LANDIRENZO GROUP


# HALF-YEARLY FINANCIAL REPORT AS AT 30 JUNE 2017

CONTENTS



**(Translation from Italian original which remain the definitive version)**

## 1. GENERAL INFORMATION

### 1.1. CORPORATE OFFICERS AND INFORMATION

On 29 April 2016, the Shareholders' Meeting of the parent company Landi Renzo S.p.A. elected the Board of Directors and the Board of Statutory Auditors for the period 2016-2018. They will therefore remain in office until the Meeting of Shareholders called to approve the Financial Statements for the year ending 31 December 2018. The same Meeting also appointed PricewaterhouseCoopers S.p.A. as the independent auditing firm for the period 2016-2024. The following year, on 28 April 2017, after increasing the number of members of the Board of Directors from eight to nine, the Shareholders' Meeting appointed Cristiano Musi (formerly General Manager) as director. On the same date, the Board of Directors made him Chief Executive Officer and revoked all other mandates previously assigned.

Chairman Stefano Landi continues to act as Executive Chairman of the Board. Following the death of Statutory Auditor Massimiliano Folloni in May 2017, Filomena Napolitano, formerly an Alternate Auditor, became a standing auditor; to ensure that the composition of the Board of Statutory Auditors meets gender requirements, the Company will call an Ordinary Meeting of Shareholders to be held by mid-October 2017.

At the end of July 2017, Director Claudio Carnevale resigned in order to pursue new professional opportunities.

On the date on which this Half-Yearly Financial Report was drafted, the company officers were as follows:

**Board of Directors**

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

**Board of Statutory Auditors**

| | |
|---|---|
| Chairman of the Board of Statutory Auditors | Eleonora Briolini |
| Standing Statutory Auditor | Diana Rizzo |
| Standing Statutory Auditor | Filomena Napolitano |
| Alternate Auditor | Andrea Angelillis |

**Control and Risks Committee**

| | |
|---|---|
| Chair | Sara Fornasiero |
| Committee Member | Ivano Accorsi |
| Committee Member | Angelo Iori |

**Remuneration Committee**

| | |
|---|---|
| Chair | Ivano Accorsi |
| Committee Member | Sara Fornasiero |
| Committee Member | Angelo Iori |

**Committee for Transactions with Related Parties**

| | |
|---|---|
| Committee Member | Sara Fornasiero |
| Committee Member | Ivano Accorsi |

**Supervisory Board (Italian Legislative Decree 231/01)**

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

| | |
|---|---|
| **Independent Auditing Firm** | PricewaterhouseCoopers S.p.A. |

| | |
|---|---|
| **Financial Reporting Manager** | 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: €11,250,000
Tax Code and VAT No. IT00523300358

This report is available on the Internet at:
www.landirenzogroup.com

## 1.2. GROUP STRUCTURE

## 1.3. LANDI RENZO GROUP FINANCIAL HIGHLIGHTS

(Thousands of Euro)

| ECONOMIC INDICATORS FOR THE SECOND QUARTER | Q2 2017 | Q2 2016 | Change |
|---|---|---|---|
| Revenue | 56,734 | 47,870 | 8,864 |
| Adjusted Gross Operating Profit (EBITDA) (1) | 4,234 | 1,533 | 2,701 |
| Gross Operating Profit (EBITDA) | 2,710 | -1,917 | 4,627 |
| Adjusted Net Operating Profit (EBIT) (1) and (1 bis) | 293 | -2,386 | 2,679 |
| Net Operating Profit (EBIT) | -3,291 | -5,836 | 2,545 |
| Earnings before Tax | -5,363 | -6,393 | 1,030 |
| Net profit (loss) for the Group and minority interests | -5,660 | -8,450 | 2,790 |
| Adjusted Gross Operating Profit (EBITDA) / Revenue | 7.5% | 3.2% | |
| Adjusted Net Operating Profit (EBIT) / Revenue | 0.5% | -5.0% | |
| Net profit (loss) for the Group and minority interests / Revenue | -10.0% | -17.7% | |

(Thousands of Euro)

| ECONOMIC INDICATORS FOR THE FIRST HALF OF THE YEAR | 30/06/2017 | 30/06/2016 | Change |
|---|---|---|---|
| Revenue | 103,508 | 89,290 | 14,218 |
| Adjusted Gross Operating Profit (EBITDA) (1) | 6,430 | 1,896 | 4,534 |
| Gross Operating Profit (EBITDA) | 4,457 | -1,554 | 6,011 |
| Adjusted Net Operating Profit (EBIT) (1) and (1 bis) | -1,518 | -6,141 | 4,623 |
| Net Operating Profit (EBIT) | -5,551 | -9,591 | 4,040 |
| Earnings before Tax | -8,574 | -11,607 | 3,033 |
| Net profit (loss) for the Group and minority interests | -8,621 | -12,766 | 4,145 |
| Adjusted Gross Operating Profit (EBITDA) / Revenue | 6.2% | 2.1% | |
| Adjusted Net Operating Profit (EBIT) / Revenue | -1.5% | -6.9% | |
| Net profit (loss) for the Group and minority interests / Revenue | -8.3% | -14.3% | |

(Thousands of Euro)

| FINANCIAL POSITION | 30/06/2017 | 31/12/2016 | 30/06/2016 |
|---|---|---|---|
| Net fixed assets and other non-current assets | 89,932 | 96,967 | 100,331 |
| Operating capital (2) | 29,352 | 36,442 | 49,674 |
| Non-current liabilities (3) | -12,587 | -12,611 | -13,448 |
| NET CAPITAL EMPLOYED | 106,697 | 120,798 | 136,557 |
| Net financial position (cash) (4) | 61,681 | 75,716 | 78,269 |
| Shareholders' equity | 45,016 | 45,082 | 58,288 |
| BORROWINGS | 106,697 | 120,798 | 136,557 |

(Thousands of Euro)

| KEY INDICATORS | 30/06/2017 | 31/12/2016 | 30/06/2016 |
|---|---|---|---|
| Operating capital / Turnover (rolling 12 months) | 14.8% | 19.8% | 25.3% |
| Net financial debt / Equity | 137.0% | 168.0% | 134.3% |
| Gross tangible and intangible investments | 2,993 | 9,376 | 4,619 |
| Personnel (peak) | 766 | 781 | 792 |

(Thousands of Euro)

| CASH FLOWS | 30/06/2017 | 31/12/2016 | 30/06/2016 |
|---|---|---|---|
| Operational cash flow | 7,470 | -6,104 | -13,888 |
| Cash flow for investment activities | -2,851 | -9,144 | -4,501 |
| FREE CASH FLOW | 4,619 | -15,248 | -18,389 |

(1) The data does not include accounting of extraordinary costs of €1,973 thousand for the first six months of 2017, of which €1,524 thousand in the second quarter of 2017, as described in more detail in paragraph 2.1 of this Report.

(1 bis) The data does not include accounting of the net capital loss of €2,060 thousand deriving from assets held for sale in the first half of 2017, due to the disposal of the Technical Centre business unit.

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

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

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

## 1.4. SIGNIFICANT EVENTS DURING THE SIX MONTHS

**January** In January, a Group reorganization was launched to bring the Group closer to the market and increase the efficiency and the effectiveness of operating activities.

**February** In the beginning of February, the new management team began the "Excellence" project focused on a variety of activities of EBITDA improvement with the support of a leading external consulting firm, focusing on a series of activities meant to reduce fixed and variable costs to align them with Automotive best practices at international level.

**March** On 30 March 2017, the Meeting of Bondholders for the LANDI RENZO 6.10% 2015-2020 loan unanimously approved the Board of Directors' proposal regarding amendments to the Bonded Loan Regulations. In particular, inter alia, the Meeting approved the postponement of the maturity of the debenture loan from 15 May 2020 to 31 December 2022. The Meeting then approved a decrease in the coupon rate in relation to interest periods beginning from the payment date falling on 30 April 2017 (inclusive) until 30 June 2019 (exclusive) from the current 6.10% to 5.5% on an annual basis of the outstanding capital; the coupon rate will be paid every six months.

Following the changes mentioned above, the debenture loan was named "LANDI RENZO 6.10% 2015-2022", maintaining the same ISIN IT0005107237.

At the same time, the Group's financial structure Optimization Agreement was finalized, the guidelines of which were developed with the support of the financial advisor Mediobanca – Banca di Credito Finanziario S.p.A., after all banking institutions involved had signed it.

The agreement calls for, inter alia:

(i) The movement of the maturity date of the debt of the 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.

In line with the above-mentioned Optimization Agreement, on 30 March 2017 the controlling shareholder made a future capital increase contribution to the Parent Company for a total of €8,866.5 thousand.

**April** On 26 April 2017, Landi Renzo and AVL entered into the preliminary agreement for the sale of a business unit regarding part of the technical centre (consisting of laboratories, equipment and sundry materials) to the AVL Group, a leading global operator in the development of powertrains.

The agreement calls for, inter alia, a disposal consideration of €5.7 million gross of liabilities transferred, to be paid in instalments.

**April** On 28 April 2017, the Shareholders' Meeting resolved, amongst other things:

- to approve covering the operating loss of Landi Renzo S.p.A. of €28,985,860.92 by fully utilizing the Extraordinary and IAS Transition reserves which are now cancelled out, and the Share Premium Reserve, which is reduced to €30,718,198.13;
- renewal of authorization for the purchase and disposal of treasury shares;
- the appointment of Cristiano Musi as the new director.

**April** On 28 April 2017, the Board of Directors re-elected Stefano Landi as the Chairman of the Board of Directors of Landi Renzo and appointed Cristiano Musi, formerly General Manager of the Company (who therefore no longer holds this position), as the Chief Executive Officer.

**May** At the end of May, following the death of standing member of the Board of Statutory Auditors Massimiliano Folloni, alternate auditor Filomena Napolitano took his place as a standing member of the Board of Statutory Auditors.

# 2. INTERIM REPORT ON OPERATING PERFORMANCE

*This consolidated Half-Yearly Financial Report at 30 June 2017 was prepared pursuant to Italian Legislative Decree 58/1998 and subsequent modifications, as well as the Issuer Regulations issued by CONSOB.*

*This consolidated Half-Yearly Financial Report has been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union, and has been prepared in accordance with IAS 34 - Interim Financial Reporting, applying the same accounting policies as adopted in preparing the consolidated financial statements at 31 December 2016.*

*In partial exception to the provisions of IAS 34, this report provides detailed rather than summary tables in order to provide a clearer view of the economic-equity and financial dynamics over the six-month period. All values presented below are expressed in thousands of Euro and comparisons are made with respect to data from the corresponding period of the previous year for the economic values and with respect to the data at 31 December 2016 for the financial data (shown in brackets), unless otherwise indicated. The explanatory notes are also presented in compliance with the information required by IAS 34 with the supplements considered useful for a clearer understanding of the six-monthly financial statements.*

## 2.1. OPERATING PERFORMANCE

### Preamble

Following the closure of the Group's financial structure Optimization Agreement with the banks and the appointment of Cristiano Musi as Chief Executive Officer in order to guide the Group's recovery and relaunch, including by reviewing its strategic guidelines, in the first half of 2017 a project got underway to reorganize the Automotive business area, which includes OEM (Original Equipment Manifacturer) and AM (After Market) channel sales as well as Electronic Equipment sales, with a view to enabling the Group to better meet market needs, improving upon its capacity to satisfy a range of business requirements, reducing time to market and, in general, bringing Automotive sector area efficiency levels into line with market best practices. The new organizational model calls for the strategic integration of the management of the Group's different Automotive companies (Landi Renzo S.p.A., Lovato Gas S.p.A., AEB S.p.A. and Emmegas S.r.l.) and the foreign investees, in order to define a shared strategic vision and thus improve efficiency, effectiveness and innovation capacity.

At the same time, the new management team began a project meant to improve operating efficiency, taking significant steps in order to reduce the break even, with the identification of a series of initiatives meant to reduce fixed and variable product costs to align them with Automotive best practices at international level. The project envisages activities on the SG&A (Selling, General & Administrative) cost structure, a review of the production footprint and processes, sourcing & procurement strategies and the supply chain at international level, as well as the reorganization of product development activities, with the aim of fully exploiting synergies deriving from the possibility of managing production and procurement in different parts of the world. In order to quickly launch the development and EBITDA improvement plan, a top consulting firm was engaged to support the Chief Executive Officer and the company's top management in preparing and implementing an action plan. Already in the final quarter of 2017, there will be significant positive results with full benefits expected as of 2018.

At the same time, a new strategic project was launched in the subsidiary Safe in order to embark upon a path of growth and industrial optimization, to position Safe as one of the worldwide market leaders in the development and sale of CNG (Compressed Natural Gas), biomethane (RNG) and LNG (Liquid Natural Gas) solutions. To support this project, a new General Manager was appointed, with more than 25 years of experience in top-tier companies operating in the compressor for gas and Oil & Gas sectors.

## Consolidated results

Consolidated revenues for the first half of 2017 totalled €103,508 thousand, increasing by €14,218 thousand (+15.9%) compared with the same period of the previous year.

This revenue growth was caused by robust sales trends in the Automotive sector, particularly in the OEM channel (+42.6%) as well as After Market (+8.6%), specifically in high-end innovative products.

The growth in volumes is correlated with rising sales of LPG and CNG fuelled vehicles as well as the greater commercial focus of the Group, which is seeking to adopt an increasingly market-oriented approach, which is more and more concentrated on providing solutions to the market quickly.

The adjusted Gross Operating Profit (EBITDA) at the end of the six-month period totalled €6,430 thousand, a significant improvement compared with the same period of the previous year (€1,896 thousand) due to the higher sales volumes in the Automotive sector, the Landi Renzo Group's core business, as well as thanks to the initial benefits of the EBITDA improvement activities launched during the half-year, focusing on aligning the Automotive business area efficiency levels with sector best practices, with a series of actions aiming to reduce fixed and variable costs.

The Gross Operating Profit (EBITDA) was positive at €4,457 thousand. This result was affected not only by the above factors but also by extraordinary costs of €1,973 thousand, of which:

- €1,533 thousand relating to the appointment of the top consulting firm engaged to support the Chief Executive Officer and the company management in preparing and implementing an EBITDA improvement action plan;
- €440 thousand for personnel incentives, particularly for executives who were replaced as part of the reorganization and relaunch plan.

The Net Operating Profit (EBIT) is negative at -€5,551 thousand (-€9,591 thousand in the first half of 2016), after depreciation and amortization of €7,948 thousand and an extraordinary net capital loss of €2,060 thousand deriving from the preliminary agreement signed in the first half of 2017 and subsequently finalized on 31 July 2017 for the disposal of the business unit relating to the part of the Technical Centre responsible for the management of laboratories to the AVL Group.

