequently measured at amortized cost, using the effective interest method. Trade payables with due dates that fall under normal sales terms are not discounted to the present value.

CURRENT AND NON-CURRENT FINANCIAL LIABILITIES, TAX LIABILITIES AND OTHER LIABILITIES

INCOME TAXES

Short- and long-term financial payables and other short- and long-term liabilities are initially recognized at fair value. The initial value is subsequently adjusted to take into account repayments of principal and the amortization of the difference between repayment amount and initial value. Amortization is performed on the basis of the internal effective interest rate, represented by the interest rate that aligns, on initial recognition, the present value of cash flows connected to the liability and the initial value (so-called amortized cost method).

When there is a change in cash flows and it is possible to estimate them reliably, the value of payables is recalculated to reflect that change on the basis of the present value of the new cash flows and the internal rate of return initially determined.

The item “Tax liabilities” includes all liabilities to the Tax Authorities payable or offsettable in the short-term connected with direct and indirect taxes.

Payables to employees and social security institutes, as well as payments on account from customers and accrued expenses and deferred income are classified under “Other current liabilities”.

RECOGNITION OF REVENUES

Revenues are recognized at the fair value of the consideration received for the sale of products and services relating to the Group’s ordinary operations.

Revenues are recognized to the extent that it is probable that the economic benefits will be achieved and the relative amount can be reliably determined. Revenues and income are entered in the financial statements net of returns, allowances, discounts and premiums, as well as the taxes directly connected with the sale of products or performance of services.

Revenues are accounted for as follows:

a) revenues from the sale of products are recognized when the risks and benefits connected with ownership of the assets are transferred to the purchaser; this moment generally coincides with the shipment date;
b) revenues from services rendered (generally consisting of technical consultancy provided to third parties) are accounted for in the income statement on the basis of the percentage of completion at the date of the financial statements;
c) revenues related to contract work in progress are recognized using the percentage of completion criterion. The percentage of completion is determined using the cost to cost method, calculated multiplying the total revenue expected by the percentage of

progress, as a ratio between costs incurred and expected total costs. If the expected costs for the completion of the work exceed the total expected revenue, the final loss is fully recognized in the period in which it arises.

Revenues are recorded in the Income Statement only if it is likely that the Group will benefit from the cash flows associated with the transaction.

GRANTS

Grants from public and private bodies are recognized at fair value when it is reasonably certain that they will be received and the conditions for receiving them will be met.
Grants related to income (provided as immediate financial assistance to an entity or to cover expenses and losses incurred in a previous year) are fully recognized in the Income Statement when the above-mentioned conditions, necessary for their recognition, are met.
No capital contributions were obtained in the year in question.

COSTS

Costs are recognized in so far as it is possible to reliably determine that economic benefits will flow to the Group. Costs for services are recognized for the year in question at the moment when they are received.

For accounting purposes, leases and hire contracts are classified as operational if:

- the lessor retains a significant share of the risks and the benefits associated with the property,
- there are no purchase options at prices that do not reflect the presumable market value of the rented asset at the end of the period,
- the duration of the contract does not represent the greater part of the useful life of the leased or hired asset.

The related charges are stated on the Income statement on a straight-line basis distributed according to the duration of the underlying contracts.

DIVIDENDS

Dividends payable by the Group are shown as changes in equity in the year in which they are approved by the shareholders.

Dividends to be received by the Group are recognized on the Income Statement on the date on which the right to receive them matures.

FINANCIAL INCOME AND CHARGES

Income and charges of a financial nature are recognized on an accrual basis, on the basis of the interest accrued on the net value of the related financial assets and liabilities, using the effective interest method, as set forth by paragraph 9 of IAS 39.

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. In this case, the related income taxes are also directly stated under equity. Current taxes are income taxes expected to be paid or received, calculated by applying the rate applicable at the date of the financial statements to the taxable income or tax losses for the year.

Deferred taxes are calculated using the so-called liability method on the temporary differences between the book values of assets and liabilities in the financial statements and their corresponding tax values. Deferred tax assets and liabilities are not stated on goodwill and on assets and liabilities which do not influence taxable income. Deferred taxes are calculated on the basis of the tax rate that is expected to be in force when the asset is realized or the liability is settled. Deferred tax assets (hereafter also called "prepaid taxes") are recognized only when it is likely that taxable profits sufficient to realize these assets will be generated in future years. Deferred tax assets and liabilities are offset only for homogeneous expiry dates, when there is a legal right to offset and when they refer to recoverable taxes due to the same tax authority. Income tax deriving from distribution of dividends is stated when the liability relating to their payment is recognized.

Recoverability of deferred tax assets is checked at the end of each period, on the basis of plans duly approved by the Board of Directors and taking the tax consolidation indicated below into account, and any part for which recovery is unlikely is stated on the Income Statement.

The Italian companies of the Group have adhered to the national consolidation tax scheme pursuant to articles 117 and 129 of the Italian Consolidated Income Tax Act (T.U.I.R) since 2014, with consolidation by the Parent Company.

The adhesion applies until 2016 and will be renewed for the next three-year period. According to this procedure, the consolidating company identifies a single taxable base for the group of companies adhering to the national consolidation tax scheme and may therefore offset taxable income against tax losses on a single tax returns form. Each company adhering to the national consolidation tax scheme transfers its taxable income (or tax loss) to the consolidating company. The consolidating company states receivables from the consolidated company which are equal to the IRES (corporate income tax) to be paid. If the companies have tax losses, the consolidating company states payables equal to the IRES on the part of the loss transferred at Group level.

CONVERSION OF ENTRIES INTO FOREIGN CURRENCY

The functional and presentation currency of Landi Renzo S.p.A. is the Euro (€). As required by IAS 21, transactions in foreign currency of each Group entity are initially recognized at the exchange rate in place on the date of the transaction. Monetary assets and liabilities in foreign currency are reconverted to the functional currency at the exchange rate in place on the closing date of the Financial Statements.

Non-monetary items valued at historical cost in foreign currency are converted using the exchange rate in force on the initial date that the transaction was recognized.

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

The exchange differences realized at the time of collecting from debtors and paying creditors in foreign currency are entered in the income statement in the item exchange gain/losses.

EARNINGS PER SHARE

The Group determines the earnings per share based on IAS 33 - Earnings per share.

(a) Basic earnings per share

The basic earnings per share is calculated by dividing the profit (loss) pertaining to the Group shareholders by the weighted average of ordinary shares in circulation during the year, excluding treasury shares.

(b) Diluted earnings per share

The diluted earnings per share is calculated by dividing the profit (loss) pertaining to the Group shareholders by the weighted average of ordinary shares in circulation during the year, excluding treasury shares. To calculate the diluted earnings per share, the weighted average of shares in circulation is modified assuming the exercise by all assignees of rights with a potentially dilutive effect, while the profit (loss) pertaining to Group shareholders is adjusted to take into account any effects, net of taxes, of the exercise of such rights.

COMMUNICATION ON FINANCIAL INSTRUMENTS

In accordance with the provisions of Accounting Standard IFRS 7, supplementary information is supplied on the financial instruments in order to evaluate:

- the impact of the financial instruments on the statement of financial position, on the economic result and on the financial flows of the company;
- the nature and size of the risks deriving from financial instruments to which the company is exposed, as well as the methodologies with which such risks are managed.

USE OF ESTIMATES AND ASSESSMENTS

The preparation of Financial Statements in accordance with the IFRS (International Financial Reporting Standards) requires application of accounting standards and methods that are sometimes based on subjective assessments and estimates based, in turn, on past experience and assumptions that are considered reasonable and realistic given the circumstances. Application of these estimates and assumptions affects the amounts presented in the financial statements, such as the Statement of Financial Position, the Income Statement and the Statement of Cash Flows, and in disclosures provided.

Please note that the situation caused by the current economic and financial scenario has resulted in the necessity to make assumptions on future performance that are characterized by significant uncertainty. Therefore it cannot be excluded that results different to those estimated may be realized in the coming years. Such results could therefore require adjustments, that may even be considerable, which cannot obviously be either estimated or predicted at this stage, to the book value of the relative items.

The items on the financial statements that most require greater subjectivity on the part of the directors in producing the estimates and for which a change in the conditions underlying the assumptions used can have a significant impact on the financial statements are listed below:

- Valuation of fixed assets;
- Recoverability of development expenditure;
- Valuation of deferred tax assets;
- Valuation of provisions for bad debts and obsolete inventories;
- Valuation of employee benefits;
- Valuation of provisions for risks and charges.

The estimates and assumptions are reviewed periodically and the effects of each variation are immediately reflected on the Income Statement.

MOST IMPORTANT ACCOUNTING STANDARDS THAT REQUIRE A GREATER DEGREE OF SUBJECTIVITY

A description is provided below of the most significant accounting standards that require, more than the others, greater subjectivity on the part of the directors in producing the estimates and for which a change in the conditions underlying the assumption used may have a significant impact on the financial data of the Group.

Valuation of receivables

Trade receivables are adjusted with the relevant write-down fund in order to take account of their effective recoverable value. The determination of the amount of the write-downs carried out requires the directors to make subjective evaluations based on the documentation and on the information available also in relation to the solvency of the customer, as well as on experience and historical trends.

The continuation of the current economic and financial situation and its possible aggravation could lead to further deterioration in the financial conditions of the Group's debtors beyond that already taken into consideration prudentially in quantifying the write-downs recorded in the financial statements.

Valuation of goodwill and intangible assets in progress

In accordance with the accounting standards applied by the Group, goodwill and intangible assets in progress are subjected to annual verification (impairment test) in order to assess whether they have suffered a reduction in value, which is stated through a write-down, when the net book value of the CGU to which these items are allocated appears to be greater than its recoverable value (defined as the greater value between the value of use and the fair value of the same). The above mentioned value confirmation check necessarily requires subjective evaluations to be made based on the information available within the Group, and on the reference market outlook and historical trends. In addition, whenever it is supposed that a potential reduction in value could be generated, the Group determines said reduction using those evaluation techniques considered suitable. The same value tests and evaluation techniques are applied to intangible and tangible assets with a defined useful life when indicators exist that predict difficulties in recovering the corresponding net book value. The correct identification of elements indicative of the existence of a potential reduction in value as well as the estimates for determination of the reduction depend principally on factors that can vary over time, even significantly, therefore influencing the evaluations and estimates made by the directors.

Provisions for risks

Establishing whether or not a current obligation (legal or implied) exists is in some cases difficult to determine. The directors assess such phenomena on a case by case basis, together with an estimate of the amount of the economic resources required in order to meet that obligation. When the directors consider that is merely possible that liabilities may arise, the risks are indicated in the appropriate information section on commitments and risks, without resulting in any allocation in the financial statements.

Defined benefit plans

The Group offers defined benefit plans to some of its employees. Using the services of experts and actuaries, management used various statistical assumptions and evaluation factors to calculate the charges and the current value of assets and liabilities relating to these plans. The assumptions relate to the discount rate, the expected return on the assets servicing the plan, the rates of future salary increases, demographic trends, the inflation rate and expected health costs. The actuaries consulted also use subjective factors, such as mortality and resignation rates.

Provision for product warranties

Based on product sales, the Group allocates provisions according to the costs estimated as likely to be incurred for product warranties. Management establishes the value of such provisions on the basis of historical information on the nature, frequency and average cost of operations carried out under warranty and on the basis of specific contractual agreements.

The Group constantly strives to improve the quality of its products and to minimize the burden deriving from operations under warranty.

Potential liabilities

The Group is subject to lawsuits regarding a number of disputes that were submitted to the jurisdiction of various States. Given the inherent uncertainty of these disputes, it is difficult to predict with certainty the resulting financial cost, or the time frame within which it will arise. The lawsuits and disputes against the Group derive primarily from complex legal problems, that are subject to varying degrees of uncertainty, considering the facts and circumstances involved in each dispute and the different laws applicable. To assess the risks deriving from potential liabilities of a legal nature correctly and prudentially, management periodically obtains information on the situation from its legal advisers. The Group establishes a liability in relation to such disputes when it considers it likely that a financial cost will occur and when the amount of the resulting losses can be reasonably estimated.

Valuation of closing inventories

Closing inventories of products with characteristics of obsolescence or slow turnaround are periodically subjected to tests for their correct valuation and are written down where the recoverable value thereof is less than the book value. The write-downs carried out are based, primarily, on assumptions and estimates of management deriving from its experience and the historical results achieved.

Valuation of deferred tax assets

The valuation of deferred tax assets is made on the basis of taxable income expected in future years and expected tax rates at the date when the temporary differences are expected to occur, insofar as they are considered applicable in the future. The measurement of such expected profits depends on factors that may change over time and have a significant impact, therefore, on the valuation of deferred tax assets.

Transactions with related parties

The Group deals with related parties under contractual conditions considered to reflect the arm's length conditions on the markets in question, taking account of the characteristics of the goods and services supplied and received.

D) RISK ANALYSIS

In accordance with the requirements of Accounting Standard IFRS 7, the following analysis is provided regarding the nature and extent of risks deriving from financial instruments to which the Group is exposed, as well as the methodologies with which such risks are managed.

The main risks are reported and discussed at the Top Management level of the Group in order to create the prerequisites for their hedging, and insurance and assessment of the residual risk.

Interest rate risk

The Group is exposed to the interest rate risk associated with both cash at hand and with medium to long term financing. The exposure refers mainly to the Euro zone. As regards exposure to the risk of interest rate volatility, note that the financial indebtedness with banks is regulated primarily by variable interest rates. Therefore, the financial management of the Group remains exposed to fluctuations in interest rates, not having, at the date of the present financial statements, subscribed to instruments covering the variability of the interest rates on loans contracted with the banks.

The recent economic and financial performance of the Group led to a reduction in the credit rating assigned by financial institutions, which limited access to sources of funding, as well as increased financial charges.

Interest rate risks were measured using sensitivity analysis and the potential impacts of Euribor interest rate fluctuations on the financial statements at 31 December 2016 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 271 thousand in comparison to an increase in financial income equal to Euro 21 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 equity balances expressed in currency other than the Euro is to be considered as insignificant. 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 which, in any case, as mentioned, are not to be considered as significant.

Credit risk

Credit risk is the risk that a customer or one of counterparts of a financial instrument causes a financial loss through failure to fulfil an obligation and derives primarily from trade receivables, from other financial assets and from guarantees that may have been given by the Group.

Trade receivables and other receivables

The Group normally deals with known and reliable customers. It is the Group's policy to subject customers requesting extended payment conditions to procedures for checking their credit class. This check also includes external assessments when available. Sales limits are established for each customer, which represent the maximum line of credit, beyond which direct approval by management is required. The credit limits are reviewed periodically and the customers who do not satisfy the creditworthiness conditions established by the Group can then make purchases only by payment in advance. In addition, the balance of the receivables is monitored on a fortnightly basis over the period, in order to minimize exposure to the risk of losses. Finally, regarding new customers and those not operating in EU countries, a letter of credit to guarantee successful collection is normally used, where possible.

As of 2008, the Parent Company insures part of its foreign receivables not guaranteed by letters of credit through a leading Insurance Company and 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.

Lastly, we point out that the persistence or deterioration of the current economic and financial crisis could have an impact, even significantly, on the capacity of some client companies to regularly meet their obligations to the Group.

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

The policies of the Group provide for the issue of financial guarantees in favour of subsidiary companies, but not Joint Ventures. At 31 December 2016, 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.

The recent economic and financial performance of the Group led to a decline in the level of available liquidity associated with a reduction in the credit rating assigned by financial institutions, limiting access to sources of funding.

To that end, the Group prepared and launched a project to optimize the financial structure of the entire 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 project 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 and its subsidiaries signatories to the agreement to 2022;
- (ii) The rescheduling of the debt of the Group, on the basis of repayment instalments of increasing amounts in line with the cash generation objectives laid out in the Business Plan;
- (iii) The review of financial covenants consistent with the performance laid out in the Business Plan;
- (iv) The maintenance of short-term lines in an amount consistent with the needs laid out in the Business Plan.

The project was also prepared in light of and consistent with the Group's Business Plan, the update of which was approved by the Board of Directors on 30 December 2016. The Business Plan was subject to an independent business review by KPMG Advisory S.p.A. in the capacity of independent third-party business advisor, and the results of that analysis and the relative documentation were considered by the Group's management in developing and finalizing the Financial Optimization Project.

With regard to the bank component, negotiations with the financier banks led to the finalization of the Agreement on 27 March 2017, which was signed by all banks with the exception of one, which will complete its approval process in due time for the publication of the Company's separate and consolidated financial statements at 31 December 2016, while as regards the payable for bonds of the Parent Company, it was necessary to call the Bondholders' Meeting on 30 March 2017 to align certain provisions of the loan regulations with what was laid out in the Agreement and thus to be able to complete the project.

Please note that on 31 December 2016, all banking institutions released specific waivers in relation to the measurement of financial parameters and non-payment of the principal instalments maturing in November and December 2016, while the Bondholders' Meeting of 30 December 2016 amended the Loan Regulations and in turn released waivers with respect to the non-payment of the instalment due on 31 December 2016 as well as the measurement of financial parameters, as described below in notes 16 and 17.
See the Directors' Report for all further information on risk factor analysis pursuant to art. 154-ter TUF (Finance Consolidation Act).

E) CONSOLIDATION SCOPE

The consolidation scope includes the parent company Landi Renzo S.p.A. and the companies in which it holds a direct or indirect controlling stake according to IFRS.
The consolidation scope is unchanged compared with 31 December 2015.
The list of equity investments included in the consolidation scope and the relative consolidation method is provided below.

Companies consolidated using the line-by-line method

Company Name	Registered Office	Currency	Shareholders' Funds as at 31 December 2016 (in units of currency)	% stake at 31 December 2016		% stake at 31 December 2015		Notes
				Direct investment	Indirect investment	Direct investment	Indirect investment	
Parent Company								
Landi Renzo S.p.A.	Cavriago (RE)	EUR	11,250,000	Parent Company				
Companies consolidated using the line-by-line method								
Landi International B.V.	Utrecht (The Netherlands)	EUR	18,151	100.00%		100.00%		
Eurogas Utrecht B.V.	Utrecht (The Netherlands)	EUR	36,800		100.00%		100.00%	(1)
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 S.p.A.	Cavriago (RE)	EUR	2,800,000	100.00%		100.00%		
AEB America S.r.l.	Buenos Aires (Argentina)	ARS	2,030,220		96.00%		96.00%	(2)
Eighteen Sound S.r.l.	Reggio Emilia	EUR	100,000		100.00%		100.00%	(2)
Lovato Gas S.p.A.	Vicenza	EUR	120,000	100.00%		100.00%		
Officine Lovato Private Limited	Mumbai (India)	INR	19,091,430		74.00%		100.00%	(3)
SAFE S.p.A.	S.Giovanni in Persiceto (BO)	EUR	2,500,000	100.00%		100.00%		
Emmegas S.r.l.	Cavriago (RE)	EUR	60,000	100.00%		70.00%		
Associates and subsidiaries consolidated using the equity method								
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 by Landi International B.V.

(2) held by AEB S.p.A.

(3) held by Lovato Gas S.p.A.

(4) Company Joint Venture

Krishna Landi Renzo India Private LTD Held was consolidated for the first time in the Consolidated Financial Statements at 30 June 2014 and 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). In this specific case, the main balances of governance according to the joint venture agreement, such as to reflect a joint arrangement, are the following:

- The shareholders' meeting, which is formed of Landi Renzo S.p.A., with a 51% stake, and the Indian partner SKH Auto Trims Private Limited, with a 49% stake, approves, with the vote in favour of both shareholders, the major activities of the joint venture, which include management of any project, loan or other contract which may materially influence conducting of business, and also appoints the directors;
- The Board of Directors of the company, composed of 5 members, two of which are appointed by each shareholder and one appointed jointly, approves, with the vote in favour of at least one director appointed by each shareholder, the major activities of the joint venture, including the Budget, the Business Plan and significant investments and debts in each tax year.

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 VE.CA., in which a 100% stake is held;
- Lovato do Brasil Ind Com de Equipamentos para Gas Ltda, in which a 100% stake is held;
- Safe Gas (Singapore) Pte. Ltd., in which a 100% stake is held;
- Sound & Vision S.r.l., in which a 100% stake is held.

F) EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The changes reported hereafter were calculated with reference to the equity and economic balances of the previous year since they are comparable in terms of duration and content with the year closed at 31 December 2015.

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. Therefore, information is provided below by activity segment and by geographical area.

The following table provides an analysis of consolidated revenues by activity segment in comparison to 2015:

(Thousands of Euro)

Distribution of revenues by area of activity	As at 31/12/2016	% of revenues	As at 31/12/2015	% of revenues	Changes	%
Gas Segment - Car systems	143,278	77.8%	161,720	78.7%	-18,442	-11.4%
Gas Segment - Distribution systems	24,153	13.1%	23,345	11.3%	808	3.5%
Total revenues - GAS sector	***167,431***	***90.9%***	***185,065***	***90.0%***	***-17,634***	***-9.5%***
Other (Alarms, Sound, Robotics, Oil & Gas and others)	16,811	9.1%	20,457	10.0%	-3,646	-17.8%
Total revenues	**184,242**	**100.0%**	**205,522**	**100.0%**	**-21,280**	**-10.4%**

In view of the limited importance of sales in other divisions, it may be concluded that the Group's sole segment of activity is manufacture of car systems and distribution systems (Gas Segment).

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 2016 by the Landi Renzo Group are divided by geographical area as follows:

(Thousands of Euro)

Geographical distribution of revenues	As at 31/12/2016	% of revenues	As at 31/12/2015	% of revenues	Changes	%
Italy	38,467	20.9%	41,734	20.3%	-3,267	-7.8%
Europe (excluding Italy)	83,508	45.3%	84,326	41.0%	-818	-1.0%
America	30,834	16.7%	43,362	21.1%	-12,528	-28.9%
Asia and Rest of World	31,433	17.1%	36,100	17.6%	-4,667	-12.9%
Total	**184,242**	**100%**	**205,522**	**100%**	**-21,280**	**-10.4%**

As regards the geographical distribution of revenues, during the year the Landi Group realized 79.1% (79.7% in 2015) of its consolidated revenues abroad (45.3% in Europe and 33.8% 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	31/12/2016	31/12/2015	Change
Italy	174,137	209,937	-35,800
Europe (excluding Italy)	11,298	12,236	-938
America	14,729	15,302	-573
Asia and the rest of the world	12,073	16,188	-4,115
Total ASSETS	**212,237**	**253,663**	**-41,426**

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

(Thousands of Euro)

Investments in Fixed Assets	31/12/2016	31/12/2015	Change
Italy	8,306	14,698	-6,392
Europe (excluding Italy)	528	514	14
America	95	255	-160
Asia and rest of the world	447	56	391
Total	**9,376**	**15,523**	**-6,147**

NON-CURRENT ASSETS

2. LAND, PROPERTY, PLANT, MACHINERY AND EQUIPMENT

Tangible assets showed an overall net decrease of Euro 4,864 thousand, decreasing from Euro 35,364 thousand at 31 December 2015 to Euro 30,500 thousand at 31 December 2016.

Changes in the historical costs of tangible assets during the period are shown in detail below (thousands of Euro):

(Thousands of Euro)

Historic cost	31/12/2015	Acquisitions	(Disposals)	Other changes	31/12/2016
Land and buildings	5,201	315	-137	-89	5,290
Plant and machinery	50,833	1,422	-661	1,451	53,045
Industrial and commercial equipment	47,171	1,820	-239	613	49,365
Other tangible assets	14,111	480	-2,768	953	12,776
Assets in progress and payments on account	2,890	375		-3,059	206
Total	**120,206**	**4,412**	**-3,805**	**-131**	**120,682**

Changes in provisions for depreciation of tangible assets during the period are shown in detail below (thousands of Euro):

(Thousands of Euro)

Depreciation reserves	31/12/2015	Depreciation amounts	(Disposals)	Other changes	31/12/2016
Land and buildings	2,655	374	-137	-57	2,835
Plant and machinery	35,797	3,282	-290	-10	38,779
Industrial and commercial equipment	35,243	3,934	-219	45	39,003
Other tangible assets	11,147	932	-2,507	-7	9,565
Total	**84,842**	**8,522**	**-3,153**	**-29**	**90,182**

Overall changes in net tangible assets during the period are shown in detail below (thousands of Euro):

(Thousands of Euro)

Net value	31/12/2015	Acquisitions	(Disposals)	Depreciation amounts	Other changes	31/12/2016
Land and buildings	2,546	315	0	-374	-32	2,455
Plant and machinery	15,036	1,422	-371	-3,282	1,461	14,266
Industrial and commercial equipment	11,928	1,820	-20	-3,934	568	10,362
Other tangible assets	2,964	480	-261	-932	960	3,211
Assets in progress and payments on account	2,890	375	0	0	-3,059	206
Total	**35,364**	**4,412**	**-652**	**-8,522**	**-102**	**30,500**

The item Buildings mainly includes the property in China owned by Beijing Landi Renzo Autogas System Co. Ltd, purchased in 2006 and not subject to collateral guarantees.

The item Plant and Machinery includes machinery used for production owned by the companies of the Group.

The item Industrial and Commercial Equipment includes moulds, testing and control instruments.

The item Other Tangible Assets is made up mostly of electronic processors, motor vehicles, internal transport vehicles and furnishings.

The item Fixed Assets in Progress and Payments on Account includes some production plants still to be completed (Euro 206 thousand).

The column “Other Changes” includes mainly the accounting entries for industrial plant and machinery and equipment already in progress at 31 December 2015 and completed during the year and also, to a lesser extent, exchange differences.

The main increases in tangible assets during 2016 relate to:

- purchase of plant and equipment totalling Euro 1,422 thousand, relating principally to electric and hydraulic-mechanical systems of the New Technical Centre, and also new production lines;
- purchase of industrial equipment totalling Euro 1,820 thousand, in particular moulds, sundry equipment and testing instruments;
- purchases of other tangible assets totalling Euro 480 thousand, referring to electronic processors, motor vehicles, internal transport vehicles and furnishings.

The principal decreases in tangible assets in 2016 relate to disposals of industrial and commercial equipment and other assets with insignificant residual values to be amortized. No significant capital gains or capital losses were recognized in relation to the aforementioned disposals.

