



SEPARATE FINANCIAL STATEMENTS

2016

(Translation from the Italian original which remains the definitive version)



Elica S.p.A.

**2016 ANNUAL REPORT -
SEPARATE FINANCIAL STATEMENTS**

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Elica S.p.A.

**DIRECTORS' REPORT ON THE
2016 SEPARATE FINANCIAL STATEMENTS**

Elica today

The Elica Group has been present in the cooker hood market since the 1970's, is chaired by Francesco Casoli and led by Antonio Recinella and today is the world leader in terms of units sold. It is also a European leader in the design, manufacture and sale of motors for central heating boilers. With over 3,600 employees and an annual output of over 19 million units, the Elica Group has eight plants, including in Italy, Poland, Mexico, Germany, India and China. With many years' experience in the sector, Elica has combined meticulous care in design, judicious choice of material and cutting edge technology guaranteeing maximum efficiency and reducing consumption making the Elica Group the prominent market figure it is today. The Group has revolutionised the traditional image of the kitchen cooker hood: it is no longer seen as simple accessory but as a design object which improves the quality of life.

2016 economic overview and outlook for 2017¹

Economic growth remains sound in most of Central, Eastern and South-Eastern Europe (CESEE). Outside the Commonwealth of Independent States (CIS), growth continued at a sustained pace, driven by macroeconomic policies supporting consumption and buoyed by real salary levels and employment growth. In Russia, the economic downturn, due to the lower price of oil and sanctions, eased. Other CIS economies are gradually exiting recession as demand for their exports improves.

While some risks to prospective growth have lessened, other risks of economic decline continue to dominate, such as the European refugee crisis, greater political tension among the EU member states in spite of the fact that - at least to date - the long-term Brexit effects of the uncertainty surrounding new UK - EU² economic agreements have been modest. Globally, an additional risk identified by the International Monetary Fund is the weakening consensus about the benefits of economic integration and the possibility that pressure for protectionist policies will intensify – a trend seen in, *inter alia*, the stance taken by US President Donald Trump and its repercussions on the rest of the world.

In the short-term, expansive monetary policy will continue with the extension of the QE³ programme within the EU until December 2017 and beyond if necessary. These are the reasons behind the weakening of the **Euro** against the US Dollar, which has reached record levels since the creation of the Euro.

For the region as a whole, GDP growth⁴ should reach 1.7% for 2016 (compared to 1.5% in 2015), with above average growth in Spain (+3.1% on the previous year), average growth in Germany (+1.7% on the previous year) and below average growth both in France (+1.3%) and Italy (+0.8%). The EU is expected to post average growth of 1.5% in 2017.

The consumer price index rose in 2016 1.1% on 2015, while the IAPC measured inflation projection⁵ for 2017 is 1.3%. For 2018, further growth of 1.6% is forecast.

In the **United States**, GDP grew 1.6% in 2016 against consumer price increases of 1.5% on 2015, with constant growth over the last six months (December 2016 figure of 2.1%) - reaching the highest levels since March 2012 and driven principally by the cost of petrol.

The residential construction sector was once again the main growth driver, driven by higher salaries, with near full employment and high levels of consumer confidence.

Growth of 2.3% is expected for 2017.

The FED's⁶ accommodating monetary policy came to an end in 2016, with its final meeting of October 2016 increasing US interest rates for the second time since 2006 (by 25 bps to 0.75% from December). The hike was motivated by the higher cost of non-farm sector labour of 4.3% in the second quarter of 2016, the financial market bubble and the significant increase in the Consumer Price Index (CPI)⁷.

For 2017, GDP growth of 2.2% is forecast, with the consumer price index increasing 2%.

During the year, the **Japanese** economy benefited from rising salaries and improved business confidence, a weak Yen and finally an accommodating monetary policy. The principal risks for future growth are linked to increased protectionism under the Trump administration. Analysts say the economy has grown 0.5% in 2016 on the previous year, with inflation at -0.12%. In 2017, economic growth of 0.6% is expected in the country, with inflation of 0.3%. The implementation of measures to strengthen the property market, robust retail sales and manufacturing boosted the **Chinese** economy during the fourth quarter, bringing annual growth in 2016 to 6.6%, with inflation of 2.3%. In terms of risks, we highlight the reduction in infrastructure investment. Analysts expect the main economic guidelines for 2017 to ensure stability and the containment of economic risks amid a difficult global environment, with the implementation of reforms and bolder fiscal support expected to facilitate economic growth of 6.2% in 2017, with inflation of 2.2%. The gradual weakening of the Renminbi in 2016 against the US Dollar supported the Chinese economic recovery. SAFE⁸ issued new rules for the governance of cross-border transactions in order to simplify procedures and increase the efficiency of exchange rate control.

Indian economic growth was revised downwards due to the demonetisation process introduced in the fourth quarter 2016. This reform, together with a disappointing Q2 GDP result, reduced Indian growth forecasts by 0.2%, now at 7.0% for 2016, before picking up to 7.4% in 2017.

The consumer price index in 2016 rose 4.9%. Inflation of 5% is forecast for 2017.

¹ Data sources: International Monetary Fund, World Economic Outlook

² European Union

³ Quantitative Easing

⁴ Gross Domestic Product

⁵ European Union Consumer Price Index

⁶ Federal Reserve, United States Monetary Authority

⁷ Consumer Price Index

⁸ State Administration Foreign Exchange

As for **Commodities**, in 2016, the strength of the US Dollar amplified the drop in the prices of the main raw materials. Oil prices hit lows during 2016, but rose 10% in the fourth quarter to an average of USD 49 per barrel, following agreements among both OPEC and non-OPEC producers to reduce production by 1.8 million barrels per day during the first half of 2017. Metal prices rose 10% due to strong Chinese demand and reduced supply, in particular for zinc and lead due to the closure of a number of large mines in Australia, Canada and Ireland.

The star of **currency markets** in 2016 was the US Dollar, which has been growing stronger since the second half of 2014. In December, the Federal Reserve hinted at three rate rises during the coming year. This would also be in line with expectations of President Donald Trump. The normalisation of rates will bring the global economy into unchartered waters, after an unprecedented period of monetary easing and low interest rates. The US Dollar should continue to strengthen against other currencies, in particular the Renminbi and Euro. As for the Sterling, its performance against the Euro was obviously impacted by the outcome of the referendum approving the United Kingdom's exit from the EU. Political uncertainty abounds in terms of the timeframe for the start of negotiations under Article 50 of the treaty and, particularly, the agreements that will be reached, but the consensus is that further weakening of Sterling in 2017 will not be as severe as in 2016. The Euro will be impacted by the political climate. After the dramatic "No" in the Italian constitutional reform referendum, attention has shifted to the French presidential elections scheduled for May, and thereafter it will be the Netherlands's turn to go to the polls, with Germany following in December. Any victories by anti-EU parties may raise doubts as to the sustainability of the entire single currency project. For the emerging economy currencies, the major downward pressure in 2016 should ease in 2017. Much depends on the extent and duration of the global economic slowdown. Stabilisation may follow a gradual return of foreign investment within a less volatile environment in 2017, a progressive approach by the FED to increased rates and a possible stabilisation of the Chinese economy.

In 2016, the **global hood market** improved 1% on 2015⁹, picking up in the second part of the year.