With reference to the above-mentioned agreement, it is important to underscore that on an annual basis, starting from 2018, the estimated advantages of the transaction will allow for a reduction in fixed costs of roughly €3 million in terms of EBIT, of which around €1.5 million in terms of EBITDA, and a positive impact of roughly €2 million in terms of financial management. The disposal of the business unit will also allow for a reduction of the annual investments necessary to maintain and upgrade the equipment sold of between €500 thousand and €700 thousand.

The following table shows the evolution of the main economic performance indicators for the first half of 2017 compared with the first half of 2016.

| (Thousands of Euro) | 30/06/2017 | Extraordinary costs | 30/06/2017 ADJ | % | 30/06/2016 | Extraordinary costs | 30/06/2016 ADJ | % | ADJ changes | ADJ % |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenues from sales and services** | **103,508** | | **103,508** | **100.0%** | **89,290** | | **89,290** | **100.0%** | **14,218** | 15.9% |
| Other revenues and income | 433 | | 433 | 0.4% | 559 | | 559 | 0.6% | -126 | -22.6% |
| Operating costs | -99,484 | -1,973 | -97,511 | -94.2% | -91,403 | -3,450 | -87,953 | -98.5% | -9,558 | 10.9% |
| **Gross operating profit** | **4,457** | | **6,430** | **6.2%** | **-1,554** | | **1,896** | **2.1%** | **4,534** | **n/a** |
| Amortization, depreciation and impairment | -7,948 | | -7,948 | -7.7% | -8,037 | | -8,037 | -9.0% | 89 | -1.1% |
| Net capital loss from disposal | -2,060 | -2,060 | 0 | | 0 | | 0 | | 0 | |
| **Net Operating Profit** | **-5,551** | | **-1,518** | **-1.5%** | **-9,591** | | **-6,141** | **-6.9%** | **4,623** | **n/a** |
| Financial income (charges) and exchange differences | -3,077 | | -3,077 | -3.0% | -1,952 | | -1,952 | -2.2% | -1,125 | 57.6% |
| Gain (loss) on equity investments valued using the equity method | 54 | | 54 | 0.1% | -64 | | -64 | -0.1% | 118 | 184.4% |
| **Profit (Loss) before tax** | **-8,574** | | **-4,541** | **-4.4%** | **-11,607** | | **-8,157** | **-9.1%** | **3,616** | **n/a** |
| Current and deferred taxes | -47 | | | | -1,159 | | | | | |
| **Net profit (loss) for the Group and minority interests, including:** | **-8,621** | | | | **-12,766** | | | | | |
| Minority interests | -147 | | | | -225 | | | | | |
| **Net profit (loss) for the Group** | **-8,474** | | | | **-12,541** | | | | | |

## SEGMENT REPORTING

In compliance with the provisions of IFRS 8, information is provided below on the business operating segments.

Since the first half of 2017, with the appointment of the new Chief Executive Officer, the Group has been engaged in an organizational evolution which has entailed the reorganization of activities into the following segments, previously considered on a unitary basis as a business segment for the manufacture of car systems and distribution:

- Automotive;
- Gas Distribution and Compressed Natural Gas;
- Sound.

The new organizational model also calls for the integration of the management of the Group's different Automotive companies (Landi Renzo S.p.A., Lovato Gas S.p.A., AEB S.p.A. and Emmegas S.r.l.) and the foreign investees, with a view to developing a shared strategic vision, improving efficiency, effectiveness and innovation capacity.

However, it is important to underscore that, consistent with the strategies applied particularly for the After Market segment, the Group maintains separate commercial, product development and industrial management units for the three companies and the relative Landi Renzo, Lovato and Emmegas brands, which are intended for different customers and at times different markets.

The criteria applied to identify the operating segments and the performance indicators are consistent with the management reporting periodically prepared and used by the Group's top management to take strategic decisions.

### Automotive operating segment

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

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

The Automotive segment represents the Group's core business and includes sales for the OEM and AM channels as well as Electronic Equipment sales, the business areas that guide market development and management while also providing clear instructions and targets in terms of what is needed and when (technical features, time to market, quality, cost) to the other support functions (Quality Management, Operation & Purchasing, R&D and Technical) in order to satisfy and capitalize on the various business requirements of customers/markets with a proactive and highly market driven approach.

This segment includes the following companies and brands, which operate separately, although they are all under the Parent Company's strategic and market supervision:

- Landi Renzo
- AEB
- Emmegas
- Lovato.

### Gas Distribution and Compressed Natural Gas operating segment

The Gas Distribution and Compressed Natural Gas operating segment groups together all business areas of the subsidiary SAFE S.p.A., which designs and manufactures compressors for the treatment and distribution of gas (CNG - Compressed Natural Gas and Biomethane or RNG – Renewable Natural Gas) as well as in the Oil&Gas market.

The broad range of SAFE products makes it possible to satisfy multiple market requirements for the construction of automotive CNG and RNG distribution stations.

SAFE supplies stations for the public and private sector capable of serving various CNG vehicles and designs heavy duty compressors for high flows with various input pressures for optimal performance; SAFE's standard solution is based on SW compressors run by an electric or gas motor (if electricity is unavailable). The company also designs three different types of stations for buses capable of providing the best solution for the following needs: performance, number of vehicles, availability of space and fuelling times.

As regards the scope of applications for biomethane or RNG, the result of the decomposition of natural organic materials in "digesters", please note that currently this gas is used especially in combustion in engines for cogeneration, thanks to which electric power and heat are generated at the same time in the place of use, thus eliminating losses during energy transport and exploiting the heat which otherwise would dissipate into the environment. The environmental advantages include a reduction in $CO_2$ emissions into the atmosphere compared to traditional electricity production stations, in addition, clearly, to financial savings. SAFE offers turnkey solutions, proposing a complete system from the exit from the digester to high-pressure compression to fuel vehicles, or for injection back into the network.

Lastly, SAFE provides equipment for a broad range of Oil&Gas applications, from gas recompression in wells to supplying energy for turbines and underground storage.

### Sound operating segment

The Sound operating segment includes the design, manufacture, distribution and marketing of electroacoustic transducers (loudspeakers) for professional use (the main components of speakers for the reproduction of music) made by the subsidiaries Eighteen Sound S.r.l. and Sound & Vision S.r.l. and used mainly by the manufacturers of the best sound reinforcement systems for live events as well as for fixed installations.

Revenues are earned through the OEM channel as well as the After Market channel in the main global geographical areas.

## Breakdown of sales by business segment

### Second quarter of 2017 compared to second quarter of 2016

(Thousands of Euro)

| Distribution of revenues by segment | Q2 2017 | % of revenues | Q2 2016 (*) | % of revenues | Changes | % |
|---|---|---|---|---|---|---|
| Automotive segment | 46,456 | 81.9% | 38,393 | 80.2% | 8,063 | 21.0% |
| Gas Distribution and Compressed Natural Gas segment | 6,777 | 11.9% | 5,966 | 12.5% | 811 | 13.6% |
| Sound segment | 3,501 | 6.2% | 3,511 | 7.3% | -10 | -0.3% |
| **Total revenues** | **56,734** | **100.0%** | **47,870** | **100.0%** | **8,864** | **18.5%** |

(*) The values at 30 June 2016 have been reclassified based on the Segment Reporting adopted starting in the first half of 2017.

**During the quarter in question**, revenues from sales of products and services of the Group increased, overall, from €47,870 thousand in the second quarter of 2016 to €56,734 thousand in the second quarter of 2017, a rise of 18.5% primarily resulting from higher sales volumes in the Automotive segment.

### First half of 2017 compared to first half of 2016

(Thousands of Euro)

| Distribution of revenues by segment | At 30/06/2017 | % of revenues | At 30/06/2016 (*) | % of revenues | Changes | % |
|---|---|---|---|---|---|---|
| Automotive segment | 87,258 | 84.3% | 73,139 | 81.9% | 14,119 | 19.3% |
| Gas Distribution and Compressed Natural Gas segment | 9,880 | 9.5% | 10,110 | 11.3% | -230 | -2.3% |
| Sound segment | 6,370 | 6.2% | 6,041 | 6.8% | 329 | 5.4% |
| **Total revenues** | **103,508** | **100.0%** | **89,290** | **100.0%** | **14,218** | **15.9%** |

(*) The values at 30 June 2016 have been reclassified based on the Segment Reporting adopted starting in the first half of 2017.

The **Group's total revenues in the first six months** were €103,508 thousand, an increase of +15.9% (€14,218 thousand) compared to the same period in the previous year.

Revenues from sales of products and services in the **Automotive segment** increased by 19.3% (€14,119 thousand) in the first six months from €73,139 thousand in 2016 to €87,258 thousand in 2017.

The growth in sales as of 30 June 2017 in the Automotive sector was caused by the increase in revenues on the OEM channel (+42.6%) and, to a lesser extent, in the After Market segment (+8.6%).

Revenues in the **Gas Distribution and Compressed Natural Gas segment** were €9,880 thousand, down by €230 thousand compared with the same period of 2016.

Revenues in the **Sound segment** increased by 5.4% (€329 thousand) in the first six months from €6,041 thousand in 2016 to €6,370 thousand in 2017 due to the increase in sales of CIARE brand products through the subsidiary Sound & Vision S.r.l. as well as the turnover generated with new customers under the main Eighteen Sound brand.

## Breakdown of sales by geographical area

### Second quarter of 2017 compared to second quarter of 2016

(Thousands of Euro)

| Geographical distribution of revenues | Q2 2017 | % of revenues | Q2 2016 | % of revenues | Changes | % |
|---|---|---|---|---|---|---|
| Italy | 11,584 | 20.4% | 10,002 | 20.9% | 1,582 | 15.8% |
| Europe (excluding Italy) | 25,924 | 45.7% | 21,915 | 45.8% | 4,009 | 18.3% |
| America | 8,646 | 15.3% | 8,166 | 17.1% | 480 | 5.9% |
| Asia and Rest of the World | 10,580 | 18.6% | 7,787 | 16.2% | 2,793 | 35.9% |
| **Total** | **56,734** | **100%** | **47,870** | **100%** | **8,864** | **18.5%** |

### First half of 2017 compared to first half of 2016

(Thousands of Euro)

| Geographical distribution of revenues | At 30/06/2017 | % of revenues | At 30/06/2016 | % of revenues | Changes | % |
|---|---|---|---|---|---|---|
| Italy | 21,170 | 20.5% | 19,390 | 21.7% | 1,780 | 9.2% |
| Europe (excluding Italy) | 49,654 | 48.0% | 40,749 | 45.6% | 8,905 | 21.9% |
| America | 15,162 | 14.5% | 14,294 | 16.0% | 868 | 6.1% |
| Asia and Rest of the World | 17,522 | 17.0% | 14,857 | 16.7% | 2,665 | 17.9% |
| **Total** | **103,508** | **100%** | **89,290** | **100%** | **14,218** | **15.9%** |

With reference to the geographical distribution of revenues, during the first half of 2017 the Landi Group realized 79.5% (78.3% at 30 June 2016 ) of its consolidated sales revenues abroad (48.0% in Europe and 31.5% outside Europe), further details of which are provided below.

- Italy

Sales in the Italian market, totalling €21,170 thousand in the first half of the year (up €1,780 thousand, or 9.2%, compared to the same period of the previous year), substantially reflect good overall domestic market demand trends for products in the Automotive segment, although with different performance in the OEM and After Market channels, as described below:

- OEM bi-fuel new car registrations, for the set of new vehicles equipped with CNG and LPG systems, registered a 5.3% increase compared with the same period of 2016, according to data published by ANFIA (the Italian National Association for the Automotive Industry), totalling 7.8% of total registrations;
- according to data from the Ecogas consortium, the After Market sector, on the other hand, registered a 13.9% reduction in conversions compared with the same period of the previous year. The Group's domestic market share on the After Market channel at the end of the period was substantially stable and equal to roughly 32%.

- <u>Europe</u>

Revenue in Europe recovered significantly in the course of the six months in question, with growth of 21.9% compared to the same period of 2016, driven mainly by the increase in OEM channel sales in the Automotive segment as a result of the completion of the phase of transitioning to new Euro 6 LPG engines.

- <u>America</u>

Sales in the first six months for this area, equal to €15,162 thousand, registered an increase of 6.1%. This was mainly attributable to the good trend of the Automotive segment After Market channel in Peru, Colombia and Mexico, which offset the slowdown in Argentina and Brazil.

- <u>Asia and rest of the world</u>

The Asia and Rest of the World markets recovered significantly (+17.9%) compared to the same period of 2016, due primarily to the favourable development of revenues in the Automotive segment, particularly in the Algerian and Iranian markets, while sales are stable in China, where the Group launched an important growth project dedicated to the Medium & Heavy Duty segment.

## Profitability

(Thousands of Euro)

| | Values at 30 June 2017 | | | | | Values at 30 June 2016 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Automotive | Gas Distribution and Compressed Natural Gas | Sound | Adjustments | Landi Renzo Consolidated | Automotive | Gas Distribution and Compressed Natural Gas | Sound | Adjustments | Landi Renzo Consolidated |
| Net sales outside the Group | 87,258 | 9,880 | 6,370 | | 103,508 | 73,139 | 10,110 | 6,041 | | 89,290 |
| Intersegment sales | 318 | 54 | 31 | -403 | - | 308 | 24 | 3 | -335 | 0 |
| **Total Revenues from net sales and services** | **87,576** | **9,934** | **6,401** | **-403** | **103,508** | **73,447** | **10,134** | **6,044** | **-335** | **89,290** |
| Other revenues and income | 409 | 24 | | | 433 | 483 | 72 | 4 | | 559 |
| Operating costs | -81,084 | -11,027 | -5,803 | 403 | -97,511 | -70,973 | -11,630 | -5,685 | 335 | -87,953 |
| **Adjusted gross operating profit** | **6,901** | **-1,069** | **598** | **0** | **6,430** | **2,957** | **-1,424** | **363** | **0** | **1,896** |
| Extraordinary costs | -1,973 | | | | -1,973 | -3,450 | | | | -3,450 |
| **Gross operating profit** | **4,928** | **-1,069** | **598** | **0** | **4,457** | **-493** | **-1,424** | **363** | **0** | **-1,554** |
| Amortization, depreciation and impairment | -7,027 | -632 | -289 | | -7,948 | -7,211 | -619 | -207 | | -8,037 |
| Net capital loss from disposal | -2,060 | | | | -2,060 | | | | | |
| **Net Operating Profit** | **-4,159** | **-1,701** | **309** | **0** | **-5,551** | **-7,704** | **-2,043** | **156** | **0** | **-9,591** |
| Financial income (charges) and exchange differences | | | | | -3,077 | | | | | -1,952 |
| Gain (loss) on equity investments valued using the equity method | | | | | 54 | | | | | -64 |
| **Profit (Loss) before tax** | | | | | **-8,574** | | | | | **-11,607** |
| Current and deferred taxes | | | | | -47 | | | | | 1,159 |
| **Net profit (loss) for the Group and minority interests, including:** | | | | | **-8,621** | | | | | **-12,766** |
| Minority interests | | | | | -147 | | | | | -225 |
| **Net profit (loss) for the Group** | | | | | **-8,474** | | | | | **-12,541** |

The adjusted Gross Operating Profit (adjusted GOP or adjusted EBITDA) for the first six months of 2017 was positive at €6,430 thousand, equal to 6.2% of revenues – an increase of €4,534 thousand compared to the figure for June 2016, equal to 2.1% of revenues (€1,896 thousand), especially due to the higher sales volumes of the Automotive Segment, which alone had an adjusted EBITDA margin of roughly €6,901 thousand, equal to 7.9% of revenues, compared to €2,957 thousand in H1 2016 (4% of revenues), while the Gas Distribution and Compressed Natural Gas segment had a negative impact of -€1,069 thousand. On the other hand, the adjusted GOP in the Sound operating segment was positive at €598 thousand, marking an increase of 64.7% (€235 thousand).