3. DEVELOPMENT EXPENDITURE

Changes in development expenditure during the year are shown in detail below (thousands of Euro):

(Thousands of Euro)

	31/12/2015	Acquisitions	Amortization and write-downs	Other changes	31/12/2016
Development expenditure	**8,404**	4,546	-4,530	0	**8,420**

At 31 December 2016, development expenditure totalled Euro 8,420 thousand (Euro 8,404 thousand at 31 December 2015) and includes the costs incurred by the Group, for internal personnel, services rendered by third parties, the use of test rooms and prototype materials, for projects meeting the requirements of IAS 38 in order to be recognized as assets. In particular, projects capitalized during 2016, for a total of Euro 4,546 thousand, refer to innovative projects not available previously and aimed at new market segments, capable of expanding and optimizing the product range. Among these, the following main projects were developed by the parent company:

1) after Market Evolution Project (LPG and CNG) for development of new kits and components, including new turbo engine reducers and new software for direct injection engines, and also adaptation of the product range to the new vehicle and engine models;
2) OEM Market Evolution Project (LPG and CNG) for development of new kits and components, including new turbo engine reducers, and also adaptation of the product range to the new vehicle and engine models;
3) electronic reducer project (CNG) for new engines and vehicles;
4) new high-performance injectors range for the After Market segment;
5) DDF (Dual fuel) evolution project for the conversion of diesel vehicles to CNG, for the improvement of installations and performance and the expansion of the range of models and engines (including for heavy duty vehicles).

6) project for standardizing the range of compressors and streamlining the skid aggregate for fuelling stations;
7) project for updating new advanced electronics gas control unit systems (with improved performance for the control of gas systems and meant for new AM and OEM engines (including 6 cylinders)).

Development activities were continued during the initial months of 2017 and they are expected to continue for the rest of the current year. There are no indicators of long-term losses for such activities, the development phase of which is expected to be completed by the end of the current year.
To evaluate any losses in value of capitalized development costs, the Group attributes such costs to the corresponding specific projects and evaluates their recoverability, calculating the value of use with the discounted financial flow method.

4. GOODWILL AND IMPAIRMENT TEST FOR CASH GENERATING UNITS TO WHICH IT WAS ALLOCATED

The item Goodwill totalled Euro 30,094 thousand, unchanged compared with 31 December 2015.
The following table analyses this amount broken down by CGU (cash generating unit):

(Thousands of Euro)

CGU	2016	2015	Change
Lovato Gas S.p.A.	27,721	27,721	0
AEB S.p.A.	2,373	2,373	0
Total	**30,094**	**30,094**	**0**

Impairment tests were carried out on both items of goodwill at 31 December 2016 and the results were approved by the Board of Directors of the Parent Company.
The recoverable value of the goodwill was defined with respect to the value in use, intended as the net current value of operating cash flows (discounted accordingly using the DCF – Discounted Cash Flow method) deriving from the 2016-2020 economic-financial plan update approved by the Board of Directors on 30 December 2016, and therefore over a horizon of 4 years rather than 5 as the Business Plan update to 2021 has not yet been approved, and from a

terminal value at the end of said period.

The forecasts for 2017-2020 were prepared and approved by the governing bodies of the respective subsidiaries on the basis of the results achieved in previous years, management expectations on market trends and the operating costs rationalization dynamics envisaged by the group industrial plan approved by the Board of Directors of the Parent Company. For said impairment test, at the end of the period considered in the plan, a terminal value was estimated which reflects the value of the goodwill beyond the specific period, on the assumption that the companies will continue as a going concern.

Expected cash flows refer to current operating conditions and therefore do not include cash flows linked with intervening extraordinary events. In accordance with Consob Communication 3907/2015 and continuing with the procedures used in previous years, cash flow projections for 2017 were revised to check whether the assumptions adopted with respect to the final data were reasonable and sustainable.

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>Lovato Gas S.p.A. CGU</u>

As the Company operates primarily abroad, the discount rate was calculated while taking into consideration the risks associated with the Company's cash flows generated in the various geographical areas. In particular, the following geographical areas were considered: "East Europe", "Asia and Middle East", "South America"; "West Europe", "Africa", "North America" and "Rest of the World". The following aspects were taken into consideration to determine the discount rate:

- The risk-free rate was constructed indirectly, i.e., based on the US ten-year Treasury Bond, to which the risk premium relating to those geographical areas was added; this value is equal to 1.8%;
- The unlevered beta parameter and the market target financial structure used for the releveraging of that parameter were identified on the basis of the same panel of comparable companies used for the other Cash Generating Units;

On the other hand, to determine the cost of debt, considering that the subsidiary Company obtains funding exclusively in Italy, it was deemed reasonable to calculate that rate on the basis of parameters referring to the Italian market.

On the basis of the parameters set forth above, the weighted average cost of capital (W.A.C.C.) relating to Lovato Gas S.p.A. is therefore equal to roughly 9.4%.

Likewise, in order to reflect growth prospects in the different geographical areas in which Lovato Gas S.p.A. operates, the "g" growth rate was determined as the weighted average of the long-term inflation rates estimated by the International Monetary Fund for the individual geographical areas, resulting in a value of 3.68%.

<u>AEB S.p.A. 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 2016, equal to 1.5%;
- The unlevered beta parameter and the market target financial structure used for the releveraging of that parameter were identified on the basis of the same panel of comparable companies used for the other Cash Generating Units;

On the basis of the parameters set forth above, the weighted average cost of capital (W.A.C.C.) relating to AEB S.p.A. is therefore equal to roughly 6.5%.

The "g" growth rate was determined by taking as a reference the long-term inflation rate estimated by the International Monetary Fund ("World Economic Outlook", October 2016) for Italy, resulting in a value of 1.2%.

The results of these tests did not bring to light any impairment of the goodwill of the Lovato Gas S.p.A. and AEB S.p.A. CGUs.

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

(Thousands of Euro)

Subsidiary company	Surplus of recoverable value over book value	Terminal value growth rate %	Discount rate including tax %
Lovato Gas S.p.A.	1,450	3.45	9.60
AEB S.p.A.	12,179	negative	8.15

5. OTHER INTANGIBLE ASSETS WITH FINITE USEFUL LIVES

Changes in other intangible assets with finite useful lives that occurred during the year are shown in detail below (thousands of Euro):

(Thousands of Euro)

	Net Value at 31/12/2015	Acquisitions	Amortization amounts	Other changes	Net Value at 31/12/2016
Patents and intellectual property rights	1,086	234	-623	-52	645
Concessions and trademarks	21,610	184	-2,038	-42	19,714
Total	**22,696**	**418**	**-2,661**	**-94**	**20,359**

Intangible assets decreased from Euro 22,696 thousand at 31 December 2015 to Euro 20,359 thousand at 31 December 2016, 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. This item is represented primarily by the Lovato trademark, for Euro 9,159 thousand, the AEB and 18Sound trademarks, for Euro 8,558 thousand, and minor trademarks, stated at fair value at the moment of the purchase on the basis of valuations made by independent professionals, minus accumulated amortization. These values are amortized over 18 years, the period deemed to represent the useful lifetime of the trademarks, with the exception of the minor trademarks, which are amortized over a useful lifetime of seven years.

6. EQUITY INVESTMENTS CONSOLIDATED USING THE EQUITY METHOD

This item includes the value of the stakes held by the Landi Renzo Group in the Joint Venture Krishna Landi Renzo Prv Ltd, equal to Euro 43 thousand (Euro 109 thousand at 31 December 2015), obtained with application of the equity method. The change compared with the previous year was due to the accounting of the loss for the period of the joint venture attributable to the Group.

7. OTHER NON-CURRENT FINANCIAL ASSETS

The item Other non-current financial assets, totalling Euro 664 thousand (Euro 574 thousand at 31 December 2015) rose by Euro 90 thousand and principally includes the stake in the companies Sound & Vision S.r.l., Joint Venture EFI Avtosanoat Landi Renzo LLC in Uzbekistan and Landi Renzo Argentina S.r.l., which were not consolidated due to their minor importance, and several guarantee deposits. Said items are stated at purchase cost, adjusted for any long-term impairment, which represents their fair value.

8. DEFERRED TAX ASSETS

In application of IAS 12, par. 74, in 2016, and as a result also for 2015 to ensure greater comparability, deferred tax assets were offset with deferred tax liabilities as:

(i) the entity has a right to set off current tax assets against current tax liabilities; and

(ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

This item is shown in detail below (thousands of Euro):

Deferred tax assets and liabilities	31/12/2016	31/12/2015	Change
Prepaid taxes	12,467	13,779	-1,312
Deferred taxes	-5,580	-6,164	584
Total net deferred tax assets	**6,887**	**7,615**	**-728**

The following table shows the values of the offsettable deferred tax assets and liabilities and their movements from 31 December 2015 to 31 December 2016 (in thousands of Euro):

Deferred tax assets	Deferred tax assets 31/12/2015	Uses	Devaluation	Temporary changes	Other changes	Deferred tax assets 31/12/2016
Goodwill and flat-rate tax	2,256	-381		303		2,178
Temporary changes	3,812	-659		1,382		4,535
Other deferred tax assets	935			8	-175	768
Tax losses	6,775		-1,790			4,985
a) Total deferred tax assets	**13,779**	**-1,040**	**-1,790**	**1,693**	**-175**	**12,467**
Deferred tax liabilities	**Deferred tax liabilities 31/12/2015**	**Uses**	**Devaluation**	**Temporary changes**	**Other changes**	**Deferred tax liabilities 31/12/2016**
Adjustments for consolidation and IFRS compliance	171				-25	146
Contract completion evaluation	243	-242		85		86
Other temporary changes	475	-65				410
Intangible assets	5,275	-485			148	4,938
b) Total deferred tax liabilities	**6,164**	**-792**		**85**	**123**	**5,580**
a-b) Total net deferred tax assets	**7,615**	**-254**	**-1,790**	**1,608**	**-298**	**6,887**

In particular, deferred tax assets, totalling Euro 12,467 thousand (Euro 13,779 thousand at 31 December 2015), related both to temporary differences between the book values of assets and liabilities on the balance sheet and the corresponding tax values recognized and to the losses from the national consolidation tax scheme of years prior to 2016 deemed to be recoverable on the basis of the company plans identified by the Board of Directors through the approval of the updated 2016-2020 Business Plan, the realization of which is subject to the intrinsic risk of non-implementation inherent in its provisions.

Concerning recoverability of deferred tax assets already set aside by the Group at 31 December 2015 for years prior to the introduction of tax consolidation and for some foreign subsidiaries, taking the results of the analysis performed into account, the Group registered an adjustment in the value of deferred tax assets at 31 December 2016 totalling Euro 1,790 thousand.
In addition, for reasons of prudence the Group decided not to recognize any provision for deferred tax assets on tax losses for the year.

In consideration of this, at 31 December 2016, the Group had tax losses that could be carried forward indefinitely exceeding Euro 30 million, for which deferred tax assets were not recognized.

At 31 December 2016 offsettable deferred tax liabilities totalled Euro 5,580 thousand (Euro 6,164 thousand at 31 December 2015), with a decrease of Euro 584 thousand, and are primarily related to temporary differences between the book values of certain tangible and intangible assets and the values recognized for tax purposes.

CURRENT ASSETS

9. TRADE RECEIVABLES (including related parties)

Trade receivables (including trade receivables due from related parties), stated net of the related depreciation fund, are analysed by geographical segment as follows (Thousands of Euro):

(Thousands of Euro)

Trade receivables by geographical area	31/12/2016	31/12/2015	Change
Italy	10,244	10,139	105
Europe (excluding Italy)	10,620	8,121	2,499
America	12,326	10,280	2,046
Asia and Rest of the World	11,196	11,182	14
Provision for bad debts	-6,835	-5,958	-877
Total	**37,551**	**33,764**	**3,787**

Trade Receivables totalled Euro 37,551 thousand at 31 December 2016, net of the Provision for Bad Debts equal to Euro 6,835 thousand, compared with Euro 33,764 thousand at 31 December 2015, a value net of a provision for bad debts of Euro 5,958 thousand.

The Group carried out assignment of trade receivables through factoring without recourse and, at 31 December 2016, the amount of assignments with credit maturity, for which there was derecognition of the related receivables, decreased significantly from Euro 35,542 thousand at 31 December 2015 to Euro 22,196 thousand at 31 December 2016, also in relation to the decline in sales.

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

Receivables from related parties totalled Euro 1,998 thousand compared with Euro 2,424 thousand at 31 December 2015 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 42.

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	31/12/2015	Allocation	Uses	Other changes	31/12/2016
Provision for bad debts	5,958	1,809	-1,019	87	6,835

The allocations made during the period, necessary in order to adjust the book value of receivables to their assumed realization value, totalled Euro 1,809 thousand (compared with Euro 701 thousand for 2015). Uses during the year, on the other hand, totalled Euro 1,019 thousand, compared with Euro 608 thousand in the previous year.

In accordance with the requirements of Accounting Standard IFRS 7, the following table provides information on the maximum credit risk divided by past due credit classes, gross of the bad debt reserve:

(Thousands of Euro)

Past due					
	Not past due	0-30 days	30-60 days	60 and beyond	Bad debt provision
Trade receivables at 31/12/2016	33,240	3,025	1,057	7,064	-6,835
Trade receivables at 31/12/2015	26,294	2,974	1,160	9,294	-5,958

It is considered that the book value of the item Trade Receivables approximates the fair value thereof.

10. INVENTORIES

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)

Inventories	31/12/2016	31/12/2015	Change
Raw materials and parts	37,136	39,962	-2,826
Work in progress and semi-finished products	8,009	8,011	-2
Finished products	12,959	14,917	-1,958
(Inventory write-down reserve)	-8,232	-5,362	-2,870
Total	**49,872**	**57,528**	**-7,656**

Closing inventories at 31 December 2016 totalled Euro 49,872 thousand, net of the inventory write-down reserve totalling Euro 8,232 thousand, and recorded a decrease of Euro 7,656 thousand compared with 31 December 2015, when they totalled Euro 57,528 thousand, due to the benefits deriving from an operating plan based on reduction of stocks, implemented during the year, in addition to an increase in the write-down reserve of Euro 2,870 thousand.

The Group estimated the amount of an inventory write-down reserve, the details of which are provided below, to cover risks of technical obsolescence of stocks and to align the book value to their presumed realization value

(Thousands of Euro)

Inventory write-down reserve	31/12/2015	Allocation	Uses	Other changes	31/12/2016
Inventory write-down reserve (raw materials)	3,618	2,624	-38	-32	6,172
Inventory write-down reserve (finished products In progress)	684	5		2	691
Inventory write-down reserve (finished products)	1,060	342	-16	-17	1,369
Inventory write-down reserve – total	**5,362**	**2,971**	**-54**	**-47**	**8,232**

Allocations, amounting to Euro 2,971 thousand, were recognized for inventory items with a slow turnaround; an additional non-recurring provision of Euro 1,000 thousand was recognized in relation to defects in some components used for specific automotive supplies on engines no longer manufactured. Use of Euro 54 thousand relates to disposal of obsolete mechanical components, for insignificant amounts.

11. WORK IN PROGRESS ON ORDERS

This item refers to orders for compressors of SAFE S.p.A. in progress at 31 December 2016, measured using the cost to cost method for a total amount of Euro 1,281 thousand, a decrease of Euro 1,623 thousand compared with the previous year.

12. OTHER RECEIVABLES AND CURRENT ASSETS

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)

Other receivables and current assets	31/12/2016	31/12/2015	Change
Tax assets	6,229	10,881	-4,652
Receivables from others	2,525	3,125	-600
Accruals and deferrals	1,328	2,341	-1,013
Total	**10,082**	**16,347**	**-6,265**

It is considered that the book value attributed to the item “Other Receivables and Current Assets” approximates their fair value.

Tax assets

Tax assets consist primarily of VAT recoverable from the tax authorities for Euro 4,376 thousand, including Euro 569 thousand requested as a refund. The remaining part refers to income tax credit due to a surplus of advance payments made during the previous years by the Italian companies of the Group, as well as, on a residual basis, other specific tax credit attributable to the Group's foreign subsidiaries. The item also includes the amount due as an IRES refund relating to the IRAP deduction pursuant to Legislative Decree 201/2011 totalling Euro 380 thousand.

Receivables from others

At 31 December 2016, 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	31/12/2016	31/12/2015	Change
Advances to suppliers	945	947	-2
Receivables from social security institutes	226	769	-543
Credit notes to be received	759	893	-134
Other receivables	595	516	80
Total	**2,525**	**3,125**	**-600**

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.

The decrease of Euro 1,013 thousand is attributable primarily to costs for commercial services sustained early with a car manufacturer for supplies of Euro 6 gas systems.

13. CASH AND CASH EQUIVALENTS

This item, consisting of the positive balances of bank current accounts and cash in hand in both Euro and foreign currency, is shown in detail below (thousands of Euro):

(Thousands of Euro)

Cash and cash equivalents	31/12/2016	31/12/2015	Change
Bank and post office accounts	16,406	38,222	-21,816
Cash	78	42	36
Total	**16,484**	**38,264**	**-21,780**

Cash and cash equivalents at 31 December 2016 totalled Euro 16,484 thousand (Euro 38,264 thousand at 31 December 2015).

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

It is considered that the book value of the item "Cash and cash equivalents", not subject to a significant risk of changes in value, is aligned with its fair value at the date of the financial statements.

The credit risk relating to Cash and cash equivalents is therefore deemed to be limited since the deposits are split over primary national and international banking institutions.

14. EQUITY

The following table shows the items of consolidated equity at 31 December 2016 (in thousands of Euro):

(Thousands of Euro)

Shareholders' equity	31/12/2016	31/12/2015	Change
Share capital	11,250	11,250	0
Other reserves	59,400	95,428	-36,028
Profit (loss) for the period	-25,245	-35,288	10,043
Total Group equity	**45,405**	**71,390**	**-25,985**
Capital and Reserves attributable to minority interests	436	724	-288
Profit (loss) attributable to minority interests	-759	-299	-460
Total Minority Interests	**-323**	**425**	**-748**
Total Consolidated Equity	**45,082**	**71,815**	**-26,733**

The share capital stated in the Financial Statements at 31 December 2016 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.

Consolidated shareholders' equity at 31 December 2016 showed a decrease of Euro 26,733 thousand compared with 31 December 2015, primarily as a result of the loss for the period:

The other reserves are shown in detail below:

(Thousands of Euro)

Other reserves	31/12/2016	31/12/2015	Change
Statutory Reserve	2,250	2,250	0
Extraordinary and Other reserves	10,552	46,580	-36,028
Share premium reserve	46,598	46,598	0
Total Other Reserves of the Group	**59,400**	**95,428**	**-36,028**

The balance of the Statutory Reserve at 31 December 2016 totalled Euro 2,250 thousand and

remains unchanged since it has reached one fifth of the share capital. The Extraordinary Reserve and the other reserves refer to the profits recorded by the Group in previous years and decreased by Euro 36,028 thousand, mainly as a result of the previous year's loss.
The Share Premium Reserve originated as a result of the floatation on the stock market for an amount equal to Euro 46,598 thousand, net of the related costs.
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

15. BANK LOANS

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)

Non-current bank loans	31/12/2016	31/12/2015	Change
Loans and financing	18,687	11,935	6,752

This item includes the medium/long term portion of bank debts for unsecured loans and finance. It totalled Euro 18,687 thousand at 31 December 2016, compared with Euro 11,935 thousand at 31 December 2015.

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.
Note that the medium-term amounts of loans and of the “LANDI RENZO 6.10% 2015-2020” bonded loan with financial covenants were stated under current liabilities at 31 December 2015, in accordance with the accounting standards of reference, due to misalignments with the parameters set. In consideration of the fact that the Group companies were issued letters of waiver and also following the resolution of the bondholders' meeting on 7 March 2016, which voted to change the loan regulations, deferring measurement of the parameters to 31 December 2016, these amounts have been reclassified according to their contractual maturity dates.

Please also note that on 31 December 2016, all banking institutions released specific waivers in relation to the measurement of financial parameters and non-payment of the principal loan instalments maturing in November and December 2016, while the Bondholders' Meeting of 30 December 2016 amended the Loan Regulations and in turn released waivers with respect to the non-payment of the instalment due on 31 December 2016 as well as the measurement of financial parameters.

The Annual repayment plan for the medium/long-term loans, based on the balances at 31 December 2016, is shown below, along with the proposed rescheduling laid out in the Financial Structure Optimization Agreement, described in the "Going Concern" section.

Maturities	Annual loan repayment instalments pre-agreement	Annual loan repayment instalments post-agreement
2017	14,539	336
Total current	**14,539**	**336**
2018	12,075	6,175
2019	4,617	3,567
2020	1,994	4,760
2021	0	7,140
2022	0	11,247
Total non-current	**18,686**	**32,889**
Total	**33,225**	**33,225**

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 non-current bank loans is aligned with their fair value at the date of the financial statements.

At 31 December 2016, the Group had the following further short-term credit facilities, available but not used:

(Thousands of Euro)

Credit facilities	2016
Cash facility	4,252
Facility for various uses	33,308
Total	**37,560**

16. OTHER NON-CURRENT FINANCIAL LIABILITIES

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)

Other non-current financial liabilities	31/12/2016	31/12/2015	Change
Payables to other financial backers	1,048	1,468	-420
Bonded loan MT Landi Renzo 6.10% 2015-2020	21,764		21,764
Total	**22,812**	**1,468**	**21,344**

At 31 December 2016, other non-current financial liabilities totalled Euro 22,812 thousand (Euro 1,468 thousand at 31 December 2015) and are formed of:

- Euro 1,048 thousand for the long-term portions of the three tranches of a loan granted to the Parent Company by Simest S.p.A. in September 2013, December 2014 and November 2015, to support a plan of expansion of business activities in the USA, for a resolved total amount of Euro 2,203 thousand, in accordance with specific requirements;
- Euro 21,764 thousand for the medium/long-term portion of the "LANDI RENZO 6.10% 2015-2020" bonded loan; at 31 December 2015, the entire amount of the bonded loan was stated under other current financial liabilities, in accordance with the accounting standards of reference, due to misalignments with the financial parameters set.

The above-mentioned Financial Structure Optimization Project also regarded the bond component of the Company's financial debt and rescheduled the repayment instalments; the financial covenants were also reviewed.

The Bondholders' Meeting of 30 December 2016 amended the Loan Regulations and in turn released waivers with respect to the non-payment of the instalment due on 31 December 2016 as well as the measurement of financial parameters.

At 30 June 2016, the Parent Company had duly repaid the instalment falling due for a total of Euro 2,040 thousand.

The timing for loan repayment through periodic amortization, at 31 December 2016, is reported in the table below:

(Thousands of Euro)

	2017	2018	2019	2020
Instalment amount repayment of Landi Renzo bonded loan	9,860	6,800	6,800	8,500

A new Bondholders' Meeting called for 30 March 2017, to finalize the Financial Structure Optimization Agreement of the Group, will be asked to decide on several changes to the loan regulations, particularly with regard to the review of financial covenants, the coupon rate and the repayment plan, as described in more detail in the Directors' Report on proposals concerning matters on the Meeting agenda, published on the company's website www.landirenzogroup.com in the Investor – debt and credit rating section.

In particular, as shown in the table below, the proposed repayment plan calls, in line with the cash generation objectives laid out in the Business Plan, for repayment instalments of an increasing amount on a half-yearly basis from 30 June 2018 to 31 December 2022, with an increase in the duration of the loan, originally established until 15 May 2020, to until 31 December 2022.

(Thousands of Euro)

	2018	2019	2020	2021	2022
Instalment amount repayment of Landi Renzo bonded loan	2,614	3,920	5,226	7,840	12,360

It is considered that the book value of other non-current financial liabilities is aligned with their fair value at the balance sheet date.

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	31/12/2015	Allocation	Utilization	Other changes	31/12/2016
Provision for product warranties	3,406	372	-421	-1	3,356
Provision for lawsuits in progress	281		-25	21	277
Provisions for pensions	80	8	-35	0	53
Other provisions	4,292	2,300	-1,318	13	5,287
Total	**8,059**	**2,680**	**-1,799**	**33**	**8,973**

The item “Provision for Product Warranties” includes the best estimate of the costs related to the commitments that the Group companies have incurred as an effect of legal or contractual provisions, in relation to the expenses connected with providing product warranties for a fixed period of time starting from the sale thereof. This estimate was calculated with reference to the historical data of the Group, on the basis of specific contractual content.

At 31 December 2016 this provision totalled Euro 3,356 thousand. The provision, totalling Euro 372 thousand, was stated on the income statement under the item “Accruals, write-downs and other operating expenses”.

Use of the risk provision totalling Euro 421 thousand is mainly due to the covering of warranty costs correlated with supplies of components in previous years.

The provision for lawsuits in progress, which relates to the probable payment for a dispute under way with a service provider declared bankrupt, was used in the amount of Euro 25 thousand to cover the first tranche of settlement costs incurred during the year.

The pensions reserve relates to the provision accrued for additional customer indemnity, including provisions for the year of Euro 8 thousand after utilization of Euro 35 thousand.

The item “Other reserves” also includes provisions of Euro 2,300 thousand recognized during the year under the item “Accruals, write-downs and other non-recurrent operating expenses”, since they relate to operations, as better described in the comments on the income statement in Note 30, which were non-recurrent, in accordance with the Consob definition indicated in Communication no. DEM/6064293 of 28-7-2006 and no. 0031948 of 10 March 2017.

Uses of other provisions mainly include Euro 910 thousand to cover costs relating to the employee mobility procedure and Euro 342 thousand to cover non-recurrent costs previously recognized in the provision.

18. DEFINED BENEFIT PLANS FOR EMPLOYEES

This item includes the employee severance indemnity funds set up by the Italian companies in compliance with the regulations in force, as well as by the Pakistani company. The following is the overall change in defined benefit plans for employees (thousands of Euro):

(Thousands of Euro)

Employee defined benefit plans	31/12/2015	Allocation	Utilization	Other changes	31/12/2016
Employee severance indemnity reserve	3,313	142	-515	184	3,124

The provision of Euro 142 thousand relates to revaluation of the employee severance indemnity reserve at the end of the period, while use of Euro 515 thousand refers to the amounts paid to employees who ceased to work for the Group. The other changes relate primarily to actuarial adjustment of the reserve. The amount of Euro 127 thousand, relating to discounting of defined benefit plans according to IAS 19, has been stated under the item Other Reserves and expressed in other components of the Statement of Comprehensive Income.