The European market expanded 2.3% on the previous year, following stronger Western European demand (+3%) and the recovery of the Eastern European market (+1.1%), slowed by the sanctions imposed on Russia following the noted political events with the Ukraine.

Amid general growth, certain Western European countries saw a stronger recovery: Germany (+2.5%), continuing the growth of 2015, the United Kingdom (+6.4%), achieving stronger growth after contractions up to 2014, and Spain (+4.8%), which after two years (2013-2014) of significant downturn confirmed the excellent growth that had begun in 2015. The recovery of Eastern European demand was driven by Poland (+5.4%) and Turkey (+2.2%), while the Russian (-3.7%) and Ukrainian (-5.6%) markets again contracted, although this trend seems to have come to an end.

For the fourth consecutive year, North America saw increased kitchen range hood demand (+4.8%), with Latin America however reporting contractions (-0.6%) - with the exception of Mexico which saw growth of 2%.

In China, the largest hood market, the market contracted again in 2016 - although to a lesser extent than in the previous year (-2.6%) – significantly impacting performance throughout Asia, although it was partially supported by Japanese (2.1%) and Indian (+4.1%) market growth. The other South-East Asian markets continued to expand.

Currency markets

In 2016, the average Euro exchange rate substantially appreciated against all currencies to which the Group is exposed, with the exception of the Japanese Yen.

	2016 average	2015 average	%	Dec 31, 2016	Dec 31, 2015	%
USD	1.11	1.11	0.0%	1.05	1.09	-3.7%
JPY	120.20	134.31	-10.5%	123.40	131.07	-5.9%
PLN	4.36	4.18	4.3%	4.41	4.26	3.5%
MXN	20.67	17.62	17.3%	21.77	18.91	15.1%
INR	74.37	71.2	4.5%	71.59	72.02	-0.6%
CNY	7.35	6.97	5.5%	7.32	7.06	3.7%
RUB	74.14	68.07	8.9%	64.30	80.67	-20.3%
GBP	0.82	0.73	12.3%	0.86	0.73	17.8%

⁹ Volume data estimated by the Company

Financial Highlights

<i>In Euro thousands</i>	2016	2015	2016 Vs 2015 %
Revenue	326,031	313,860	3.9%
Adjusted EBITDA	10,683	12,319	-13.3%
revenue margin	3.3%	3.9%	
EBITDA	5,438	11,722	-53.6%
revenue margin	1.7%	3.7%	
EBIT	(4,599)	2,455	-287.3%
revenue margin	-1.4%	0.8%	
Net interest expense	(1,460)	(2,092)	30.2%
revenue margin	-0.4%	-0.7%	
Dividends from subsidiaries	3,362	8,588	-60.9%
revenue margin	1.0%	2.7%	
Write-downs of investments in subsidiaries	(4,050)	0	n.a.
revenue margin	-1.2%	0.0%	
Exchange rate gains/losses	(547)	(509)	-7.5%
revenue margin	-0.2%	-0.2%	
Profit/(loss) for the year	(6,541)	6,552	-199.8%
revenue margin	-2.0%	2.1%	

<i>In Euro thousands</i>	Dec 31, 2016	Dec 31, 2015
Cash and cash equivalents	9,826	5,801
Financial receivables from related parties	27,891	21,467
Financial payables to related parties	(2,495)	(2,141)
Bank loans and borrowings	(48,898)	(36,750)
Current loans and borrowings	(23,502)	(17,425)
Bank loans and borrowings	(33,697)	(43,904)
Non-current loans and borrowings	(33,697)	(43,904)
Net Financial Debt	(47,372)	(55,528)

<i>In Euro thousands</i>	Dec 31, 2016	Dec 31, 2015
Trade receivables	44,678	46,147
Trade receivables - related parties	38,650	24,353
Inventories	31,666	30,603
Trade payables	(69,427)	(60,606)
Trade payables - related parties	(32,286)	(30,418)
Managerial Working Capital	13,281	10,079
% of revenue	4.1%	3.2%
Other net receivables/payables	2,397	(2,353)
Net Working Capital	15,678	7,725
% of revenue	4.8%	2.5%

2016 Operating review

In 2016, revenue grew 3.9% on the previous year (+6.3% from related parties, +3.3% from third parties). 2016 EBITDA amounted to Euro 5.4 million, contracting 53.6% on 2015, principally due to increased overheads related to the own brand sales growth strategy, in addition to the significant impact of non-ordinary charges, Euro 1.7 million of costs related to the agreement reached with the departing Chief Executive Officer, charges of Euro 0.6 million for the disposal of obsolete stock, Euro 0.1 million of restructuring costs and finally Euro 2.9 million concerning the additional accrual to the legal risks provision prudently made for the cases with Esperança Real S/A and Madson Eletrometalurgica Ltda, not on the basis of the counterparty's legal grounds, but solely to be fully compliant with international accounting standards. Adjusted EBITDA of Euro 10.7 million contracted 13.3% on Euro 12.3 million.

The Company signed a solidarity contract in November 2016 with conclusion at the end of November 2017.

Net interest expense, including the financial component of IAS 19, reduced on 2015 by 30.2%, following the reduction in the average debt and also in the cost of debt.

Managerial Working Capital, at 4.1% of revenue, increased on December 2015, due to the significant increase in Trade receivables from related companies, following the alteration to the cash flow management policy by the Mexican subsidiary, in order to contain costs related to centralised cash management.

The Net Financial Debt decreased from Euro 55.5 million at December 31, 2015 to Euro 47.4 million at December 31, 2016 due to the cash management centralisation policies.

Definitions

EBITDA is the operating profit (EBIT) plus amortisation and depreciation and any impairment losses on goodwill.

EBIT is the operating profit (loss) as reported in the Income Statement.

Adjusted EBITDA is EBITDA net of the relative adjustment items.

Net interest expense is the sum of Financial Income and Financial Charges, as per the Income Statement.

Dividends from subsidiaries account for the entirety of income and charges from/to associates and subsidiaries, as reported in the income statement.

Adjustment items: earnings items are considered for adjustment where they: (i) derive from non-recurring events and operations or from operations or events which do not occur frequently; (ii) derive from events and operations not considered as in the normal course of business operations, as is the case for impairments, disputes considered atypical in terms of frequency and amount and restructuring charges.

Managerial Working Capital is the sum of Trade receivables and Trade receivables from related parties with Inventories, net of Trade payables and Trade payables to related parties, as presented in the Statement of Financial Position.

Net Working Capital is the amount of Managerial Working Capital and Other net receivables/payables.

Other net receivables/payables comprise the current portion of Other receivables and Tax Receivables, net of the current portion of Provisions for risks and charges, Other payables and Tax payables, as presented in the Statement of Financial Position.

Net Financial Debt (NFD) is the sum of Cash and Cash equivalents less Current financial payables (including the current portion of bank loans and borrowings, Financial receivables from related parties and Financial payables to related parties, as reported in the Statement of Financial Position) and Non-current loans financial (including the non-current portion of bank loans and borrowings, as reported in the Statement of Financial Position).