The Gross Operating Profit (GOP or EBITDA) was positive in the amount of €4,457 thousand, inclusive of €1,973 thousand in extraordinary costs referring to strategic advisory expenses as well as voluntary retirement incentives agreed upon with personnel, as shown in detail below:

- strategic advisory expenses of €1,533 thousand;
- voluntary retirement incentives of €440 thousand.

Costs of raw materials, consumables and goods and changes in inventories increased overall from €42,240 thousand as at 30 June 2016 to €50,121 thousand as at 30 June 2017, which in absolute terms is an increase of €7,881 thousand, mainly related to the growth in sales volumes.

In the first half of 2017, the costs of services and use of third-party assets amounted to €27,257 thousand and included extraordinary costs of €1,533 thousand related to the strategic advisory costs mentioned above, compared to €25,900 thousand in the same period of last year (of which €1,050 thousand for non-recurrent expenses). Net of extraordinary costs, there was an increase of €874 thousand, ascribable mainly to top line growth due to the increase in external processing on products.

In the first half, personnel costs amounted to €20,446 thousand, including the above-mentioned extraordinary costs of €440 thousand, an increase of €1,480 thousand compared with €18,966 thousand recorded in the same period of last year, when no extraordinary costs were incurred. Not considering the effects of the extraordinary component, note that personnel expenses were up by €1,040 thousand as a result of the increased use of temporary agency work linked to the rising production and less recourse to solidarity agreements for the Parent Company and the subsidiary AEB S.p.A., likewise correlated with the recovery in production.

The Net Operating Profit (EBIT) for the period was negative, in the amount of -€5,551 thousand (-€9,591 thousand as at 30 June 2016), after accounting for amortization, depreciation and impairment losses of €7,948 thousand (€8,037 thousand as at 30 June 2016), net capital losses from the disposal of tangible assets regarding the Technical Centre and held for sale of €2,060 thousand, as well as the above-mentioned extraordinary costs of €1,973 thousand.

The adjusted Net Operating Profit (EBIT) was negative at -€1,518 thousand, marking a significant improvement compared to -€6,141 thousand at 30 June 2016.

Overall, financial management had higher costs of €1,007 thousand compared to the first half of 2016, most of which deriving from exchange losses from valuation equal to €828 thousand, mainly in relation to the depreciation of the Brazilian Real and the Pakistani Rupee.

Taking these changes into account, the result before tax was negative at -€8,574 thousand (-€11,607 thousand at 30 June 2016), while the Net Result of the Group showed a loss of -€8,474 thousand (-€12,541 thousand at 30 June 2016).

With reference to the business operating segments, economic information is provided below relating to the three business segments for the first half of 2016 and 2017.

## Automotive operating segment performance

(Thousands of Euro)

| | 30.06.2017 | 30.06.2016 | Delta | % Change |
|---|---|---|---|---|
| Net sales outside the Group | 87,258 | 73,139 | 14,119 | 19.3% |
| Intersegment sales | 318 | 308 | 10 | 3.2% |
| **Total Revenues from net sales and services** | **87,576** | **73,447** | **14,129** | **19.2%** |
| Other revenues and income | 409 | 483 | -74 | -15.3% |
| Operating costs | -81,084 | -70,973 | -10,111 | 14.2% |
| **Adjusted gross operating profit** | **6,901** | **2,957** | **3,944** | 133.4% |
| Extraordinary costs | -1,973 | -3,450 | 1,477 | -42.8% |
| **Gross operating profit** | **4,928** | **-493** | **5,421** | 1099.6% |
| Amortization, depreciation and impairment | -7,027 | -7,211 | 184 | -2.6% |
| Net capital loss from disposal | -2,060 | | -2,060 | |
| **Net Operating Profit** | **-4,159** | **-7,704** | **3,545** | -46.0% |

In the first half of 2017, the Automotive segment had net sales outside the Group of €87,258 thousand, up 19.3% compared with the same period of the previous year (€73,139 thousand).

The increase was caused mostly by the significant recovery of sales in the OEM channel for LPG fuelled systems for European car manufacturers. Furthermore, After Market sales benefitted from a significant sales drive, partly due to the introduction of innovative products, particularly in countries like Turkey, Algeria and Mexico.

Adjusted EBITDA came to €6,901 thousand, a considerable improvement compared with the first half of 2016 (€2,957 thousand) thanks to the significant growth in sales.

EBITDA was positive at €4,928 thousand (-€493 thousand in the first half of 2016) although in the first half of 2017 there were extraordinary costs of €1,973 thousand, also correlated with the quick launch of the development and EBITDA improvement plan, for which a top consulting firm was engaged to support the Chief Executive Officer and the company's top management in preparing and implementing the plan.

In addition, during the half the preliminary agreement was signed (finalized on 31 July 2017) regarding the disposal to the AVL Group of the part of the Technical Centre for the management of laboratories with the aim of further reducing the fixed cost structure in upcoming years and focusing activities on the core business. The disposal consideration is €5.7 million, gross of liabilities transferred for around €25 thousand: the amount will be paid in 10 annual instalments. The sale of this business unit resulted in a net capital loss at 30 June 2017 of €2,060 thousand.

The segment also includes sales of alarm systems for cars under the MED brand (non-core business), with revenues during the half equal to €790 thousand compared with €1,350 thousand at 30 June 2016.

## Gas Distribution and Compressed Natural Gas operating segment performance

| | 30.06.2017 | 30.06.2016 | Delta | % Change |
|---|---|---|---|---|
| Net sales outside the Group | 9,880 | 10,110 | -230 | -2.3% |
| Intersegment sales | 54 | 24 | 30 | 125.0% |
| **Total Revenues from net sales and services** | **9,934** | **10,134** | **-200** | **-2.0%** |
| Other revenues and income | 24 | 72 | -48 | -66.7% |
| Operating costs | -11,027 | -11,630 | 603 | -5.2% |
| **Gross operating profit** | **-1,069** | **-1,424** | **355** | 24.9% |
| Amortization, depreciation and impairment | -632 | -619 | -13 | 2.1% |
| **Net Operating Profit** | **-1,701** | **-2,043** | **342** | 16.7% |

In the first half of 2017, the Gas Distribution and Compressed Natural Gas segment had net sales outside the Group of €9,880 thousand, substantially aligned with the same period of the previous year (€10,110 thousand).

The gross operating profit recovered from -€1,424 thousand in the first half of 2016 to -€1,069 thousand at 30 June 2017, also as a result of the improvement in the economic contribution of several contracts, in particular for fuelling and RNG stations.

Turnover aligned with budget forecasts and the company's order portfolio for the third quarter totalling more than €9 million make it reasonable to predict that revenue will be up compared to the previous year, with greater profit margins thanks to the operating cost containment measures taken by the new management team, strengthened in the course of the second quarter with the appointment of a new General Manager with more than 25 years of experience in top-tier companies operating in the compressor for gas and Oil & Gas sectors.

## Sound operating segment performance

| | 30.06.2017 | 30.06.2016 | Delta | % Change |
|---|---|---|---|---|
| Net sales outside the Group | 6,370 | 6,041 | 329 | 5.4% |
| Intersegment sales | 31 | 3 | 28 | 933.3% |
| **Total Revenues from net sales and services** | **6,401** | **6,044** | **357** | **5.9%** |
| Other revenues and income | | 4 | -4 | -100.0% |
| Operating costs | -5,803 | -5,685 | -118 | 2.1% |
| **Gross operating profit** | **598** | **363** | **235** | 64.7% |
| Amortization, depreciation and impairment | -289 | -207 | -82 | 39.6% |
| **Net Operating Profit** | **309** | **156** | **153** | 98.1% |

The Sound segment's net sales outside the Group, totalling €6,370 thousand in the first half of 2017, met expectations, with an increase of 5.4% compared to the first half of 2016 (€6,041 thousand): this improvement was due to the rise in revenues from CIARE brand products sold through the subsidiary Sound & Vision S.r.l., as well as the acquisition of several new customers for Eighteen Sound brand products.

EBITDA rose by 64.7%, from €363 thousand in the first half of 2016 to €598 thousand at 30 June 2017.

## Invested capital

(Thousands of Euro)

| Statement of Financial Position | 30/06/2017 | 31/03/2017 | 31/12/2016 | 30/06/2016 |
|---|---|---|---|---|
| Trade receivables | 36,657 | 34,951 | 37,551 | 36,198 |
| Inventories | 49,321 | 49,719 | 49,872 | 60,878 |
| Contract work in progress | 210 | 714 | 1,281 | 3,182 |
| Trade payables | -55,220 | -46,548 | -53,090 | -52,453 |
| Other net current assets | -1,616 | -431 | 828 | 1,869 |
| **Net operating capital** | **29,352** | **38,405** | **36,442** | **49,674** |
| | | | | |
| Property, plant and equipment | 19,556 | 29,262 | 30,500 | 32,889 |
| Non-current assets held for sale | 5,700 | | | |
| Intangible assets | 56,826 | 58,067 | 58,873 | 60,007 |
| Other non-current assets | 7,850 | 7,836 | 7,594 | 7,435 |
| **Fixed capital** | **89,932** | **95,165** | **96,967** | **100,331** |
| | | | | |
| TFR and other provisions | -12,587 | -12,570 | -12,611 | -13,448 |
| **Net capital employed** | **106,697** | **121,000** | **120,798** | **136,557** |
| | | | | |
| **Financed by:** | | | | |
| | | | | |
| Net Financial Position | 61,681 | 69,877 | 75,716 | 78,269 |
| Group shareholders' equity | 45,451 | 51,410 | 45,405 | 58,083 |
| Minority interests | -435 | -287 | -323 | 205 |
| **Borrowings** | **106,697** | **121,000** | **120,798** | **136,557** |

| Ratios | 30/06/2017 | 31/03/2017 | 31/12/2016 | 30/06/2016 |
|---|---|---|---|---|
| Net operating capital | 29,352 | 38,405 | 36,442 | 49,674 |
| Net operating capital/Turnover (rolling) | 14.8% | 20.2% | 19.8% | 25.3% |
| Net capital employed | 106,697 | 121,000 | 120,798 | 136,557 |
| Net invested capital/Turnover (rolling) | 53.8% | 63.8% | 65.6% | 69.4% |

Net operating capital at the end of the period totalled €29,352 thousand, marking a reduction compared to the end of the first half of 2016 of €20,322 thousand due to the activities for the improvement in working capital already started last year and which continued during the half; in percentage terms, on rolling turnover (from first of July 2016 to 30 June 2017), there was a sharp improvement in this figure from 25.3% at 30 June 2016 to the current 14.8%.

Trade receivables totalled €36,657 thousand, a decrease of €894 thousand compared to the figure as at 31 December 2016, also as a result of greater use of non-recourse factoring operations for which there was derecognition of the relative receivables, totalling €23.1 million compared to €22.2 million in December 2016.

There was growth of €2,130 thousand in trade payables, which rose from €53,090 thousand as at 31 December 2016 to €55,220 thousand, while the closing inventories and contract work in progress, totalling €49,531 thousand, decreased by €1,622 thousand.

Net invested capital (€106,697 thousand) was down by €14,101 thousand compared to December 2016, while the percentage indicator calculated on the rolling turnover decreased from 65.6% to 53.8% as a result of an improvement in working capital and the reduction in fixed capital due to the impact of assets held for sale.

## Net Financial Position and cash flows

(Thousands of Euro)

| | 30/06/2017 | 31/03/2017 | 31/12/2016 | 30/06/2016 |
|---|---|---|---|---|
| Cash and cash equivalents | 15,916 | 20,997 | 16,484 | 18,749 |
| Bank financing and short-term loans | -13,495 | -25,187 | -40,662 | -46,913 |
| Bonds issued (net value) | -1,183 | 0 | -9,614 | -6,175 |
| Short-term loans | -420 | -425 | -425 | -425 |
| **Net short term indebtedness** | **818** | **-4,615** | **-34,217** | **-34,764** |
| Bonds issued (net value) | -30,259 | -31,377 | -21,764 | -25,046 |
| Medium-Long term loans | -32,240 | -33,885 | -19,735 | -18,459 |
| **Net medium-long term indebtedness** | **-62,499** | **-65,262** | **-41,499** | **-43,505** |
| **Net financial position** | **-61,681** | **-69,877** | **-75,716** | **-78,269** |

The net financial position was negative for -€61,681 thousand compared with a negative net financial position at 31 December 2016 equal to -€75,716 thousand (negative and equal to -€78,269 thousand at 30 June 2016) the decrease is due to the reasons given below

.

Please note that upon closure of the Financial Optimization Agreement, compared to 31 December 2016, €21,279 thousand was reclassified from short to medium-term, inclusive of amounts referring to the Debenture Loan as well as unsecured loans.

As a result of the above-mentioned Optimization Agreement, on 30 March 2017 the controlling shareholder made a future capital increase contribution to the Parent Company for a total of €8,867 thousand.

The following table illustrates the trend of the total cash flow over the last 12 months:

(Thousands of Euro)

| | 30/06/2017 | 31/03/2017 | 31/12/2016 | 30/06/2016 |
|---|---|---|---|---|
| Operational cash flow | 7,470 | -1,930 | -6,104 | -13,888 |
| Cash flow for investment activities | -2,851 | -1,556 | -9,144 | -4,501 |
| ***Free Cash Flow*** | ***4,619*** | ***-3,486*** | ***-15,248*** | ***-18,389*** |

Net cash flow from operating activities at the end of June, as shown in the Cash Flow Statement, was positive at €7,470 thousand compared to -€6,104 thousand at 31 December 2016, while net investment activities entailed cash absorption of €2,851 thousand.

## Investments

Gross investments in property, plant and machinery and other equipment totalled €1,136 thousand (€2,148 thousand at 30 June 2016) and relate mainly to purchases of plant and machinery, new production moulds and testing and control instruments.

The increase in intangible assets amounted to €1,857 thousand (€2,471 thousand at 30 June 2016) and refers primarily to the capitalization of costs for development projects that meet the requirements of IAS 38 in order to be recognized as balance sheet assets.