The main economic and financial assumptions used by the actuary in charge of estimates, methodologically unchanged since the previous year, are as follows:

Actuarial assumptions used for evaluations	31/12/2016
Demographic table	SIM AND SIF 2015
Discount rate (Euro Swap)	Curve of the Markit iBoxx € Corporate AA 10+ rates at 31/12/2016
Probability of request for advance	1.4% - 4%
Expected % of employees who will resign before pension	5.8% - 6.9%
Maximum % of TFR requested in advance	70%
Annual cost of living increase rate	1.5%

19. DEFERRED TAX LIABILITIES

At 31 December 2016 deferred tax liabilities that do not meet the offsetting requirements for the purposes of IAS 12, par. 74, totalled Euro 514 thousand (Euro 527 thousand at 31 December 2015) with a decrease equal to Euro 13 thousand, and are primarily related to temporary differences between the book values of certain intangible assets and the values recognized for tax purposes.

The following table shows the values of the deferred tax liabilities and their movements from 31 December 2015 to 31 December 2016 (in thousands of Euro):

Deferred tax liabilities	Deferred tax liabilities 31/12/2015	Uses	Temporary changes	Other changes	Deferred tax liabilities 31/12/2016
Intangible assets	526	-35		15	506
Other temporary changes	1		7		8
Total deferred tax assets	**527**	**-35**	**7**	**15**	**514**

CURRENT LIABILITIES

20. BANK OVERDRAFTS AND SHORT-TERM LOANS

At 31 December 2016 this item, totalling Euro 40,662 thousand, compared with Euro 50,797 thousand in 2015, was made up of the current portion of existing loans and financing totalling Euro 14,539 thousand and use of short-term commercial credit lines totalling Euro 26,123 thousand.

As already described in note 15, the medium-term amounts of loans with financial covenants were stated under current liabilities at 31 December 2015, in accordance with the accounting standards of reference, due to misalignments with the financial parameters set. In consideration of the fact that the Company was issued letters of waiver, these amounts have been reclassified according to their contractual maturity dates.

Note that the loans are not secured by guarantees, are at variable rate and are not covered by derivatives.

A breakdown of the net financial position of the Company is provided below (thousands of Euro):

(thousands of Euro)	31/12/2016	31/12/2015
Cash and cash equivalents	16,484	38,264
Bank overdrafts and short-term loans	-40,662	-50,797
Bonds issued (net value)	-9,614	-33,098
Short-term loans	-425	-425
Net short term indebtedness	**-34,217**	**-46,056**
Bonds issued (net value)	-21,764	
Medium-Long term loans	-19,735	-13,403
Net medium-long term indebtedness	**-41,499**	**-13,403**
Net financial position	**-75,716**	**-59,459**

The net financial position at 31 December 2016 is negative for Euro 75,716 thousand compared with a negative net financial position at 31 December 2015 of Euro 59,459 thousand.

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

At 31 December 2016, other current financial liabilities totalled Euro 10,039 thousand (Euro 33,523 thousand at 31 December 2015) and are mainly formed of:

- Euro 9,614 thousand for the short-term portion of the "LANDI RENZO 6.10% 2015-2020" bonded loan;
- Euro 419 thousand in the short-term portion of a subsidized loan disbursed by Simest S.p.A. to support a plan to expand trade in the USA.

As described in notes 15 and 16, the medium-term amounts of the "LANDI RENZO 6.10% 2015-2020" bonded loan with financial covenants were stated under other current financial liabilities at 31 December 2015, in accordance with the accounting standards of reference, due to misalignments with the parameters set. In consideration of the resolution of the bondholders' meeting on 7 March 2016, which voted to change the loan regulations, deferring measurement of the parameters to 31 December 2016, this amount has been reclassified according to the maturity dates set forth in the updated loan regulations. As regards obtaining the waiver relating to the measurement of financial parameters at 31 December 2016, please refer to note 16 "Other non-current financial liabilities".

22. TRADE PAYABLES (including related parties)

Trade payables at 31 December 2016 totalled Euro 53,090 thousand; at 31 December 2015, they totalled Euro 58,351 thousand, and therefore decreased by Euro 5,261 thousand.

Trade payables (including trade payables to related parties) are shown divided by geographical area below (thousands of Euro):

(Thousands of Euro)

Trade payables by geographical area	31/12/2016	31/12/2015	Change
Italy	40,466	45,268	-4,802
Europe (excluding Italy)	9,263	8,377	886
America	737	1,602	-865
Asia and Rest of the World	2,624	3,104	-480
Total	**53,090**	**58,351**	**-5,261**

Trade payables to related parties of Euro 4,171 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 42.
It is considered that the book value of the trade payables at the balance sheet date approximates their fair value.

23. TAX LIABILITIES

At 31 December 2016 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 2,604 thousand, compared with Euro 4,990 thousand at 31 December 2015.

24. OTHER CURRENT LIABILITIES

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)

Other current liabilities	31/12/2016	31/12/2015	Change
Payables to welfare and social security institutes	2,136	2,101	35
Other payables (payables to employees, to others)	3,098	5,002	-1,904
Payments on account	1,198	1,483	-285
Accrued expenses and deferred income	218	299	-81
Total	**6,650**	**8,885**	**-2,235**

The item “Other Payables” includes mainly amounts due to employees for current and deferred remuneration, as well as to directors for fees; the decrease was caused primarily by the decline in payables to employees as a result of the redundancy payments agreed with the trade unions as part of the voluntary mobility plan completed in the course of 2016.
The item “Payments on account” relates principally to payments on account made by customers on orders received by the company SAFE and on supplies of conversion plants.

INCOME STATEMENT

25. REVENUES (including related parties)

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)

Revenues from sales and services	31/12/2016	31/12/2015	Change
Revenues related to the sale of assets	177,322	200,320	-22,998
Revenues for services and other revenues	6,920	5,202	1,718
Total	**184,242**	**205,522**	**-21,280**

In 2016, the Landi Renzo Group achieved revenues on sales and services of Euro 184,242 thousand, a decrease of 10.4% over the previous year. The item "Revenues for services and other revenues" includes revenues for services rendered and for technical consultancy supplied to third parties by the companies of the Group.

See the section "Analysis of revenues" of the Report on Operating Performance for further details on performance of revenues on sales.

26. OTHER REVENUES AND INCOME

(Thousands of Euro)

Other revenues and income	31/12/2016	31/12/2015	Change
Grants	96	30	66
Other income	1,121	1,853	-732
Total	**1,217**	**1,883**	**-666**

Other revenues and income totalled Euro 1,217 thousand, compared with Euro 1,883 thousand at 31 December 2015.

The item grants relates to the tax credit on research and development.

Other income refers mainly to contingent gains in addition to capital gains on the sale of assets.

27. COST OF RAW MATERIALS, CONSUMABLES AND GOODS AND CHANGE IN INVENTORIES

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)

Cost of raw materials, consumables and goods and change in inventories	31/12/2016	31/12/2015	Change
Raw materials and parts	78,108	83,606	-5,498
Finished products intended for sale	13,349	13,707	-358
Other materials and equipment for use and consumption	2,779	3,126	-347
Total	**94,236**	**100,439**	**-6,203**

Total costs for consumption of raw materials, consumables and goods (including the change in inventories) decreased from Euro 100,439 thousand at 31 December 2015 to Euro 93,236 thousand at 31 December 2016, a decline of Euro 6,203 thousand in connection with revenue trends.

The item "Raw materials and parts" includes a provision of Euro 1,000 thousand correlated with defects in some components used for specific automotive supplies on engines no longer manufactured.

28. COSTS FOR SERVICES AND USE OF THIRD PARTY ASSETS (including related parties)

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)

Costs for services and use of third party assets	31/12/2016	31/12/2015	Change
Industrial and technical services	27,242	31,621	-4,379
Commercial services	5,750	7,858	-2,108
General and administrative services	10,804	11,855	-1,051
Costs for use of non-Group assets	5,460	5,853	-393
Non-recurrent costs for services and use of third party assets	2,345	1,296	1,049
Total	**51,601**	**58,483**	**-6,882**

Costs for services and the use of third party assets at 31 December 2016 totalled Euro 51,601 thousand, compared to Euro 58,843 thousand at 31 December 2015, with a decrease of Euro

6,882 thousand.

The decrease in costs for industrial and technical services is linked primarily to the reduction in external processing and installations of gas systems and also to the fall in production overheads, while the decrease in commercial costs and G&A services is attributable to the reduction in direct commercial costs and the fall in general administrative costs.

The item Costs for services and use of third party assets lastly includes, for the non-recurrent part of the item, business costs sustained for agreements with some car manufacturers, which, due to their specific nature, do not reoccur frequently, as well as other costs for services relating to the optimization of the Group’s financial structure.

29. PERSONNEL EXPENSES

Personnel expenses are shown in detail below (thousands of Euro):

(Thousands of Euro)

Personnel cost	31/12/2016	31/12/2015	Change
Wages and salaries	23,358	26,616	-3,258
Social security contributions	7,684	8,769	-1,085
Expenses for defined benefit plans	1,731	1,940	-209
Temporary and transferred work	2,737	2,516	221
Directors’ remuneration	854	955	-101
Non-recurrent personnel costs and expenditure	0	3,058	-3,058
Total	**36,364**	**43,854**	**-7,490**

In the year ending at 31 December 2016, personnel expenses totalled Euro 36,364 thousand, compared with personnel expenses of Euro 43,854 thousand in the year ending at 31 December 2015.

The reduction is attributable both to a company solidarity agreement started from the third quarter of the previous year signed by the Parent Company and by the subsidiary AEB S.p.A. and still in progress at year end and to the effects of a mobility and voluntary redundancy scheme started in November 2015 and completed towards the end of the first half of 2016, the costs of which were already stated on the 2015 financial statements.

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		Change	Precise		Change
Number of employees	**31/12/2016**	**31/12/2015**		**31/12/2016**	**31/12/2015**	
Executives and Clerical Staff	498	572	-74	484	543	-59
Operatives	299	321	-22	297	303	-6
Total	**797**	**893**	**-96**	**781**	**846**	**-65**

The decrease in the number of employees at the end of the year was the result of resignations, voluntary redundancy payments and the voluntary mobility procedure.

30. ACCRUALS, WRITE-DOWNS AND OTHER OPERATING EXPENSES

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)

Accruals, write-downs and other operating expenses	31/12/2016	31/12/2015	Change
Other taxes and duties	255	340	-85
Other operating expenses	1,248	1,229	19
Provision for product warranties	372	844	-472
Losses on receivables	176	99	77
Bad debts	1,809	701	1,108
Accruals, write-downs and other non-recurrent operating expenses	2,300	2,700	-400
Total	**6,160**	**5,913**	**247**

The costs included in this item totalled Euro 6,160 thousand at 31 December 2016, compared with Euro 5,913 thousand at 31 December 2015, with an increase of Euro 247 thousand.

The item “Accruals, write-downs and other non-recurrent operating expenses”, of Euro 2,300 thousand, relates to business agreements which, due to their specific nature, do not recur frequently in the normal run of things and for which a future use of resources, also correlated with material assets used in the Automotive segment, to satisfy the relative obligations appears likely.

31. AMORTIZATION, DEPRECIATION AND IMPAIRMENT

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)

Amortization, depreciation and impairment	31/12/2016	31/12/2015	Change
Impairment of goodwill and other intangible assets	305	10,178	-9,873
Amortization of intangible assets	7,191	6,966	225
Depreciation of tangible assets	8,522	8,463	59
Impairment of tangible assets	0	10	-10
Total	**16,018**	**25,617**	**-9,599**

Amortization, depreciation and impairment at 31 December 2016 totalled Euro 16,018 thousand, compared with Euro 25,617 thousand at 31 December 2015.

The amortization of intangible assets, of Euro 7,191 thousand, refers primarily to the amortization of development and design expenditure incurred by the Group, costs for the purchase and registration of trademarks, patents and licenses and software programs (applications and management) purchased over time.

Depreciation of tangible assets, totalling Euro 8,522 thousand, refers to plant and machinery, including automated lines, for production, assembly and testing of the products, to industrial and commercial equipment, to moulds for production, to testing and control instruments and to electronic processors.

The impairment of intangible assets relates to impairment of the stakes in the companies SAFE Gas Pte. Ltd. with registered office in Singapore (Euro 248 thousand) and Landi Renzo Argentina S.r.l. (Euro 57 thousand).

At 31 December 2015, this item included the adjustment of the value of goodwill relating to the Lovato Gas S.p.A. CGU (Euro 7,300 thousand) as well as the goodwill of the Landi Renzo S.p.A. CGU (formerly MED; Euro 2,548 thousand).

32. FINANCIAL INCOME

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)

Financial income	31/12/2016	31/12/2015	Change
Interest income on bank deposits	46	326	-280
Other income	71	86	-15
Total	**117**	**412**	**-295**

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 2016 they amount to Euro 117 thousand, compared with Euro 412 thousand at 31 December 2015.

33. FINANCIAL CHARGES

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)

Financial charges	31/12/2016	31/12/2015	Change
Interest on bank overdrafts and loans and loans from other financiers	4,035	3,939	96
Bank charges and commissions	1,113	1,018	95
Other operating expenses	13	9	4
Total	**5,161**	**4,966**	**195**

Financial charges essentially include bank interest charges, interest on bonds and non-recourse factoring, actuarial expenses deriving from discounting of the employee severance indemnity reserve and bank charges.

Financial charges at 31 December 2016 totalled Euro 5,161 thousand, compared with Euro 4,966 thousand at 31 December 2015, an increase of Euro 195 thousand deriving principally from interest charges on the bonded loan issued by the Parent Company in May 2015, partially offset by lower interest charges recorded for loans and bank financing.

34. EXCHANGE RATE GAINS AND LOSSES

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)

Exchange gains and losses	31/12/2016	31/12/2015	Change
Positive exchange differences realized	1,468	1,854	-386
Positive exchange differences from valuation	1,105	2,154	-1,049
Negative exchange differences realized	-819	-2,120	1,301
Negative exchange differences from valuation	-850	-2,818	1,968
Total	**904**	**-930**	**1,834**

The Group realizes its revenues mainly in Euro.

The impact of exchange rate differences on the year was positive and totalled Euro 904 thousand, compared with exchange losses of Euro 930 thousand in 2015.

The change is primarily related to the depreciation of the Euro with respect to other currencies, particularly the Brazilian real, and mainly originates from the payment of payables of the Brazilian subsidiary to the Group's Italian companies.

At 31 December 2016, the Group did not have financial instruments covering 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	31/12/2016 Book value	31/12/2015 Book value
Interest income on cash and cash equivalents	46	326
Interest expenses from financial liabilities valued at the amortized cost	-4,035	-3,939
Exchange gains (losses)	904	-930
Total	**-3,085**	**-4,543**

35. PROFIT (LOSS) FROM EQUITY INVESTMENTS MEASURED USING THE EQUITY METHOD

This item, totalling Euro 66 thousand, represents the loss deriving from measurement using the equity method of the Group stake in the joint venture Krishna Landi Renzo India Private Ltd Held.

36. TAXES

The theoretical rate used for the calculation of taxes on the income of Italian companies is 27.9% of the taxable income for the year. The taxes of the foreign companies are calculated according to the rates applicable in the respective countries.

Income taxes are shown in detail below (thousands of Euro):

(Thousands of Euro)

Taxes	31/12/2016	31/12/2015	Change
Current taxes	1,770	-3,551	5,321
Deferred (prepaid) taxes	1,108	6,465	-5,357
Total	**2,878**	**2,914**	**-36**

Taxes totalled Euro 2,878 thousand at 31 December 2016, compared with Euro 2,914 thousand at 31 December 2015, marking a decline of Euro 36 thousand.

Please note, as already highlighted in note 8 “deferred tax assets”, that for reasons of prudence the Group decided not to recognize any provision for deferred tax assets on tax losses for the year.

Current taxes are shown in detail in the table below:

(Thousands of Euro)

Current taxes	31/12/2016	31/12/2015	Change
IRES	1,060	-4,001	5,061
IRAP	245	174	71
Current taxes of foreign companies	465	276	189
Total	**1,770**	**-3,551**	**5,321**

Income for current taxes recognized this year arose partly due to the recognition of the IRES tax benefit on the losses for the year.

The Italian companies of the Group have adhered to the National Tax Consolidation scheme since 2014, with consolidation by the Parent Company.

Deferred taxes amount to Euro 1,108 thousand and relate to deferred taxation on temporary differences.

37. EARNINGS (LOSS) PER SHARE

The “base” earnings/(loss) per share was calculated by relating the net profit/(loss) of the Group to the weighted average number of ordinary shares in circulation in the period (112,500,000). The loss per “base” share, which corresponds with the loss per “diluted” share, since there are no convertible bonds, was Euro -0.2244 at 31 December 2016, compared with a loss per share of Euro -0.3137 at 31 December 2015.

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	31/12/2016	31/12/2015
Consolidated profit/(loss) for the period attributable to the Parent Company (Euro/thousand)	-25,245	-35,288
Average number of shares in circulation	112,500,000	112,500,000
Basic earnings/(loss) per share for the period	-0.2244	-0.3137

OTHER INFORMATION

38. 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)	31/12/2016		31/12/2015	
	Book value	Fair value	Book value	Fair value
Receivables and other current assets	46,305	46,305	47,770	47,770
Cash and cash equivalents	16,484	16,484	38,264	38,264
Trade payables	59,522	59,522	66,937	66,937
Financial liabilities valued at the amortized cost - non-current portion	18,687	18,687	11,935	11,935
Financial liabilities valued at the amortized cost - current portion	50,701	50,701	84,320	84,320

Note that the book value of bank overdrafts and short-term loans and loans and financing approximates their fair value at 31 December 2016, since such classes of financial instruments are indexed at the Euribor market rate.

39. COMMITMENTS

At 31 December 2016, 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
Year 2016	4,499	11,499

40. 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 point 42, totalling Euro 4,278 thousand.

No sureties were provided for said contracts and there are no kinds of restrictions associated with these operating leases. At year's end, the minimum future payments for operating leases to be paid totalled Euro 4,499 thousand within one year and Euro 11,499 thousand between one and five years.

41. ANALYSIS OF THE MAIN DISPUTES IN PROGRESS

At 31 December 2016, the Group is involved in proceedings, brought both by and against it, for non-significant amounts.

The directors of the Parent Company, taking into account the status of proceedings under way and supported by the opinion of its legal advisers, on a dispute with the bankruptcy proceedings of a supplier of services, decided to maintain the provision for risks of Euro 175 thousand on the financial statements.

A number of Italian companies have disputes in progress with the Financial Authorities for which provisions have been prudentially set aside to cover the related potential liability.

42. TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties listed below include:

- relationships for supply of services between Gireimm S.r.l. and Landi Renzo S.p.A. for rent of the property used as the operational headquarters of the New Technical Centre of the Parent Company and the subsidiaries;
- relationships for supply of services between Gireimm S.r.l. and SAFE S.p.A. for rent on an industrial property in San Giovanni in Persiceto (BO), the headquarters of the Company;
- the service contracts between Gestimm S.r.l., a company in which a stake is held through the parent company Girefin S.p.A., and the company A.E.B. S.p.A. for rent of the property used as the operational headquarters of the subsidiary;
- the service contracts between Reggio Properties LLC, a company in which a stake is held through the parent company Girefin S.p.A., and Landi Renzo USA Corporation for the rents on properties used by the company;
- relationships for supply of services to the Pakistani company AutoFuels (held by a minority shareholder of the Pakistani subsidiary LR PAK), to the joint venture Krishna Landi Renzo India Private Ltd Held and to the joint venture EFI Avtosanoat-Landi Renzo LLC.

The Landi Renzo Group deals with related parties at conditions considered to be arm's length on the markets in question, taking account of the characteristics of the goods and the services supplied.

The following table summarizes the relationships with related parties (thousands of Euro):

(Thousands of Euro)

Incidence of Transactions with Related Parties	Total item	Absolute value related parties	%	Related party
a) incidence of the transactions or positions with related parties on balance sheet items				
Receivables from customers	37,551	1,998	5.3%	Autofuels, Krishna Landi Renzo, EFI Avtosanoat
Trade payables to suppliers	-53,090	-4,171	7.9%	Gireimm, Gestimm, Krishna Landi Renzo
b) incidence of the transactions or positions with related parties on income statement items				
Cost for services and use of third party assets	-51,601	-3,226	6.3%	Gireimm, Gestimm, Reggio Properties LLC, Krishna Landi Renzo, EFI Avtosanoat
Revenues from sales and services	184,242	391	0.2%	Krishna Landi Renzo, EFI Avtosanoat

Trade receivables from customers – related parties totalled Euro 1,998 thousand and relate to receivables from the Pakistani company AutoFuels (a wholly owned subsidiary of a minority shareholder of the subsidiary LR Pak, operating on the Pakistani market in the After Market channel), totalling Euro 400 thousand, receivables from the Joint Ventures Krishna Landi Renzo India Private Ltd Held for Euro 872 thousand and EFI Avtosanoat-Landi Renzo LLC for Euro 726 thousand.

Trade payables from related parties, totalling Euro 4,171 thousand, relate especially to payables in rent to Gireimm S.r.l. and Gestimm S.r.l.

Revenues from related parties, totalling Euro 391 thousand, relate to revenues from the joint ventures Krishna Landi Renzo India Private Ltd Held of Euro 119 thousand and EFI Avtosanoat-Landi Renzo LLC of Euro 272 thousand.

Costs for services and use of third party assets that refer to related parties totalled Euro 3,226 thousand and relate to the rental charges for the industrial property in Cavriago, headquarters of the Parent Company, and the part relating to the new Technical Centre, paid to Gireimm S.r.l.; the rental charge on the industrial property in Cavriago, headquarters of the subsidiary AEB S.p.A., paid to Gestimm S.r.l.; the rental charge on the industrial property in San Giovanni in Persiceto (BO) paid by Safe S.p.A. to Gireimm S.r.l.; the rental charge on the guesthouse property paid by Landi Renzo USA Co. to Reggio Properties LLC plus some costs for homologation services paid to Krishna Landi Renzo India Private Ltd Held.

43. NON-RECURRING SIGNIFICANT EVENTS AND OPERATIONS

Pursuant to Consob communication no. 6064293 of 28 July 2006, regarding non-recurrent significant events or transactions occurring during 2016, there are non-recurrent transactions, indicated in Notes 27, 28 and 30 of the Consolidated Income Statement, relating to the activation of a Group financial structure optimization project as well as the termination of agreements with some automobile manufacturers.

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.

44. 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.

45. SIGNIFICANT EVENTS OCCURRING AFTER THE CLOSE OF THE FINANCIAL YEAR

Please refer to the analysis provided in the Directors' Report and in the “Going Concern” section.

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 2016 Income Statement, made for services rendered by the auditing firm, and by entities belonging to its network, to the companies belonging to the Landi Renzo Group are listed below.

(Thousands of Euro)

Type of Services	Subject who provided the service	Recipient	Remuneration 2016
Auditing	PricewaterhouseCoopers S.p.A.	Parent Company	52
Other services	PricewaterhouseCoopers S.p.A. and PwC network	Parent Company	10

In addition, payments attributable to the year 2016 for services rendered by the previous auditing firm KPMG S.p.A. for the audit of the financial statements at 31 December 2015 and for services rendered by entities belonging to its network are listed below:

- Parent Company Auditing Euro 179 thousand;
- Subsidiary Auditing Euro 218 thousand;
- Parent Company Certification services Euro 2 thousand;
- Parent Company Other services Euro 209 thousand.

Annex 1

Consolidated Income Statement at 31/12/2016, 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	31/12/2016	of which transactions with related parties	Weight %	31/12/2015	of which transactions with related parties	Weight %
Revenues from sales and services	25	184,242	391	0.2%	205,522	161	0.1%
Other revenues and income	26	1,217			1,883		
Cost of raw materials, consumables and goods and change in inventories	27	-94,236			-100,439		
of which non-recurring		*-1,000*					
Costs for services and use of third party assets	28	-51,601	-3,226	6.3%	-58,483	-3,107	5.3%
of which non-recurring	28	*-2,345*			*-1,296*		
Personnel cost	29	-36,364			-43,854		
of which non-recurring	29	-			*-3,058*		
Provisions, provision for bad debts and other operating expenses	30	-6,160			-5,913		
of which non-recurring	30	*-2,300*			*-2,700*		
Gross operating profit		**-2,902**			**-1,284**		
Amortization, depreciation and impairment	31	-16,018			-25,617		
of which non-recurring	31	-			*-10,178*		
Net Operating Profit		**-18,920**			**-26,901**		
Financial income	32	117			412		
Financial charges	33	-5,161			-4,966		
Exchange gains (losses)	34	904			-930		
Gain (loss) on equity investments valued using the equity method	35	-66			-288		
Profit (Loss) before tax		**-23,126**			**-32,673**		
Current and deferred taxes	36	-2,878			-2,914		
Net profit (loss) for the Group and minority interests, including:		**-26,004**			**-35,587**		
Minority interests		-759			-299		
Net profit (loss) for the Group		-25,245			-35,288		
Basic earnings (loss) per share (calculated on 112,500,000 shares)	37	-0.2244			-0.3137		
Diluted earnings (loss) per share		-0.2244			-0.3137		

Annex 2

Statement of Financial Position at 31/12/2016, 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).

(Thousands of Euro)

ASSETS	Notes	31/12/2016	of which transactions with related parties	Weight %	31/12/2015	of which transactions with related parties	Weight %
Non-current assets							
Land, property, plant and equipment	2	30,500			35,364		
Development expenditure	3	8,420			8,404		
Goodwill	4	30,094			30,094		
Other intangible assets with finite useful lives	5	20,359			22,696		
Equity investments valued using the equity method	6	43			109		
Other non-current financial assets	7	664			574		
Prepaid taxes	8	6,887			7,615		
Total non-current assets		**96,967**			**104,856**		
Current assets							
Receivables from customers	9	37,551	1,998	5.3%	33,764	2,424	7.2%
Inventories	10	49,872			57,528		
Contract work in progress	11	1,281			2,904		
Other receivables and current assets	12	10,082			16,347		
Cash and cash equivalents	13	16,484			38,264		
Total current assets		**115,270**			**148,807**		
TOTAL ASSETS		**212,237**			**253,663**		

(Thousands of Euro)

EQUITY AND LIABILITIES	Notes	31/12/2016	of which transactions with related parties	Weight %	31/12/2015	of which transactions with related parties	Weight %
Shareholders' equity							
Share capital	14	11,250			11,250		
Other reserves	14	59,400			95,428		
Profit (loss) for the period	14	-25,245			-35,288		
Total Equity attributable to the Group		**45,405**			**71,390**		
Minority interests		-323			425		
TOTAL EQUITY		**45,082**			**71,815**		
Non-current liabilities							
Non-current bank loans	15	18,687			11,935		
Other non-current financial liabilities	16	22,812			1,468		
Provisions for risks and charges	17	8,973			8,059		
Employee defined benefit plans	18	3,124			3,313		
Deferred tax liabilities	19	514			527		
Total non-current liabilities		**54,110**			**25,302**		
Current liabilities							
Bank overdrafts and short-term loans	20	40,662			50,797		
Other current financial liabilities	21	10,039			33,523		
Trade payables to suppliers	22	53,090	4,171	7.9%	58,351	2,091	3.6%
Tax liabilities	23	2,604			4,990		
Other current liabilities	24	6,650			8,885		
Total current liabilities		**113,045**			**156,546**		
TOTAL EQUITY AND LIABILITIES		**212,237**			**253,663**		

LANDIRENZO

Certification on the consolidated financial statements pursuant to art. 154-*bis* of Legislative Decree 58/98

The undersigned Stefano Landi, Chairperson of the Board of Directors and CEO, 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 at 31st December 2016.