Reconciliations

<i>In Euro thousands</i>	2016	2015
Operating result - EBIT	(4,599)	2,455
(Amortisation and Depreciation)	(10,038)	(9,267)
EBITDA	5,438	11,722
(Non-recurring service expense)	(164)	-
(Non-recurring personnel expense)	(1,500)	-
(Disposal of obsolete stock not part of ordinary business operations)	(587)	-
(Additional Accrual to the risks provision for the case with Esperança Real S/A)	(2,900)	-
(Restructuring charges)	(93)	(597)
Adjusted EBITDA	10,683	12,319

<i>In Euro thousands</i>	Dec 31, 2016	Dec 31, 2015
Financial income	1,294	917
Financial charges	(2,754)	(3,009)
Net interest expense	(1,460)	(2,092)

<i>In Euro thousands</i>	FY 16	FY 15
Other receivables	4,738	5,489
Tax assets	6,894	6,171
(Provision for risks and charges)	(669)	(6,071)
(Other payables)	(5,811)	(5,272)
(Tax liabilities)	(2,755)	(2,668)
Other net receivables/payables	2,397	(2,353)

Significant events in 2016

On January 27, 2016, Elica joined the Internet of Things market with the launch of a new product: SNAP, the first Air Quality Balancer. With SNAP, Elica continues to innovate as an air treatment specialist, unveiling its first IOT product for other household environments. The project sees the participation of 2 leading partners: Vodafone, which contributed to the implementation of the APP for the launch of the SNAP remote control, providing also a SIM card which ensures an alternative connection of the product to Wi-Fi and IBM, owner of the cloud in which all of the data collated is stored.

On January 29, 2016, in accordance with Article 2.6.2, paragraph 1, letter b) of the Regulations of the Markets Organised and Managed by Borsa Italiana S.p.A., Elica S.p.A. published the Financial Calendar for the year 2016. On February 12, 12, 2016, the Board of Directors of Elica S.p.A. approved the 2015 Fourth Quarter Report prepared in accordance with IFRS, communicated to the market also the 2016 Objectives which forecast an increase in Consolidated revenue of between 5% and 9% and an increase in consolidated EBIT of between 13% and 26% on 2015, while targeting also a Net Financial Debt of Euro 58 million.

On March 15, 2016, Elica S.p.A. participated in the 2016 STAR Conference organised in Milan by Borsa Italiana.

On March 22, 2016, Elica S.p.A.'s Board of Directors approved the 2015 Consolidated Financial Statements and the 2015 Separate Financial Statements, prepared in accordance with IFRS, proposed the distribution of a dividend of Euro 0.0098 per share and approved the 2015 Corporate Governance and Ownership Structure Report and the Remuneration Report, in addition to the Directors' Report to the Shareholders on the proposal to authorise the buy-back and utilisation of treasury shares. The Board of Directors also approved the proposal to the Shareholders' AGM of a long-term incentive plan called the 2016-2022 Phantom Stock & Voluntary Co-investment Plan in favour of certain directors and employees of Elica S.p.A. and/or its subsidiaries, according to the Disclosure Document published on the same date. The Board of Directors of Elica S.p.A. called the Shareholders' AGM for April 28, 2016 at 9AM in single call.

On April 6, 2016, Elica S.p.A. announced that the Annual Report of Elica S.p.A. comprising the Separate and Consolidated Financial Statements at December 31, 2015, the Directors' Report and the Statement as per Article 154-bis, paragraph 5 of Legs. Decree No. 58/1998, together with the Board of Statutory Auditors' Report, the Independent Auditors' Report, the Corporate Governance and Ownership Structure Report and the Remuneration Report, according to the legally required means for each document, were made available to the public. On the same date, the Board of Directors' Illustrative Report to the Shareholders' AGM, concerning the proposal to purchase and utilise treasury shares, in addition the Annual Accounts and/or the Financial Statements as per Article 2429 of the Civil Code of the subsidiaries and associates of Elica S.p.A. and the Financial Statements of the subsidiaries as per Article 36 of the Market Regulation, were made available to the public.

On April 28, 2016, the Shareholders' AGM of Elica S.p.A. approved the 2015 Annual Accounts of Elica S.p.A., the Directors' Report, the Board of Statutory Auditors' Report and the Independent Auditors' Report. The AGM also noted the consolidated results for 2015. The Meeting approved the distribution of a dividend of Euro 0.0098 per share. The adoption of the phantom stock option incentive plan for the 2016-2022 period was also approved (the "2016-2022 Phantom Stock & Voluntary Co-investment Plan"). In accordance with Article 123-ter, paragraph 6 of Legs. Decree No. 58/1998, the Shareholders' AGM of Elica S.p.A. noted the content of the Remuneration Report and approved the First Section. The Shareholders' AGM also approved, following revocation of the previous authorisation of April 29, 2015, the authorisation to purchase and utilise treasury shares, pursuant to Article 2357 and 2357-ter of the Civil Code.

The Board of Directors on May 12, 2016 approved the 2016 Interim Report at March 31, 2016, prepared in accordance with IFRS accounting standards.

On May 24, 2016, the company was involved in the Italian Stock Market Opportunities Conference, organised in Paris by Banca IMI, through presentations and meetings with the financial community and institutional investors.

On July 6, 2016, Elica S.p.A. announced the initiation of a top management transition process with a focus on continuity and growth. After four years in office, Giuseppe Perucchetti and the company mutually agreed that the appropriate conditions had developed for a transition of leadership which particularly focused on growth and an improved Group competitive capacity. Therefore, an agreement was reached by which Giuseppe Perucchetti would remain as company Chief Executive Officer until August 25, 2016. The settlement included a total indemnity of Euro 1.5 million gross, with approx. 50% paid by July 15, 2016 and the remainder by September 15, 2016. The Board of Directors on the same date tasked the Appointments and Remuneration Committee, together with the Chairman of the Board of Directors, and in accordance with the executive director succession plan adopted by the company, to activate the succession process for the selection of the new Chief Executive Officer.

On August 25, 2016, the Board of Directors of Elica S.p.A. approved the 2016 Half-Year Report, prepared in accordance with IFRS accounting standards. On August 25, 2016, Giuseppe Perucchetti left the position of Chief Executive Officer of Elica S.p.A. with effect from August 26, 2016, with Francesco Casoli, current Executive Chairman of Elica S.p.A. appointed as the ad interim CEO by the Board of Directors, until conclusion of the succession process undertaken by the Appointments and Remuneration Committee.

On October 28, 2016, the Board of Directors of Elica S.p.A. appointed Antonio Recinella as the new Chief Executive Officer of Elica S.p.A. with effect from November 1, 2016. Francesco Casoli resigned from the role of ad interim Chief Executive Officer undertaken on August 25, 2016, while continuing as Executive Chairman of the Board of Directors and maintaining the related powers. On the same date, the company terminated the employment of Mr. Alberto Romagnoli and consequently appointed Mr. Giampaolo Caselli as the Chief Financial Officer ad interim of Elica S.p.A. and Executive Officer for Financial Reporting.

The Board of Directors of Elica S.p.A. on November 14, 2016 approved the 2016 Third Quarter results, prepared in accordance with IFRS accounting standards. On the same date, the Board of Directors of Elica S.p.A., on the basis of Q3 2016 results and in consideration of the outlook, updated the 2016 Performance objectives, estimating an increase in Consolidated net revenue of between 2.5% and 3.5%, a Consolidated normalised EBIT margin of greater than 3% and a Net Financial Debt of Euro 61 million at 2016 year-end. In addition, in line with Borsa Italiana's requirement, the Self-Governance Code and the motion passed by the Shareholders' Meeting of April 28, 2016, the Board of Directors of Elica S.p.A. on the same date launched the 2016-2022 Phantom Stock & Voluntary Co-investment Plan.