## Performance of the Parent Company

In the first half of 2017, Landi Renzo S.p.A. totalled revenues of €48,831 thousand, marking a significant improvement compared with €35,064 thousand in the first half of 2016, a 39.3% increase caused primarily by the growth in supplies due to conversion from Euro 5 to Euro 6 engines on the European OEM channel.
The Gross Operating Profit totalled €388 thousand (of which €1,973 thousand in non-recurrent charges), compared with -€4,781 thousand at 30 June 2016 (of which €3,450 thousand in non-recurrent charges), while the net financial position was -€61,848 thousand (-€71,598 thousand at 31 December 2016).
At the end of the six-month period, the Parent Company's workforce numbered 283 employees, a decrease of 7 units compared with 31 December 2016.
The economic results of the Parent Company are positively influenced by higher volumes supplied to car manufacturers as a result of the conclusion of the transition to Euro 6 engines, which was still under way in the first half of 2016. This also made it possible to recover higher levels of profitability in the OEM sector, penalized in previous periods also by significant non-recurring costs.

## 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 30/06/2017 | Results for the year at 30/06/2017 | Net equity at 30/06/2016 | Results for the year at 30/06/2016 |
|---|---|---|---|---|
| **Net equity and results for the year of the Parent Company** | **44,808** | **-8,239** | **62,305** | **-10,739** |
| Difference in value between book value and pro rata value of the accounting equity of the consolidated companies | 3,189 | 54 | 1,808 | -65 |
| Pro rata results achieved by investees | 0 | -1,047 | 0 | -1,375 |
| Elimination of intercompany dividends | 0 | 0 | 0 | -1,113 |
| Elimination of the effects of intercompany commercial transactions | -1,648 | -191 | -1,623 | 28 |
| Exchange gains (losses) from valuation of intercompany financing | -846 | 846 | -159 | 159 |
| Elimination of revaluation/write-down of investments and recognition of impairment of goodwill | 0 | -44 | 0 | 351 |
| Elimination of the effects of intercompany assets | -487 | 0 | -427 | -12 |
| **Equity and result for the year from Consolidated Financial Statements** | **45,016** | **-8,621** | **58,288** | **-12,766** |
| Equity and result for the year of minority interests | -435 | -147 | 205 | -225 |
| **Equity and result for the year of the Group** | **45,451** | **-8,474** | **58,083** | **-12,541** |

## 2.2. INNOVATION, RESEARCH AND DEVELOPMENT

Research and Development activities in the first half of 2017 saw the continuation of projects initiated in the previous year as well as the launch of new initiatives, in particular:

- development of conversion systems in the After Market and OEM segments, destined for new vehicles and new engines introduced into the automotive segment;
- development of projects for the production of LPG multivalves and new LPG and CNG reducers, including for heavy duty vehicles, for the After Market segment and developed in order to optimize internal manufacturing processes and reduce the related costs;
- development of new electronic systems, primarily for the After Market segment and destined for all Group brands.

## 2.3. SHAREHOLDERS AND FINANCIAL MARKETS

The Landi 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 providing a clear explanation of the company's evolution. The Investor Relations office is also assigned the task of organizing presentations, events and “Road shows” that enable a direct relationship between the financial community and the Group's Top management. For further information and to consult the economic-financial data, corporate presentations, periodic publications, official communications and real time updates on the share price you can visit the Investors section of the site www.landirenzogroup.com.

The following table summarizes the main share and stock market data for the period:

| | |
|---|---|
| Price at 2 January 2017 | 0.3586 |
| Price at 30 June 2017 | 0.7650 |
| Maximum price 2017 (02/01/2017 - 30/06/2017) | 0.91 |
| Minimum price 2017 (02/01/2017 - 30/06/2017) | 0.3411 |
| Market Capitalization at 30 June 2017 (thousands of Euro) | 86,063 |
| Group equity and minority interests at 30 June 2017 (thousands of Euro) | 45,016 |
| Number of shares representing the share capital | 112,500,000 |

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

At 30 June 2017, the quotation of the “LANDI RENZO 6.10% 2015-2022” (ISIN:IT0005107237) bonds, traded on the ExtraMOT PRO professional segment of the ExtraMOT market organized and managed by Borsa Italiana, was 88.08.

## 2.4. POLICY FOR ANALYSING AND MANAGING RISKS CONNECTED WITH THE ACTIVITIES OF THE GROUP

The Group is exposed to various risks associated with its activities, particularly in relation to the following types:

- Strategic risks relating to the macroeconomic and sector situation and recoverability of intangible assets, particularly goodwill. Intangible assets totalling €56,826 thousand are reported in the condensed six-monthly consolidated financial statements at 30 June 2017, including €7,516 thousand for development expenditure, €30,094 thousand for goodwill, €19,216 thousand for patents and trademarks and also net deferred tax assets totalling €7,310 thousand. The recoverability of such values is related to the materialization of future product development and sale plans and the cash generating units to which they refer.
- Operating risks, risks relating to relations with OEM customers (in the six-month period in question, Group sales of systems and components to OEM customers accounted for around 34.7% of total sales), the high competitiveness of the sector where the Group operates, product liability and protection of intellectual property.
- Financial risks, specifically:
    a) Interest rate risk, linked to fluctuations in the interest rates applied on Group loans at variable rates

b) Exchange rate risk, relating both to the marketing of products in countries outside the Euro area and to the translation of financial statements of subsidiaries not belonging to the European Monetary Union for inclusion in the consolidated financial statements

c) Credit risk related to non-fulfilment of contractual obligations by a customer or counterparty

d) Liquidity risk, related to possible difficulties in meeting obligations associated with financial liabilities.

The six-monthly financial report does not include all the information on the management of the above-mentioned risks required for the annual financial statements and should be read in conjunction with the Annual Financial Report prepared for the year ended 31 December 2016. There were no substantial changes in the management of the risks mentioned above.

## 2.5. OTHER INFORMATION

### Transactions with related parties

The creditor/debtor relationships and economic transactions with related companies are the subject of a specific analysis in "Explanatory Notes to the Condensed Six-monthly Consolidated Financial Statements" to which you are referred. It should also be noted that sales and purchases between the parties are not classed as atypical or unusual since they fall within the regular operations of the Group companies and they are conducted at regular market rates. Regarding the relationships with the parent company Girefin S.p.A., it should also be noted that the Directors of Landi Renzo S.p.A. deem that it does not exercise the administration and coordination activities envisaged by art. 2497 of the Italian Civil Code. Lastly, please note that in accordance with CONSOB Regulation 17221/2010, and pursuant to Article 2391-bis of the Italian Civil Code, the Board of Directors has adopted the specific procedure for transactions with related parties, available on the company website, to which you are referred.

### Positions or transactions deriving from atypical and/or unusual transactions

Pursuant to CONSOB communication no. 6064293 of 28 July 2006, note that during the period 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 and 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 and the first half of 2017 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.

### 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.

### Sub-offices

No sub-offices were established.

## 2.6. SIGNIFICANT EVENTS AFTER CLOSING OF THE SIX-MONTH PERIOD AND FORECAST FOR OPERATIONS

### Significant events after closing of the six-month period

After the closing of the period and up to the present we point out that:

- On 31 July, Landi Renzo S.p.A. and AVL Italia S.r.l. completed the sale procedure for the disposal of a business unit regarding the part of the technical centre for the management of laboratories to the AVL Group, a leading global operator in the development of powertrains: the relative preliminary agreement was signed on 26 April 2017.
  With this transaction, the Landi Renzo Group obtained two significant results: on one hand, it launched a significant partnership with a leading automotive sector operator specialized in CNG, LNG and hydrogen powertrains and, on the other hand, it is continuing with the Group reorganization process undertaken by the new management, with the goals of reducing the fixed cost structure and focusing activities on the core business.
  As part of the above-mentioned disposal, 7 employees were transferred directly from Landi Renzo to AVL and at the same time the real estate rental contract with the affiliate Gireimm S.r.l. was renegotiated.

  The economic impact of this transaction was net capital loss of €2,060 thousand.

  On an annual basis, the transaction will entail a positive impact on the reduction in fixed costs, specifically roughly €3 million annually in terms of EBIT, of which around €1.5 million in terms of EBITDA, and a positive impact of roughly €2 million annually in terms of financial management. The disposal of the business unit will also allow for a reduction of between €500 thousand and €700 thousand in the annual investments necessary to maintain and upgrade the equipment sold.

- At the end of July 2017, Claudio Carnevale resigned with immediate effect from his position as member of the Board of Directors of Landi Renzo S.p.A. to take advantage of new professional opportunities. Claudio Carnevale was a non-executive member of the Board of Directors with no role in the Landi Renzo S.p.A. internal committees. At the date of his resignation Claudio Carnevale held 2,050 Landi Renzo S.p.A. ordinary shares.

### Likely future developments

By the end of September, the Group will introduce the new 2018-2022 strategic plan, which will provide instructions regarding asset allocation strategies, business forecasts and competitive positioning of the Group over the next 5 years.

With regard to the business outlook, taking into account the results of the first six months of 2017, the uncertainties in the core market and the orders in the portfolio, the outlook already communicated at the time of the approval of the Annual Financial Report as at 31 December 2016 is confirmed, with moderate business growth forecast along with a slight recovery in margins in terms of adjusted EBITDA already in 2017.

Cavriago, 7 September 2017

**Chief Executive Officer**
**Cristiano Musi**

## 3. CONDENSED SIX-MONTHLY CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2017

### 3.1. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Thousands of Euro)

| ASSETS | Notes | 30/06/2017 | 31/12/2016 |
|---|---|---|---|
| **Non-current assets** | | | |
| Land, property, plant and equipment | 2 | 19,556 | 30,500 |
| Development expenditure | 3 | 7,516 | 8,420 |
| Goodwill | 4 | 30,094 | 30,094 |
| Other intangible assets with finite useful lives | 5 | 19,216 | 20,359 |
| Equity investments valued using the equity method | 6 | 97 | 43 |
| Other non-current financial assets | 7 | 443 | 664 |
| Deferred tax assets | 8 | 7,310 | 6,887 |
| **Total non-current assets** | | **84,232** | **96,967** |
| | | | |
| **Current assets** | | | |
| Trade receivables | 9 | 35,015 | 35,553 |
| Trade receivables - related parties | 9 | 1,642 | 1,998 |
| Inventories | 10 | 49,321 | 49,872 |
| Contract work in progress | 11 | 210 | 1,281 |
| Other receivables and current assets | 12 | 10,310 | 10,082 |
| Cash and cash equivalents | 13 | 15,916 | 16,484 |
| **Total current assets** | | **112,414** | **115,270** |
| | | | |
| Non-current assets held for sale | 2 | 5,700 | |
| | | | |
| **TOTAL ASSETS** | | **202,346** | **212,237** |

(Thousands of Euro)

| EQUITY AND LIABILITIES | Notes | 30/06/2017 | 31/12/2016 |
|---|---|---|---|
| **Shareholders' equity** | | | |
| Share capital | 14 | 11,250 | 11,250 |
| Other reserves | 14 | 42,675 | 59,400 |
| Profit (loss) for the period | 14 | -8,474 | -25,245 |
| **Total Equity attributable to the Group** | | **45,451** | **45,405** |
| Minority interests | | -435 | -323 |
| **TOTAL EQUITY** | | **45,016** | **45,082** |
| | | | |
| **Non-current liabilities** | | | |
| Non-current bank loans | 15 | 31,401 | 18,687 |
| Other non-current financial liabilities | 16 | 31,098 | 22,812 |
| Provisions for risks and charges | 17 | 9,294 | 8,973 |
| Defined benefit plans for employees | 18 | 2,829 | 3,124 |
| Deferred tax liabilities | 19 | 464 | 514 |
| **Total non-current liabilities** | | **75,086** | **54,110** |
| | | | |
| **Current liabilities** | | | |
| Bank financing and short-term loans | 20 | 13,495 | 40,662 |
| Other current financial liabilities | 21 | 1,603 | 10,039 |
| Trade payables | 22 | 50,272 | 48,919 |
| Trade payables – related parties | 22 | 4,948 | 4,171 |
| Tax liabilities | 23 | 2,313 | 2,604 |
| Other current liabilities | 24 | 9,588 | 6,650 |
| **Total current liabilities** | | **82,219** | **113,045** |
| | | | |
| Current liabilities held for sale | 24 | 25 | |
| | | | |
| **TOTAL EQUITY AND LIABILITIES** | | **202,346** | **212,237** |

## 3.2. CONSOLIDATED INCOME STATEMENT

(Thousands of Euro)

| CONSOLIDATED INCOME STATEMENT | Notes | 30/06/2017 | 30/06/2016 |
|---|---|---|---|
| **Revenues from sales and services** | 25 | 103,216 | 89,219 |
| Revenues from sales and services – related parties | 25 | 292 | 71 |
| Other revenues and income | 26 | 433 | 559 |
| Cost of raw materials, consumables and goods and change in inventories | 27 | -50,121 | -42,240 |
| Costs for services and use of third party assets | 28 | -25,644 | -24,286 |
| Costs for services and use of third-party assets – related parties | 28 | -1,613 | -1,614 |
| Personnel cost | 29 | -20,446 | -18,966 |
| Provisions, provision for bad debts and other operating expenses | 30 | -1,660 | -4,297 |
| **Gross operating profit** | | **4,457** | **-1,554** |
| Amortization, depreciation and impairment | 31 | -7,948 | -8,037 |
| Net capital loss from disposal | 31 | -2,060 | 0 |
| **Net Operating Profit** | | **-5,551** | **-9,591** |
| Financial income | 32 | 48 | 65 |
| Financial expenses | 33 | -2,297 | -2,677 |
| Exchange gains (losses) | 34 | -828 | 660 |
| Gain (loss) on equity investments valued using the equity method | 35 | 54 | -64 |
| **Profit (Loss) before tax** | | **-8,574** | **-11,607** |
| Current and deferred taxes | 36 | -47 | -1,159 |
| **Net profit (loss) for the Group and minority interests, including:** | | **-8,621** | **-12,766** |
| Minority interests | | -147 | -225 |
| Net profit (loss) for the Group | | -8,474 | -12,541 |
| **Basic earnings (loss) per share (calculated on 112,500,000 shares)** | 37 | -0.0753 | -0.1115 |
| **Diluted earnings (loss) per share** | | -0.0753 | -0.1115 |