In this respect are not emerged aspects of relief to report.

In addition, the undersigned state that the consolidated financial statements at 31 December 2016

- have been prepared in accordance with the international accounting standards acknowledged by the European Union pursuant to regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 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, 27th March 2017

On behalf of the Board of Directors

Chairperson of the Board of Directors and CEO
Stefano Landi

The Officer in Charge
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

INDEPENDENT AUDITORS' REPORT
IN ACCORDANCE WITH ARTICLES 14 AND 16 OF
LEGISLATIVE DECREE NO. 39 OF 27 JANUARY 2010

LANDI RENZO SpA

CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2016

INDEPENDENT AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE NO. 39 OF 27 JANUARY 2010

To the shareholders of
LANDI RENZO SpA

Report on the consolidated financial statements

We have audited the accompanying 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 2016, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in shareholders' equity for the year the ended, as well as a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The Directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in compliance 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.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) drawn up pursuant to article 11 of Legislative Decree No. 39 of 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view, 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. 6.890.000,00 Euro 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** 40122 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wührer 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 Via Grazioli 73 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. 0331285039 - **Verona** 37122 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

www.pwc.com/it

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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 2016 and of the result of its operations and cash flows for the year then ended in compliance 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.

Other aspects

The consolidated financial statements of Landi Renzo Group as of 31 December 2015 were audited by other auditors, who issued an unqualified report thereon on 29 March 2016.

Report on compliance with other laws and regulations

Opinion on the consistency with the consolidated financial statements of the report on operations and of certain information set out in the report on corporate governance and ownership structure

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion, as required by law, on the consistency of the report on operations and of the information set out in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/1998, which are the responsibility of the directors of the Company, with the consolidated financial statements of Landi Renzo Group as of 31 December 2016. In our opinion, the report on operations and the information 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 2016.

Parma, 31 March 2017

PricewaterhouseCoopers SpA

signed by

Massimo Rota
(Partner)

Landi Renzo S.p.A. Separate Financial Statements at 31 December 2016

Statement of financial position

Income Statement

Statement of comprehensive income

Statement of cash flows

Statement of Changes in Shareholders' Equity

Explanatory notes

ANNEXES

Certification on the Annual Financial Statements pursuant to art. 154-bis of Legislative Decree 58/98

Independent Auditors' Report

Report of the Board of Statutory Auditors to the Shareholders' Meeting

STATEMENT OF FINANCIAL POSITION *

(Euro)

ASSETS	Notes	31/12/2016	31/12/2015
Non-current assets			
Land, property, plant and equipment	2	18,992,782	22,065,561
Development expenditure	3	5,822,036	6,170,928
Other intangible assets with finite useful lives	4	657,850	963,084
Investments in subsidiaries	5	102,383,265	103,076,335
Equity investments in associated companies and joint ventures	6	214,958	280,794
Other non-current financial assets	7	340,274	6,128,235
Other non-current assets	8	1,066	71,292
Prepaid taxes	9	8,102,793	8,143,970
Total non-current assets		**136,515,024**	**146,900,199**
Current assets			
Trade receivables from customers	10	10,360,249	7,408,585
Receivables from subsidiaries	11	7,274,896	9,612,948
Inventories	12	14,412,905	18,923,621
Other receivables and current assets	13	2,091,214	4,049,868
Cash and cash equivalents	14	4,185,332	14,668,191
Total current assets		**38,324,596**	**54,663,213**
TOTAL ASSETS		**174,839,620**	**201,563,412**

EQUITY AND LIABILITIES	Notes	31/12/2016	31/12/2015
Shareholders' equity			
Share capital	15	11,250,000	11,250,000
Other reserves	15	61,857,026	99,616,303
Profit (loss) for the period	15	-28,985,861	-37,702,190
TOTAL EQUITY		**44,121,165**	**73,164,114**
Non-current liabilities			
Non-current bank loans	16	13,653,090	6,820,149
Other non-current financial liabilities	17	25,861,927	1,467,786
Provisions for risks and charges	18	6,313,602	5,076,042
Employee defined benefit plans	19	1,471,069	1,685,242
Total non-current liabilities		**47,299,688**	**15,049,219**
Current liabilities			
Bank overdrafts and short-term loans	20	26,572,038	39,331,906
Other current financial liabilities	21	10,033,054	33,517,342
Trade payables to suppliers	22	23,631,251	25,506,986
Payables to subsidiaries	23	19,951,986	10,566,579
Tax liabilities	24	829,577	924,080
Other current liabilities	25	2,400,861	3,503,186
Total current liabilities		**83,418,767**	**113,350,079**
TOTAL EQUITY AND LIABILITIES		**174,839,620**	**201,563,412**

* Pursuant to Consob resolution no. 15519 of 27 July 2006, the effects of relations with related parties on the Statement of Financial Position are shown in a specific table in Note 43 and Annex 2.

INCOME STATEMENT *

(Euro)

		31/12/2016	31/12/2015
Revenues from sales and services	26	72,818,797	82,452,280
Other revenues and income	27	640,308	902,104
Cost of raw materials, consumables and goods and change in inventories	28	-39,620,622	-44,380,128
of which non-recurring	28	*-1,000,000*	
Costs for services and use of third party assets	29	-22,956,348	-25,902,727
of which non-recurring	29	*-2,345,010*	*-1,242,222*
Personnel cost	30	-16,453,241	-20,316,165
of which non-recurring	30	0	*-1,790,265*
Provisions, provision for bad debts and other operating expenses	31	-3,571,541	-3,594,266
of which non-recurring	31	*-2,300,000*	*-2,700,000*
Gross operating profit		**-9,142,647**	**-10,838,903**
Amortization, depreciation and impairment	32	-8,705,745	-10,844,667
of which non-recurring	32	*0*	-2,547,561
Net Operating Profit		**-17,848,392**	**-21,683,570**
Financial income	33	30,897	111,071
Income on equity investments	34	1,112,693	275,000
Financial charges	35	-4,041,953	-3,754,705
Expenses from investments	36	-9,161,915	-12,158,734
Exchange gains (losses)	37	379,366	555,035
Profit (Loss) before tax		**-29,529,304**	**-36,655,903**
Taxes	38	543,443	-1,046,287
Profit (loss) for the year		**-28,985,861**	**-37,702,190**

STATEMENT OF COMPREHENSIVE INCOME

(Euro)

		31/12/2016	31/12/2015
Net profit (loss) for the Group and minority interests:		**-28,985,861**	**-37,702,190**
Gains/losses that will not be subsequently reclassified in the Income Statement			
Restatement of defined employee benefit plans (IAS 19)	20	-57,088	153,738
Total gains/losses that will not be subsequently reclassified on the Income Statement		**-57,088**	**153,738**
Profits/Losses recorded directly to Equity net of tax effects		**-57,088**	**153,738**
Total Statement of Comprehensive Income for the period		**-29,042,949**	**-37,548,452**

* For the amount and nature of relations with related parties, see point 43: OTHER INFORMATION - TRANSACTIONS WITH RELATED PARTIES section.

STATEMENT OF CASH FLOWS

(Thousands of Euro)

	31/12/2016	31/12/2015
Financial flows from operations		
Profit (loss) for the year	-28,986	-37,702
Adjustments for:		
Depreciation of property, plant and equipment	4,810	4,361
Amortization of intangible assets	3,896	5,975
Impairment loss on receivables	777	124
Net financial charges	3,632	3,089
Net income/charges from equity investments	8,049	11,884
Income tax for the year	543	-1,046
	-7,279	**-13,316**
Changes in:		
inventories	4,511	3,023
trade receivables and other receivables	6,431	8,136
trade payables and other payables	3,302	-2,883
provisions and employee benefits	966	2,819
Cash generated from operations	**7,931**	**-2,221**
Interest paid	-3,448	-3,300
interest received	13	49
Net cash generated from operating activities	**4,496**	**-5,471**
Financial flows from investments		
Dividends cashed	1,113	275
Proceeds from the sale of property, plant and equipment	154	625
Increase in capital of subsidiary companies		-305
Purchase of property, plant and equipment	-1,891	-5,854
Purchase of intangible assets	-223	33
Development expenditure	-3,018	-3,844
Net cash absorbed by investment activities	**-3,865**	**-9,070**
Financial flows from financing activities		
Net receipts from bond issue	0	33,098
Bond repayments	-2,040	**0**
Disbursements (reimbursements) of medium/long-term loans	-17,201	453
Changes in short-term bank debts	8,127	-16,121
Net cash generated (absorbed) by financing activities	**-11,114**	**17,430**
Net increase (decrease) in cash and cash equivalents	**-10,483**	**2,889**
Cash and cash equivalents as at 1 January	14,668	11,779
Cash and cash equivalents al 31 December	4,185	14,668

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Thousands of Euro)

	Share capital	Statutory Reserve	Extraordinary and Other Reserves	Share Premium Reserve	Result for the year	Equity
Balance as at 31 December 2014	**11,250**	**2,250**	**50,403**	**46,598**	**212**	**110,713**
Result for the year					-37,702	**-37,702**
Actuarial profits/losses (IAS 19)			154			**154**
Total comprehensive profits/losses	**0**	**0**	**154**	**0**	**-37,702**	**-37,548**
Allocation of profit			212		-212	**0**
Total effects deriving from transactions with shareholders	**0**	**0**	**212**	**0**	**-212**	**0**
Balance as at 31 December 2015	**11,250**	**2,250**	**50,768**	**46,598**	**-37,702**	**73,164**
Result for the year					-28,986	**-28,986**
Actuarial profits/losses (IAS 19)			-57			**-57**
Total comprehensive profits/losses	**0**	**0**	**-57**	**0**	**-28,986**	**-29,043**
Allocation of profit			-37,702		37,702	**0**
Total effects deriving from transactions with shareholders	**0**	**0**	**-37,702**	**0**	**37,702**	**0**
Balance as at 31 December 2016	**11,250**	**2,250**	**13,009**	**46,598**	**-28,986**	**44,121**

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2016

A) GENERAL INFORMATION

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 2016.

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

B) GENERAL CRITERIA FOR PREPARATION OF THE FINANCIAL STATEMENTS FOR THE PERIOD AND DECLARATION OF CONFORMITY

Declaration of conformity with international accounting standards and basis of presentation

The separate financial statements were prepared in accordance with the IFRS-EU, i.e., all International Financial Reporting Standards, all International Accounting Standards (IAS) and all interpretations of the International Reporting Interpretations Committee (IFRIC), previously called the Standard Interpretations Committee (SIC), which, at the reporting date, had been endorsed by the European Union in accordance with the procedure laid out in Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002. The IFRSs were applied uniformly to all periods presented.

The separate financial statements were drafted in Euro, which is the currency of the primary economic environment in which the Group operates. The figures in the Statement of Financial Position, the Income Statement and the Statement of Comprehensive Income for the period are expressed in Euro, the functional currency of the Company, while the data contained in the Statement of Cash Flows, the Table of Changes in Equity and in these Explanatory Notes are expressed in thousands of Euro. Rounding up is performed on each individual account.

The financial statement layouts and the relative classification criteria adopted by the Group, 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”.

Going Concern

In 2016, the Group experienced a significant decline in revenue compared with the previous year, which entailed a loss of Euro 26,004 thousand and a decline in the Net Financial Position, which reached Euro -75,716 thousand.

In the second half of the year, considering the structure of the financial position as well as the forecasts laid out in the updated Business Plan approved by the Board of Directors on 30 December 2016 (the "**Business Plan**"), a financial structure optimization project was launched with the support of "Mediobanca – Banca di Credito Finanziario S.p.A." as financial advisor.

The above-mentioned Optimization Project entailed the definition of an agreement with the banking sector (the "**Optimization Agreement**"), which calls for, inter alia: the movement of the maturity date of the debt of the Company and the other subsidiaries signatories to the agreement to 2022, the rescheduling of the repayment instalments, on the basis of repayment instalments of increasing amounts in line with the cash generation objectives laid out in the Business Plan, the review of financial parameters to bring them more into line with business outlooks and the Group's sale forecasts and the confirmation of short-term lines until 2022 in accordance with the terms and conditions laid out in the above-mentioned Optimization Agreement and in an amount consistent with the needs laid out in the Business Plan.

Please note that, to date, the Optimization Agreement has been signed by all banks except one, with which the Group has only short-term borrowings and which will complete its approval process in due time for the publication of the Company's separate and consolidated financial statements at 31 December 2016. The Company is currently unaware of any facts or events which could make it reasonable to believe that there are any elements that would prevent the positive conclusion of this authorization procedure and therefore the bank entering into this Optimization Agreement.

When the above-mentioned Optimization Agreement was signed, the controlling shareholders committed to making a total contribution of Euro 8,866,500.00 for the future capital increase or capital increase of the Parent Company by the effective date of the Optimization Agreement. As a further capital strengthening measure, the Optimization Agreement establishes that a share capital increase totalling Euro 15,000,000.00 is to be completed by 31 December 2018; as regards the portion attributable to the controlling shareholders, it will be carried out by converting the above-mentioned future capital increase contribution.

Like the above-mentioned Optimization Agreement with the banking sector, several amendments of the regulation were submitted to the Bondholders, regarding, inter alia, the rescheduling of repayment on the basis of increasing instalment amounts and in line with what is laid out in the Optimization Agreement, the review of financial parameters, also in light of the results of the Business Plan, as well as a temporary reduction of the interest rate in relation to the periods which begin from the payment date of 30 April 2017 until the payment

date that will fall on 30 June 2019 from the current 6.10% to 5.50% on an annual basis.
The Meeting of Bondholders called to approve the above-mentioned regulation amendment is scheduled for 30 March 2017 on first call.

The Company is currently unaware of any facts or events which could make it reasonable to believe that there are any elements that would prevent the favourable conclusion of the bondholders' meeting scheduled for 30 March 2017.
As a result, the Company does not believe that there are any facts or elements to date which could make it reasonable to believe that there are any critical issues inherent in the adoption of the going concern assumption as a basis for the preparation of these financial statements.

Recently issued accounting standards

The accounting standards adopted in preparing the separate financial statements are consistent with those adopted for the preparation of the separate financial statements for the year ending on 31 December 2015, with the exception of the adoption of the new standards and interpretations applicable as of 1 January 2016 listed below.

EU endorsement regulation	Description
Regulation (EU) 2016/1703	**Commission Regulation (EU) 2016/1703 of 22 September 2016, published in Official Journal L 257 of 23 September 2016, adopts the document "Investment Entities: Applying the Consolidation Exception", which amends IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures.** The amendments aim to specify requirements for accounting for investment entities and to establish exemptions for specific situations. Companies are required to apply the amendments, at the latest, starting in annual periods beginning on or after 1 January 2016.
Regulation (EU) 2015/2441	**Commission Regulation (EU) 2015/2441 of 18 December 2015, published in Official Journal L 336 of 23 December, adopts the Amendments to IAS 27 Separate Financial Statements: Equity method in separate financial statements.** The amendments are intended to allow entities to apply the equity method described in IAS 28 Investments in associates and joint ventures to account for investments in subsidiaries, joint ventures and associates in their respective separate financial statements.
Regulation (EU) 2015/2406	**Commission Regulation (EU) 2015/2406 of 18 December 2015, published in Official Journal L 333 of 19 December, adopts the Amendments to IAS 1 Presentation of Financial Statements: Disclosure initiative**. The changes are aimed at improving the effectiveness of information and at encouraging companies to decide on the information to include in the financial statements with professional judgment, in application of IAS 1.
Regulation (EU) 2015/2343	**Commission Regulation (EU) 2015/2343 of 15 December 2015, published in Official Journal L 330 of 16 December**, adopts the Annual Improvements to IFRS Standards 2012-2014 Cycle, within the context of the ordinary streamlining and clarification of the international accounting standards.

EU endorsement regulation	Description
Regulation (EU) 2015/2231	**Commission Regulation (EU) 2015/2231 of 2 December 2015, published in Official Journal L 317 of 3 December, adopts the Amendments to IAS 16 Property, plant and equipment and IAS 38 Intangible assets:** Clarification on Acceptable Methods of Depreciation and Amortization.
Regulation (EU) 2015/2173	**Commission Regulation (EU) 2015/2173 of 24 November 2015, published in Official Journal L 307 of 25 November, adopts the Amendments to IFRS 11** ***Accounting for Acquisitions of Interests in Joint Operations*****.** The amendments provide guidance on accounting for acquisitions of interests in joint control operations which constitute a business.
Regulation (EU) 2015/2113	**Regulation (EU) 2015/2113 of 24 November 2015.** The amendments to IAS 16 and IAS 41 establish that, unlike what was done in the past, bearer plants must be accounted for as self-constructed elements of property, plant and equipment before they are in the location and condition required to be able to function in the manner intended by company management as laid out in IAS 16 "Property, Plant and Equipment".
Regulation (EU) 2015/29	**Commission Regulation (EU) 2015/29 of 17 December 2014, published in Official Journal L 5 of 9 January, adopts the** ***Amendments to IAS 19 - Defined benefit plans: employee contributions.*** The amendments are intended to simplify and clarify accounting for contributions of employees or third parties connected to defined benefit plans.
Regulation (EU) 2015/28	**Commission Regulation (EU) 2015/28 of 17 December 2014, published in Official Journal L 5 of 9 January, adopts the** ***Annual Improvements to IFRS Standards 2010-2012 Cycle.*** The objective of the annual improvements is to deal with necessary issues relating to inconsistencies identified in IFRSs or provide terminological clarifications, which are not urgent, but were discussed by the IASB during the planning cycle that started in 2011. The amendments to IFRS 8 and IAS 16, 24 and 38 are clarifications or corrections of the standards in question. The amendments to IFRS 2 and 3 entail changes to the provisions in force or provide further instructions regarding their application.

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 already in force, which must begin being applied on 1 January 2017 or thereafter (if the financial statements do not coincide with the calendar year). The Company did not exercise the option to apply them early.

EU endorsement regulation	Description
Regulation (EU) 2016/2067	**Commission Regulation (EU) 2016/2067 of 22 November 2016, published in Official Journal L 323 of 29 November 2016, adopts IFRS 9 Financial instruments, to improve the financial disclosure on financial instruments by dealing with problems that arose on this matter during the financial crisis.** In particular, IFRS 9 responds to the recommendation of the G20 to transition to a more forward-looking model for the recognition of expected losses on financial assets. Companies are required to apply the standard, at the latest, starting in annual periods beginning on or after 1 January 2018.
Regulation (EU) 2016/1905	**Commission Regulation (EU) 2016/1905 of 22 September 2016, published in Official Journal L 295 of 29 October 2016, adopts IFRS 15 Revenue from Contracts with Customers, meant to improve the accounting representation of revenue and therefore the overall comparability of revenue in the financial statements.** Companies are required to apply the standard, at the latest, starting in annual periods beginning on or after 1 January 2018.
Regulation (EU) 1905 of 22 September 2016	IFRS 15, which will enter into force on 1 January 2018, 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 obligations in the contract; 3) Determine the transaction price; 4) Allocate the transaction price to the performance obligations in the contract; 5) Recognize revenue when (or as) the entity satisfies a performance obligation.

Regulation (EU) 1905 of 22 September 2016	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) an exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4.

During the year, the IASB made amendments to several IAS/IFRSs issued previously and published new international accounting standards.

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 recognize regulatory deferral account balances in accordance with the previous accounting standards adopted. To improve comparability with entities that already apply IFRS and do not recognize such balances, the standard requires the effect of rate regulation to be presented separately from other items.
13 January 2016	The IASB published the new standard IFRS 16 Leases, to replace IAS 17. IFRS 16 applies as of 1 January 2019. Early application is permitted for entities which also apply IFRS 15 Revenue from contracts with customers. The Group initiated an analysis to estimate the impacts arising from the application of IFRS 16, particularly with reference to lease agreements payable on non-owned shopping centres.
19 January 2016	The IASB published several amendments to IAS 12 Income Tax. The document Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12) is meant to clarify how to account for deferred tax assets relating to debt instruments measured at fair value. The amendments apply as of 1 January 2017. Early application is permitted.
29 January 2016	The IASB published several amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative. The amendments apply as of 1 January 2017.

21 June 2016	The IASB published the amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions, which aim to clarify the accounting of certain types of share-based payment transactions. The amendments apply as of 1 January 2018. However, early application is permitted.
9 December 2016	The IASB published several amendments to the standards and an IFRIC interpretation to clarify certain provisions of the IFRSs. In particular, these include: - Annual Improvements to IFRS Standards 2014-2016 Cycle, which amends IFRS 1, IFRS 12 and IAS 28; - IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration, which enters into force on 1 January 2018; - Amendment to IAS 40 Investment Property: Transfers of Investment Property, which enters into force on 1 January 2018.

Please note that accounting standards and/or interpretations whose application is not compulsory for periods that begin subsequent to 1 January 2016 were not applied early.
The Company is evaluating the effects that the application of such standards may have on its financial statements.

C) ACCOUNTING STANDARDS AND VALUATION CRITERIA

As regards the IFRS that allow options in their application, the main choices operated by the Company are summarized below.

- IAS 2 – Inventories: the cost of the inventories is attributed by adopting the FIFO method;
- IAS 16 – Property, Plant and Equipment: valuation subsequent to initial accounting recording is performed using the cost method (cost model) after deduction of amortization and impairment losses;
- IAS 23 – Borrowing Costs: financial expenses, although attributable to the acquisition, construction or production of an asset, are recorded as a cost in the year in which they are incurred.
- IAS 27 – Investments in Subsidiaries: these are accounted for according to the cost criterion.

The most important accounting standards and valuation criteria used in the preparation of the financial statements for the year to 31 December 2016 are set out below.

NON-CURRENT ASSETS

LAND, PROPERTY, PLANT, MACHINERY AND EQUIPMENT

Tangible assets were recognized in accordance with the cost criterion at the purchase price or the production cost inclusive of directly attributable accessory costs necessary to make the assets ready for use.

The carrying amount of tangible assets is subsequently adjusted for systematic depreciation, calculated on a straight-line basis from the moment in which the asset is available and ready for use, based on its useful life, understood as the estimated period in which the asset will be used by the company, and any accumulated loss for impairment.

When the asset to be depreciated consists of distinctly identifiable elements whose useful life differs significantly from that of the other parts of the asset, each of those parts are depreciated separately in application of the component approach method.

Any financial expense directly attributable to the purchase and production of tangible assets is capitalized and depreciated on the basis of the useful life of the asset to which it refers.

The following annual depreciation rates are used:

Categories	Depreciation period	Depreciation rates
Leasehold improvements - buildings	The lower between the residual economic usefulness of the improvement and the residual duration of the underlying contract	16.67- 20%
Plant and machinery	Straight-line basis	10 - 17.5%
Industrial and commercial equipment	Straight-line basis	17.5 - 25%
Other assets	Straight-line basis	12 - 20 - 25%

The residual value and the useful life of tangible assets are reviewed at least annually and updated, when applicable, at the end of each year.

Costs incurred for maintenance and repairs are charged in their entirety to the Income Statement for the year in which they are incurred. Costs for improvements, upgrades and transformation having an incremental nature are attributed to the tangible assets to which they refer, when it is probable that they will increase the future economic benefits expected from the use or the sale of the asset, and depreciated based on the remaining useful life of the assets.

Costs capitalized for leasehold improvements are classified under property and depreciated at the lower of the residual economic usefulness of the improvement and the residual duration of the underlying contract.

The financial expenses directly attributable to the acquisition, construction or production of a tangible asset are recognized in the income statement at the moment at which they are incurred, in accordance with the appropriate accounting treatment provided for by IAS 23.

The book value of tangible assets is subjected to verification in order to discover any possible impairment, using the methods described in the paragraph "Impairment of assets".

At the moment of sale or when no future economic benefits are expected from the use of an asset, it is eliminated from the financial statements and any loss or profit (calculated as the difference between the sale value and the book value) is recognized in the income statement in the year of the aforementioned elimination.

Intangible assets

Intangible assets consist of identifiable non-monetary elements with no physical consistency, which can be controlled and can generate future economic benefits. These elements are initially recognized at purchase and/or production cost, inclusive of expenses directly attributable to make the asset ready for use. Intangible assets are amortized on a straight-line basis throughout their estimated useful life; amortization rates are reviewed on an annual basis and are amended if the current useful life differs from that estimated previously. The useful life estimated by the Company for the various categories of intangible assets, valid for all periods presented, is shown below.

Categories	Useful Life
Development expenditure	3 years
Industrial patents and rights to use intellectual property	From 3 to 10 years
Software, licenses and others	From 3 to 5 years
Trademarks	10 years

DEVELOPMENT EXPENDITURE

Research and development costs are recognized in the Income Statement for the year in which they are incurred, with the exception of development expenditure recognized under intangible assets if the conditions established in IAS 38, reported below, are satisfied:

- the project is clearly identified and the costs relating to it are identifiable and can be measured reliably;
- the technical feasibility of the product is demonstrated;
- there is evidence of the Company’s intention to complete the development project and to sell the intangible assets generated by the project;
- there is a potential market or, in the case of internal use, the utility of the intangible asset for the production of intangible assets generated by the project can be demonstrated;
- the technical and financial resources required to complete the project are available.

No cost incurred in the research phase is recorded as an intangible asset.

The amortization period starts only when the development phase is completed and the result generated by the project can be marketed, and is usually three years, based on the estimated duration of the benefits linked with the product developed. Capitalized development expenditure is stated at cost, minus accumulated amortization and any accumulated losses from impairment.

GOODWILL

The goodwill deriving from business combination transactions after 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. Taking into account the Group organizational structure and the methods in which control of operations is exercised, the CGU are identified as the individual legal entities forming the Group. After the initial recognition, since goodwill is regarded as an intangible asset with an indefinite life, it is no longer amortized and is decreased by any accumulated losses in value, determined as described below.