On December 6, 2016, Elica S.p.A. expressed its condolences upon the passing of Ms. Gianna Pieralisi – controlling shareholder of Elica S.p.A. (through usufruct rights upon the companies controlling FAN Srl, the direct parent of Elica S.p.A.). Due to the passing of Gianna Pieralisi, holder of 33,608,690 ordinary Elica S.p.A. shares, her son Francesco Casoli – Chairman of Elica S.p.A. since 2006 and currently in office – *ope legis* (automatically) became the controlling shareholder of FAN S.r.l. and therefore of Elica S.p.A., as holder of the bare ownership rights stemming from the above-stated usufruct rights. On December 19, 2016, the company published a notice in accordance with Article 122 of Legislative Decree No. 58 of 24.2.1998 ("CFA") and Article 129 and subsequent of the Issuers' Regulation as per Consob motion No. 11971/1999 ("Issuers' Regulation") and subsequent amendments and supplements. The text of the notice and the essential disclosure required by Article 130 of the Issuers' Regulation are published on the company's website at <http://corporation.elica.com/it>, in the Corporate Governance - Other Documents section and is available on the website of the "1INFO" authorised storage mechanism at www.1info.it.

On December 20, 2016, Elica S.p.A. announced that in the fourth quarter of 2016 it would be necessary to dispose of obsolete stock which overall would result in non-ordinary charges of Euro 1.6 million, previously not foreseen by the company. However, the company confirmed the 2016 Performance objectives announced on November 14, 2016.

Events after the reporting date and outlook

On January 30, 2017, in accordance with Article 2.6.2, paragraph 1, letter b) of the Regulations of the Markets organised and managed by Borsa Italiana S.p.A., Elica S.p.A. published the 2017 Financial Calendar.

On February 13, 2017, the Board of Directors approved the 2016 Fourth Quarter Report, prepared in accordance with IFRS.

On March 13, 2017, the Board of Directors considered the impacts on the 2016 consolidated and Separate Financial Statements of the non-executive first level judgements in the case between Esperança Real S/A, Madson Eletrometalurgica Ltda. and Elica S.p.A., issued by the Belo Horizonte (Brazil) Court on March 1, 2017. The case concerns the signing of preliminary agreements in September 1999 for the establishment of a joint venture by Elica S.p.A. and Esperança Real S/A, which were thereafter not executed. With the support of legal consultants and sector experts, the Board of Directors assessed the ruling, the technical opinions upon the possible development of the case and its probable final outcome and decided to prudently allocate to the legal risks provision an additional amount of Euro 2.9 million, entirely not on the basis of the counterparty's legal grounds, but solely to be fully compliant with international accounting standards. The company therefore confirms its intention to pursue at all levels the enforcement of its rights. For further information see Note 6.1.

The Company continues the extensive monitoring of demand trends across all markets, in order to develop the business model for the delivery of results both over the short and long-term.

IFRS and 2016-2015 comparability

Elica S.p.A.'s The Separate Financial Statements at December 31, 2016 have been prepared in accordance with the IFRS issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission and in accordance with article 9 of Legislative Decree no. 38/2005.

The accounting policies utilised for the preparation of these Separate Financial Statements are consistent with those utilised for the preparation of the Separate Financial Statements at December 31, 2015.

The tables in the financial statements are presented in Euro, while the notes are presented in Euro thousands with all amounts rounded to the nearest thousand, unless otherwise specified.

Elica S.p.A. and financial markets



Source: Bloomberg

The graph shows the performance of the Elica S.p.A. share price in 2016 in comparison to the average of other companies listed on the STAR segment (performance of the FTSE Italia STAR index indicated). On January 4, 2016, the official share price was Euro 1.9742. From January 2016, the share price was significantly impacted by the major drop across the global financial markets, reaching an annual low of Euro 1.4126 per share on February 11, 2016. The second half of February 2016 however featured a recovering share price, thanks both to a better performing overall financial market and following the announcement of the 2015 preliminary results which beat all the 2015 Guidance objectives.

In the first week of July 2016, the future departure of the sitting Chief Executive Officer was announced and the share price contracted significantly due to the uncertainty surrounding the reason for such and the choice of successor, while gaining ground once again from the end of August 2016 thanks to the publication of the first half-year results, which were significantly ahead of market expectations.

From the second half of November 2016, the share price dropped significantly following the publication of the third quarter results and the review of the 2016 Performance objectives.

Finally, in December 2016 the share price benefitted from the year-end rally, in line with the FTSE Italia STAR, as can be seen in the graph - reaching at year-end an official price of Euro 1.8385 per share.

The Share Capital consists of 63,322,800 ordinary voting shares. The ownership structure of Elica S.p.A. at December 31, 2016 is shown in the Corporate Governance and Shareholder Ownership Report, available on the Company website <http://corporation.elica.com> (Corporate Governance section).

Elica S.p.A. does not hold shares of the parent. A detailed breakdown of treasury share values is outlined at Note 4.36, to which reference should be made.

Research and development

Development activities are a central part of the Company's operations: resources have devoted substantial efforts to developing, producing and offering customers innovative products both in terms of design and the utilisation of materials and technological solutions.

During the year, the Company invested in industrial research and basic research to improve products, the organisation, processes and structure.

Total research and development costs incurred amounted to Euro 6,831 thousand.

The environment

Elica S.p.A. operates in compliance with all local and national regulations for the protection of the environment both in relation to products and the production cycles. Moreover, the types of activities that it carries out have a limited impact on the environment and in terms of atmospheric emissions, waste disposal and water disposal. Nonetheless, compliance with such standards requires the Company to incur costs.

Personnel

As part of its pursuit of continuous improvement, Elica S.p.A. has undertaken initiatives focused on increasing safety at plants, reducing and monitoring risks and training personnel for more conscientious behaviour and prudence in the workplace to improve the already accident frequency and seriousness rates.

Exposure to risks and uncertainties and financial risk factors

Elica's operations are exposed to different types of financial risks, including risks associated with fluctuations in exchange rates, interest rates, the cost of its main raw materials and cash flows. In order to mitigate the impact of these risks on the Company's results, Elica S.p.A. has commenced the implementation of a financial risk monitoring system through a "Financial Risk Policy" approved by the Board of Directors. Within this policy, the Company constantly monitors the financial risks of its operations in order to assess any potential negative impact and takes corrective action where necessary.

The main guidelines of the Company's risk management policy are as follows:

- identify the risks related to the achievement of the business objectives;
- assess the risks to determine whether they are acceptable considering the controls in place and if they require additional treatment;
- respond appropriately to risks;
- monitor and report on the current state of the risks and the effectiveness of their control.

The Company's Financial Risk Policy is based on the principle of active management and the following assumptions:

- prudent management of the risk with a view to protecting the expected value of the business;
- use of "natural hedges" in order to minimise the net exposure to the financial risks described above;
- undertake hedging transactions within the limits approved by Management and only for actual, clearly identified exposures;

The process for the management of the financial risks is structured on the basis of appropriate procedures and controls, based on the correct segregation of the conclusion, settlement, registration and reporting of results.