## 3.3. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Thousands of Euro)

| CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME | Notes | 30/06/2017 | 30/06/2016 |
|---|---|---|---|
| **Net profit (loss) for the Group and minority interests:** | | **-8,621** | **-12,766** |
| *Gains/losses that will not be subsequently reclassified in the income statement* | | | |
| Restatement of defined employee benefit plans (IAS 19) | 18 | 143 | -253 |
| ***Total gains/losses that will not be subsequently reclassified in the income statement*** | | **143** | **-253** |
| *Profits/losses that could subsequently be reclassified in the income statement* | | | |
| Exchange rate differences from conversion of foreign operations | | -308 | -591 |
| ***Total profits/losses that could subsequently be reclassified in the income statement*** | | **-308** | **-591** |
| ***Profits/Losses recorded directly to Equity net of tax effects*** | | **-165** | **-844** |
| **Total consolidated statement of comprehensive income for the period** | | **-8,786** | **-13,610** |
| Profit (loss) for Shareholders of the Parent Company | | -8,669 | -13,365 |
| Minority interests | | -117 | -245 |

## 3.4. CONSOLIDATED CASH FLOW STATEMENT

(Thousands of Euro)

| CONSOLIDATED CASH FLOW STATEMENT | 30/06/2017 | 30/06/2016 |
|---|---|---|
| **Financial flows deriving from operating activities** | | |
| Profit (loss) for the period | -8,621 | -12,766 |
| *Adjustments for:* | | |
| Net capital loss from disposal | 2,060 | |
| Depreciation of property, plant and equipment | 4,039 | 4,255 |
| Amortization of intangible assets | 3,787 | 3,632 |
| Impairment losses on intangible assets | 122 | 150 |
| Impairment loss on receivables | 284 | 675 |
| Net financial expenses | 3,077 | 1,952 |
| Income tax for the year | 47 | 1,159 |
| | **4,795** | **-943** |
| *Changes in:* | | |
| Contract work in progress | 1,622 | -3,628 |
| Trade receivables and other receivables | 603 | 1,064 |
| Trade payables and other payables | -1,832 | -8,775 |
| Provisions and employee benefits | 168 | 1,440 |
| **Cash generated from operations** | **9,020** | **-10,842** |
| Interest paid | -928 | -2,745 |
| Interest received | 20 | 32 |
| Income taxes paid | -642 | -333 |
| **Net cash generated from operating activities** | **7,470** | **-13,888** |
| **Financial flows from investments** | | |
| Proceeds from the sale of property, plant and equipment | 88 | 54 |
| Equity investments valued using the equity method | 54 | 64 |
| Purchase of property, plant and equipment | -1,136 | -2,148 |
| Purchase of intangible assets | -201 | -150 |
| Development expenditure | -1,656 | -2,321 |
| **Net cash absorbed by investment activities** | **-2,851** | **-4,501** |
| **Free Cash Flow** | **4,619** | **-18,389** |
| **Financial flows from financing activities** | | |
| Proceeds from future share capital increase contributions | 8,867 | 0 |
| Bond repayments | 0 | -2,040 |
| Disbursements (reimbursements) of medium/long-term loans | -552 | -12,530 |
| Change in short-term bank debts | -14,050 | 13,867 |
| **Net cash generated (absorbed) by financing activities** | **-5,735** | **-703** |
| **Net increase (decrease) in cash and cash equivalents** | **-1,116** | **-19,092** |
| Cash and cash equivalents as at 1 January | 16,484 | 38,264 |
| Effect of exchange rate fluctuation on cash | 548 | -423 |
| **Closing cash and cash equivalents** | **15,916** | **18,749** |

*This report, as required by IAS 7, par. 18, has been prepared using the indirect method.*

| Other information | 30/06/2017 | 30/06/2016 |
|---|---|---|
| (Increase)/Decrease in trade receivables and other receivables from related parties | 356 | -36 |
| Increase/(Decrease) in trade payables and other payables to related parties | 777 | 995 |

## 3.5. TABLE OF CHANGES IN CONSOLIDATED EQUITY

(Thousands of Euro)

| | Share capital | Statutory Reserve | Extraordinary and Other Reserves | Share Premium Reserve | Future share capital contributions | 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 2015** | **11,250** | **2,250** | **46,580** | **46,598** | | **-35,288** | **71,390** | **-299** | **724** | **71,815** |
| Result for the year | | | | | | -12,541 | **-12,541** | -225 | | **-12,766** |
| Actuarial profits/losses (IAS 19) | | | -253 | | | | **-253** | | | **-253** |
| Translation difference | | | -412 | | | | **-412** | | -20 | **-432** |
| **Total comprehensive profits/losses** | | | **-665** | | | **-12,541** | **-13,206** | **-225** | **-20** | **-13,451** |
| Other changes | | | -101 | | | | **-101** | | 25 | **-76** |
| Allocation of profit | | | -35,288 | | | 35,288 | **0** | 299 | -299 | **0** |
| **Balance as at 30 June 2016** | **11,250** | **2,250** | **10,526** | **46,598** | **0** | **-12,541** | **58,083** | **-225** | **430** | **58,288** |
| | | | | | | | | | | |
| **Balance as at 31 December 2016** | **11,250** | **2,250** | **10,552** | **46,598** | **0** | **-25,245** | **45,405** | **-759** | **436** | **45,082** |
| Result for the year | | | | | | -8,474 | **-8,474** | -147 | | **-8,621** |
| Actuarial profits/losses (IAS 19) | | | 143 | | | | **143** | | | **143** |
| Translation difference | | | 508 | | | | **508** | | 30 | **538** |
| **Total comprehensive profits/losses** | | | **651** | | | **-8,474** | **-7,823** | **-147** | **30** | **-7,940** |
| Other changes | | | -998 | | 8,867 | | **7,869** | | 5 | **7,874** |
| Allocation of profit | | | -9,365 | -15,880 | | 25,245 | **0** | 759 | -759 | **0** |
| **Balance as at 30 June 2017** | **11,250** | **2,250** | **840** | **30,718** | **8,867** | **-8,474** | **45,451** | **-147** | **-288** | **45,016** |

## 4. EXPLANATORY NOTES TO THE CONDENSED SIX-MONTHLY CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2017

### 4.1. 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 (Automotive segment), compressors for fuel stations through the SAFE trademark (Gas Distribution and Compressed Natural Gas systems segment), and, as a secondary business, audio systems through the subsidiaries Eighteen Sound S.r.l. and Sound & Vision S.r.l. (Sound segment). The Group manages all phases of the process that leads to the production and the sale of automotive fuel supply systems; it sells both to the main automobile manufacturers at a world-wide level (OEM customers) and to independent retailers and importers (After Market customers). For a better understanding of the activities of each operating segment, please refer to the "Segment Reporting" section (paragraph 2.1) of this Report.

Please note that at 30 June 2017 the Landi Group structure changed compared to 31 December 2016 due to the removal from Group consolidation scope of the company Eurogas Utrecht B.V. since its liquidation is now complete, as described in detail in paragraph 4.3.

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

These Financial Statements are submitted to limited auditing by PricewaterhouseCoopers S.p.A.

### 4.2. GENERAL ACCOUNTING STANDARDS AND CONSOLIDATION PRINCIPLES

#### 4.2.1. Preamble

The condensed six-monthly consolidated financial statements at 30 June 2017 have been prepared pursuant to art. 154-ter of Italian Legislative Decree 58/1998 "Consolidated Financial Law" (Testo Unico della Finanza), in accordance with the provisions of international accounting standards (IAS/IFRS) recognized in the European Union, and, in particular, those of IAS 34 "Interim Financial Statements". In partial exception to the provisions of IAS 34, this report provides detailed rather than summary tables in order to provide a clearer view of the economic-equity and financial dynamics over the six-month period. The explanatory notes are also presented in compliance with the information required by IAS 34 with the supplements considered useful for a clearer understanding of the six-monthly financial statements.

The condensed six-monthly consolidated financial statements at 30 June 2017, approved by the Board of Directors on 7 September 2017, must be read in conjunction with the consolidated annual financial statements as at 31 December 2016.

The consolidation method for the financial statements of the group companies is specified below in the sections "Companies consolidated using the line-by-line method" and "Companies consolidated using the equity method".

The valuation criteria used for the preparation of the consolidated financial statements for the six months closed at 30 June 2017 are the same as those used for the consolidated financial statements as at 31 December 2016.

In addition to the interim values of the consolidated income statement and the consolidated statement of comprehensive income at 30 June 2017, the balance sheet figures for the year closed at 31 December 2016 and the income statement figures at 30 June 2016 are included in the tables below for purposes of comparison. The functional and reporting currency is the Euro. Figures in the schedules and tables in this six-monthly financial report are in thousands of Euro.

In application of IAS 12, par. 74, already at 31 December 2016, as well as for the first half of 2017 and as a result also at 30 June 2016, to ensure greater comparability, deferred tax assets were offset with deferred tax liabilities.

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

The accounting standards and calculation methods used for the preparation of this Half-Yearly Financial Report were not modified compared to those used to prepare the consolidated financial statements at 31 December 2016. Please note that the valuation and measurement of the accounting items shown are based on International Accounting Standards and the relative interpretations currently in force, and that no new accounting standards were applied early.

**Accounting standards, amendments and interpretations approved by the European Union, applicable as of 1 January 2017, which were applied for the first time in the condensed six-monthly consolidated financial statements of the Landi Renzo Group as at 30 June 2017**

- Annual Improvements to IFRSs: IFRS 12: "*Disclosure of interests in other entities*", issued by the IASB on 18 December 2014. This amendment envisages that an investment entity that draws up financial statements in which all of its subsidiaries are measured at fair value through profit or loss must provide the disclosure set forth for investment entities on the basis of IFRS 12. The application of this standard had no impacts on the Group.

**Accounting standards, amendments and interpretations approved by the European Union, applicable as of 1 January 2018 and not adopted early by the Landi Renzo Group**

- IFRS 15 – "*Revenue from Contracts with Customers*". On 28 May 2014, the IASB published the document requiring a company to recognise revenues at the moment of transfer of control over the assets or services to customers at an amount which reflects the consideration expected to be received in exchange for such products or services. To achieve this end, the new model for the recognition of revenues defines a five-step process:

1) Identify the contract(s) with a customer;
2) Identify the performance obligations;
3) Determine the transaction price;
4) Allocate the transaction price to the performance obligations;
5) Recognize revenue when (or as) the entity satisfies a performance obligation.

The new standard also requires further additional information about the nature, amount, timing and uncertainties relating to revenues and the cash flows deriving from contracts with customers. The IASB requires the adoption of this standard as of 2018 and the European Union approved it on 22 September 2016. In addition, on 12 April 2016, the IASB published amendments to the standard: *Clarifications to IFRS 15* "*Revenue from Contracts with Customers*", also applicable as of 1 January 2018. These amendments aim to clarify the methods whereby the company should be identified as "Principal" or "Agent" and to determine whether the revenues from a licence should be recognised over time for its duration.

The effects of the new standard are currently being assessed in accordance with a project plan that will be completed during the half year.

• IFRS 9 – “*Financial Instruments*”. On 24 July 2014, the IASB published the final document representing the conclusion of the process, broken down into three phases: “*Classification and Measurement*”, “*Impairment*” and “*General Hedge Accounting*”, for completely revising IAS 39. The document introduces new criteria for the classification and measurement of financial assets and liabilities. Specifically, for financial assets, the new standard uses a single approach based on the method for managing financial instruments and the characteristics of the contractual cash flows of the financial assets in order to determine the valuation approach, replacing the different rules laid out in IAS 39. On the other hand, for financial liabilities, the main amendment introduced regards accounting for changes in the fair value of a financial liability measured at fair value through profit or loss, if they are due to changes in the credit risk of the financial liability itself. According to the new standard, these changes must be recognised in other items of the comprehensive income, and should no longer be recognised in the income statement. The main new elements regarding hedge accounting are:

- Changes in the types of transactions eligible for hedge accounting; in particular, the risks of non-financial assets/liabilities eligible for management under hedge accounting have been extended;
- Change in the methods of accounting for forward contracts and options included in a hedge accounting relationship, in order to reduce income statement volatility;
- Amendments to the effectiveness test by replacing current methods based on the 80-125% parameter with the principle of the “economic relationship” between the hedged item and the hedging instrument; in addition, the retrospective effectiveness assessment of the hedging relationship will no longer be required;

The greater flexibility in these accounting rules is balanced out by requirements for additional disclosure on the risk management activities implemented by the company.

The new document includes a single model for the impairment of financial assets based on expected losses.

The IASB requires the adoption of this standard as of 2018 and the European Union approved it on 22 November 2016. From an initial examination, it does not seem that the future adoption of this standard will have a significant impact on the Group’s financial statements.

**Accounting standards, amendments and interpretations published by the IASB but not yet approved by the European Union and not adopted in preparing these financial statements**

| **Description** | **Approved at the date of the following financial statements** | **Expected effective date of the standard** |
|---|---|---|
| IFRS 16: *Leases* | NO | 1 January 2019 |
| Amendment to IFRS 2: *Classification and measurement of share-based payment transactions* | NO | 1 January 2018 |
| Amendment to IFRS 4: *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* | NO | 1 January 2018 |
| Amendment to IAS 40: *Regarding Transfers of investment property* | NO | 1 January 2018 |
| Amendment to IFRIC 22: *Foreign Currency Transactions and Advance Consideration* | NO | 1 January 2018 |
| Annual Improvements to IFRSs: 2014-2016 Cycle | NO | 1 January 2018 |

The standards listed in this paragraph are not applicable as they have not been approved by the European Union which, during the approval process, could only partially adopt or not adopt such standards.

### 4.2.2. Consolidation procedures and valuation criteria

The preparation of the condensed six-monthly consolidated financial statements requires the directors to apply accounting standards and methods that are sometimes based on difficult and subjective assessments and estimates derived from past experience and based on 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 Consolidated Statement of Financial Position, the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Table of Changes in Equity and the Consolidated Cash Flow Statement, and in disclosures provided. Estimates are used in recognizing goodwill, impairment of fixed assets, development costs, taxes, provisions for bad debts and inventories write-down, employee benefits and other provisions. The estimates and assumptions are reviewed periodically and the effects of all changes are reflected immediately on the income statement.

However, some valuation processes, especially the more complex ones such as establishing any loss in value of non-current assets, are normally carried out to a fuller extent only during the preparation of the annual financial statements, when all the necessary information is available, except for those cases in which there are impairment indicators that require an immediate assessment of possible losses in value.

The Group performs activities that do not on the whole present significant seasonal or cyclical variations in total sales over the course of the year, except for the signing of new supply contracts on the OEM channel which may involve planned and differing delivery schedules in the individual quarters.

### 4.2.3. Conversion of the financial statements of foreign companies

The Financial Statements in the currency of the foreign subsidiaries are converted into the accounting currency, adopting the half-year end exchange rate for the consolidated Statement of Financial Position and the average exchange rate over the six months for the Consolidated Income Statement. The conversion differences deriving from the adjustment of opening Equity to the current rates at the end of the period, and those due to the different method used for conversion of the result for the period, are accounted for in Equity under the other reserves.