Goodwill is subjected to an analysis of recoverability on at least an annual basis, or even more frequently if events or changes in circumstances arise that could result in possible losses of value, identifying the CGUs which benefit from acquisition synergies. Cash flows are discounted to the cost of capital as a function of the specific risks of the unit concerned. Impairment is stated when it emerges from the check on discounted cash flows that the recoverable value of the CGU is less than the book value and is stated as a priority under goodwill.

Any loss in value is identified through valuations that take as a reference the ability of each CGU to produce financial flows capable of recovering the portion of goodwill allocated to it. If the value recoverable by the CGU is less than the book value attributed, the corresponding loss in value is recognized. Such loss of value is restored if the reasons that generated it cease to exist.

On disposal of the company or a company unit from the acquisition of which goodwill emerged, the gains and losses are determined taking the residual value of goodwill into account. Any losses in value of goodwill stated on the Income Statement are not restored if the reasons that generated them cease to exist.

OTHER INTANGIBLE FIXED ASSETS

Other intangible assets with finite useful life, acquired or self-created, are capitalized when it is probable that use of the asset will generate future economic benefits and its cost can be measured reliably. These assets are initially recognized at purchase or development cost.

Costs incurred subsequently relating to intangible assets are capitalized only if they increase the future economic benefits of the specific asset capitalized and they are amortized on the basis of the aforementioned criteria according to the assets to which they refer.

IMPAIRMENT OF ASSETS

At each reporting date, tangible and intangible assets with a finite useful life are analysed in order to identify the existence of any indicators of impairment originating from sources external or internal to the Group. When these indicators are identified, the recoverable value of the above-mentioned assets is estimated, and any impairment loss is recognized in the Income Statement.

A tangible or intangible asset suffers a reduction in value if it is not possible to recover, either through use or sale, the book value at which said asset is recorded in the financial statements. Therefore, the aim of the test (impairment test) provided for by IAS 36 is to assure that tangible and intangible fixed assets are not entered at a value greater than their recoverable value, which is the greater of the net sale price and the value of use.

The value of use is the current value of future financial flows that are expected to be generated by the asset or by the cash generating unit to which the asset belongs. The expected cash flows are discounted using a discount rate that reflects the current estimate of the market of reference referring to the cost of the money in proportion to the time and risks specific to the asset.

Management uses various assumptions in applying this method, including estimates of changes in revenues, the gross profit margin, operating costs, the growth rate of terminal values, investments, changes in operating capital and the weighted average cost of capital (discount rate) which combine in defining a medium-term plan, specifically aimed at performing an impairment test, revised at least annually and approved by the Board of Directors of the Parent Company. The principal hypotheses formulated in relation to the plans of CGUs relevant for the impairment test are indicated in note 4 of the consolidated financial statements, to which reference should be made for further details.

If the book value exceeds the recovery value, the assets or the cash generating units to which they belong are written down until they reflect the recovery value. Such losses are accounted for on the Income Statement.

The impairment test is carried out when conditions occur inside or outside the company that suggest that the assets have suffered a reduction in value. In the case of goodwill or other intangible assets with an indefinite useful life, the impairment test is carried out at least annually. If the conditions that resulted in the loss of value cease to exist, the same value is restored proportionally on the previously devalued assets until it reaches, at most, the value that such goods would have had, net of amortization calculated on the historical cost, in the absence of a prior loss of value. Restorations of value are recognized in the Income Statement.

The value of previously devalued goodwill is not restored, as provided for by the international accounting standards.

EQUITY INVESTMENTS IN SUBSIDIARY AND ASSOCIATED COMPANIES AND JOINT VENTURES

Investments in subsidiary companies are evaluated using the cost method including directly related costs, adjusted according to impairment losses. Applying the cost method, the parent company states income on the investment solely if the subsidiary has resolved to pay out dividends.

In the case where there is evidence of events indicative of long term impairment, the value of the investments is subjected to an impairment test according to the provisions of IAS 36. The original value is restored in subsequent years if the reasons for write-down cease to exist.

The risk deriving from any losses exceeding the cost is recorded under provisions, to the extent to which the Company is obliged or intends to be responsible for it.

Equity investments in joint ventures are companies for which an agreement existed at the date when the financial statements were prepared, whereby Landi Renzo S.p.A. has similar rights on net assets, rather than rights on assets, and accepts obligations for liabilities.

Equity investments in joint ventures are stated using the equity method, considered to represent their fair value.

OTHER NON-CURRENT FINANCIAL ASSETS

This category includes loans granted to Group companies which are due for repayment beyond 12 months and equity investments in other ventures.

Non-current financial assets are initially stated at their fair value at the date of negotiation (which is the purchase cost), minus the costs of the transaction directly attributable to purchase.

After the initial recognition, financial instruments held until they fall due are measured at amortized cost, using the effective interest method.

The effective interest rate is the rate which discounts future cash flows precisely, estimated for the entire expected life of the instrument, at its net book value.

An impairment test is performed at the date of the financial statements to ascertain whether there is any objective evidence of a loss in value of each non-current financial asset.

If there is objective evidence of this impairment, the amount of the loss is measured as the difference between the book value of the investment held until maturity and the discounted future cash flows, estimated as discounted to the original effective interest rate of the financial asset.

Any impairment is stated immediately on the Income Statement.

If total impairment decreases in subsequent years and said decrease is linked to an event occurring after the loss in value has been stated, said loss is reversed and the value is restored on the Income Statement.

OTHER RECEIVABLES AND OTHER NON-CURRENT ASSETS

Loans and receivables are recognized when they occur. All other financial assets are recognized for the first time when the Company becomes a party to the contractual provisions of the instrument.

Financial assets are initially measured at cost, which corresponds to their fair value increased by ancillary charges.

After the initial recognition, assets held for trading are classified under current financial assets and measured at fair value; gains or losses from this measurement are stated on the Income Statement..

Assets possessed with the intention to keep them until expiry are classified among the current financial assets if the expiry date is within less than one year, and non-current if greater, and are subsequently valued with the principle of amortized cost. Consequently, the initial value is then adjusted to take into account repayments of capital, any write-downs and amortization of the difference between the repayment amount and the initial book value. Amortization is performed on the basis of the internal effective interest rate, represented by the interest rate that aligns, on initial recognition, the present value of expected cash flows and the initial value (so-called amortized cost method). If there is objective evidence indicating impairment, the asset value is decreased to the discounted value of the future flows obtainable from it. Such losses are recognized on the Income Statement. If, in subsequent periods, the reasons for the preceding write-down no longer exist, the value of the asset is restored to the amount that would have derived from applying the amortized cost without write-down.

CURRENT ASSETS

INVENTORIES

The item inventories includes raw materials and materials used in the production process, semi-finished products, spare parts and finished products.

Inventories are stated at the lower value between purchase or manufacturing cost, inclusive of accessory costs, measured according to the FIFO method, and the realization value that can be inferred from market performance.
The measurement of inventories includes the direct costs of materials and labour and the indirect costs of production (variable and fixed), determined on the basis of normal production capacity.
Where necessary, depreciation funds are calculated for obsolete stocks or those with a slow turnaround taking account of their future possibility of use or recovery.

TRADE RECEIVABLES AND OTHER RECEIVABLES

Receivables are initially recognized at fair value. The initial value is subsequently adjusted to take into account repayments of capital, any write-downs and the amortization of the difference between repayment amount and initial value. Amortization is performed on the basis of the internal effective interest rate, represented by the interest rate that aligns, on initial recognition, the present value of expected cash flows and the initial value (so-called amortized cost method). If there is objective evidence indicating impairment, the asset value is decreased to the discounted value of the future flows obtainable from it. Such losses are recognized on the Income Statement. If, in subsequent periods, the reasons for the preceding write-down no longer exist, the value of the asset is restored to the amount that would have derived from applying the amortized cost without write-down.

The provision for bad debts, determined in order to measure receivables at their effective realization value, includes write-downs recognized in order to take account of objective indications that trade receivables are impaired. Write-downs, which are based on the most recent information available and management's best estimate, are recognized in such a way as to decrease impaired assets to the present value of future cash flows obtainable from them.

The provision for bad debts is classified in the reduction of the item “Trade receivables”.
Allocations made to the provision for bad debts are classified in the Income Statement under the item “Accruals, write-downs and other operating expenses”; the same classification was used for any utilizations and permanent losses of trade receivables.

OTHER RECEIVABLES AND OTHER CURRENT ASSETS

Other receivables and other current financial assets are initially recognized at fair value. Subsequently, the receivables are measured with the amortized cost method on the basis of the internal effective interest rate, represented by the interest rate that aligns, on initial recognition, the present value of expected cash flows and the initial value.

If there is objective evidence indicating impairment, the asset value is decreased to the discounted value of the future flows obtainable from it. Such losses are recognized on the Income Statement. If, in subsequent periods, the reasons for the preceding write-down no longer exist, the value of the asset is restored to the amount that would have derived from applying the amortized cost without write-down.

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES FROM THE BALANCE SHEET ASSETS AND LIABILITIES

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

– the contractual right to receive cash flows from the asset has expired;
– the Company has substantially transferred all risks and benefits connected with the asset, transferring its rights to receive cash flows from the asset or assuming a contractual obligation to transfer the cash flows received to one or more beneficiaries by virtue of a contract that meets the requirements of IAS 39 ("pass through test");
– the Company has not substantially transferred or maintained all risks and benefits connected to the financial asset, but it has transferred control over it.

Financial liabilities are derecognized when they are settled and when the Company has transferred all risks and charges relating to the instrument.

ASSIGNMENT OF RECEIVABLES

The Group is permitted to assign part of its trade receivables through factoring transactions. The operations for assignment of receivables can be with or without recourse; some non-recourse assignments include deferred payment clauses (for example, the payment by the factor of a minority part of the purchase price is subordinate to the total collection of receivables), requiring an exemption on the part of the assignor or implying the maintenance of significant exposure to the progress of the financial flows deriving from the receivables assigned.

This type of operation does not meet the requirements laid down by IAS 39 for eliminating assets from the balance sheet, since the associated benefits and risks have not be transferred substantially.

Consequently, all the receivables assigned through factoring operations that do not meet the requirements for elimination established by IAS 39 continue to be recorded in the Financial Statements of the Company, although they have been legally assigned; a financial liability for the same amount is recorded in the consolidated financial statements as Payables for Advances on Assignment of Receivables. Profits and losses related to assignment of these assets are recorded only when they are eliminated from the Statement of Financial Position of the Company.

At 31 December 2016, Landi Renzo S.p.A. had only performed assignments of trade receivables without recourse that meet all the requirements established by IAS 39 for the derecognition of such receivables.

CASH AND CASH EQUIVALENTS

The item relating to cash and cash equivalents includes, primarily, bank deposits repayable on demand, as well as cash on hand and other short-term investments that are highly convertible (convertible into cash and cash equivalents within ninety days). Cash and cash equivalents are valued at fair value, which usually coincides with their nominal value; any changes are recognized on the Income Statement. The current account overdraft, if utilized, is shown among the "Short-term financial liabilities".

For the purposes of representing cash flows for the period, when drawing up the Cash Flow Statement, short-term bank debts are represented among the cash flows of the financing activities, since they are for the most part attributable to bank advances and short term bank loans.

SHARE CAPITAL AND OTHER EQUITY ITEMS

(i) Share capital

The share capital is made up of the ordinary shares in circulation.

The costs relating to the issue of new shares or options are classified in equity (net of the associated tax benefit) as a deduction of the income deriving from the issue of such instruments.

As provided for by IAS 32, if equity instruments are repurchased, such instruments (treasury shares) are recognized as a direct deduction from Equity under the item "Other Reserves". Gains or losses are not recognized on the Income Statement when treasury shares are purchased, sold or cancelled.

The consideration paid or received, including any cost directly incurred and attributable to the capital transaction, net of any related tax benefit, is directly recognized as an Equity transaction.

(ii) Statutory reserve and other reserves

The statutory reserve is formed from the allocation of part of the Company's profit for the year (5% each year until it has reached 20% of the share capital) and may be used exclusively to cover losses. The other reserves include the reserves of profits and capital for a specific use, the profit (loss) of previous years not distributed or allocated to a reserve, as well as the reserve generated upon first-time application of IFRS.

CURRENT AND NON-CURRENT LIABILITIES

PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges are set aside to cover current obligations - legal or implicit - deriving from past events, for which a reliable estimate of the amount required to settle the obligation can be made at the end of the year. Provisions for risks and charges are stated if said charges are likely to be incurred. Any change in the estimate of provisions is reflected on the Income Statement in the period when it occurs.

If a liability is regarded as merely potential, no allocation to provisions for risk and charges is made and only adequate information is provided in these notes to the financial statements.

When the financial effect of time is significant and the date of cash outflows associated with the obligation can be reliably determined, the estimated cost is discounted to the present value using a rate reflecting the current market values and includes the additional effects relating to the specific risk that may be associated with each liability. After discounting, the increase in the provision due to the passage of time is recognized as a financial charge.

The product warranty provision is stated on sale of the underlying goods or supply of the underlying services. The provision is determined using historical information on warranties and by weighting the probability associated with possible results.

The provisions are periodically updated to reflect changes in estimated costs, realization timing and the discount rate; revisions of the estimated provisions are recognized in the same item of the Income Statement which previously included the provision or, when the liability relates to an asset, as a matching entry to the asset to which it refers.

EMPLOYEE BENEFITS

Short-term benefits are represented by salaries, wages, the relative social security contributions, compensation in lieu of holidays and incentives provided in the form of a bonus payable in twelve months after the reporting date. These benefits are accounted for as components of personnel cost in the period in which the work activity is provided.

Post-employment benefits are broken down into two types: defined contribution plans and defined benefit plans.

In defined contribution plans, social security contributions are recognized in the Income Statement when they are incurred, based on the relative nominal value.

Defined benefit plans

Defined benefit plans are represented by the TFR (employee severance indemnity) contributions accrued up to 31 December 2006 for the employees of the Company. These are valued in accordance with IAS 19 by independent actuaries, using the projected unit funding method.

This calculation consists in estimating the amount of benefit that an employee will receive at the expected retirement date, using demographic assumptions (such as, for example, death rate and personnel turnover rate) and financial assumptions (such as, for example, discount rate and future salary increases). The amount thus determined is discounted to the present value and re-proportioned based on the accrued length of service compared to the total length of service and represents a reasonable estimate of the benefits that each employee has already accrued because of his/her service. The discount rate used derives from the curve of rates on Markit iBoxx € Corporate AA 10+ bonds at year's end, with a similar maturity date to the bond held for employees.

Discounted profits and losses, returns on the assets servicing the plan (excluding interest) and the effect of the maximum amount of the asset (excluding any interest) which emerge following revaluation of net liabilities for defined benefit plans are stated immediately in other items of the Statement of Comprehensive Income. Net interest and other costs of defined benefit plans are stated under profit/(loss) for the year.

Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the entity pays fixed contributions into a separate entity and has no legal or implicit obligation to pay further contributions. The contributions to defined contribution plans are recognized as an expense in profit or loss in the periods in which the employees provide their work. Contributions paid in advance are recorded as assets to the extent that the advance payment will result in a reduction in future payments or a refund.

TRADE PAYABLES

Trade payables are stated at the fair value of the initial consideration received in exchange and subsequently measured at amortized cost, using the effective interest method. Trade payables with due dates that fall under normal sales terms are not discounted to the present value.

CURRENT AND NON-CURRENT FINANCIAL LIABILITIES, TAX LIABILITIES AND OTHER LIABILITIES

Short- and long-term financial payables and other short- and long-term liabilities are initially recognized at fair value. The initial value is subsequently adjusted to take into account repayments of principal and the amortization of the difference between repayment amount and initial value. Amortization is performed on the basis of the internal effective interest rate, represented by the interest rate that aligns, on initial recognition, the present value of cash flows connected to the liability and the initial value (so-called amortized cost method).
When there is a change in cash flows and it is possible to estimate them reliably, the value of payables is recalculated to reflect that change on the basis of the present value of the new cash flows and the internal rate of return initially determined.
The item “Tax liabilities” includes all liabilities to the Tax Authorities payable or offsettable in the short-term connected with direct and indirect taxes.
Payables to employees and social security institutes, as well as payments on account from customers and accrued expenses and deferred income are classified under “Other current liabilities”.

RECOGNITION OF REVENUES

Revenues are recognized at the fair value of the consideration received for the sale of products and services relating to the Group’s ordinary operations.
Revenues are recognized to the extent that it is probable that the economic benefits will be achieved and the relative amount can be reliably determined. Revenues and income are entered in the financial statements net of returns, allowances, discounts and premiums, as well as the taxes directly connected with the sale of products or performance of services.
Revenues are accounted for as follows:

d) Revenues from the sale of products are recognized when the risks and benefits connected with ownership of the assets are transferred to the purchaser; this moment generally coincides with the shipment date.
e) Revenues from services rendered (generally consisting of technical consultancy provided to third parties) are accounted for in the income statement on the basis of the percentage of completion at the date of the financial statements.

Revenues are recorded in the Income Statement only if it is likely that the company will benefit from the cash flows associated with the transaction.

GRANTS

Grants from public and private bodies are recognized at fair value when it is reasonably certain that they will be received and the conditions for receiving them will be met.
Grants related to income (provided as immediate financial assistance to an entity or to cover expenses and losses incurred in a previous year) are fully recognized in the Income Statement when the above-mentioned conditions, necessary for their recognition, are met.
No capital contributions were obtained in the year in question.

COSTS

Costs are recognized in so far as it is possible to reliably determine that economic benefits will flow to the company. Costs for services are recognized for the year in question at the moment when they are received.

For accounting purposes, leases and hire contracts are classified as operational if:

- the lessor retains a significant share of the risks and the benefits associated with the property,
- there are no purchase options at prices that do not reflect the presumable market value of the rented asset at the end of the period,
- the duration of the contract does not represent the greater part of the useful life of the leased or hired asset.

The related charges are stated on the Income statement on a straight-line basis distributed according to the duration of the underlying contracts.

DIVIDENDS

Dividends payable by the Company are shown as changes in equity in the year in which they are approved by the shareholders.
Dividends to be received by the Company are recognized on the Income Statement on the date on which the right to receive them matures.

FINANCIAL INCOME AND CHARGES

Income and charges of a financial nature are recognized on an accrual basis, on the basis of the interest accrued on the net value of the related financial assets and liabilities, using the effective interest method, as set forth by paragraph 9 of IAS 39.

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. In this case, the related income taxes are also directly stated under equity. Current taxes are income taxes expected to be paid or received, calculated by applying the rate applicable at the date of the financial statements to the taxable income or tax losses for the year.

Deferred taxes are calculated using the so-called liability method on the temporary differences between the book values of assets and liabilities in the financial statements and their corresponding tax values. Deferred tax assets and liabilities are not stated on goodwill and on assets and liabilities which do not influence taxable income. Deferred taxes are calculated on the basis of the tax rate that is expected to be in force when the asset is realized or the liability is settled. Deferred tax assets (hereafter also called "prepaid taxes") are recognized only when it is likely that taxable profits sufficient to realize these assets will be generated in future years. Deferred tax assets and liabilities are offset only for homogeneous expiry dates, when there is a legal right to offset and when they refer to recoverable taxes due to the same tax authority. Income tax deriving from distribution of dividends is stated when the liability relating to their payment is recognized.

Recoverability of deferred tax assets is checked at the end of each period, on the basis of plans duly approved by the Board of Directors and taking the tax consolidation indicated below into account, and any part for which recovery is unlikely is stated on the Income Statement.

Since 2014, the Company has adhered, as the consolidating company, to the national consolidation tax scheme pursuant to articles 117 and 129 of the Italian Consolidated Income Tax Act (T.U.I.R) with the other Italian companies of the Group.

The adhesion applies until 2016 and will be renewed for the next three-year period. According to this procedure, the consolidating company identifies a single taxable base for the Group of companies adhering to the national consolidation tax scheme and may therefore offset taxable income against tax losses on a single tax returns form. Each company adhering to the national consolidation tax scheme transfers its taxable income (or tax loss) to the consolidating Company. The consolidating company states receivables from the consolidated company which are equal to the IRES (corporate income tax) to be paid. If the companies have tax losses, the consolidating company states payables equal to the IRES on the part of the loss transferred at Group level.

CONVERSION OF ENTRIES INTO FOREIGN CURRENCY

The functional and presentation currency of Landi Renzo S.p.A. is the Euro (€). As required by IAS 21, transactions in foreign currency are initially recognized at the exchange rate in place on the date of the transaction. Monetary assets and liabilities in foreign currency are reconverted to the functional currency at the exchange rate in place on the closing date of the Financial Statements.

Non-monetary items valued at historical cost in foreign currency are converted using the exchange rate in force on the initial date that the transaction was recognized.

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

The exchange differences realized at the time of collecting from debtors and paying creditors in foreign currency are entered in the income statement in the item exchange gain/losses.

EARNINGS PER SHARE

The Company determines the earnings per share based on IAS 33 - Earnings per share.

(a) Basic earnings per share

The basic earnings per share is calculated by dividing the profit (loss) pertaining to the Company shareholders by the weighted average of ordinary shares in circulation during the year, excluding treasury shares.

(b) Diluted earnings per share

The diluted earnings per share is calculated by dividing the profit (loss) pertaining to the Company shareholders by the weighted average of ordinary shares in circulation during the year, excluding treasury shares. To calculate the diluted earnings per share, the weighted average of shares in circulation is modified assuming the exercise by all assignees of rights with a potentially dilutive effect, while the profit (loss) pertaining to Company shareholders is adjusted to take into account any effects, net of taxes, of the exercise of such rights.

COMMUNICATION ON FINANCIAL INSTRUMENTS

In accordance with the provisions of Accounting Standard IFRS 7, supplementary information is supplied on the financial instruments in order to evaluate:

- the impact of the financial instruments on the statement of financial position, on the economic result and on the financial flows of the company;
- the nature and size of the risks deriving from financial instruments to which the company is exposed, as well as the methodologies with which such risks are managed.

USE OF ESTIMATES AND ASSESSMENTS

The preparation of Financial Statements in accordance with the IFRS (International Financial Reporting Standards) requires application of accounting standards and methods that are sometimes based on subjective assessments and estimates based, in turn, on past experience and assumptions that are considered reasonable and realistic given the circumstances. Application of these estimates and assumptions affects the amounts presented in the financial statements, such as the Statement of Financial Position, the Income Statement and the Statement of Cash Flows, and in disclosures provided.

Please note that the situation caused by the current economic and financial scenario has resulted in the necessity to make assumptions on future performance that are characterized by significant uncertainty. Therefore it cannot be excluded that results different to those estimated may be realized in the coming years. Such results could therefore require adjustments, that may even be considerable, which cannot obviously be either estimated or predicted at this stage, to the book value of the relative items.

The items on the financial statements that most require greater subjectivity on the part of the directors in producing the estimates and for which a change in the conditions underlying the assumptions used can have a significant impact on the financial statements are listed below:

- Valuation of fixed assets;
- Recoverability of development expenditure;
- Valuation of deferred tax assets;
- Valuation of provisions for bad debts and obsolete inventories;
- Valuation of employee benefits;
- Valuation of provisions for risks and charges.

The estimates and assumptions are reviewed periodically and the effects of each variation are immediately reflected on the Income Statement.

MOST IMPORTANT ACCOUNTING STANDARDS THAT REQUIRE A GREATER DEGREE OF SUBJECTIVITY

A description is provided below of the most significant accounting standards that require, more than the others, greater subjectivity on the part of the directors in producing the estimates and for which a change in the conditions underlying the assumption used may have a significant impact on the financial data of the company.

Valuation of receivables

Trade receivables are adjusted with the relevant write-down fund in order to take account of their effective recoverable value. The determination of the amount of the write-downs carried out requires the directors to make subjective evaluations based on the documentation and on the information available also in relation to the solvency of the customer, as well as on experience and historical trends.
The continuation of the current economic and financial situation and its possible aggravation could lead to further deterioration in the financial conditions of the Company's debtors beyond that already taken into consideration prudentially in quantifying the write-downs recorded in the financial statements.

Valuation of goodwill and intangible assets in progress

In accordance with the accounting standards applied by the Company, goodwill and intangible assets in progress are subjected to annual verification (impairment test) in order to assess whether they have suffered a reduction in value, which is established by means of an impairment test, when the net book value of the unit generating the cash flows to which these items are allocated appears to be greater than its recoverable value (defined as the greater value between the value of use and the fair value of the same). The above mentioned value confirmation check necessarily requires subjective evaluations to be made based on the information available within the Company, and on the reference market outlook and historical trends. In addition, whenever it is supposed that a potential reduction in value could be generated, the Company determines said reduction using those evaluation techniques considered suitable. The same value tests and evaluation techniques are applied to intangible and tangible assets with a defined useful life when indicators exist that predict difficulties in recovering the corresponding net book value. The correct identification of elements indicative of the existence of a potential reduction in value as well as the estimates for determination of the reduction depend principally on factors that can vary over time, even significantly, therefore influencing the evaluations and estimates made by the directors.

Provisions for risks

Establishing whether or not a current obligation (legal or implied) exists is in some cases difficult to determine. The directors assess such phenomena on a case by case basis, together with an estimate of the amount of the economic resources required in order to meet that obligation. When the directors consider that is merely possible that liabilities may arise, the risks are indicated in the appropriate information section on commitments and risks, without resulting in any allocation in the financial statements.

Defined benefit plans

The Company offers defined benefit plans to some of its employees. Using the services of experts and actuaries, management used various statistical assumptions and evaluation factors to calculate the charges and the current value of assets and liabilities relating to these plans. The assumptions relate to the discount rate, the expected return on the assets servicing the plan, the rates of future salary increases, demographic trends, the inflation rate and expected health costs. The actuaries consulted also use subjective factors, such as mortality and resignation rates.

Provision for product warranties

Based on product sales, the Company allocates provisions according to the costs estimated as likely to be incurred for product warranties. Management establishes the value of such provisions on the basis of historical information on the nature, frequency and average cost of operations carried out under warranty and on the basis of specific contractual agreements.

The Company strives to improve the quality of its products and to minimize the burden deriving from operations under warranty.

Potential liabilities

The Company is subject to lawsuits regarding a number of disputes that were submitted to the jurisdiction of various States. Given the inherent uncertainty of these disputes, it is difficult to predict with certainty the resulting financial cost, or the time frame within which it will arise. The lawsuits and disputes against the Company derive primarily from complex legal problems, that are subject to varying degrees of uncertainty, considering the facts and circumstances involved in each dispute and the different laws applicable. To assess the risks deriving from potential liabilities of a legal nature correctly and prudentially, management periodically obtains information on the situation from its legal advisers. The Company establishes a liability in relation to such disputes when it considers it likely that a financial cost will occur and when the amount of the resulting losses can be reasonably estimated.