Corporate boards

Members of the Board of Directors

Francesco Casoli

Executive Chairman,

born in Senigallia (AN) on 5/6/1961, appointed by resolution of 29/04/2015.

Antonio Recinella

Chief Executive Officer, born in Livorno (LI) on 5/11/1968, appointed by resolution of 28/10/2016, with effect from 1/11/2016.

Gennaro Pieralisi

Director, born in Monsano (AN) on 14/02/1938, appointed by resolution of 29/04/2015.

Davide Croff

Independent Director, born in Venice on 01/10/1947, appointed by resolution of 29/04/2015.

Members of the Board of Statutory Auditors

Gilberto Casali

Chairman, born in Jesi (AN) on 14/01/1954, appointed by resolution of 29/04/2015.

Franco Borioni

Statutory Auditor, born in Jesi (AN) on 23/06/1945, appointed by resolution of 29/04/2015.

Simona Romagnoli

Statutory Auditor, born in Jesi (AN) on 02/04/1971, appointed by resolution of 29/04/2015.

Internal Control & Risk Management Cmte.

Davide Croff (Chairman)

Elio Cosimo Catania

Enrico Vita

Independent Auditors

KPMG S.p.A.

Registered office and Company data

Elica S.p.A.

Registered office: Via Ermanno Casoli,2 – 60044 Fabriano (AN)

Share capital: Euro 12,664,560.00

Tax Code and Companies' Register Number: 00096570429

Ancona REA No. 63006 – VAT Number 00096570429

Investor Relations Manager

Laura Giovanetti

e-mail: l.giovanetti@elica.com Telephone: +39 0732 610727

Enrico Vita

Independent Director, born in Fabriano (AN) on 16/02/1969, appointed by resolution of 29/04/2015.

Elio Cosimo Catania

Independent Director, born in Catania on 05/06/1946, appointed by resolution of 29/04/2015.

Katia Da Ros

Independent Director and Lead Independent Director, born in Conegliano (TV) on 30/03/1967, appointed by resolution of 29/04/2015.

Leandro Tiranti

Alternate Auditor, born in Sassoferato (AN) on 04/05/1966, appointed by resolution of 29/04/2015.

Serenella Spaccapaniccia

Alternate Auditor, born in Montesangiovio (AP) on 04/04/1965, appointed by resolution of 29/04/2015.

Appointments and Remuneration Committee

Elio Cosimo Catania (Chairman)

Davide Croff

Enrico Vita

Structure of the Elica Group

The Elica Group is currently the world's largest manufacturer of kitchen range hoods for domestic use and is leader in Europe in the sector of motors for boilers used in home heating systems.

Parent

o Elica S.p.A. - Fabriano (Ancona, Italy) is the Parent of the Group ("Elica")¹⁰.

Subsidiaries

o Elica Group Polska Sp.zo.o – Wroclaw – (Poland) ("Elica Group Polska"). This wholly-owned company has been operational since September 2005 in the production and sale of electric motors and from December 2006 in the production and sale of exhaust hoods for domestic use;

o Elicamex S.A. de C.V. – Queretaro (Mexico) ("Elicamex"). This company was incorporated at the beginning of 2006 (the Parent owns 98% directly and 2% through Elica Group Polska). The Group intends to concentrate production for the American markets with this company in Mexico and reap the benefits of optimising operations and logistics;

o Leonardo Services S.A. de C.V. – Queretaro (Mexico) ("Leonardo"). This wholly-owned subsidiary was incorporated in January 2006 (the Parent owns 98% directly and 2% indirectly through Elica Group Polska Sp.zo.o.). Leonardo Services S.A. de C.V. manages all Mexican staff, providing services to ELICAMEX S.A. de C.V.;

o Ariafina CO., LTD – Sagamihara-Shi (Japan) ("Ariafina"). Incorporated in September 2002 as a 50:50 joint venture with Fuji Industrial of Tokyo, the Japanese hood market leader, Elica S.p.A. acquired control in May 2006 (51% holding) to provide further impetus to the development of the important Japanese market, where high-quality products are sold;

o Airforce S.p.A. – Fabriano (Ancona, Italy) ("Airforce"). This company operates in a special segment of the production and sale of hoods. Elica S.p.A. owns 60% of this company;

o Airforce Germany Hochleistungs-Dunstabzugssysteme GmbH – Stuttgart (Germany) ("Airforce Germany"). Airforce S.p.A. owns 95% of Airforce Germany G.m.b.h., a company that sells hoods in Germany through "kitchen studios"; the investment in this company is held through Airforce S.p.A..

o Elica Inc – Chicago, Illinois (United States), offices in Bellevue, Washington (United States). This company aims to develop the Group's brands in the US market by carrying out marketing and trade marketing with resident staff. The company is a wholly-owned subsidiary of ELICAMEX S.A. de C.V.;

o Exklusiv Hauben Gutmann GmbH – Mulacker (Germany) ("Gutmann"). This German company is wholly owned by Elica S.p.A. and is the German leader in the high-end cooker hood market, specialised in custom-made, high-performance hoods.

o Elica PB India Private Ltd. - Pune (India) ("Elica India"). In 2010, Elica S.p.A. signed a joint venture agreement, subscribing 51% of the share capital of this newly-incorporated Indian company and therefore acquiring control. Elica PB India Private Ltd. is involved in the production and sale of Group products.

o Zhejiang Elica Putian Electric CO.,LTD. – Shengzhou (China) ("Putian"). The Group owns 66.76% of this Chinese company which operates under the Puti brand, a leader in the Chinese home appliances sector, producing and marketing hoods, hobs and kitchenware sterilisers. Putian is one of the main players in the Chinese hood market and the principal company developing Western-style hoods. The production site is located in Shengzhou, a major Chinese industrial district for the production of kitchen home appliances.

o Elica Trading LLC – St. Petersburg (Russian Federation) ("Elica Trading")- This wholly-owned Russian company was incorporated on 28 June 2011.

o Elica France S.A.S. - Paris (France) ("Elica France"). This wholly-owned French company was incorporated in 2014.

Associates

o I.S.M. S.r.l. – Cerreto d'Esi (Ancona, Italy). This company, of which Elica S.p.A. holds 49.385%, operates in the real estate sector.

Changes in the consolidation scope

There were no changes in the consolidation scope compared to December 31, 2015.

¹⁰ The company also has offices in Spain, in Avda, Generalitat de Catalunya Esc.9, bayos 1 08960 Sant Just Desvern – Barcelona.

Related party transactions

In 2016, transactions were entered into with subsidiaries, associates and other related parties. All transactions were conducted on an arm's length basis in the ordinary course of business.

Subsidiaries – 2016 Highlights

Reporting package figures

<i>In Euro thousands</i>	Assets	Liabilities	Equity	Revenue	Profit/(loss)
Elicamex S.A.de C.V.	39,065	25,751	13,313	65,519	7,332
Elica Group Polska Sp.z o.o.	60,191	37,810	22,380	99,398	2,212
Airforce S.p.A.	11,781	8,562	3,219	22,618	513
Ariafina CO., LTD	10,108	3,046	7,062	21,665	2,708
Leonardo S.A.de C.V.	1,211	1,315	(104)	9,047	45
Exklusiv Hauben Gutmann GmbH	27,069	22,919	4,150	21,884	(5,274)
Elica Inc.	386	159	227	551	16
Airforce GE (*)	32	5	27	0	(30)
Elica PB India Private Ltd.	12,341	8,791	3,550	16,791	525
Zhejiang Elica Putian Electric Co. Ltd	23,978	26,704	(2,726)	17,999	(5,116)
Elica Trading LLC	6,408	5,507	901	9,592	(51)
Elica France S.A.S.	3,048	3,943	(895)	5,588	57

(*) *Airforce Germany Hochleistungs-dunstabzugssysteme GmbH*

For details on transactions with these subsidiaries and other related parties, reference should be made to the following notes.