The following table specifies the exchange rates used for the conversion of financial statements expressed in currencies other than the accounting currency.

| Exchange rate (Currency against the Euro) | At 30/06/2017 | Ave. H1 2017 | At 31/12/2016 | Average 2016 | At 30/06/2016 | Ave. H1 2016 |
|---|---|---|---|---|---|---|
| Real – Brazil | 3.76 | 3.44 | 3.43 | 3.86 | 3.59 | 4.13 |
| Renminbi – China | 7.74 | 7.44 | 7.32 | 7.35 | 7.38 | 7.30 |
| Rial – Iran | 37,076.40 | 35,112.48 | 34,127.50 | 34,213.69 | 34,083.10 | 33,817.59 |
| Rupee - Pakistan | 119.64 | 113.51 | 110.47 | 115.92 | 116.29 | 116.87 |
| Zloty – Poland | 4.23 | 4.27 | 4.41 | 4.36 | 4.44 | 4.37 |
| Leu - Romania | 4.55 | 4.54 | 4.54 | 4.49 | 4.52 | 4.50 |
| Dollar - US | 1.14 | 1.08 | 1.05 | 1.11 | 1.11 | 1.12 |
| Peso - Argentina | 18.89 | 17.02 | 16.75 | 16.34 | 16.58 | 16.00 |
| Rupee - India | 73.74 | 71.18 | 71.59 | 74.37 | 74.96 | 75.00 |
| Dollar - Singapore | 1.57 | 1.52 | 1.52 | 1.53 | 1.50 | 1.54 |

## 4.3. 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 at 30 June 2017 changed compared to 31 December 2016 due to the consolidation of the company Sound&Vision S.r.l., a wholly owned subsidiary of the company Eighteen Sound S.r.l., as well as the removal from Group consolidation scope of the company Eurogas Utrecht B.V. as its liquidation is now complete. These changes did not have any significant effects.

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

| Description | Registered Office | | Share capital | % stake at 30 June 2017 | | Notes |
|---|---|---|---|---|---|---|
| | | | | Direct investment | Indirect investment | |
| **Parent Company** | | | | | | |
| Landi Renzo S.p.A. | Cavriago (RE – Italy) | 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% | | |
| Landi Renzo Polska Sp.Zo.O. | Warsaw (Poland) | PLN | 50,000 | | 100.00% | (*) |
| LR Industria e Comercio Ltda | Espirito Santo (Brazil) | BRL | 4,320,000 | 99.99% | | |
| Beijing Landi Renzo Autogas System Co. Ltd | Beijing (China) | USD | 2,600,000 | 100.00% | | |
| L.R. Pak (Pvt) Limited | Karachi (Pakistan) | PKR | 75,000,000 | 70.00% | | |
| Landi Renzo Pars Private Joint Stock Company | Tehran (Iran) | IRR | 55,914,800,000 | 99.99% | | |
| Landi Renzo RO srl | Bucharest (Romania) | RON | 20,890 | 100.00% | | |
| Landi Renzo USA Corporation | Wilmington - DE (USA) | USD | 3,067,131 | 100.00% | | |
| AEB S.p.A. | Cavriago (RE – Italy) | EUR | 2,800,000 | 100.00% | | |
| AEB America s.r.l. | Buenos Aires (Argentina) | ARS | 2,030,220 | | 96.00% | (§) |
| Eighteen Sound S.r.l. | Reggio Emilia (Italy) | EUR | 100,000 | | 100.00% | (§) |
| Lovato Gas S.p.A. | Vicenza (Italy) | EUR | 120,000 | 100.00% | | |
| Officine Lovato Private Limited | Mumbai (India) | INR | 19,091,430 | | 74.00% | (#) |
| SAFE S.p.A. | S.Giovanni Persiceto (BO - Italy) | EUR | 2,500,000 | 100.00% | | |
| Emmegas S.r.l. | Cavriago (RE - Italy) | EUR | 60,000 | 100.00% | | |
| Sound & Vision S.r.l. | Senigallia (AN – Italy) | EUR | 10,000 | | 100.00% | (ç) |
| **Associates and subsidiaries consolidated using the equity method** | | | | | | |
| Krishna Landi Renzo India Private Ltd Held | Gurgaon - Haryana (India) | INR | 118,000,000 | 51.00% | | |

***Detailed notes on investments:***

*(*) held by Landi International B.V.*

*(§) held by AEB S.p.A.*

*(#) held by Lovato Gas S.p.A.*

*(ç) held by Eighteen Sound S.r.l.*

## 4.4. EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The changes reported hereafter have been calculated on the balances at 31 December 2016 as regards balance sheet items and on the values of the first half of 2016 as regards income statement items.

### 4.4.1. SEGMENT REPORTING

Since the financial statements for the year closed at 31 December 2008, the Landi Renzo Group has adopted Accounting Standard IFRS 8 – Operating Segments. According to this Accounting Standard, the segments must be identified using the same procedures with which the internal management reporting is prepared for Top Management. Please see the "Segment Reporting" section of this Report for information by activity segment and by geographical area.

Please also note that since the first half of 2017, with the appointment of the new Chief Executive Officer, the Group has been engaged in an organizational evolution which has entailed the reorganization of activities into the following segments, previously considered on a unitary basis as a business segment for the manufacture of car systems and distribution:

- Automotive;
- Gas Distribution and Compressed Natural Gas systems;
- Sound.

## NON-CURRENT ASSETS

### 4.4.2. LAND, PROPERTY, PLANT, MACHINERY AND OTHER EQUIPMENT

Tangible assets showed an overall net decrease of €10,944 thousand, decreasing from €30,500 thousand at 31 December 2016 to €19,556 thousand at 30 June 2017.

The following is an analysis of changes in "Land, property, plant, machinery and other equipment" that took place during the period:

(Thousands of Euro)

| | Net Value at 31/12/2016 | Increases | Disposals | Depreciation amounts | Assets held for sale | Other changes | Net Value at 30/06/2017 |
|---|---|---|---|---|---|---|---|
| Land, property, plant and equipment | **30,500** | 1,136 | -134 | -4,039 | -7,760 | -147 | **19,556** |

The main increases in tangible assets during the six-month period relate to:

- purchase of industrial equipment for €490 thousand, relating to testing and control instruments, moulds and other equipment;
- assets under construction and payments on account for €92 thousand;
- purchase of plant and machinery for €554 thousand.

The main decreases in tangible assets for the first six months of 2017 relate to disposals of industrial vehicles, moulds and obsolete equipment, which did not have significant impacts on the income statement.

### Assets held for sale

Assets held for sale refer to the disposal on 31 July 2017 of the business unit regarding the part of the Technical Centre for the management of laboratories to the AVL Group, a leading global operator in the development of powertrains: the relative preliminary agreement was signed on 26 April 2017.

By virtue of this preliminary agreement, which as at 30 June 2017 qualified the disposal transaction as highly likely and the subsequent sale as to be completed within one year of the classification in the financial statements of the assets held for sale, the requirements of IFRS 5 can be deemed satisfied.

The consideration expected for the disposal was €5,700 thousand and caused the registration of a net capital loss on the residual book value of the assets at 30 June of €2,060 thousand.

The disposal value of the assets, equal to €5,700 thousand, was reclassified from “Land, property, plant and other equipment” to “Non-current assets held for sale”.

(Thousands of Euro)

| | 30/06/2017 |
|---|---|
| Residual value of the Technical Centre systems for laboratory management | 7,760 |
| Business unit disposal value | 5,700 |
| **Net capital loss** | **-2,060** |

## 4.4.3. DEVELOPMENT EXPENDITURE

(Thousands of Euro)

| | Net Value at 31/12/2016 | Increases | Amortization and write-downs | Net Value at 30/06/2017 |
|---|---|---|---|---|
| Development expenditure | **8,420** | 1,656 | -2,560 | **7,516** |

Development expenditure amounted to €7,516 thousand (€8,420 thousand at 31 December 2016) and includes the costs incurred by the Group both for internal personnel and for services supplied by third parties, for projects meeting the requirements of IAS 38 to be capitalized. In particular, costs capitalized during the first half of 2017, for a total of €1,656 thousand, refer to innovative projects, aimed both at development of new technologies in the Automotive segment and the design of new systems capable of expanding and optimizing the product range on the market, the value of which is expected to be recovered through revenue flows generated in future years.

It is expected that new product development activities will continue during the second half of 2017.

The increases for the period relate to development projects in progress at 30 June 2017, for which the grounds for recoverability have been verified.

### 4.4.4. GOODWILL

The item Goodwill totalled €30,094 thousand, unchanged compared with 31 December 2016. The following table shows this item broken down by CGU (Cash Generating Unit):

(Thousands of Euro)

| CGU | 30/06/2017 | 31/12/2016 | 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** |

During the six months there were no events or circumstances that indicate possible impairment in relation to the goodwill mentioned above. In particular, the half-yearly results of the CGU Lovato Gas S.p.A. and AEB S.p.A. are in line with the budget data.

### 4.4.5. OTHER INTANGIBLE ASSETS WITH FINITE USEFUL LIVES

(Thousands of Euro)

| | Net Value at 31/12/2016 | Increases | Depreciation amounts | Other changes | Net Value at 30/06/2017 |
|---|---|---|---|---|---|
| Other intangible assets with finite useful lives | **20,359** | 201 | -1,227 | -117 | **19,216** |

Other tangible assets with finite useful lives, totalling €19,216 thousand (€20,359 thousand), consist mainly of rights of use of inventions and proprietary Group trademarks, particularly the values of the LOVATO trademark (€8,693 thousand), the AEB and 18SOUND trademarks (€8,206 thousand), the Baytech trademark (€994 thousand), the SAFE trademark (€474 thousand) and the Emmegas trademark (€156 thousand), expressed at the fair value at the moment of purchase, based on evaluations made by independent professionals and amortized over 18 years – a period considered to represent the useful lifetime of trademarks – with the exception of the SAFE and Emmegas trademarks, which are amortized over a useful lifetime of 7 years.

### 4.4.6. EQUITY INVESTMENTS CONSOLIDATED USING THE EQUITY METHOD

This item includes the value calculated by applying the equity method to Joint Venture Krishna Landi Renzo Prv Ltd, owned by the Landi Renzo Group, equal to €97 thousand. The increase compared with 31 December 2016 of €54 thousand derives from the period valuation, taking the profit of the JV of €112 thousand into account.

### 4.4.7. OTHER NON-CURRENT FINANCIAL ASSETS

Other non-current financial assets, totalling €443 thousand (€664 thousand) mainly include the value of the equity investment in the Joint Venture EFI Avtosanoat Landi Renzo – LLC and totalled €172 thousand valued using the cost method and not consolidated as it is not significant and €225 thousand in guarantee deposits and other assets.

## 4.4.8. DEFERRED TAX ASSETS

In application of IAS 12, par. 74, 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):

| Offsettable deferred tax assets and liabilities | 30/06/2017 | 31/12/2016 | Change |
|---|---|---|---|
| Deferred tax assets | 12,592 | 12,467 | 125 |
| Deferred tax liabilities | -5,282 | -5,580 | 298 |
| **Total net deferred tax assets** | **7,310** | **6,887** | **423** |

The following table shows the values of the offsettable deferred tax assets and liabilities and their changes from 31 December 2016 to 30 June 2017 (in thousands of Euro):

| Deferred tax assets | Deferred tax assets 31/12/2016 | Uses | Temporary changes | Other changes | Deferred tax assets 30/06/2017 |
|---|---|---|---|---|---|
| Goodwill | 2,178 | -314 | 12 | | 1,876 |
| Temporary changes | 4,535 | -217 | 557 | | 4,875 |
| Other deferred tax assets | 769 | | | 35 | 804 |
| Tax losses | 4,985 | | | 52 | 5,037 |
| **a) Total deferred tax assets** | **12,467** | **-531** | **569** | **87** | **12,592** |
| **Deferred tax liabilities** | **Deferred tax liabilities 31/12/2016** | **Uses** | **Temporary changes** | **Other changes** | **Deferred tax liabilities 30/06/2017** |
| Adjustments for consolidation and IFRS compliance | 146 | | | 14 | 160 |
| Contract completion evaluation | 86 | -86 | | | 0 |
| Other temporary changes | 410 | -43 | | 56 | 423 |
| Intangible assets | 4,938 | -239 | | | 4,699 |
| **b) Total deferred tax liabilities** | **5,580** | **-368** | **0** | **70** | **5,282** |
| **a-b) Total net deferred tax assets** | **6,887** | **-163** | **569** | **17** | **7,310** |

In particular, deferred tax assets, totalling €12,592 thousand (€12,467 thousand at 31 December 2016), related both to temporary differences between the book values of assets and liabilities on the balance sheet and the corresponding tax values recognized and to the losses from the national consolidation tax scheme of years prior to 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.

In addition, for reasons of prudence the Group decided not to recognize any provision for deferred tax assets on tax losses for the half-year, in line with what was done at 31 December 2016.

At 30 June 2017 offsettable deferred tax liabilities totalled €5,282 thousand (€5,580 thousand at 31 December 2016), with a decrease of €298 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

### 4.4.9. 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)

| Trade receivables by geographical area | 30/06/2017 | 31/12/2016 | Change |
|---|---|---|---|
| Italy | 9,790 | 10,244 | -454 |
| Europe (excluding Italy) | 9,458 | 10,620 | -1,162 |
| America | 11,654 | 12,326 | -672 |
| Asia and Rest of the World | 12,356 | 11,196 | 1,160 |
| Provision for bad debts | -6,601 | -6,835 | 234 |
| **Total** | **36,657** | **37,551** | **-894** |

Trade Receivables totalled €36,657 thousand, net of the Provision for Bad Debts equal to €6,601 thousand, compared with €37,551 thousand at 31 December 2016.
Total operations for assignment of trade receivables through factoring without recourse, for which the corresponding receivables were derecognized, amounted to €23,070 thousand (€22,196 thousand at 31 December 2016).

Receivables from related parties totalled €1,642 thousand (€1,998 thousand) and related to supplies of goods to the Joint Venture Krishna Landi Renzo India Private Ltd Held, to the Joint Venture EFI Avtosanoat-Landi Renzo LLC and to the Pakistani company AutoFuels. All the related transactions are carried out at arm's length conditions. For transactions with related parties, please refer to paragraph 4.4.39 of this Report.

The provision for bad debts, which was calculated using analytical criteria on the basis of the data available and, in general, of the historical trend, changed as follows:

(Thousands of Euro)

| Provision for bad debts | 31/12/2016 | Allocation | Uses | Other changes | 30/06/2017 |
|---|---|---|---|---|---|
| Provision for bad debts | 6,835 | 202 | -334 | -102 | 6,601 |

The allocations made during the period, necessary in order to adjust the book value of the payables to their assumed recovery value, amounted to €202 thousand. Utilization of €334 thousand refers to the write-off of definitively irrecoverable receivables by the Group companies, particularly relating to the American subsidiary Landi Renzo USA Corporation.