Valuation of closing inventories

Closing inventories of products with characteristics of obsolescence or slow turnaround are periodically subjected to tests for their correct valuation and are written down where the recoverable value thereof is less than the book value. The write-downs carried out are based, primarily, on assumptions and estimates of management deriving from its experience and the historical results achieved.

Valuation of deferred tax assets

The valuation of deferred tax assets is made on the basis of taxable income expected in future years and expected tax rates at the date when the temporary differences are expected to occur, insofar as they are considered applicable in the future. The measurement of such expected profits depends on factors that may change over time and have a significant impact, therefore, on the valuation of deferred tax assets.

Transactions with related parties

The Company deals with related parties under contractual conditions considered to reflect the arm's length conditions on the markets in question, taking account of the characteristics of the goods and services supplied and received.

RISK ANALYSIS

In accordance with the requirements of Accounting Standard IFRS 7, the following analysis is provided regarding the nature and extent of risks deriving from financial instruments to which the company is exposed, as well as the methodologies with which such risks are managed.

The main risks are reported and discussed at the Top Management level of the Company in order to create the prerequisites for their hedging, insurance and for the assessment of the residual risk.

Interest rate risk

The Company is exposed to the interest rate risk associated with both cash in hand and with medium to long term loans. The exposure refers mainly to the Euro zone. As regards exposure to the risk of interest rate volatility, note that the financial indebtedness with banks is regulated primarily by variable interest rates. Therefore, the financial management of the Company remains exposed to fluctuations in interest rates, since, at the date of these financial statements, it had no hedging instruments to cover changes in interest rates on loans with banks.

The recent economic and financial performance of the Company led to a reduction in the credit rating assigned by financial institutions, which limited access to sources of funding, as well as increased financial charges.

Interest rate risks were measured using sensitivity analysis and the potential impacts of Euribor interest rate fluctuations on the financial statements at 31 December 2016 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 193 thousand in comparison to an increase of financial income equal to Euro 21 thousand.

Exchange risk

The Company sells part of its production and, although to much lesser degree, also purchases some components also in countries outside the Euro zone.

In relation to the exchange risk, note that the amount of the equity balances expressed in currency other than the Euro is to be considered as insignificant. 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 which, in any case, as mentioned, are not to be considered as significant.

Credit risk

Credit risk is the risk that a customer or one of counterparts of a financial instrument causes a financial loss through failure to fulfil an obligation and derives primarily from trade receivables, from other financial assets and from guarantees that may have been given by the company.

Trade receivables and other receivables

The Company deals mainly with known and reliable customers. It is Company policy to subject customers requesting extended payment conditions to procedures for checking their credit class. This check also includes external assessments when available. Sales limits are established for each customer, which represent the maximum line of credit, beyond which direct approval by management is required. The credit limits are reviewed periodically and the customers who do not satisfy the creditworthiness conditions established by the company can then make purchases only by payment in advance. In addition, the balance of the receivables is monitored on a fortnightly basis over the period, in order to minimize exposure to the risk of losses. Finally, regarding new customers and those not operating in EU countries, a letter of credit to guarantee successful collection is normally used, where possible.

As of 2008, the Parent Company insures part of its foreign receivables not guaranteed by letters of credit through a leading Insurance Company and uses non-recourse assignment of credit. 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.

Lastly, please note that the persistence or deterioration of the current economic and financial crisis could have an impact, even significantly, on the capacity of some client companies to regularly meet their obligations with the Company.

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

Company policies provide for the issue of financial guarantees in favour of subsidiary companies, but not Joint Ventures. At 31 December 2016, 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 Company may have difficulty in meeting obligations associated with financial liabilities.

The recent economic and financial performance of the Company led to a decline in the level of available liquidity associated with a reduction in the credit rating assigned by financial institutions, limiting access to sources of funding.

To that end, the Company prepared and launched a project to optimize the financial structure of the entire 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 project substantially 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:

(v) The movement of the maturity date of the debt of the Parent Company signatory to the agreement to 2022;

(vi) The rescheduling of the debt of the Company and its subsidiaries, on the basis of repayment instalments of increasing amounts in line with the cash generation objectives laid out in the Business Plan;

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

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

The project was also prepared in light of and consistent with the Company's Business Plan, the update of which was approved by the Board of Directors on 30 December 2016. The Business Plan was subject to an independent business review by KPMG Advisory S.p.A. in the capacity of independent third-party business advisor, and the results of that analysis and the relative documentation were considered by the Company's management in developing and finalizing the Financial Optimization Project.

With regard to the bank component, negotiations with the financier banks led to the finalization of the Agreement on 27 March 2017, which was signed by all banks with the exception of one, which will complete its approval process in due time for the publication of the Company’s separate and consolidated financial statements at 31 December 2016, while as regards the payable for bonds, it was necessary to call the Bondholders’ Meeting on 30 March 2017 to align certain provisions of the loan regulations with what was laid out in the Agreement and thus to be able to complete the project.

Please note that on 31 December 2016, all banking institutions released specific waivers in relation to the measurement of financial parameters and non-payment of the principal instalments maturing in November and December 2016, while the Bondholders’ Meeting of 30 December 2016 amended the Loan Regulations and in turn released waivers with respect to the non-payment of the instalment due on 31 December 2016 as well as the measurement of financial parameters, as described below in notes 16 and 17.

See the Directors' Report for all further information on risk factor analysis pursuant to art. 154-ter TUF (Finance Consolidation Act).

D) EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

1. SEGMENT REPORTING

Please refer, as provided for by IAS 14 paragraph 6, to the analysis provided in the consolidated financial statements.

NON-CURRENT ASSETS

2. LAND, PROPERTY, PLANT, MACHINERY AND EQUIPMENT

Tangible assets showed a net decrease of Euro 3,073 thousand, from Euro 22,066 thousand at 31 December 2015 to Euro 18,993 thousand at 31 December 2016.

Changes in the historical costs of tangible assets during the period are shown in detail below (thousands of Euro):

(Thousands of Euro)

Historic cost	31/12/2015	Acquisitions	(Disposals)	Other changes	31/12/2016
Land and buildings	114	231	-90		255
Plant and machinery	25,440	396	-200	1,158	26,794
Industrial and commercial equipment	30,956	1,047	-219	476	32,260
Other tangible assets	7,153	44	-1,834	973	6,336
Assets in progress and payments on account	2,484	173		-2,607	50
Total	**66,147**	**1,891**	**-2,343**	**- 0**	**65,695**

(Thousands of Euro)

Depreciation reserves	31/12/2015	Depreciation amounts	(Disposals)	Other changes	31/12/2016
Land and buildings	100	43	-90		53
Plant and machinery	16,772	1,542	-85		18,229
Industrial and commercial equipment	21,303	2,807	-201		23,909
Other tangible assets	5,907	418	-1,813		4,512
Total	**44,082**	**4,810**	**-2,189**	**-**	**46,703**

Overall changes in net tangible assets during the period are shown in detail below (thousands of Euro):

(Thousands of Euro)

Net value	31/12/2015	Acquisitions	(Disposals)	Depreciation amounts	Other changes	31/12/2016
Land and buildings	14	231	0	-43	-	202
Plant and machinery	8,668	396	-115	-1,542	1,158	8,565
Industrial and commercial equipment	9,653	1,047	-18	-2,807	476	8,351
Other tangible assets	1,246	44	-21	-418	973	1,824
Assets in progress and payments on account	2,484	173	0	0	-2,607	50
Total	**22,066**	**1,891**	**-154**	**-4,810**	**-0**	**18,993**

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

The item Plant and Machinery includes machinery owned by the company and used for production .

The item Industrial and Commercial Equipment includes moulds, testing and control instruments.

The item Other Tangible Assets is made up mostly of electronic processors, motor vehicles, internal transport vehicles and furnishings.

The item Fixed Assets in Progress and Payments on Account includes the investments made in plants still to be completed (Euro 50 thousand at 31 December 2016).

The Other changes column includes reclassifications between fixed assets in progress and payments on account and the relative destination categories of the completed assets ready for use.

The main increases in tangible assets during the period in question relate to:

- Leasehold improvements to properties leased from third parties for Euro 231 thousand;
- Purchase of generic and specific plant and machinery totalling Euro 396 thousand, relating principally to general plant completing the test area of the New Technical Centre, and also production lines;
- Purchase of new moulds and templates for Euro 539 thousand;
- Purchase of equipment for Euro 94 thousand intended for assembly and functional testing of components;
- Purchase of testing and control instruments for Euro 414 thousand, relating primarily to completion of test rooms and the exhaust gas testing laboratories;
- Purchase of furniture, electronic office machines and transport vehicles for Euro 44 thousand.

The principal decreases in tangible assets for the year relate to disposals of plant and machinery.

3. DEVELOPMENT EXPENDITURE

The following is an analysis of changes in development expenditure during the period (thousands of Euro):

(Thousands of Euro)

	31/12/2015	Acquisitions	(Amortization)	Other changes	31/12/2016
Development expenditure	**6,171**	3,018	-3,367	0	**5,822**

Development expenditure, totalling Euro 5,822 thousand (Euro 6,171 thousand at 31 December 2015), includes the costs incurred by the Company for internal personnel, for services rendered by third parties and the costs of the test room and prototype materials, for projects satisfying the requirements of IAS 38 in order to be recognized in net assets. In particular, costs capitalized during the period refer to innovative projects, not carried out previously, aimed at new market segments, capable of expanding and optimizing the product range. Among these, the following main projects were developed by the parent company:

1. After Market Evolution Project (LPG and CNG) for development of new kits and components, including new turbo engine reducers and new software for direct injection engines, and also adaptation of the product range to the new vehicle and engine models;
2. OEM Market Evolution Project (LPG and CNG) for development of new kits and components, including new turbo engine reducers, and also adaptation of the product range to the new vehicle and engine models;
3. electronic reducer project (CNG) for new engines and vehicles;
4. new high-performance injectors range for the After Market segment;
5. DDF (Dual fuel) evolution project for the conversion of diesel vehicles to CNG, for the improvement of installations and performance and the expansion of the range of models and engines (including for heavy duty vehicles).

Development activities were continued during the initial months of 2017 and they are expected to continue for the rest of the current year. There are no indicators of long-term losses for such activities, the development phase of which is expected to be completed by the end of the current year.

To evaluate any losses in value of capitalized development costs, the Company attributes such costs to the corresponding specific projects and evaluates their recoverability, calculating the value of use with the discounted financial flows method.

4. OTHER INTANGIBLE ASSETS WITH FINITE USEFUL LIVES

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)

Other intangible assets with finite useful lives	Net Value at 31/12/2015	Acquisitions	(Amortization)	Other changes	(Write-downs)	Net Value at 31/12/2016
Patents and intellectual property rights	847	163	-500	-18	0	492
Concessions and trademarks	116	60	-28	18	0	166
Total	**963**	**223**	**-529**	**0**	**0**	**658**

At 31 December 2016, this item totalled Euro 658 thousand (Euro 963 thousand at 31 December 2015), and substantially includes rights to use intellectual property and the purchase of licences concerning operating applications for Euro 163 thousand and concessions and trademarks for Euro 60 thousand.

5. INVESTMENTS IN SUBSIDIARIES

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)

Investments in subsidiaries	31/12/2015	Increases	Use of Provision	Impairment losses	Other changes	Net Value at 31/12/2016
Equity investments	103,076			-693		102,383

The following are the changes in equity investments:

(Thousands of Euro)	Initial value	Increases	Use of Provision	Impairment losses	Other changes	Final value
LR Industria e Comercio Ltda	1,709					1,709
Landi International B.V.	18					18
Beijing Landi Renzo Autogas System Co. Ltd	2,057					2,057
L.R. Pak (Pvt) Limited	638			-638		0
Landi Renzo Pars Private Joint Stock Company	3,000					3,000
Lovato Gas S.p.A.	48,680					48,680
Landi Renzo Ro Srl.	5					5
Landi Renzo VE C.A.	0					0
Landi Renzo USA	0					0
AEB S.p.A.	44,379					44,379
SAFE S.p.A.	2,500					2,500
Emmegas S.r.l.	0					0
Landi Renzo Argentina Srl	89			-55		34
Total equity investments	**103,076**	**0**	**0**	**-693**	**0**	102,383

At 31 December 2016, the equity investments in the subsidiaries Lovato Gas S.p.A., A.E.B. S.p.A., Safe S.p.A. and Landi Renzo Pars were tested for impairment.

The recoverable value of equity investments subjected to the impairment test was defined with respect to the value in use, intended as the net current value of operating cash flows (discounted accordingly using the DCF – Discounted Cash Flow method) deriving from the 2016-2020 economic-financial plan approved by the Board of Directors on 30 December 2016, and therefore over a horizon of 4 years rather than 5 as the Business Plan update to 2021 has not yet been approved, and from a terminal value at the end of said period.

The forecasts for 2017-2020 were prepared and approved by the boards of directors of the respective subsidiaries on the basis of the results achieved in previous years, management expectations on market trends and the operating costs rationalization dynamics envisaged by the plan. For said impairment test, at the end of the period considered in the plan, a terminal value was estimated which reflects the value of the equity investment beyond the specific period, on the assumption that the companies will continue as a going concern. Said terminal value was calculated as a perpetual source of income, with a long-term growth rate ("g rate") of:

- 3.7% for the subsidiary Lovato Gas S.p.A.;
- 1.2% for the subsidiaries AEB S.p.A and Safe S.p.A.;
- 5% for the subsidiary Landi Renzo Pars

The discount rate was calculated as the weighted average cost of capital ("W.A.C.C."), before tax, determined as the weighted average between the cost of equity, calculated using the CAPM (Capital Asset Pricing Model) method, and the cost of debt. The rate, as required by IAS 36, was determined with reference to the operating

risk of the sector and the financial structure of a sample of listed companies comparable to the Group in terms of risk profile and sector of activity.
In particular, taking into account that Lovato Gas SpA operates primarily abroad, the discount rate was calculated while taking into consideration the risks associated with the Company's cash flows generated in the various geographical areas. In that 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 SpA operates, the "g" growth rate was determined as the weighted average of the long-term inflation rates estimated by the International Monetary Fund for the individual geographical areas, resulting in a value of 3.7%.

The principal parameters used to determine the rates used as a reference in the impairment tests are shown below:

Subsidiary company	Risk Free rate %	Beta levered	Market premium %	WACC %
Lovato Gas S.p.A.	4.6	1.30	7.4	9.4
AEB S.p.A. and Safe S.p.A.	1.5	1.30	7.2	6.5
Landi Renzo Pars Private Joint Stock Company	11.1	1.30	7.4	18.1

The approach which considers the country risk implicit in the risk free rate was used in determining the discount rate.
For the risk free rate, reference was made to an average figure for the period January - December 2016 of 10-year Italian government bonds. For the Beta factor, reference was made to a Beta taken over a timespan of 3 years for a sample of listed companies considered as comparable.

The results for the Italian companies indicated that the recoverable value is higher than the book value of each individual stake analysed and there was therefore no write-down of the book value of said stakes.
As regards the equity investment in the subsidiary LR Pak (Pvt) Limited, taking into account the reduction in the company's total assets, the equity investment was written off, with an economic impact for the year of Euro 638 thousand.

At the bottom of these Explanatory Notes there is a specific table summarizing the companies in which an investment is held, which contains the information required by the Italian Civil Code, and the indirect investments not specified in the above paragraph are also shown.

6. EQUITY INVESTMENTS IN ASSOCIATED COMPANIES AND JOINT VENTURES

At 31 December 2016, this item totalled Euro 215 thousand and relates to the stakes in EFI Avtosanoat Landi Renzo LLC for Euro 172 thousand and in Krishna Landi Renzo India Private Ltd for Euro 43 thousand. The change includes the impairment loss of Euro 66 thousand of the company Krishna Landi Renzo India Private Ltd.

(Thousands of Euro)

Equity investments in associated companies and joint ventures	31/12/2015	Increases	Use of provision	Impairment losses	Net Value at 31/12/2016
EFI Avtosanoat - Landi Renzo LLC	172				172
Krishna Landi Renzo India Private Ltd Held	109	0		-66	43
Total	281	0	0	-66	215

7. OTHER NON-CURRENT FINANCIAL ASSETS

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)

Other non-current financial assets	31/12/2015	Repayments	Increases	Impairment losses	31/12/2016	Change
Loan to Landi Renzo Usa Co.	5,788		2,164	-7,952	-	5,788
Loan to Landi Renzo Pars	337				337	0
Total equity investments in other companies	3				3	0
Total	**6,128**	**-**	**2,164**	**-7,952**	**340**	**5,788**

At 31 December 2016, other non-current financial assets totalled Euro 340 thousand and relate principally to the remainder of the outstanding loan to subsidiary Landi Renzo Pars totalling Euro 337 thousand. The company performed an impairment test on the value of non-current financial assets at 31 December 2016 to check for any loss in value of said assets.

In order to evaluate the recoverability of the receivable due from the US subsidiary, the management considered several factors influencing the debtor's capacity to repay the loan granted. In particular, in consideration of the current financial position, the profitability of previous years and of the year at 31 December 2016, the debt servicing capacity and the future short/medium-term outlooks, the financial receivable of Euro 10,293 thousand was written off.

8. OTHER NON-CURRENT ASSETS

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)

Other non-current assets	31/12/2016	31/12/2015	Change
Guarantee deposits	1	71	-70

At 31 December 2016 the other non-current assets totalled Euro 1 thousand and refer to guarantee deposits. This item was not discounted since the impact of the financial effect is not significant.

9. DEFERRED TAX ASSETS AND LIABILITIES

In application of IAS 12, par. 74, in 2016, and as a result also for 2015 to ensure greater comparability, deferred tax assets were offset with deferred tax liabilities as:

(i) the entity has a right to set off current tax assets against current tax liabilities; and

(ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)

Net deferred tax assets and liabilities	31/12/2016	31/12/2015	Change
Prepaid taxes	8,506	8,493	13
Deferred taxes	-403	-349	-54
Total net deferred tax assets	8,103	8,144	-41

At 31 December 2016, deferred tax assets, totalling Euro 8,506 thousand (Euro 8,493 thousand at 31 December 2015), related both to temporary differences between the book values of assets and liabilities on the balance

sheet and the corresponding tax values recognized for taxation and to the losses from the consolidation tax scheme of years prior to 2016 deemed to be recoverable on the basis of the company plans identified by the Board of Directors through the approval of the updated 2016-2020 Business Plan, the realization of which is subject to the intrinsic risk of non-implementation inherent in its provisions.
Concerning recoverability of prepaid taxes already set aside by the Company at 31 December 2015 for years prior to the introduction of tax consolidation, taking the results of the analysis performed into account, the Company registered an adjustment in the value of prepaid taxes at 31 December 2016 totalling Euro 904 thousand.
For reasons of prudence, the company decided not to recognize any provision for deferred tax assets on tax losses for the year, totalling Euro 3,298 thousand.

In consideration of this, at 31 December 2016, the Company had tax losses that could be carried forward indefinitely exceeding Euro 30 million, for which deferred tax assets were not recognized.

The following table shows the values of the offsettable deferred tax assets and liabilities and their movements from 31 December 2015 to 31 December 2016 (in thousands of Euro):

Deferred tax assets	Deferred tax assets 31/12/2015	Uses	Devaluation	Temporary changes	Deferred tax assets 31/12/2016
Inventory write-down reserve	640	-	-	384	1,024
Provision for product warranties	373	-	-	-	373
Provision for bad debts - taxed	375	-	-	149	524
Provision for other risks and lawsuits	809	-103	-	645	1,351
Other temporary differences	406	-211	-	54	249
Tax losses	5,889	-	-904	-	4,985
Total deferred tax assets	**8,492**	**-314**	**-904**	**1,232**	**8,506**
Offsettable deferred tax liabilities	**Deferred tax liabilities 31/12/2015**	**Uses**	**Devaluation**	**Temporary changes**	**Deferred tax liabilities 31/12/2016**
TFR - Equity reserve	11	0	0	12	23
Other temporary changes	337	-27	0	70	380
Total deferred tax liabilities	**348**	**-27**	**-**	**82**	**403**
Total deferred tax assets	**8,144**	**-287**	**-904**	**1,150**	**8,103**

At 31 December 2016 deferred tax liabilities totalled Euro 403 thousand (Euro 348 thousand at 31 December 2015) with an increase equal to Euro 82 thousand, and are primarily related to temporary differences between the book values of certain assets and the values recognized for tax purposes.

CURRENT ASSETS

10. TRADE RECEIVABLES INCLUDING RECEIVABLES FROM CUSTOMERS - OTHER RELATED PARTIES

Trade receivables, stated net of the related write-down reserve, are shown divided by geographical area below (thousands of Euro):

(Thousands of Euro)

Trade receivables by geographical area	31/12/2016	31/12/2015	Change
Italy	3,889	2,930	959
Europe (excluding Italy)	3,977	2,276	1,701
Asia and Rest of the World	3,589	3,172	417
America	1,852	1,489	363
Provision for bad debts	-2,947	-2,458	-489
Total	**10,360**	**7,409**	**2,951**

Trade receivables at 31 December 2016 totalled Euro 10,360 thousand, net of the Reserve for bad debts totalling Euro 2,947 thousand.

The Company carried out assignment of trade receivables through factoring without recourse and, at 31 December 2016, the amount of assignments with credit maturity, for which there was derecognition of the related receivables, totalled Euro 13,574 thousand, down compared with Euro 17,175 thousand at 31 December 2015.

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

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	31/12/2015	Provisions	Uses	31/12/2016
Provision for bad debts	2,458	661	-172	2,947

The allocations made during the year, necessary in order to adjust the book value of the receivables to their assumed recovery value, amounted to Euro 661 thousand. In accordance with the requirements of Accounting Standard IFRS 7, the following table provides information on the maximum credit risk divided by past due credit classes, gross of the Reserve for Bad Debts:

(Thousands of Euro)

Trade receivables ageing for 2016 - 2015			Past due		
	Total	Not past due	0-30 days	30-60 days	60 and beyond
Trade receivables at 31/12/2016 (gross of provision)	13,307	6,717	1,343	132	5,115
Trade receivables at 31/12/2015 (gross of provision)	9,867	4,225	320	71	5,251

It is considered that the book value of the Trade receivables approximates their fair value.

11. RECEIVABLES FROM SUBSIDIARIES

Receivables from subsidiaries totalled Euro 7,275 thousand at the end of the period compared with Euro 9,613 thousand for the previous year. The decrease was mainly attributable to the reduction in sales revenue from Group companies, the reduction in receivables from Italian subsidiaries for the national tax consolidation scheme and higher collections received.

For a breakdown, see the appropriate final chapter relating to "Other information" (Note 43).

12. INVENTORIES

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)

Inventories	31/12/2016	31/12/2015	Change
Raw materials and parts	8,930	9,925	-995
Work in progress and semi-finished products	4,820	5,195	-375
Finished products	4,331	6,096	-1,765
(Inventory write-down reserve)	-3,668	-2,293	-1,375
Total	**14,413**	**18,924**	**-4,511**

The table shows a decrease in inventories totalling Euro 4,511 thousand compared with 31 December 2015, for benefits deriving from a stock reduction plan implemented since the previous year, as well as an increase in the write-down reserve.

The Company estimated the amount of an inventory write-down reserve, the details of which are provided below, to cover risks of technical obsolescence of stocks and to align the book value to their presumed realization value. This item increased at 31 December 2016 by Euro 1,375 thousand compared with the previous year and totalled Euro 3,668 thousand, due to a provision to the inventory write-down reserve (raw materials) totalling Euro 375 thousand as well as a further non-recurrent provision of Euro 1,000 thousand correlated with defects in certain components used for specific Automotive supplies on engines no longer manufactured.

(Thousands of Euro)

Inventory write-down reserve	31/12/2015	Provisions	Uses	31/12/2016
Inventory write-down reserve (raw materials)	1,803	1,375		3,178
Inventory write-down reserve (finished products In progress)	260	0		260
Inventory write-down reserve (finished products)	230	0		230
Inventory write-down reserve – total	**2,293**	**1,375**	**0**	**3,668**

13. OTHER RECEIVABLES AND CURRENT ASSETS

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)

Other receivables and current assets	31/12/2016	31/12/2015	Change
Tax assets	639	1,074	-435
Receivables from others	795	1,278	-483
Accruals and deferrals	657	1,698	-1,041
Total	**2,091**	**4,050**	**-1,959**

It is considered that the book value attributed to the item “Other Receivables and Current Assets” approximates their fair value.

Tax assets

Tax assets represents amounts due from the Tax Authorities for VAT totalling Euro 352 thousand, IRES and IRAP credits as well as other tax credits, as shown in the following table.

(Thousands of Euro)

Tax assets	31/12/2016	31/12/2015	Change
IR c/VAT recoverable	352	279	73
IR c/IRES and IRAP payments on account and tax credits	287	795	-508
Total	**639**	**1,074**	**-435**

Receivables from others

At 31 December 2016, this item related primarily to advances granted to suppliers, receivables from social security institutes for contributions paid early, credit notes to be received and other receivables.

(Thousands of Euro)

Receivables from others	31/12/2016	31/12/2015	Change
Advances to suppliers	294	423	-129
Receivables from social security institutes	135	491	-356
Credit notes to be received	129	190	-61
Other receivables	237	175	63
Total	**795**	**1,278**	**-483**

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.

The decrease of Euro 1,041 thousand is attributable primarily to costs for commercial services sustained early with a car manufacturer for supplies of Euro 6 gas systems.

14. CASH AND CASH EQUIVALENTS

This item, consisting of the positive balances of bank current accounts and cash in hand in both Euro and foreign currency, is shown in detail below (thousands of Euro):

(Thousands of Euro)

Cash and cash equivalents	31/12/2016	31/12/2015	Change
Bank and post office accounts	4,184	14,665	-10,481
Cash	1	3	-2
Total	**4,185**	**14,668**	**-10,483**

Cash and cash equivalents at 31 December 2016 totalled Euro 4,185 thousand (Euro 14,668 thousand at 31 December 2015).

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

It is considered that the book value of the item “Cash and cash equivalents” is aligned with its fair value at the date of the financial statements. The credit risk relating to Cash and cash equivalents is therefore deemed to be limited since the deposits are split over primary national banking institutions.