Corporate Governance and Ownership Structure Report

In accordance with Article 123-*bis* of Legislative Decree no. 58/1998, Article 89-*bis* of Consob Resolution no.11971/1999 and subsequent amendments and integrations, Elica S.p.A. provides complete disclosure on the corporate governance system adopted on March 24, 2017, in line with the recommendations of the Self-Governance Code (July 2015 edition), in the Annual Corporate Governance Report, available on the Company's website <http://corporation.elica.com> (Corporate Governance section).

Remuneration Report

In accordance with Article 123-*ter* of Legislative Decree no. 58/1998 and Article 84-*quater* of Consob Resolution no. 11971/1999 and subsequent amendments, Elica S.p.A. prepares a Remuneration report in accordance with Attachment 3A, Table 7-*bis* of the same Consob Resolution no. 11971/1999 and subsequent amendments. This report is available on the Company's website <http://corporation.elica.com> (Investor Relations section).

Compliance with Section VI of the regulation implementing Legislative Decree no. 58 of February 24, 1998 concerning market regulations (“Market Regulations”)

In accordance with article 36 of the Regulation implementing Legislative Decree no. 58 of February 24, 1998, as Elica S.p.A. has direct or indirect control over certain companies registered in countries outside of the European Union, the financial statements of such companies, prepared for the purposes of the Elica Group Consolidated Financial Statements, were made available within the terms required by current legislation.

With respect to specific indication of the reasons why the Company is not believed to be managed and coordinated by its parent, which is required by Article 37, reference should be made to paragraph 8 Disclosure pursuant to IAS 24 on management remuneration and related-party transactions.

Compliance with Article 70, paragraph 8 and Article 71, paragraph 1-*bis* of the “Issuers Regulation”

In accordance with Article 70, paragraph 8 and Article 71, paragraph 1-*bis* of Consob's Issuers Regulation, on January 16, 2013, Elica announced that it would apply the exemption from publication of the required disclosure documents concerning significant mergers, demergers and share capital increases through the contribution of assets in kind, acquisitions and sales.

Proposal for the approval of the 2016 Financial Statements and allocation of Loss as approved by the Board of Directors on March 24, 2017

Dear Shareholders,

in relation to the motion at Point 1.1 on the Agenda:

1.1 Approval of the Financial Statements at December 31, 2016; Directors' Report; Board of Statutory Auditors' Report; Independent Auditors' Report. Presentation of the Consolidated Financial Statements at December 31, 2016.

We inform that the 2016 Financial Statements, which we present for your approval, report a loss of Euro 6,541,060 and equity of Euro 108,326,216.

More generally, we propose approval of the 2016 Separate Annual Accounts, collectively and individually, the Directors' Report and the review of the Board of Statutory Auditors' Report and the Independent Auditors' Report, in addition to the Consolidated Financial Statements at December 31, 2016.

In relation to the motion at Point 1.2 on the Agenda:

1.2 Motions concerning the allocation of the result for the year.

We propose the coverage of the loss through utilisation of "Retained Earnings".

We thank you for your assistance.

For the Board of Directors

THE CHAIRMAN

Francesco Casoli



2016 SEPARATE FINANCIAL STATEMENTS

ELICA S.p.A.

Registered Office at Via Ermanno Casoli, 2 – 60044 Fabriano (AN) - Share capital: Euro 12,664,560 fully paid-in

Separate Financial Statements as at and for the year ended 31 December 2016**Income Statement**

		2016	2015
<i>In Euro</i>	<i>Note</i>		
Revenue - third parties	4.1	262,786,673	254,339,565
Revenue - related parties	4.1	63,244,785	59,520,328
Other operating income	4.2	2,783,047	3,944,769
Changes in inventories finished/semi-finished goods	4.3	134,629	1,131,103
Increase in internal work capitalised	4.4	3,325,917	3,599,057
Raw materials and consumables - third parties	4.5	(112,872,094)	(111,769,340)
Raw materials and consumables - related parties	4.5	(99,983,064)	(93,812,659)
Services - third parties	4.6	(50,492,976)	(48,054,059)
Services - related parties	4.6	(2,140,301)	(1,924,713)
Labour costs	4.7	(51,033,743)	(48,647,401)
Amortisation and Depreciation	4.8	(10,037,807)	(9,266,651)
Other operating expenses and provisions	4.9	(10,221,141)	(6,007,984)
Restructuring charges	4.10	(93,344)	(596,853)
Operating Profit/(loss)		(4,599,420)	2,455,162
Share of profits/(loss) of associates and subsidiaries	4.11	3,361,630	8,587,720
Impairment of AFS financial assets		-	(100,000)
Write-downs of investments in subsidiaries	4.11	(4,049,506)	-
Financial income	4.12	1,293,659	917,248
Financial charges	4.13	(2,753,538)	(3,008,982)
Exchange rate gains/(losses)	4.14	(547,179)	(509,112)
Profit/(loss) before taxes		(7,294,354)	8,342,036
Income taxes	4.15	753,294	(1,790,292)
Profit/(loss) from continuing operations		(6,541,060)	6,551,744
Profit from discontinued operations		-	-
Profit/(loss) for the year		(6,541,060)	6,551,744

Statement of Comprehensive Income

<i>In Euro</i>	<i>2016</i>	<i>2015</i>
	<i>Note</i>	
Profit/(loss) for the year	(6,541,060)	6,551,744
Other comprehensive income/(expense) which may not be subsequently reclassified to profit/(loss) for the year:		
Actuarial gains/(losses) of employee defined plans	4.30	(448,042)
Tax effect concerning the Other income/(expense) which may not be subsequently reclassified to the profit/(loss) for the year		(32,254)
Total other comprehensive income/(expense) which may not be subsequently reclassified to profit/(loss) for the period, net of the tax effect	(480,296)	253,740
Other comprehensive income/(expense) which may be subsequently reclassified to profit/(loss) for the year:		
Net change in cash flow hedges		3,534,701
Tax effect concerning the Other income/(expense) which may be subsequently be reclassified to the profit/(loss) for the year		(930,277)
Total other comprehensive income/(expense) which may be subsequently reclassified to profit/(loss) for the period, net of the tax effect	4.36	2,604,424
Total other comprehensive income/(expense), net of the tax effect:	2,124,128	(799,685)
Total comprehensive income/(expense) for the year	(4,413,933)	5,752,059