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

(Thousands of Euro)

| | | Past due | | | |
|---|---|---|---|---|---|
| | Not past due | 0-30 days | 30-60 days | 60 and beyond | Bad debt provision |
| Trade receivables at 30/06/2017 | 34,423 | 2,780 | 1,415 | 4,640 | -6,601 |
| Trade receivables at 31/12/2016 | 33,240 | 3,025 | 1,057 | 7,064 | -6,835 |

It is considered that the book value of the item Trade Receivables approximates the fair value thereof.
Checks performed by the company on these customers did not reveal any particular solvency risks not already covered by the related provision.

## 4.4.10. INVENTORIES

This item breaks down as follows:

(Thousands of Euro)

| Inventories | 30/06/2017 | 31/12/2016 | Change |
|---|---|---|---|
| Raw materials and parts | 37,177 | 37,136 | 41 |
| Work in progress and semi-finished products | 7,438 | 8,009 | -571 |
| Finished products | 13,329 | 12,959 | 370 |
| (Inventory write-down reserve) | -8,623 | -8,232 | -391 |
| **Total** | **49,321** | **49,872** | **-551** |

Closing inventories totalled €49,321 thousand, net of the inventory write-down reserve of €8,623 thousand, and therefore record a decrease of €551 thousand compared to 31 December 2016. The Group estimated the size of the inventory write-down reserve so as to take account of the risks of technical obsolescence of inventories and to align the book value with their assumed recovery value. At 30 June 2017 this item totalled €8,623 thousand, an increase of €391 thousand compared with 31 December 2016.

## 4.4.11. CONTRACT WORK IN PROGRESS

The item refers to contracts for fuel station compressors in progress at 30 June 2017, evaluated using the percentage of completion method with the cost to cost criterion, for a total of €210 thousand. At the end of 2016, this item amounted to €1,281 thousand and the decrease is related to deliveries during the half-year relating to contracts in progress.

### 4.4.12. OTHER RECEIVABLES AND CURRENT ASSETS

This item breaks down as follows:

(Thousands of Euro)

| Other receivables and current assets | 30/06/2017 | 31/12/2016 | Change |
|---|---|---|---|
| Tax assets | 5,160 | 6,229 | -1,069 |
| Receivables from others | 2,186 | 2,525 | -339 |
| Accruals and deferrals | 2,964 | 1,328 | 1,636 |
| **Total** | **10,310** | **10,082** | **228** |

Tax assets consist primarily of VAT recoverable from the tax authorities for €3,563 thousand and income tax credit of €1,597 thousand.

Receivables from others relate to payments on account, credit notes to be received and other receivables.

Accruals and deferrals relate mainly to deferred assets for long-term business services, insurance premiums, leases, association fees and hardware /software maintenance fees paid in advance.

### 4.4.13. CASH AND CASH EQUIVALENTS

This item, consisting of the active balances of bank current accounts and cash in hand in both Euro and foreign currency, breaks down as follows:

(Thousands of Euro)

| Cash and cash equivalents | 30/06/2017 | 31/12/2016 | Change |
|---|---|---|---|
| Bank and post office accounts | 15,879 | 16,406 | -527 |
| Cash | 37 | 78 | -41 |
| **Total** | **15,916** | **16,484** | **-568** |

Cash and cash equivalents amount to €15,916 thousand (€16,484 thousand).

For analysis of the production and absorption of cash during the half-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.

### 4.4.14. SHAREHOLDERS' EQUITY

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

(Thousands of Euro)

| Shareholders' equity | 30/06/2017 | 31/12/2016 | Change |
|---|---|---|---|
| Share capital | 11,250 | 11,250 | 0 |
| Other reserves | 42,675 | 59,400 | -16,725 |
| Profit (loss) for the period | -8,474 | -25,245 | 16,771 |
| **Total Group equity** | **45,451** | **45,405** | **46** |
| Capital and Reserves attributable to minority interests | -288 | 436 | -724 |
| Profit (loss) attributable to minority interests | -147 | -759 | 612 |
| **Total Minority Interests** | **-435** | **-323** | **-112** |
| **Total Consolidated Equity** | **45,016** | **45,082** | **-66** |

The share capital stated is the fully subscribed and paid-up share capital of the company Landi Renzo S.p.A. which is equal to a nominal €11,250 thousand, subdivided into a total of 112,500,000 shares, with a nominal value equal to €0.10.

Consolidated Shareholders' Equity showed a decrease of €66 thousand compared with 31 December 2016. For further details on the changes compared with 31 December 2016, please refer to the Table of Changes in Consolidated Equity in paragraph 3.5 of this Report.

The other reserves are shown in detail below:

(Thousands of Euro)

| Other reserves | 30/06/2017 | 31/12/2016 | Change |
|---|---|---|---|
| Statutory Reserve | 2,250 | 2,250 | 0 |
| Extraordinary and Other Reserves | 840 | 10,552 | -9,712 |
| Share Premium Reserve | 30,718 | 46,598 | -15,880 |
| Future share capital contributions | 8,867 | | 8,867 |
| **Total Other Reserves of the Group** | **42,675** | **59,400** | **-16,725** |

The balance of the Statutory Reserve totalled €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 Parent Company and by the subsidiary companies in previous years and decreased by €9,712 thousand as a result of coverage of the previous year's loss net of the actuarial profit relating to the DBO (Defined Benefit Obligation) at 30 June 2017 according to the principles of IAS 19.

The Share Premium Reserve originated as a result of the quotation for an amount equal to €46,598 thousand, net of the related costs and now amounts to €30,718 after its utilization to cover losses from the previous year.

As a result of the optimization agreement, on 30 March 2017 the controlling shareholder made a future capital increase contribution to the Parent Company for a total of €8,867 thousand.

The minority interest represents the share of equity and result for the period of foreign subsidiaries not owned in full

## NON-CURRENT LIABILITIES

### 4.4.15. NON-CURRENT BANK LOANS

This item, totalling €31,401 thousand (€18,687 thousand), includes the medium/long term portion of the bank debts for unsecured loans.

Please note that upon closure of the Financial Optimization Agreement, compared to 31 December 2016, €27,546 thousand in unsecured loans was reclassified from short to medium-term based on the updated contractual maturities which require half-yearly repayment in instalments of increasing amounts, from June 2018 to December 2022, and the first measurement of financial covenants at 31 December 2017.

The structure of said loans is exclusively at a variable rate indexed to the Euribor and increased by a spread aligned with normal market conditions; the loan currency is the Euro, except for the loans ($4 million) provided in United States dollars by the Bank of the West.

The Group does not have any derivatives to hedge the loans.

The breakdown of the Group's Net Financial Position is provided in paragraph 2.1 of this Report.

The table below shows the residual debt by original maturity date of the unsecured loans:

(Thousands of Euro)

| Loans and financing | H2 2017 | H2 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|
| Reimbursement instalments | 0 | 4,730 | 3,617 | 4,786 | 7,119 | 11,149 |
| Residual debt | 31,401 | 26,671 | 23,054 | 18,268 | 11,149 | 0 |

### 4.4.16. OTHER NON-CURRENT FINANCIAL LIABILITIES

The item, totalling €31,098 thousand (€22,812 thousand) includes the remaining debt beyond 12 months of the "LANDI RENZO 6,10% 2015-2022" debenture loan of €30,259 thousand and, for the remainder, the instalments of a subsidized loan disbursed by Simest S.p.A. to the Parent Company in order to support a plan to expand trade in the USA.

The repayment times of the debenture loan, originally issued in May 2015 for €34 million, with a duration of five years, bullet repayment and a 6.10% gross fixed interest rate with six-monthly deferred coupon, were revised by the Bondholders' Meeting held on 30 March 2017, which voted in particular, inter alia, to postpone the maturity of the debenture loan from 15 May 2020 to 31 December 2022. The Meeting then approved a decrease in the coupon rate in relation to interest periods beginning from the payment date on 30 April 2017 (inclusive) until 30 June 2019 (exclusive) from the current 6.10% to 5.5% on an annual basis of the outstanding capital; the coupon rate will be paid every six months. The rate on the coupon established for the first four months of 2017 remained unchanged at 6.10% on an annual basis, as approved by the Meeting on 30 December 2016 and was paid at the payment date of 30 April 2017 to the extent of 2.03% (for the period of entitlement from 31 December 2016 inclusive to 30 April 2017 exclusive). For the entitlement period from 30 April 2017 inclusive to 30 June 2017 exclusive, the coupon rate of 0.92% will be paid (equal to an annual interest rate of 5.5%). For the entitlement period from 30 June 2017 inclusive to 30 June 2019 exclusive,

the half-yearly coupon rate will be 2.75% (equal to an annual interest rate of 5.5%).
The rates on the half-yearly coupons that will accrue from 30 June 2019 inclusive to the maturity date of the loan will be equal to 3.05% (equal to an annual interest rate of 6.1%) of the outstanding capital.
Following the changes mentioned above, the debenture loan was named “LANDI RENZO 6.10% 2015-2022”, maintaining the same ISIN IT0005107237.
In addition, inter alia, the Meeting of 30 March 2017 approved the amendment to the repayment plan, envisaging increasing instalment amounts on a half-yearly basis from 30 June 2018 to 31 December 2022.

The table below provides details of the new maturities on the nominal value of the Loan:

(Thousands of Euro)

| Landi Renzo 6.10% 2015-2022 Debenture Loan | H2 2017 | H1 2018 | H2 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|
| Reimbursement instalments | 0 | 1,307 | 1,307 | 3,920 | 5,226 | 7,840 | 12,360 |
| Residual debt | 31,960 | 30,653 | 29,346 | 25,426 | 20,200 | 12,360 | 0 |

### 4.4.17. PROVISIONS FOR RISKS AND CHARGES

These provisions can be broken down as follows:

(Thousands of Euro)

| Provisions for risks and charges | 31/12/2016 | Allocation | Utilization | Other changes | 30/06/2017 |
|---|---|---|---|---|---|
| Provision for product warranties | 3,356 | 804 | -299 | -13 | 3,848 |
| Provision for lawsuits in progress | 277 | | -50 | -9 | 218 |
| Provisions for pensions | 53 | 7 | | | 60 |
| Other provisions | 5,287 | | -118 | -1 | 5,168 |
| **Total** | **8,973** | **811** | **-467** | **-23** | **9,294** |

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 30 June 2017 this provision totalled €3,848 thousand. The provision, totalling €804 thousand, was stated on the Income Statement under the item “Provisions, write-downs and other operating expenses”.
Use of the risk provision totalling €299 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 €50 thousand to cover further tranches of settlement costs incurred during the year.

The Provisions for pensions item relates to the provision accrued for additional customer indemnity, including provisions for the year of €7 thousand.

“Other provisions” that remain to €5.168 thousand at 30 June 2017 were used to €118 thousand.

### 4.4.18. DEFINED BENEFIT PLANS FOR EMPLOYEES

This item includes employee severance indemnity funds set up in compliance with the regulations in force. The following is the overall change in defined benefit plans for employees:

(Thousands of Euro)

| Defined benefit plans for employees | 31/12/2016 | Allocation | Utilization | Other changes | 30/06/2017 |
|---|---|---|---|---|---|
| Employee severance indemnity reserve | 3,124 | 72 | -241 | -126 | 2,829 |

The provision is due to the effect of the revaluation of the TFR (severance pay) for current employees at the end of the period. Uses totalling -€241 thousand refer to amounts paid to employees who left, while the column Other changes relates to adjustment of the DBO (Define Benefit Obligation) according to IAS 19.

For the purposes of calculating the Current Value, an interest rate of 1.67% was adopted, corresponding to the benchmark rate represented by the “Markit iBoxx € Corporate AA 10+” rate measured at 30 June 2016 (1.31% at 31 December 2016).

### 4.4.19. DEFERRED TAX LIABILITIES

At 30 June 2017 deferred tax liabilities that do not meet the offsetting requirements for the purposes of IAS 12, par. 74, totalled €464 thousand (€514 thousand at 31 December 2016) with a decrease equal to €50 thousand, and are primarily related to temporary differences between the book values of certain intangible assets and the values recognized for tax purposes.

| Deferred tax liabilities | Deferred tax liabilities 31/12/2016 | Uses | Temporary changes | Deferred tax liabilities 30/06/2017 |
|---|---|---|---|---|
| Intangible assets | 506 | -54 | | 452 |
| Other temporary changes | 8 | | 4 | 12 |
| **Total deferred tax liabilities** | **514** | **-54** | | **464** |

## CURRENT LIABILITIES

### 4.4.20. BANK FINANCING AND SHORT-TERM LOANS

“Bank financing and short-term loans”, totalling €13,495 thousand (€40,662 thousand), consists of the current portion of existing unsecured loans and financing totalling €1,096 thousand (€14,539 thousand at 31 December 2016), while the remaining €12,399 thousand refers to the utilization of short-term commercial credit lines.
Said loans are not secured by guarantees, are at variable rate and are not hedged by derivatives.
The breakdown of the Group's Net Financial Position is provided in paragraph 2.1 of this Report.

### 4.4.21. OTHER CURRENT FINANCIAL LIABILITIES

This item, totalling €1,603 thousand (€10,039 thousand), includes:

- the current portion of the “LANDI RENZO 6.10% 2015-2022” debenture loan equal to €1,184 thousand;
- the short-term portion of €419 thousand relates to a subsidized loan disbursed by Simest to support a plan to expand trade in the USA.

### 4.4.22. TRADE PAYABLES (including related parties)

Trade payables totalled €55,220 thousand, with an increase of €2,130 thousand compared with 31 December 2016.
Trade payables (including trade payables to related parties) can be analysed by geographical segment as follows:

(Thousands of Euro)

| Trade payables by geographical area | 30/06/2017 | 31/12/2016 | Change |
|---|---|---|---|
| Italy | 44,873 | 40,466 | 4,407 |
| Europe (excluding Italy) | 6,745 | 9,263 | -2,518 |
| America | 801 | 737 | 64 |
| Asia and Rest of the World | 2,801 | 2,624 | 177 |
| **Total** | **55,220** | **53,090** | **2,130** |

Trade payables to related parties of €4,948 thousand refer 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 paragraph 4.4.39 of this Report.

### 4.4.23. TAX LIABILITIES

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 €2,313 thousand, compared with €2,604 thousand at 31 December 2016.

### 4.4.24. OTHER CURRENT LIABILITIES

(Thousands of Euro)

| Other current liabilities | 30/06/2017 | 31/12/2016 | Change |
|---|---|---|---|
| Payables to welfare and social security institutes | 1,872 | 2,136 | -264 |
| Other payables (payables to employees, to others) | 4,916 | 3,098 | 1,818 |
| Payments on account | 2,622 | 1,198 | 1,424 |
| Accrued expenses and deferred income | 178 | 218 | -40 |
| **Total** | **9,588** | **6,650** | **2,938** |

Other current liabilities amount to €9,588 thousand, an increase of €2,938 thousand compared with 31 December 2016. In particular, the item "Other payables" amounting to €4,916 thousand refers primarily to payables for current pay and deferred pay to be settled for employees. The increase of €1,818 thousand was caused to a significant extent by payables for holidays and end-of-year bonuses accrued.