15. EQUITY

The following table provides a breakdown of the items of equity (in thousands of Euro):

(Thousands of Euro)

Shareholders' equity	31/12/2016	31/12/2015	Change
Share capital	11,250	11,250	0
Statutory reserve	2,250	2,250	0
Extraordinary reserve	12,796	22,453	-9,657
IAS transition reserve	310	310	0
Reserve for merger surplus	0	28,045	-28,045
Share premium reserve	46,598	46,598	0
Discounted profit/loss reserve (IAS 19)	-97	-40	-57
Profit (loss) for the period	-28,986	-37,702	8,716
Total Equity	**44,121**	**73,164**	**-29,043**

Share capital

The share capital stated in the Financial Statements at 31 December 2016 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 2016 amounted to Euro 2,250 thousand and is unchanged compared with the previous year, having reached one fifth of the share capital.

Extraordinary reserve

The Extraordinary Reserve decreased by Euro 9,657 thousand following the coverage of the loss for the year at 31 December 2015.

Reserve for merger surplus

The Reserve for merger surplus was eliminated to zero, with the use of Euro 28,045 thousand, following the coverage of the loss for the year at 31 December 2015.

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 utilization (*)*	*Portion available*	*Summary of utilizations carried out in the three previous years*
Share capital	**11,250**	-		
Capital reserves				
Share premium	**46,598**	A,B,C	46,598	
Profit reserves				
Statutory reserve	2,250	B		
Extraordinary reserve	12,796	A,B,C	12,796	*** 25,240
IAS transition reserve	310	A,B,C	310	
Reserve for merger surplus	0	A,B,C	0	*** 28,045
Discounted profit/loss reserve (IAS 19)	-97		-97	
Profit (Loss) for the year 2016	**-28,986**		-28,986	
Total	**44,121**		**30,621**	
Non-distributable portion (**)			-5,822	
Residual distributable portion			**24,799**	

(*) Possibility of use: A - for share capital increases B -for covering losses C - for distribution to shareholders

(**) Non-amortized development expenditure

(***) for coverage of losses

NON-CURRENT LIABILITIES

16. BANK LOANS

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)

Non-current bank loans	31/12/2016	31/12/2015	Change
Loans and financing	13,653	6,820	6,833

This item includes the medium/long term portion of bank debts for unsecured loans and finance. It totalled Euro 13,653 thousand at 31 December 2016, compared with Euro 6,820 thousand at 31 December 2015.

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 primarily 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.

Note that the medium-term amounts of loans and of the "LANDI RENZO 6.10% 2015-2020" bonded loan with financial covenants were stated under current liabilities at 31 December 2015, in accordance with the accounting standards of reference, due to misalignments with the parameters set. In consideration of the fact that the Company was issued letters of waiver and also following the resolution of the bondholders' meeting on 7 March 2016, which voted to change the loan regulations, deferring measurement of the parameters to 31 December 2016, these amounts have been reclassified according to their contractual maturity dates.

Please also note that on 31 December 2016, all banking institutions released specific waivers in relation to the measurement of financial parameters and non-payment of the principal loan instalments maturing in November and December 2016, while the Bondholders' Meeting of 30 December 2016 amended the Loan Regulations and in turn released waivers with respect to the non-payment of the instalment due on 31 December 2016 as well as the measurement of financial parameters.

The Annual repayment plan for the medium/long-term loans, based on the balances at 31 December 2016, is shown below, along with the proposed rescheduling laid out in the Financial Structure Optimization Agreement, described in the "Going Concern" section.

Maturities	Annual loan repayment instalments pre-agreement	Annual loan repayment instalments post-agreement
2017	12,396	336
Total current	**12,396**	**336**
2018	7,043	2,103
2019	4,616	3,152
2020	1,994	4,207
2021	0	6,310
2022	0	9,941
Total non-current	**13,653**	**25,713**
Total	**26,049**	**26,049**

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 2016, the Company had the following further short-term credit facilities, available but not used:

(Thousands of Euro)

Credit facilities	2016
Cash facility	1,756
Facility for various uses	13,935
Total	**15,691**

17. OTHER NON-CURRENT FINANCIAL LIABILITIES

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)

Other non-current financial liabilities	31/12/2016	31/12/2015	Change
Payables to other financial backers	1,048	1,468	-420
Lovato S.p.A. loan	3,050		3,050
Bonded loan MT Landi Renzo 6.10% 2015-2020	21,764		21,764
Total	**25,862**	**1,468**	**24,394**

At 31 December 2016, other non-current financial liabilities totalled Euro 25,862 thousand (Euro 1,468 thousand at 31 December 2015) and are formed of:

- Euro 1,048 thousand for the long-term portions of the three tranches of a loan granted by Simest S.p.A. in September 2013, December 2014 and November 2015, to support a plan of expansion of business activities in the USA, for a resolved total amount of Euro 2,203 thousand, in accordance with specific requirements;
- Euro 3,050 thousand for the intercompany loan granted by the subsidiary Lovato Gas S.p.A.;
- Euro 21,764 thousand for the medium/long-term portion of the "LANDI RENZO 6.10% 2015-2020" bonded loan; at 31 December 2015, the entire amount of the bonded loan was stated under other current financial liabilities, in accordance with the accounting standards of reference, due to misalignments with the financial parameters set.

The above-mentioned Financial Structure Optimization Project also regarded the bond component of the Company's financial debt and rescheduled the repayment instalments; the financial covenants were also reviewed.

The Bondholders' Meeting of 30 December 2016 amended the Loan Regulations and in turn released waivers with respect to the non-payment of the instalment due on 31 December 2016 as well as the measurement of financial parameters.

On 30 June 2016, the company had duly repaid the instalment falling due for a total of Euro 2,040 thousand.

The timing for loan repayment through periodic amortization, at 31 December 2016, is reported in the table below:

(Thousands of Euro)

	2017	2018	2019	2020
Instalment amount repayment of Landi Renzo bonded loan	9,860	6,800	6,800	8,500

A new Bondholders' Meeting called for 30 March 2017, to finalize the Financial Structure Optimization Agreement of the company and the entire Group, will be asked to decide on several changes to the loan regulations, particularly with regard to the review of financial covenants, the coupon rate and the repayment plan, as described in more detail in the Directors' Report on proposals concerning matters on the Meeting agenda, published on the company's website www.landirenzogroup.com in the Investor – debt and credit rating section.

In particular, as shown in the table below, the proposed repayment plan calls, in line with the cash generation objectives laid out in the Business Plan, for repayment instalments of an increasing amount on a half-yearly basis from 30 June 2018 to 31 December 2022, with an increase in the duration of the loan, originally established until 15 May 2020, to until 31 December 2022.

(Thousands of Euro)

	2018	2019	2020	2021	2022
Instalment amount repayment of Landi Renzo bonded loan	2,614	3,920	5,226	7,840	12,360

It is considered that the book value of other non-current financial liabilities is aligned with their fair value at the balance sheet date.

18. 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	31/12/2015	Allocation	Utilization	Other changes	31/12/2016
Provision for pensions and similar obligations	25	5			30
Provision for product warranty risks	1,337				1,337
Provision for lawsuits in progress	200		-25		175
Provision for tax risks	114				114
Other provisions	3,400	2,300	-1,042		4,658
Total	**5,076**	**2,305**	**-1,067**	**0**	**6,314**

The pensions reserve related to the provision accrued for additional customer indemnity, including provisions for the year of Euro 5 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 2016 this provision totalled Euro 1,337 thousand.

The provision for lawsuits in progress, which relates to the probable payment for a dispute with a service provider declared bankrupt, was used in the amount of Euro 25 thousand to cover the first tranche of settlement costs incurred during the year.

The item "Other reserves" also includes provisions of Euro 2,300 thousand recognized during the year under the item "Accruals, write-downs and other non-recurrent operating expenses", since they relate to operations, as better described in the comments on the income statement in Note 31, which were non-recurrent, in accordance with the Consob definition indicated in Communications no. DEM/6064293 of 28-7-2006 and no. 0031948 of 10 March 2017.

Uses of other provisions include Euro 700 thousand to cover costs relating to the employee mobility procedure and the remaining amount of Euro 342 thousand to cover non-recurrent costs previously recognized in the provision.

19. DEFINED BENEFIT PLANS FOR EMPLOYEES

The following is the overall change in defined benefit plans for employees (thousands of Euro):

(Thousands of Euro)

Employee defined benefit plans	31/12/2015	Allocation	Utilization	Other changes	31/12/2016
Employee severance indemnity reserve	1,685	23	-317	80	1,471

The provision of Euro 23 thousand relates to revaluation of the employee severance indemnity reserve at the end of the period, while use of Euro 317 thousand refers to the amounts paid to employees who ceased working for the Group. The other changes relate to actuarial adjustment of the reserve. The amount of Euro -97 thousand, relating to discounting of defined benefit plans according to IAS 19, has been stated under the item Other Reserves and expressed in other components of the Statement of Comprehensive Income.

The main economic and financial assumptions used by the actuary in charge of estimates, methodologically unchanged since the previous year, are as follows:

Actuarial assumptions used for evaluations	31/12/2016
Demographic table	SIM AND SIF 2015
Discount rate (Euro Swap)	Curve of the Markit iBoxx € Corporate AA 10+ rates at 31/12/2016
Probability of request for advance	4.00%
Expected % of employees who will resign before pension	5.80%
Maximum % of TFR requested in advance	70%
Annual cost of living increase rate	1.5%

CURRENT LIABILITIES

20. BANK OVERDRAFTS AND SHORT-TERM LOANS

At 31 December 2016 this item, totalling Euro 26,572 thousand, compared with Euro 39,332 thousand in 2015, was made up of the current portion of existing loans and financing totalling Euro 12,396 thousand and use of short-term commercial credit lines totalling Euro 14,176 thousand.

As already described in note 16, the medium-term amounts of loans with financial covenants were stated under current liabilities at 31 December 2015, in accordance with the accounting standards of reference, due to misalignments with the parameters set. In consideration of the fact that the Company was issued letters of waiver, these amounts have been reclassified according to their contractual maturity dates.

Note that the loans are not secured by guarantees, are at variable rate and are not covered by derivatives.

21. OTHER CURRENT FINANCIAL LIABILITIES

(Thousands of Euro)

Type	Lender	Expiry date	Balance at 31/12/2016	Current portion
Loan	Simest	17/06/2020	1,468	419
Bonded loan ST Landi Renzo 6.10% 2015-2020		15/05/2020	31,377	9,614
Total			**32,845**	**10,033**

At 31 December 2016, other current financial liabilities totalled Euro 10,033 thousand (Euro 33,517 thousand at 31 December 2015) and are formed of:

- Euro 9,614 thousand for the short-term portion of the "LANDI RENZO 6.10% 2015-2020" bonded loan (according to the maturity dates laid out in the loan regulations updated at 30 December 2016);
- Euro 419 thousand in the short-term portion of a subsidized loan disbursed by Simest S.p.A. to support a plan to expand trade in the USA.

As described in notes 16 and 17, the medium-term amounts of the "LANDI RENZO 6.10% 2015-2020" bonded loan with financial covenants were stated under other current financial liabilities at 31 December 2015, in accordance with the accounting standards of reference, due to misalignments with the financial parameters set. In consideration of the resolution of the bondholders' meeting on 7 March 2016, which voted to change the loan regulations, deferring measurement of the parameters to 31 December 2016, this amount has been reclassified according to the maturity dates set forth in the updated loan regulations.

As regards obtaining the waiver relating to the measurement of financial parameters at 31 December 2016, please refer to note 17 "Other non-current financial liabilities".

22. TRADE PAYABLES INCLUDING PAYABLES TO RELATED PARTIES

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

(Thousands of Euro)

Trade payables to suppliers	31/12/2016	31/12/2015	Change
Trade payables to suppliers	23,631	25,507	-1,876

Trade payables (including trade payables to related parties) are shown divided by geographical area below (thousands of Euro):

(Thousands of Euro)

Trade payables by geographical area	31/12/2016	31/12/2015	Change
Italy	18,869	19,978	-1,109
Europe (excluding Italy)	4,359	4,872	-513
Asia and Rest of the World	346	552	-206
America	57	105	-48
Total	**23,631**	**25,507**	**-1,876**

It is considered that the book value of the trade payables at the balance sheet date approximates their fair value.

23. 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 19,952 thousand (Euro 10,567 at 31 December 2015). All the related transactions are carried out at arm's length conditions.

For details of the payables to Group companies, see the relevant table in the final chapter "Other information" (Note 43).

24. TAX LIABILITIES

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)

Tax liabilities	31/12/2016	31/12/2015	Change
for employee IRPEF (personal income tax) deductions	697	852	-155
for self-employed workers' IRPEF (personal income tax) deductions	15	5	10
for collaborators' IRPEF (personal income tax) deductions	73	67	6
for lieu tax and income tax	45	0	45
Total	**830**	**924**	**-94**

At 31 December 2016 tax liabilities totalled Euro 830 thousand, a decrease of Euro 94 thousand compared with 31 December 2015.

25. OTHER CURRENT LIABILITIES

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)

Other current liabilities	31/12/2016	31/12/2015	Change
Advance payments from customers	145	55	90
Payables to welfare and social security institutes	957	1,020	-63
Other payables (payables to employees, to others)	1,196	2,273	-1,077
Accrued expenses and deferred income	103	155	-52
Total	**2,401**	**3,503**	**-1,102**

At 31 December 2016 other current liabilities totalled Euro 2,401 thousand, a decrease of Euro 1,102 thousand compared with 31 December 2015.

The item "Other payables", decreased from Euro 2,273 thousand at 31 December 2015 to Euro 1,196 thousand at 31 December 2016, primarily as a result of the decrease in payables to employees related to the voluntary redundancy scheme agreed with the trade unions as part of the voluntary mobility program.

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 43.

26. REVENUES INCLUDING REVENUES FROM RELATED PARTIES

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)

Revenues from sales and services	31/12/2016	31/12/2015	Change
Revenues related to the sale of assets	63,882	74,710	-10,828
Revenues for services and other revenues	8,937	7,742	1,195
Total	**72,819**	**82,452**	**-9,633**

At 31 December 2016, revenues from sales and services declined by 11.7% compared with the year ending on 31 December 2015.

Revenues for services and other revenues are shown in detail below (thousands of Euro):

(Thousands of Euro)

Revenues for services and other revenues	31/12/2016	31/12/2015	Change
Services rendered	928	366	562
Technical consultancy	2,788	1,307	1,481
Intercompany services rendered	4,636	5,462	-826
Reimbursement of transport expenses	118	107	11
Reimbursement of other costs	117	147	-30
Reimbursement of employee canteen costs	58	66	-8
Other income	292	287	5
Total	**8,937**	**7,742**	**1,195**

Services rendered include primarily technical consultancy and charges of services for the testing of components supplied to leading automobile manufacturers.

Intercompany services supplied refer to services of an administrative, operating and technical nature charged to the subsidiary companies and governed by agreements at arm's length conditions.

Technical consultancy refers to services charged to OEM customers for technical services on new components designed for gas systems.

Reimbursements of various costs relate primarily to insurance refunds and revenue from incentives for the production of electricity by the photovoltaic system.

Other income refers mainly to various charges to recover costs related to production activity.

27. OTHER REVENUES AND INCOME

Other revenue and income totalled Euro 640 thousand at 31 December 2016, compared to Euro 902 thousand at 31 December 2015 and are shown in detail below (in thousands of Euro):

(Thousands of Euro)

Other revenues and income	31/12/2016	31/12/2015	Change
Grants	95	0	95
Other income	545	902	-357
Total	**640**	**902**	**-262**

The item grants relates to the tax credit on research and development.

Other income refers mainly to capital gains on the sale of assets and contingent gains.

28. COST OF RAW MATERIALS, CONSUMABLES AND GOODS AND CHANGE IN INVENTORIES

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)

Cost of raw materials, consumables and goods and change in inventories	31/12/2016	31/12/2015	Change
Raw materials and parts	17,999	21,340	-3,341
Finished products	16,286	18,961	-2,675
Other materials	825	1,056	-231
Change in inventories	4,511	3,023	1,488
Total	**39,621**	**44,380**	**-4,759**

Total costs for consumption of raw materials, consumables and goods (including the change in inventories) decreased from Euro 44,380 thousand at 31 December 2015 to Euro 39,621 thousand at 31 December 2016.

The item "Change in inventories" includes a provision of Euro 1,000 thousand correlated with defects in some components used for specific automotive supplies on engines no longer manufactured.

29. COSTS FOR SERVICES AND USE OF THIRD PARTY ASSETS

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)

Costs for services and use of third party assets	31/12/2016	31/12/2015	Change
Industrial and technical services	10,780	12,661	-1,881
Commercial services	2,025	3,476	-1,451
General and administrative services	5,146	5,605	-459
Costs for use of non-Group assets	2,660	2,919	-259
Non-recurrent costs for services and use of third party assets	2,345	1,242	1,103
Total	**22,956**	**25,903**	**-2,947**

The item Costs for services and use of third party assets totalled Euro 22,956 thousand at 31 December 2016 and Euro 25,903 thousand at 31 December 2015.

The decrease in costs for industrial and technical services is linked to the reduction in external processing and production overhead costs, while the decrease in commercial services is attributable to the reduction in direct commercial costs as well as the decline in the use of marketing consultancy.

The item Costs for services and use of non-Group assets lastly includes a non-recurrent part for business costs sustained for agreements with several car manufacturers, which, due to their specific nature, do not recur frequently, as well as other costs for services connected with the Company's financial structure optimization activities.

30. PERSONNEL EXPENSES

Personnel expenses are shown in detail below (thousands of Euro):

(Thousands of Euro)

Personnel cost	31/12/2016	31/12/2015	Change
Wages and salaries	9,074	10,333	-1,259
Social security contributions	3,439	3,970	-531
Expenses for defined benefit plans	877	985	-108
Temporary and transferred work	2,406	2,579	-173
Directors' remuneration	657	659	-2
Non-recurrent personnel costs and expenditure	0	1,790	-1,790
Total	**16,453**	**20,316**	**-3,864**

In the year closed at 31 December 2016, personnel expenses decreased by 19% compared with those for the year closed at 31 December 2015. Net of non-recurrent costs recognized in 2015, the decrease would be 11.2%.

The reduction is attributable both to a company solidarity agreement started from the third quarter of the previous year and still in progress at year end and to the effects of a mobility and voluntary redundancy scheme started in November 2015 and completed towards the end of the first half of 2016, the costs of which were already stated on the 2015 financial statements.

The employee severance allocation, totalling 877 thousand, includes the allocation to the company fund of Euro 23 thousand, the portion paid into the Treasury Fund set up with the INPS (national social security institute) totalling Euro 650 thousand and Euro 204 thousand for the portion paid into the Supplementary Social Security Funds.

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	**31/12/2016**	**31/12/2015**	**Change**	**31/12/2016**	**31/12/2015**	**Change**
Executives and Clerical Staff	183	214	-31	181	199	-18
Operatives	110	127	-17	109	116	-7
Total	**293**	**341**	**-48**	**290**	**315**	**-25**

(*) These values do not include temporary workers, fixed contract collaborators or the directors.

The decrease in the precise number of employees at the end of the year was the result of resignations, voluntary redundancy payments and the voluntary mobility procedure.

31. ACCRUALS, WRITE-DOWNS AND OTHER OPERATING EXPENSES

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)

Accruals, write-downs and other operating expenses	31/12/2016	31/12/2015	Change
Other taxes and duties	83	116	-33
Other operating expenses	412	404	8
Losses on receivables	116	24	92
Provision for product warranties	0	250	-250
Bad debts	661	100	561
Accruals, write-downs and other non-recurrent operating expenses	2,300	2,700	-400
Total	**3,572**	**3,594**	**-22**

The costs included in this item totalled Euro 3,572 thousand at 31 December 2016, against Euro 3,594 thousand at 31 December 2015.

The item "Accruals, write-downs and other non-recurrent operating expenses", of Euro 2,300 thousand, relates to business agreements which, due to their specific nature, do not recur frequently in the normal run of things and for which a future use of resources, also correlated with material assets used in the Automotive segment, to satisfy the relative obligations appears likely.

32. AMORTIZATION, DEPRECIATION AND IMPAIRMENT

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)

Amortization, depreciation and impairment	31/12/2016	31/12/2015	Change
Amortization of intangible assets	3,896	3,936	-40
Impairment of goodwill	0	2,548	-2,548
Depreciation of tangible assets	4,810	4,361	449
Total	**8,706**	**10,845**	**-2,139**

Amortization of intangible assets, totalling Euro 3,896 thousand, refers primarily to the amortization of development and design costs incurred by the Company, as well as the costs for the purchase of the software (applications and management) acquired over time and industrial patents.

Depreciation of tangible assets, totalling Euro 4,810 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.

33. FINANCIAL INCOME

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)

Financial income	31/12/2016	31/12/2015	Change
Interest income on bank deposits	4	50	-46
Other income	27	61	-34
Total	**31**	**111**	**-80**

Financial income includes, primarily, bank interest income and interest on intercompany loans. Financial income at 31 December 2016 totalled Euro 31 thousand, a decrease compared with Euro 80 thousand at 31 December 2015, mainly as the result of lower bank interest income.

34. INCOME FROM INVESTMENTS

This item totalled Euro 1,113 thousand at 31 December 2016, compared with Euro 111 thousand at 31 December 2015.

(Thousands of Euro)

Income on equity investments	31/12/2016	31/12/2015	Change
Dividends from subsidiary companies	1,113	275	838
Total	**1,113**	**275**	**838**

Dividends from equity investments relate solely to dividends collected from the subsidiary Landi Renzo RO.

35. FINANCIAL CHARGES

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)

Financial charges	31/12/2016	31/12/2015	Change
Interest on bank overdrafts and loans and loans from other financiers	3,366	3,148	218
Bank charges and commissions	676	607	69
Total	**4,042**	**3,755**	**287**

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 2016, the Company did not have interest rate hedging derivatives.

36. EXPENSES FROM INVESTMENTS

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)

Expenses from investments	31/12/2016	31/12/2015	Change
Write-down of investments in subsidiaries and JV	1,210	9,818	-8,608
Write-down of loans to subsidiaries	7,952	2,341	5,611
Total	**9,162**	**12,159**	**-2,997**

Expenses from investments decreased from Euro 12,159 thousand at 31 December 2015 to Euro 9,162 thousand at 31 December 2016, and include:

- the write-down, with the elimination of the value of the equity investment, of the subsidiary LR Pak, for Euro 638 thousand;
- the write-down of the equity investment in the subsidiary Landi Renzo Argentina S.r.l., for Euro 55 thousand;
- the write-down of the equity investment in the joint venture Krishna Landi Renzo India Private Ltd Held, for Euro 66 thousand;
- the coverage of losses of the subsidiary Emmegas S.r.l. for Euro 451 thousand;

- the value adjustment on the current loan with the US subsidiary for Euro 7,952 thousand.

37. EXCHANGE RATE GAINS AND LOSSES

This item is shown in detail below (thousands of Euro):

(Thousands of Euro)

Exchange gains and losses	31/12/2016	31/12/2015	Change
Positive exchange differences realized	13	275	-262
Positive exchange differences from valuation	379	743	-364
Negative exchange differences realized	-6	-413	407
Negative exchange differences from valuation	-7	-50	43
Total	**379**	**555**	**-176**

The Company realizes over 95% of its revenues and costs in Euro.

At 31 December 2016 the Company did not have any financial instruments to cover of exchange rate fluctuation.

In accordance with the requirements of Accounting Standard IFRS 7, a breakdown is provided below of financial income and expenses ascribed to Income Statement by individual financial instruments category:

(Thousands of Euro)

Financial income and expenses	31/12/2016 Book value	31/12/2015 Book value
Interest income on cash and cash equivalents	4	50
Other financial income	27	61
Exchange gains/losses	379	555
Bank interest charges	-54	-173
Interest expenses from financial liabilities valued at the amortized cost	-817	-1,221
Interest charges on factoring without recourse and other interest charges	-352	-453
Interest charges on bonds	-2,144	-1,301
Total	**-2,957**	**-2,482**

38. TAXES

The theoretical rate used for the calculation of taxes on the income of Italian companies is 27.9% of the taxable income for the year. Income taxes are shown in detail below (thousands of Euro):

(Thousands of Euro)

Taxes	31/12/2016	31/12/2015	Change
Current taxes	-221	-5,205	4,984
Deferred (prepaid) taxes	-322	6,252	-6,574
Total	**-543**	**1,046**	**-1,590**

Taxes at 31 December 2016 had a positive tax effect of Euro 543 thousand, compared with a tax burden of Euro 1,046 thousand at 31 December 2015.
Current taxes include income from tax consolidation of Euro 585 thousand, use of deferred tax assets totalling Euro 314 thousand and lastly use of deferred tax liabilities totalling Euro 46 thousand.

Deferred taxation, on the other hand, had a positive balance of Euro 322 thousand, relating to deferred taxation resulting from temporary differences, totalling Euro 1,226 thousand net of the adjustment of deferred tax assets on tax losses set aside before tax consolidation of Euro 904 thousand.
Please note, as already highlighted in note 9 "deferred tax assets and deferred tax liabilities", that for reasons of prudence the Company decided not to recognize any provision for deferred tax assets on tax losses for the year.

The Italian companies of the Group have adhered to the National Tax Consolidation scheme since 2014, with consolidation by the Parent Company, as already discussed in the introduction to these Explanatory Notes.

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 basis of calculation for the tax.

The summarized data is shown below:

	31/12/2016		
(Thousands of Euro)	**Taxable**	**Taxes**	**%**
Result before tax	-29,529		
Taxes calculated at the tax rate in force		-8,120	27.5%
Permanent differences			
- non-deductible costs	4,676	1,286	-4.4%
- charges on equity investments	9,162	2,520	-8.5%
- non-taxed portion of dividends	-1,057	-291	1.0%
- other non-taxable income	-153	-42	0.1%
-taxes from reduction of Ires rate		147	-0.5%
- write-off of prepaid taxes on tax losses	3,768	904	-3.1%
Tax loss without taxation	13,742	3,779	-12.8%
Benefits from participation in tax consolidation		-585	2.0%
IRAP calculated on a different basis from the pre-tax result		-141	0.5%
Total current taxes/Effective rate		**-543**	**1.8%**

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 financial assets and liabilities, divided according to the categories identified by the aforementioned accounting standard.

(Thousands of Euro)	31/12/2016		31/12/2015	
	Book value	Fair value	Book value	Fair value
Loans and Receivables	19,068	19,068	19,374	19,374
Cash and cash equivalents	4,185	4,185	14,668	14,668
Trade payables	46,232	46,232	39,477	39,477
Financial liabilities valued at the amortized cost - non-current portion	36,465	36,465	6,820	6,820
Financial liabilities valued at the amortized cost - current portion	22,009	22,009	33,273	33,273
Other short term amounts owed to banks	14,176	14,176	6,059	6,059

Note that the book value of the loans and financing approximates their fair value at 31 December 2016, since such classes of financial instruments are indexed at the Euribor market rate.