Statement of Financial Position

<i>In Euro</i>	<i>Note</i>	Dec 31, 16	Dec 31, 15
Property, plant and equipment	4.17	44,802,604	42,116,844
Goodwill	4.18	23,342,460	23,342,460
Other intangible assets	4.18	17,125,791	16,531,085
Investments in subsidiaries	4.19	63,457,941	85,602,859
Investments in associates	4.19	1,376,926	1,376,926
Other receivables	4.20	44,561	63,229
Deferred tax assets	4.21	8,761,864	9,102,759
AFS financial assets	4.22	53,227	53,227
Derivative financial instruments	4.28	-	18
Total non-current assets		158,965,374	178,189,408
Trade receivables	4.23	44,677,701	46,146,525
Trade receivables - related parties	4.24	38,650,469	24,352,774
Financial receivables - related parties	4.24	27,891,331	21,466,830
Inventories	4.25	31,666,089	30,602,555
Other receivables	4.26	4,738,254	5,488,559
Tax assets	4.27	6,894,443	6,170,535
Derivative financial instruments	4.28	1,835,216	587,658
Cash and cash equivalents	4.29	9,826,270	5,801,409
Current assets		166,179,774	140,616,846
Assets of discontinued operations		-	-
Total assets		325,145,147	318,806,254
Liabilities for post-employment benefits	4.30	10,106,190	9,689,245
Provisions for risks and charges	4.31	7,504,094	2,220,866
Deferred tax liabilities	4.21	933,367	750,497
Bank loans and borrowings	4.32	33,697,051	43,904,454
Other payables	4.34	453,852	619,283
Tax liabilities	4.33	312,229	441,893
Derivative financial instruments	4.28	197,544	165,729
Non-current liabilities		53,204,327	57,791,967
Provisions for risks and charges	4.31	669,483	6,070,850
Bank loans and borrowings	4.32	48,898,355	36,749,952
Trade payables	4.35	69,426,755	60,606,338
Trade payables - related parties	4.35	32,286,020	30,417,798
Financial payables - related parties	4.35	2,494,618	2,141,435
Other payables	4.34	5,810,908	5,272,484
Tax liabilities	4.33	2,755,327	2,668,476
Derivative financial instruments	4.28	1,273,139	3,735,740
Current liabilities		163,614,604	147,663,073
Liabilities of discontinued operations		-	-
Share capital		12,664,560	12,664,560
Capital reserves		71,123,335	71,123,335
Hedging reserve		723,810	(1,880,614)
Reserve for actuarial gains/losses		(3,222,460)	(2,742,164)
Treasury shares		(3,550,986)	(3,550,986)
Retained earnings		37,129,018	31,185,339
Profit/(loss) for the year		(6,541,060)	6,551,744
Equity	4.36	108,326,216	113,351,214
Total liabilities and equity		325,145,147	318,806,254

Statement of Cash Flows

<i>In Euro</i>	Note 1.3	2016	2015
Opening cash and cash equivalents		5,801,409	5,597,982
Operating profit/(loss) – EBIT		(5,499,420)	2,455,162
Amortisation and depreciation		10,037,807	9,266,651
EBITDA		5,438,386	11,721,813
Trade working capital		(3,202,484)	6,094,283
Other working capital accounts		1,179,210	(5,747,488)
Income taxes paid		(178,375)	(300,000)
Change in provisions		(358,656)	(1,039,302)
Cash flows from operating activities		2,878,081	10,729,306
Net increases		8,138,769	(1,569,216)
Intangible Assets		(4,945,239)	(5,411,571)
Property, plant and equipment		(8,373,034)	(4,745,365)
Equity investments and other financial assets		21,457,042	8,587,720
Cash flows from/(used in) investing activities		8,138,769	(1,569,216)
Dividends		(608,000)	(1,762,143)
Increase (decrease) in loans and borrowings		(4,129,307)	(6,106,101)
Net changes in other financial assets/liabilities		(1,033,598)	762,156
Interest paid		(1,221,083)	(1,850,575)
Cash flows used in financing activities		(6,991,989)	(8,956,663)
Change in cash and cash equivalents		4,024,861	203,427
Closing cash and cash equivalents		9,826,270	5,801,409

Statement of changes in Equity

<i>In Euro thousands</i>	Share capital	Share premium reserve	Treasury shares	Retained earnings	Translation reserve	Hedging /Post em. ben. reserves	Profit/(loss) for the year	Total equity
Balance at December 31, 2014	12,665	71,123	(3,551)	27,994	(3,739)	(1,137)	4,954	109,445
Fair value losses on cash flow hedges net of the tax effect						(254)	(1,137)	
Actuarial gains on post-employment benefits						254	254	
Total gains/(losses) recognised directly in equity	-	-	-	-	-	(883)	-	(883)
Profit for the year						6,552	6,552	
Total gains/(losses) recognised in profit or loss	-	-	-	-	-	6,552	6,552	
Allocation of profit for the year				4,338	616	(4,954)	-	
Other changes				616	(616)			
Dividends				(1,762)			(1,762)	
Balance at December 31, 2015	12,665	71,123	(3,551)	31,185	(4,623)	6,552	113,351	
Fair value gains on cash flow hedges net of the tax effect					2,604	2,604		
Actuarial losses on post-employment benefits					(480)	(480)		
Total gains/(losses) recognised directly in equity	-	-	-	-	2,124	2,124		
Loss for the year						(6,541)	(6,541)	
Total gains/(losses) recognised in profit or loss	-	-	-	-	(6,541)	(6,541)		
Allocation of profit for the year				6,552		(6,552)		
Other changes								
Dividends				(608)			(608)	
Balance at December 31, 2016	12,665	71,123	(3,551)	37,129	(2,499)	(6,541)	108,326	

Notes to the separate financial statements at December 31, 2016

1. Accounting policies
2. Accounting standards, amendments and interpretations in force as from January 1, 2016 and not yet applicable by the Company
3. Significant accounting estimates
4. Notes to the Separate Financial Statements
5. Significant non-recurring events and operations
6. Guarantees, commitments and contingent liabilities
7. Risk management
8. Management compensation and related party transactions
9. Positions or transactions arising from atypical and/or unusual operations
10. Events after the reporting date

1. Accounting policies

1.1 General information

Elica S.p.A. is a company incorporated under Italian law based in Fabriano (AN), Italy.

The Company is listed on the STAR segment on the Italian Stock Exchange organised and managed by Borsa Italiana S.p.A.,

The main activities of the Company and its subsidiaries, as well as its registered office and other offices are illustrated in the Directors' report.

The Euro is the functional and reporting currency. Amounts in the financial statements are given in Euro while the amounts in the notes are given in thousands of Euro.

1.2 Basis of preparation

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and endorsed by the European Union, as well as in accordance with Article 9 of Legislative Decree no. 38/2005 and related Consob regulations.

The Separate Financial Statements as at and for the year ended December 31, 2016 are compared with the previous year and consist of the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity and these Notes.

The financial statements and related notes comply with the minimum disclosure requirements of IFRS, as supplemented, where applicable, by the provisions of the law and Consob regulations.

The Company did not make any changes in the accounting policies applied between the preparation of the data at December 31, 2015, presented for comparative purposes, and December 31, 2016, as neither the International Accounting Standards Board (IASB) nor the International Financial Reporting Interpretation Committee (IFRIC) have revised or issued standards or interpretations applicable to reporting periods beginning on or after January 1, 2016 with a material impact on the Separate Financial Statements.

The financial statement items have been measured in accordance with the general criteria of prudence and accruals and on a going concern basis, and also take into consideration the economic function of the assets and liabilities.

1.3 Financial Schedules

In accordance with IAS 1, Company Management made the following choices in relation to the presentation of the financial statements.