The item payments on account, up by €1,424 compared to 31 December 2016, includes mainly advances paid by customers, primarily to SAFE S.p.A., which does contract-based work.

#### Liabilities held for sale

Liabilities held for sale, amounting to €25 thousand, refer to the disposal on 31 July 2017 of the business unit regarding the part of the Technical Centre for the management of laboratories to the AVL Group and represent payables correlated with the holidays and end-of-year bonuses accrued by employees expected to be transferred to AVL following the above-mentioned transaction.

## INCOME STATEMENT

### 4.4.25. REVENUES (including related parties)

(Thousands of Euro)

| Revenues from sales and services | 30/06/2017 | 30/06/2016 | Change |
|---|---|---|---|
| Revenues related to the sale of assets | 99,322 | 85,920 | 13,402 |
| Revenues for services and other revenues | 4,186 | 3,370 | 816 |
| **Total** | **103,508** | **89,290** | **14,218** |
| | | | |
| of which transactions with related parties | 292 | 71 | 221 |

During the first half of 2017, the Landi Renzo Group achieved revenues of €103,508 thousand, an increase of €14,218 thousand compared with the same six months of the previous year.

Revenues from related parties totalling €292 thousand refer entirely to supplies of goods to the Joint Venture Krishna

Landi Renzo India Private Ltd Held and to the Joint Venture EFI Avtosanoat-Landi Renzo LLC.
For transactions with related parties, please refer to paragraph 4.4.39 of this Report.

### 4.4.26. OTHER REVENUES AND INCOME

Other revenue and income totalled €433 thousand (€559 thousand) and are formed mainly of contingent gains and gains on sales of fixed assets.

### 4.4.27. COST OF RAW MATERIALS, CONSUMABLES AND GOODS

(Thousands of Euro)

| Cost of raw materials, consumables and goods and change in inventories | 30/06/2017 | 30/06/2016 | Change |
|---|---|---|---|
| Raw materials and parts | 41,156 | 35,054 | 6,102 |
| Finished products intended for sale | 7,732 | 5,636 | 2,096 |
| Other materials and equipment for use and consumption | 1,233 | 1,550 | -317 |
| **Total** | **50,121** | **42,240** | **7,881** |

The total costs for purchases of raw materials, consumables and goods (including the change in inventories) amount to €50,121 thousand (€42,240 thousand), a growth of €7,881 thousand compared with 30 June 2016, related to revenue trends.

### 4.4.28. COSTS FOR SERVICES AND USE OF THIRD PARTY ASSETS (including related parties)

This item breaks down as follows:

(Thousands of Euro)

| Costs for services and use of third party assets | 30/06/2017 | 30/06/2016 | Change |
|---|---|---|---|
| Industrial and technical services | 15,284 | 14,075 | 1,209 |
| Commercial, general and administrative services | 7,686 | 8,049 | -363 |
| Extraordinary services | 1,533 | 1,050 | 483 |
| Costs for use of non-Group assets | 2,754 | 2,726 | 28 |
| **Total** | **27,257** | **25,900** | **1,357** |

Costs for services and use of third party assets amount to €27,257 thousand (€25,900 thousand) with an increase of €1,357 thousand.
The increase in costs for industrial and technical services is linked mainly to the rise in external processing related to revenues as well as technical project consultancy.
The item “Extraordinary services” at 30 June 2017 includes expenses relating to the appointment of a Top Consulting Firm engaged to support the Chief Executive Officer and the company management in preparing and implementing an EBITDA improvement action plan.

For transactions with related parties, please refer to paragraph 4.4.39 of this Report.

## 4.4.29. PERSONNEL EXPENSES

Personnel expenses are analysed as follows:

(Thousands of Euro)

| Personnel cost | 30/06/2017 | 30/06/2016 | Change |
|---|---|---|---|
| Wages and salaries, social security contributions and expenses for defined benefit plans | 18,132 | 17,279 | 853 |
| Other extraordinary personnel expenses | 440 | 0 | 440 |
| Temporary agency work and transferred work | 1,490 | 1,250 | 240 |
| Directors' remuneration | 384 | 437 | -53 |
| **Total** | **20,446** | **18,966** | **1,480** |

In the six months in question, personnel costs totalled €20,446 thousand, an increase of €1,480 thousand compared with the same period of the previous year (€18,966 thousand) and with an impact of the extraordinary component correlated with personnel incentives equal to €440 thousand.
Net of the extraordinary component, note that personnel expenses were up by €1,040 thousand as a result of the increased use of temporary agency work linked to the rising production and less recourse to the benefits of solidarity agreements for the Parent Company and the subsidiary AEB S.p.A., likewise correlated with the recovery in production.

The following table lists the number of employees in the workforce, broken down between Italian and foreign companies.

| Company | 30/06/2017 | 31/12/2016 | 30/06/2016 |
|---|---|---|---|
| Landi Renzo S.p.A. | 283 | 290 | 289 |
| AEB S.p.A. | 97 | 100 | 102 |
| Eighteen Sound S.r.l. | 40 | 43 | 43 |
| Lovato Gas S.p.A. | 87 | 91 | 92 |
| SAFE S.p.A. | 71 | 69 | 71 |
| Emmegas S.r.l. | 6 | 6 | 6 |
| Sound&Vision | 6 | (*) | (*) |
| Foreign companies | 176 | 182 | 189 |
| **Total** | **766** | **781** | **792** |

(*) Not consolidated.

### 4.4.30. PROVISIONS, WRITE-DOWNS AND OTHER OPERATING EXPENSES

Provisions, write-downs and other operating expenses totalled €1,660 thousand (-€4,297 thousand at 30 June 2016), a decrease of €2,637 thousand. This item consists mainly of allocations to the provisions for product warranties and other provisions, for bad debts and other sundry operating costs.

### 4.4.31. AMORTIZATION, DEPRECIATION AND IMPAIRMENT

(Thousands of Euro)

| Amortization, depreciation and impairment | 30/06/2017 | 30/06/2016 | Change |
|---|---|---|---|
| Amortization of intangible assets | 3,787 | 3,632 | 155 |
| Depreciation of tangible assets | 4,039 | 4,255 | -216 |
| Impairment of financial assets | 122 | 150 | -28 |
| **Total** | **7,948** | **8,037** | **-89** |

Amortization and depreciation amounted to €7,948 thousand (€8,037 thousand), a decrease of €89 thousand.
No elements emerged from analysis which revealed the need to change the useful lifetime of tangible and intangible assets.
The amortization of intangible assets refers primarily to the amortization of development and design expenditure incurred by the Group, costs for the purchase and registration of trademarks and licenses and for software (applications and management) purchased over time.
Depreciation of tangible assets refers primarily to property, plant and machinery for production, assembly and running-in of the products, to industrial and commercial equipment for the purchase of moulds, to testing and control tools and to electronic processors.
The impairment of financial assets of €97 thousand relates to impairment of the stake in SAFE Gas Pte. Ltd. with registered office in Singapore, while the remaining €25 thousand relates to the impairment of the stake in Landi Renzo Argentina S.r.l.

#### Net capital loss from disposal

On 31 July 2017, the Parent Company Landi Renzo S.p.A. disposed of the business unit regarding the part of the Technical Centre for the management of laboratories to the AVL Group, a leading global operator in the development of powertrains: the relative preliminary agreement was signed on 26 April 2017.
By virtue of this preliminary agreement, which as at 30 June 2017 qualified the disposal transaction as highly likely and the subsequent sale as to be completed within one year of the classification in the financial statements of the assets held for sale, the requirements of IFRS 5 can be deemed satisfied.
The disposal consideration was €5,700 thousand, with a capital loss on the residual book value of the assets at 30 June of €2,060 thousand, as described in Paragraph 4.4.2.

### 4.4.32. FINANCIAL INCOME

Financial income totalled €48 thousand (€65 thousand) and refers mainly to interest income on bank deposits and tax refunds.

### 4.4.33. FINANCIAL EXPENSES

Financial expenses totalled €2,297 thousand (€2,677 thousand) and the decrease of €380 thousand is primarily due to the decline in the interest on the Debenture Loan, as previously reported.

### 4.4.34. EXCHANGE RATE GAINS AND LOSSES

The net exchange differences were negative and amounted to €828 thousand, arising from net losses on exchange from valuation (€931 thousand) correlated primarily with the depreciation of the Brazilian Real and the Pakistani Rupee, and the net gains realized (€103 thousand). At 30 June 2017, the Group did not have financial instruments hedging exchange rates.

### 4.4.35. PROFIT (LOSS) FROM EQUITY INVESTMENTS MEASURED USING THE EQUITY METHOD

This item totalled €54 thousand and includes the Group portion of profits, stated using the equity method, in the Joint Venture Krishna Landi Renzo India Private Ltd Held.

### 4.4.36. CURRENT AND DEFERRED TAXES

Taxes at 30 June 2017 totalled a negative amount of -€47 thousand, compared with a negative amount of -€1,159 thousand at 30 June 2016.

### 4.4.37. EARNINGS (LOSS) PER SHARE

The “base” earnings/loss per share were 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 thousand). The “base” loss per share, which corresponds with the “diluted” earnings/loss per share since there are no convertible bonds or other financial instruments with possible diluting effects, is -€0.0753. Loss per share for the first half of 2016 was -€0.1115.

## OTHER INFORMATION

### 4.4.38. ANALYSIS OF THE MAIN DISPUTES IN PROGRESS

The Group companies are involved in proceedings, for both assets and liabilities, for non-significant amounts. The directors of the Parent Company, supported by the opinion of its lawyers, did not deem it necessary to make provision for any further funds in the financial statements beyond those already allocated as at 31 December 2016.

A number of Italian companies have disputes in progress with the Financial Authorities for which provisions were set aside in previous years to cover the related potential liability. No new elements emerged during the six months which made it necessary to set aside further provisions or release the provisions already stated at 31 December 2016.

### 4.4.39. TRANSACTIONS WITH RELATED PARTIES

The Landi Group deals with related parties at market conditions considered to be normal in the markets in question, taking account of the characteristics of the goods and the services supplied.

Transactions with related parties listed below include:

- the relationships between Gireimm S.r.l., Landi Renzo S.p.A. and SAFE S.p.A. for lease payments on the buildings used as operational headquarters by the Parent Company and by the subsidiary companies;
  On 31 July 2017, following the disposal of the business unit to AVL, Landi Renzo redefined the rental contract with Gireimm S.r.l. relating to the Technical Centre, reducing the rental consideration from €1,070 thousand per year to €302 thousand per year.
- the relationships between Gestimm S.r.l. and the company AEB S.p.A. for rent of the property used as the operational headquarters of the subsidiary;
- the relationships between Emilia Properties Inc. 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 following table summarizes the relationships with related parties:

| Incidence of Transactions with Related Parties (Thousands of Euro) | Total item | Absolute value for related parties | % | Related party |
|---|---|---|---|---|
| **a) Incidence of the transactions or positions with related parties on balance sheet items** | | | | |
| Trade receivables | 36,657 | 1,642 | 4.5% | Autofuels, Krishna Landi Renzo, EFI Avtosanoat |
| Trade payables | 55,220 | 4,948 | 9.0% | 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 | -27,257 | -1,613 | 5.9% | Gireimm, Gestimm, Emilia Properties Inc. |
| Revenues from sales and services | 103,508 | 292 | 0.3% | Autofuels, Krishna Landi Renzo |

### 4.4.40. POSITIONS OR TRANSACTIONS DERIVING FROM ATYPICAL AND/OR UNUSUAL TRANSACTIONS

Pursuant to CONSOB communication no. 6064293 of 28 July 2006, note that during the first half of 2017 no atypical and/or unusual transactions occurred outside the normal operation of the company that could give rise to doubts regarding the correctness and completeness of the information in the financial statements, conflicts of interest, protection of company assets, safeguarding the minority shareholders.

### 4.4.41. NON-RECURRING SIGNIFICANT EVENTS AND OPERATIONS

Pursuant to CONSOB communication no. 6064293 of 28 July 2016, it is stated that during the first half of 2017 no non-recurring significant events or operations took place.

### 4.4.42. SIGNIFICANT EVENTS OCCURRING AFTER THE CLOSE OF THE FINANCIAL YEAR

Please refer to comments relating to this in the Interim Report on Operating Performance.

## 5. Certification of the condensed six-monthly consolidated financial statements pursuant to art. 81-ter of CONSOB regulation no. 11971 of 14 May 1999, as amended and supplemented

The undersigned Cristiano Musi, CEO, and Paolo Cilloni, Officer in charge of preparing the accounting documents of Landi Renzo S.p.A., state, having regard also to the provisions of art. 154-bis, paragraphs 3 and 4, of Italian Legislative Decree No. 58 dated 24 February 1998:

- the adequacy in relation to the relative corporate characteristics, and
- the effective application of the administrative and accounting procedures for preparing the condensed six-monthly financial statements as at 30 June 2017.

There are no significant aspects to report in relation thereto.

We furthermore declare that:

1) the condensed six-monthly consolidated financial statements at 30 June 2017:
    - have been prepared in compliance with the international accounting standards issued by the International Accounting Standards Board and adopted by the European Commission in accordance with the procedure specified in art. 6 of Regulation (EC) no. 1606/2002 of 19 July 2002 of the European Parliament and Council;
    - correspond with the accounting books and records;
    - are capable of providing a true and correct representation of the asset, economic and financial situation of the issuer and of the companies included in the consolidation.

2) The interim report on performance includes a reliable analysis of the references to the important events that occurred in the first six months of the year and to their impact on the condensed six-monthly consolidated financial statements, together with a description of the main risks and uncertainties for the remaining months of the year. The interim report on operating performance also includes a reliable analysis of the information on the significant transactions with related parties.

Cavriago, 7 September 2017

CEO

Cristiano Musi

Officer in charge of preparing the company accounting documents

Paolo Cilloni

**REVIEW REPORT ON CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS**

To the shareholders of
Landi Renzo SpA

### Foreword

We have reviewed the consolidated condensed interim financial statements of Landi Renzo SpA (hereinafter, also the "Company") and its subsidiaries (hereinafter, also "Landi Renzo Group") as of 30 June 2017 comprising the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows, the consolidated statement of changes in equity and the related explanatory notes. The Directors of the Company are responsible for the preparation of the consolidated condensed interim financial statements in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these consolidated condensed interim financial statements based on our review.

### Scope of review

We conducted our work in accordance with the criteria for a review recommended by Consob in Resolution No. 10867 of 31 July 1997. A review of consolidated condensed interim financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than a full-scope audit conducted in accordance with International Standards on Auditing (ISA Italia) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the consolidated condensed interim financial statements.

*PricewaterhouseCoopers SpA*

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

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**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that consolidated condensed interim financial statements of Landi Renzo Group as of 30 June 2017 are not prepared, in all material respects, in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Parma, 14 September 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.*