40. 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.

41. OPERATING LEASES

For accounting purposes, leases and hire contracts are classified as operational if:

- the lessor retains a significant share of the risks and the benefits associated with the property,
- there are no purchase options at prices that do not reflect the presumable market value of the rented asset at the end of the period,
- the duration of the contract does not represent the greater part of the useful life of the leased or hired asset.

Payments of operating lease charges are stated on the Income Statement in line with the underlying contracts.

The principal operating leases signed by Landi Renzo S.p.A. refer to two contracts signed with Gireimm S.r.l. (see Note 43 "Transactions with related parties") for rental of the Operating Headquarters and the New Technical Centre situated in Cavriago (RE):
The first contract expires on 10 May 2019 and the remaining instalments total Euro 2,227 thousand, of which Euro 944 thousand within one year, while the second expires on 31 January 2020, with residual instalments of Euro 3,298 thousand, of which Euro 1,070 thousand within one year.
No sureties were provided for said contract and there are no kinds of restrictions associated with the lease.
There has been a contract with A.E.B. S.p.A. since January 2015 for sublease by the subsidiary of a portion of the industrial plant located in Via dell'Industria in Corte Tegge di Cavriago, at which the Company's production activities previously performed at the plant Via Raffaello in Reggio Emilia are now performed.

42. ANALYSIS OF THE MAIN DISPUTES IN PROGRESS

At 31 December 2016, the Company is involved in proceedings, brought both by and against it, for non-significant amounts.
The directors of the Company, taking into account the status of proceedings under way and supported by the opinion of its legal advisers, on a dispute with the bankruptcy proceedings of a supplier of services, decided to maintain the provision for risks of Euro 175 thousand on the financial statements.
There are currently no major disputes with the Tax Authority or with Social Security Institutions or other Public Authorities.

43. 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., a subsidiary of the parent company Girefin S.p.A., and Landi Renzo S.p.A., relating to lease payments on the property housing the operating unit and technical centre.

The following table summarizes the relationships with other related parties and intercompany relationships (thousands of Euro):

Company	Sales revenues	Revenues for services and other revenues	Financial Income	Sale of assets	Purchase of finished products	Costs for use of third party assets	Purchase of assets	Costs for services	Financial Expenses	Income from Equity Investments	Financial Assets	Financial Liabilities	Receivables	Payables
Krishna Landi Renzo India Priv. Ltd	31	29			10								814	11
Efi Avtosanoat	272				1								455	
Gireimm S.r.l.						2,027								3,888
Total related parties	**304**	**29**	**0**	**0**	**11**	**2,027**	**0**	**0**	**0**	**0**	**0**	**0**	**1,269**	**3,899**
AEB S.p.A.	2,290	3,157			6,784	100		2,250	9				828	13,892
Lovato Gas S.p.A.	133	550			1,577			70	37			3,050	150	1,943
Eighteen Sound Srl		123						27					200	
Landi Renzo Polska	2,062	58			3,004			56						2,325
Eurogas Autogas System BV	0	3					46						0	
Landi International BV														
Beijing Landi Renzo Cina	1,083	78			366			1					484	585
LR Industria e Comercio Ltda	223	161			3			0					194	29
Landi Renzo Pars	664		17	132				1			338		460	
LR PAK Pakistan	65	29			80			1					3,217	6
Landi Renzo Ro Srl	268	15			10			87		1,113				339
Landi Renzo Usa Corp.	26	161						268					1,539	70
Landi Renzo VE C.A.	0													
AEB America	48	15											3	
SAFE S.p.A.	0	316						96	3				200	439
Emmegas Srl	127	149			86			207						324
Total subsidiaries	**6,991**	**4,816**	**17**	**132**	**11,910**	**100**	**46**	**3,065**	**48**	**1,113**	**338**	**3,050**	**7,275**	**19,952**

Incidence of Transactions with Related Parties	Total item	Absolute value related parties	%	Related party
a) incidence of the transactions or positions with related parties on balance sheet items				
Other non-current financial assets	340	338	99.33%	Subsidiaries
Receivables from customers	17,635	8,543	48.45%	Subsidiaries, Krishna Landi Renzo India Private Ltd Held, EFI Avtosanoat-Landi Renzo LLC
Current financial assets	0	0		Subsidiaries
Trade payables to suppliers	43,583	23,851	54.72%	Gireimm Srl + subsidiaries
Other non-current financial liabilities	25,862	3,050	11.79%	Subsidiaries
b) incidence of the transactions or positions with related parties on income statement items				
Revenues from sales and services	72,819	12,139	16,67%	Subsidiaries, Krishna Landi Renzo India Private Ltd Held, EFI Avtosanoat-Landi Renzo LLC
Cost of raw materials, consumables and goods	39.621	11,921	30,09%	Subsidiaries, Krishna Landi Renzo India Private Ltd Held, EFI Avtosanoat-Landi Renzo LLC
Cost for services and use of third party assets	22,956	2,805	12.22%	Gireimm Srl + subsidiaries
Personnel cost	16,453	2,388	14.51%	Subsidiaries
Financial income	31	17	55.53%	Subsidiaries
Income on equity investments	1,113	1,113	100.00%	Subsidiaries

44. NON-RECURRING SIGNIFICANT EVENTS AND OPERATIONS

Pursuant to Consob communication no. DEM/6064293 of 28 July 2006, regarding non-recurrent significant events or transactions occurring during 2016, there are non-recurrent transactions, indicated in Notes 28, 29 and 31 of the Income Statement, relating to the activation of a Company and Group financial structure optimization project for the Company and the Group as well as the termination of agreements with several automobile manufacturers.

Also in light of Consob communication no. 0031948 of 10 March 2017, the above-mentioned transactions are deemed non-recurrent by the management given their specific nature and the infrequency with which they occur in the normal course of business.

45. POSITIONS OR TRANSACTIONS DERIVING FROM ATYPICAL AND/OR UNUSUAL TRANSACTIONS

Pursuant to Consob communication no. 6064293 of 28 July 2006, note that, during 2016, 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. ADOPTION OF SIMPLIFICATION OF REPORTING OBLIGATIONS PURSUANT TO CONSOB RESOLUTION NO. 18079 OF 20 JANUARY 2012

Pursuant to art. 3 of Consob Resolution no. 18079 of 20 January 2012, Landi Renzo S.p.A. decided to adopt the opt-out system envisaged by arts. 70, par. 8, and 71, par. 1-bis, of Consob Regulation no. 11971/99 (as amended). It is therefore able to opt out from the disclosure of the information documents listed in Annex 3B to said Consob Regulation, on occasion of significant mergers, demergers, increases in capital through contribution of goods in kind, acquisitions and disposals.

47. SIGNIFICANT EVENTS OCCURRING AFTER THE CLOSE OF THE FINANCIAL YEAR

Please refer to the analysis provided in the Directors' Report and in the “Going Concern” section.

Cavriago 27 March 2017

LIST OF EQUITY HOLDINGS IN SUBSIDIARIES AT 31/12/2016

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	2,398,257	1,992,571	99.99%		1,708,862
Landi International B.V.	Utrecht (The Netherlands)	EUR	18,151	4,368,227	483,815	100%		17,972
Beijing Landi Renzo Autogas System Co. Ltd	Beijing (China)	USD	2,600,000	4,777,039	-812,412	100%		2,057,305
Eurogas Utrecht B.V.	Utrecht (The Netherlands)	EUR	36,800	21,092	-56,556		100% (*)	
Landi Renzo Polska Sp.Zo.O.	Warsaw (Poland)	PLN	50,000	4,345,342	546,246		100% (*)	
L.R. Pak (Pvt) Limited	Karachi (Pakistan)	PKR	75,000,000	-1,285,247	-2,429,002	70%		1
Landi Renzo Pars Private Joint Stock Company	Tehran (Iran)	IRR	55,914,800,000	1,859,621	78,877	99.99%		3,000,454
Landi Renzo Ro S.r.l.	Bucharest (Romania)	RON	20,890	624,312	128,928	100%		5,000
Landi Renzo USA Corporation	Wilmington - DE (USA)	USD	3,067,131	-12,871,061	-2,538,797	100%		1
AEB S.p.A.	Cavriago (RE)	EUR	2,800,000	33,700,023	2,062,790	100%		44,379,409
AEB America s.r.l.	Buenos Aires (Argentina)	ARS	2,030,220	1,587,634	-112,169		96%(§)	
Eighteen Sound S.r.l.	Reggio Emilia	EUR	100,000	181,393	73,498		100%(§)	
Landi Renzo VE C.A.	Caracas (Venezuela)	VEF	2,035,220	-	-	100%		1
Lovato Gas S.p.A.	Vicenza	EUR	120,000	15,929,713	629,929	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	-5,134	-97,700		74% (#)	
SAFE S.p.A.	S.Giovanni Pers. (BO)	EUR	2,500,000	1,977,098	-2,791,343	100%		2,500,000
Safe Gas (Singapore) Pte. Ltd.	Singapore	SGD	325,000	-	-		100% (ç)	
Landi Renzo Argentina S.r.l.	Buenos Aires (Argentina)	ARS	1,378,000	-	-	96%	4% (#)	33,906
Emmegas S.r.l.	Cavriago (RE)	EUR	60,000	-301,498	-525,801	100%		1

(*) held by Landi International B.V.
(#) held by Lovato Gas S.p.A.
(§) held by AEB S.p.A.
(ç) held by Safe 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 2016 Income Statement, made for services rendered by the auditing firm, and by entities belonging to its network, to the Company are listed below.

(Thousands of Euro)

Type of Services	Subject who provided the service	Recipient	Remuneration 2016
Auditing	PricewaterhouseCoopers S.p.A.	Parent Company	52
Other services	PricewaterhouseCoopers S.p.A. and PwC network	Parent Company	10
Total			62

In addition, payments attributable to the year 2016 for services rendered by the previous auditing firm KPMG S.p.A. for the audit of the financial statements at 31 December 2015 and for services rendered by entities belonging to its network are listed below:

- Auditing Euro 179 thousand;
- Certification services Euro 2 thousand;
- Other services Euro 209 thousand.

RELATIONS WITH COMPANY DIRECTORS, AUDITORS AND MANAGERS WITH STRATEGIC RESPONSIBILITIES

Pursuant to Consob resolution no. 11971/99 (Issuer Regulations), remuneration paid or at least allocated to the members of Board of Directors and the Board of Auditors in 2016, and also to managers with strategic responsibilities and the equity investments held by them in the year are shown in the table attached to the "Report on Remuneration", which will be provided to the shareholders' meeting called to approve the Financial Statements at 31 December 2016.

Annex 1

Income Statement at 31/12/2016, 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		31/12/2016	of which transactions with related parties.	Weight %	31/12/2015	of which transactions with related parties.	Weight %
Revenues from sales and services	28	72,818,797	12,138,770	16.7%	82,452,280	13,439,722	16.3%
Other revenues and income	29	640,308			902,104		
Cost of raw materials, consumables and goods and change in inventories	30	-39,620,622	-11,920,652	30.1%	-44,380,128	-13,433,865	30.3%
of which non-recurring		-1,000,000					
Costs for services and use of third party assets	31	-22,956,348	-2,804,019	12.2%	-25,902,727	-2,711,367	20.0%
of which non-recurring	31	*-2,345,010*			*-1,242,222*		
Personnel cost	32	-16,453,241	-2,387,788		-20,316,165	-2,476,949	
of which non-recurring	32	*0*			*-1,790,265*		
Provisions, provision for bad debts and other operating expenses	33	-3,571,541			-3,594,266		
of which non-recurring	33	*-2,300,000*			*-2,700,000*		
Gross operating profit		**-9,142,647**			**-10,838,903**		
Amortization, depreciation and impairment	34	-8,705,745			-10,844,667		
of which non-recurring	34	*0*			-2,547,561		
Net Operating Profit		**-17,848,392**			**-21,683,570**		
Financial income	35	30,897	17,156	55.5%	111,071	61,175	55.1%
Income on equity investments	36	1,112,693	1,112,693	100%	275,000	275,000	100.0%
Financial charges	37	-4,041,953			-3,754,705		
Expenses from investments	38	-9,161,915			-12,158,734		
Exchange gains (losses)	39	379,366			555,035		
Profit (Loss) before tax		**-29,529,304**			**-36,655,903**		
Taxes	40	543,443			-1,046,287		
Profit (loss) for the year		**-28,985,861**			**-37,702,190**		

Annex 2

Statement of Financial Position at 31/12/2016, 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	31/12/2016	of which transactions with related parties.	Weight %	31/12/2015	of which transactions with related parties.	Weight %
Non-current assets							
Land, property, plant and equipment	2	18,992,782			22,065,561		
Development expenditure	3	5,822,036			6,170,928		
Other intangible assets with finite useful lives	4	657,850			963,084		
Investments in subsidiaries	5	102,383,265			103,076,335		
Equity investments in associated companies and joint ventures	6	214,958			280,794		
Other non-current financial assets	7	340,274	337,500	99.2%	6,128,235	6,125,170	99.9%
Other non-current assets	8	1,066			71,292		
Prepaid taxes	9	8,102,793			8,143,970		
Total non-current assets		**136,515,024**			**146,900,199**		
Current assets							
Receivables from customers	10	10,360,249	1,268,569	12.2%	7,408,585	814	0.0%
Receivables from subsidiaries	11	7,274,896	7,274,896	100%	9,612,948	9,612,948	100.0%
Inventories	12	14,412,905			18,923,621		
Other receivables and current assets	13	2,091,214			4,049,868		
Cash and cash equivalents	14	4,185,332			14,668,191		
Total current assets		38,324,596			54,663,213		
TOTAL ASSETS		**174,839,620**			**201,563,412**		

EQUITY AND LIABILITIES	Notes	31/12/2016	of which transactions with related parties.	Weight %	31/12/2015	of which transactions with related parties.	Weight %
Shareholders' equity							
Share capital	15	11,250,000			11,250,000		
Other reserves	15	61,857,026			99,616,303		
Profit (loss) for the period	15	-28,985,861			-37,702,190		
TOTAL EQUITY		**44,121,165**			**73,164,114**		
Non-current liabilities							
Non-current bank loans	16	13,653,090			6,820,149		
Other non-current financial liabilities	17	25,861,927	3,050,000		1,467,786		
Provisions for risks and charges	18	6,313,602			5,076,042		
Employee defined benefit plans	19	1,471,069			1,685,242		
Total non-current liabilities		**47,299,688**			**15,049,219**		
Current liabilities							
Bank overdrafts and short-term loans	21	26,572,038			39,331,906		
Other current financial liabilities	22	10,033,054			33,517,342		
Trade payables to suppliers	23	23,631,251	3,898,632	16.5%	25,506,986	1,965,378	7.7%
Payables to subsidiaries	24	19,951,986	19,951,986	100%	10,566,579	10,566,579	100.0%
Tax liabilities	25	829,577			924,080		
Other current liabilities	26	2,400,861			3,503,186		
Total current liabilities		**83,418,767**			**113,350,079**		
TOTAL EQUITY AND LIABILITIES		**174,839,620**			**201,563,412**		

Certification on the annual financial statements pursuant to art. 154-*bis* of Legislative Decree 58/98

The undersigned Stefano Landi, Chairperson of the Board of Directors and CEO, 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 at 31st December 2016.

In this respect are not emerged aspects of relief to report.

In addition, the undersigned state that the annual financial statements at 31 December 2016

- have been prepared in accordance with the international accounting standards acknowledged by the European Union pursuant to regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 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, 27th March 2017

On behalf of the Board of Directors

Chairperson of the Board of Directors and CEO
Stefano Landi

The Officer in Charge
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 05[illegible]
www.landi.it | e-mail: info@landi.it | Capitale Sociale € 11.250.000 i.v. | C.F. e partita IVA IT 0[illegible]

INDEPENDENT AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF 27 JANUARY 2010

LANDI RENZO SpA

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

pwc

INDEPENDENT AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF 27 JANUARY 2010

To the shareholders of
LANDI RENZO SpA

Report on the financial statements

We have audited the accompanying financial statements of Landi Renzo SpA (hereinafter, the "Company"), which comprise the statement of financial position as of 31 December 2016, the income statement, the statement of comprehensive income, statement of cash flows and the statement of changes in shareholders' equity for the year then ended, as well as a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in compliance 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.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) drawn up pursuant to article 11 of Legislative Decree No. 39 of 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view, 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Landi Renzo SpA as of 31 December 2016 and of the result of its operations and cash flows for the year then ended in compliance 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.

Other aspects

The financial statements of Landi Renzo Group as of 31 December 2015 were audited by other auditors, who issued an unqualified report thereon on 29 March 2016.

Report on compliance with other laws and regulations

Opinion on the consistency with the financial statements of the report on operations and of certain information set out in the report on corporate governance and ownership structure

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion, as required by law, on the consistency of the report on operations and of the information set out in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/1998, which are the responsibility of the directors of the Company, with the financial statements of Landi Renzo SpA as of 31 December 2016. In our opinion, the report on operations and the information 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 2016.

Parma, 31 March 2017

PricewaterhouseCoopers SpA

Signed by

Massimo Rota
(Partner)

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

LANDI RENZO SPA

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING

Year closed at 31/12/2016

(153 of Legislative Decree 58/1998 – art. 2429 co.3 c.c.)

Dear Shareholders,

We hereby provide you with a report on the activities carried out by the Board of Statutory Auditors of Landi Renzo Spa (hereinafter "Landi Renzo" or the "Company") during the year closed at 31 December 2016.

The Company's shares are listed on the telematic stock market of Borsa Italiana - STAR segment.

Auditing of the accounts is entrusted to the company PricewaterhouseCoopers S.p.A. (following "PWC") appointed on 29 April 2016 in replacement of the previous auditor KPMG S.p.A. (following "KPMG") for expiry the nine-year mandate..

Activity carried out

a) We carried out the supervisory activities provided for by art. 149 of Legislative Decree 58/1998 (hereinafter the "TUF" - the Italian Consolidated Law on Finance) and by other applicable legal and regulatory provisions, while also taking account of the principles of conduct recommended by the National Council of Professional and Chartered Accountants.

b) We attended all meetings of the Board of Directors, during which we were informed, as frequently as required by law and by the articles of association, of the activity carried out by the Directors and also regarding the most significant operations carried out by the Company and its subsidiaries. On such occasions we made sure that the resolutions adopted and the operations actually carried out were compliant with the law and the articles of association, as well as with the principles of correct administration.

c) We monitored the appropriateness of the organizational and administrative-accounting structure as well as the internal control system, through meetings with the persons in charge of the various company functions. We operated a constant flow of information with the managers of the Auditing Firm and with the members of the Board of Auditors of Italian subsidiaries, with meetings and informal contacts.

d) We attended the meetings of the Internal Control and Risks Committee and the Remuneration Committee set up by the Company pursuant to the Corporate Governance Code for companies listed on Borsa Italiana (hereinafter the "Corporate Governance Code"). We also had contacts with the members of the Supervisory Body set up pursuant to Legislative Decree 231/2001.

e) We made sure that the corporate governance rules specified by the Corporate Governance Code, with which the company is obliged to comply since it is listed in the STAR segment, were effectively enforced.

f) We monitored the suitability of the instructions given to the subsidiary companies pursuant to art. 114, paragraph 2, of the TUF.

g) In our role as Internal Control and Auditing Committee (art. 19 of Legislative Decree 39/2010), through participation in the meetings of the Control and Risks Committee, and through meetings with the Auditing Firm, with the Officer in charge of preparing the financial statements and with the holders of the various company offices, we constantly monitored the financial reporting process, the effectiveness of the internal control, internal auditing and risk management systems, the external auditing of annual and consolidated accounts, as well as the independence of the external auditing firm.

Indications and information

On the basis of the activity described the previous paragraph, we can declare the following.

1) The most important economic, financial and capital operations carried out by the Company, illustrated exhaustively in the Annual Report, are in fact compliant with the law, the company articles of association and the resolutions adopted by the shareholders' meeting. They are not imprudent, risky or such that they could compromise the integrity of the corporate assets.

2) The Board of Statutory Auditors has not found any atypical or unusual transactions performed with third parties, with companies of the Group or with related parties. Ordinary intercompany transactions and those with related parties are adequately described in the Explanatory Notes to the Consolidated Financial Statements and in the Notes to the Separate Financial Statements, to which you are referred.

3) On 31 March 2017, the auditing firm PWC Spa issued the reports on the consolidated financial statements and the separate financial statements, without any important declarations or significant information.
4) During 2016 and during the appointment, KPMG issued the certification for the tax returns and assisted the Company for the preparation of the Sustainability Statement at 31 December 2015; furthermore KPMG executed tax consultations for Euro 1.940,32.
5) From the date of his appointment, Landi Renzo conferred appointments to subjects belonging to the network of PWC for BOPC system, with a total fee of Euro 5.520.
6) During 2016, we released the following opinions required by art. 2389, paragraph 3, of the Italian Civil Code and expressed himself for what required by the Corporate Governance Code.
7) The Board of Directors met 10 times during 2016.
8) Also during 2016, the Board of Statutory Auditors met 13 times, attended all the meetings of the Board of Directors, all the meetings of the Control and Risks Committee, of the Remuneration Committee.
9) In the contacts and exchanges of information with representatives of the Auditing Firm and with members of the monitoring bodies of the Italian subsidiaries, no important aspects emerged that would require communication to the shareholders.
10) Likewise, no important aspects arose through contacts with the Supervisory Body regarding the performance of the various monitoring activities. The Half-yearly Reports prepared by the Supervisory Body do not mention any censurable acts or any violations of the Organizational Model pursuant to Legislative Decree 231/2001. The Model is constantly updated to take account of regulatory changes.
11) Our control and supervisory activity revealed compliance with the principles of correct administration.
12) We consider that the organizational structure of the company is adequate for its size and for the activity carried out. The company maintained the efficiency of its internal control system, also on the basis of recommendations from the Control and Risks Committee and the Supervisory Body. We consider that the aforesaid internal control system of Landi Renzo is appropriate for the size and activity of the Company.

13) We consider that the administrative-accounting system of Landi Renzo is adequate and reliable in order to represent operational facts accurately.

14) Pursuant to art. 19 of Legislative Decree 39/2010, the Board of Statutory Auditors, in its role as Internal Control and Auditing Committee, confirmed that there were no significant deficiencies in the internal control system regarding the financial reporting process. In particular, the Board, on the basis of the activity carried out during the last year and the information gathered by the Auditing Firm, considers the procedure and activity of statutory auditing of the separate and consolidated financial statements to be adequate. The statutory auditors also recognize that the financial reporting process was carried out correctly, since the interim reports required by law were prepared and made public within the correct time frames and the procedures adopted in preparing them were appropriate. Today, the auditing firm issued the report pursuant to art. 19, paragraph 4, of the aforesaid Legislative Decree 39/2010.

During 2016, pursuant to said law, the Board of Statutory Auditors also verified the existence of the requirements for independence of the Auditing Firm, expired and new appointment and the absence of any reasons for incompatibility; PWC, in turn, sent to the Board the notice required by art. 17, paragraph 9, of the aforesaid Legislative Decree 39/2010.

15) The Company duly satisfied the requirements of art. 36 of CONSOB Regulation 16191/2007 concerning accounting documentation relating to non-EU subsidiaries included in the consolidated financial statements that are particularly important.

16) The Company has appropriate procedures in place, which the Board considers adequate, for collecting information from subsidiaries that must be communicated to the public pursuant to art. 114 of the TUF.

17) As regards the Corporate Governance Code, the Company has complied with the rules on the number of independent directors, and has set up the Control and Risks Committee, the Remuneration Committee and the Related Parties Committee.

18) During 2016, the Control and Risks Committee met 11 times. the Remuneration Committee met 3 times and the Related Parties Committee met 1 time.

19) During 2016, the Board examined the procedures adopted by the Board of Directors in order to verify the ongoing existence of the necessary requirements for the two independent Board Members of new appointment, and considers them to be correct.

We also verified, during 2016, the existence and permanence of the same requirements regarding the members of the Board of Statutory Auditors Members of new appointment.

20) The supervisory activities did not discover any facts that require a mention in our Report to the Shareholders' Meeting.

21) Throughout 2016 all the Board members respect, and continue to respect, the guidelines on accumulation of assignments contained in art. 148-bis, paragraph 2, of the TUF, and in arts. 144-duodecies et seq. of the Consob Issuers' Regulations, also taking the requirements of Consob resolution no. 18079/2012 into account.

22) Having taken account of the conclusions of the Auditing Firm's report, the Board of Statutory Auditors has no objections or observations to be formulated regarding the draft separate financial statements at 31 December 2016, prepared by the Board of Directors within the terms established by law. About the requirement of a going concern, the Board of Directors acknowledges the finalization of the agreements with the banks and the Bondholders as well as the majority shareholder payment for future capital increase.

23) We agree with the contents of the Annual Report on Performance, which satisfies the requirements of art. 2428 of the Italian Civil Code and corresponds with the data contained in the financial statements and we also agree with the proposed allocation of the results for the year.

24) The Company has prepared the Report on Corporate Governance and ownership situations containing the information required by art. 123-bis of the TUF. The auditing firm has expressed a judgement of consistency on the above-mentioned report as required by paragraph 4 of the aforesaid art. 123-bis.

The Company also prepared the Report on remuneration required by art. 123-ter of the TUF and by the Corporate Governance Code, which also includes information on the general remuneration policy.

Consolidated financial statements

Landi Renzo prepared the consolidated financial statements for 2016 prepared according to international IFRS accounting standards adopted by the European Union, are submitted to the auditing of PWC, which, in the aforementioned report, issued an opinion without any significant facts or required communication.

We therefore refer to the conclusions of the aforementioned report, in compliance with the provisions of art. 41 of Legislative Decree 127/91, since the Board did not perform any specific checks on the consolidated financial statements.

Cavriago, 31 March 2017

Board of Statutory Auditors

Eleonora Briolini

Massimo Folloni

Diana Rizzo

Registered Offi ce and Parent details

Landi Renzo S.p.A.
Via Nobel 2/4
42025 Corte Tegge – Cavriago (RE) – Italy
Tel. +39 0522 9433
Fax +39 0522 944044
Share Capital: Euro 11,250,000
Companies' Register of Reggio Emilia - Tax No. and VAT No. IT00523300358
This report is available on the website
www.landirenzogroup.com

LANDIRENZO
GROUP™