- The **Income Statement** is prepared in accordance with the nature of the item and shows the operating profit/(loss) and the profit/(loss) before taxes to provide a better understanding of the performance of operations.
The operating profit is the difference between net revenue and operating expenses (the latter including non-monetary items relating to amortisation/depreciation and the impairment of current and non-current assets, net of any reversals of impairment losses), including any gain/losses on the sale of non-current assets.
- The **Statement of Comprehensive Income** reports, beginning with the profit/(loss) for the year, the effect of other components of comprehensive income recognised directly in equity (other comprehensive income).
- The **Statement of Financial Position** is presented with the separation of current and non-current assets and liabilities. An asset/liability is classified as current when it satisfies any of the following criteria: it is expected to be realised/settled or sold or utilised within the company's normal operating cycle; it is held for trading; it is expected to be realised/settled within 12 months from the end of the reporting period. Where none of these conditions apply, the assets/liabilities are classified as non-current.
- The **Statement of Cash Flows** is prepared using the indirect method in which the operating profit/(loss) is adjusted by non-monetary items. It is based on the classification of cash flows generated respectively from operating activities, investing activities and financing activities, in line with IAS 7. Specifically, operating activities are activities that generate revenue and are not investing or financing activities. Investing activities relate to the purchase and sale of non-current assets and other investments, while financing activities are those resulting in a change to the sources of financing, therefore in the size and composition of the share capital, share premium reserves and Group loans. Unrealised exchange rate gains and losses are not considered cash flows. However, the effect of such exchange rate gains and losses on cash and cash equivalents is included to reconcile the change in the opening and closing balances of cash and cash equivalents. It is, however, presented separately. The Company considers the gross operating profit (loss) a better indicator of Company performance than the profit/(loss) for the year and therefore uses the former to begin the reconciliation.
- The **Statement of Changes in Equity** illustrates the changes in equity items.

1.4 Accounting policies

The main accounting policies adopted in the preparation of the separate financial statements are described below.

Property, plant and equipment

Property, plant and equipment are recognised at purchase or production cost, including any directly attributable costs. Some assets have been adjusted under specific revaluation legislation prior to 1 January 2005 and are deemed to reflect the fair value of the asset at the revaluation date (known as “deemed cost” as per IFRS 1).

Depreciation is calculated on a straight-line basis over the estimated useful life of the relative assets applying the following percentage rates:

buildings	3%
light structures	10%
plant and machinery	6-10%
industrial and commercial equipment	16%
office furniture and equipment	12%
EDP	20%
commercial vehicles	20%
automobiles	25%

Assets held under finance leases are recorded as property, plant and equipment and depreciated on a straight-line basis over their estimated useful lives, on the same basis as owned assets.

Purchase cost is also adjusted for grants related to assets already approved to the Company. These grants are recognised in profit or loss by gradually reducing the depreciation charged over the useful life of the assets to which they relate.

Maintenance, repair, expansion, updating and replacement costs that do not lead to a significant, measurable increase in the production capacity and useful life of an asset are taken to profit or loss in the period when they are incurred.

Goodwill

Goodwill arising on the acquisition of a subsidiary or other business combinations represents the excess of the acquisition cost over the company's share in the fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the acquisition date. Goodwill is recognised as an asset and tested at least annually for impairment. An impairment loss is immediately taken to profit or loss and is not reversed in a subsequent period.

On the sale of a subsidiary, any goodwill attributable to the subsidiary that has not been impaired is included in the calculation of the gain or loss on the sale.

Goodwill arising on acquisitions prior to January 1, 2004 is carried at the amount recognised under Italian GAAP after an impairment test at that date.

Research and development costs

Research costs are taken to profit or loss when incurred.

Development costs in relation to specific projects are capitalised when all of the following conditions are satisfied:

- the costs can be reliably determined,
- the technical feasibility of the product is demonstrated,
- the volumes, and expected prices indicate that costs incurred for development will generate future economic benefits,
- the technical and financial resources necessary for the completion of the project are available.

Capitalised development costs are amortised on a straight-line basis, commencing from the beginning of the production over the estimated life of the product to which these costs refer.

The carrying amount of development costs are tested annually for impairment when the asset is no longer in use, or with greater frequency when there is indication of impairment.

All other development costs are taken to profit or loss when incurred.

Other intangible assets

Purchased or internally-generated intangible assets are recognized in accordance with IAS 38 – Intangible Assets, where it is probable that the use of the asset will generate future economic benefits and where the cost of the asset can be determined reliably.

The useful life of an intangible asset may be considered definite or indefinite. Intangible assets with a definite useful lives are amortised monthly for the duration of their useful lives. According to Management and experts, the Company's

most important software has a useful life of seven years. The useful life is tested annually for impairment and any changes are made on a prospective basis.

Intangible assets with indefinite useful lives are not amortised but tested annually for impairment or more frequently where there is an indication that the asset may be impaired. At present, the Company only owns intangible assets with definite useful lives.

Impairment testing

At each reporting date, the Company assesses whether events or circumstances exist that raise doubts as to the recoverability of the carrying amount of property, plant and equipment and intangible assets with definite useful lives. If there are any indications of impairment, the Company estimates the recoverable amount of the assets to determine the extent of the impairment loss (if any). Intangible assets with an indefinite useful life – in particular, goodwill – are subject to annual impairment testing or whenever there is indication of impairment.

In these situations, the recoverable amount of these assets is estimated to determine the amount of the impairment.

The recoverable amount is the greater of fair value less costs to sell and value in use.

In accordance with IFRS, the impairment test is performed in respect of each individual asset, where possible, or in respect of groups of assets (cash generating units - CGUs). Cash generating units are identified based on the Company's organisational and business structure as units that generate cash flows independently through the continuous use of the assets allocated.

If the recoverable amount of an asset (or a CGU) is lower than its carrying amount, it is impaired to that recoverable amount. Impairment losses are immediately taken to profit or loss unless the asset is land or buildings other than investment property recognised at deemed cost; in this case, the impairment loss is taken to the revaluation reserve.

When the reasons for the impairment no longer exist, the impairment losses on the asset (or CGU) – except for goodwill – are reversed, bringing the carrying amount up to the revised estimate of its recoverable amount. The reinstatement cannot exceed the carrying amount had no impairment been recognised.

The reversal of an impairment loss is immediately taken to profit or loss unless the asset is stated at deemed cost, in which case the reversal is taken to the revaluation reserve.

Investments in subsidiaries and associates

Investments in subsidiaries, joint ventures and associates not classified as held-for-sale are measured at cost.

Income from investments is recognised only in relation to the dividends received from the investee on profit generated after the acquisition date. Dividends received in excess of profits generated are regarded as a recovery on the investment and are taken as a reduction in the cost of the investment.

At the end of each reporting period, the Company evaluates whether there are any indications of impairment in the cost of the investment; if so, it tests for impairment in accordance with IAS 36. An investment is impaired when its recoverable amount is lower than its carrying amount. Recoverable amount is the greater of the fair value of the investment, less costs to sell, where they may be determined, and its value in use, represented by the present value of the future cash flows expected to be derived over the course of Company operations, tested for impairment and the proceeds from its disposal at the end of its useful life. Where, in subsequent periods, there is indication that the impairment does not exist or is reduced, the investment is restated to take into account the reduced impairment loss. After an investment has been completely impaired, any additional losses reported by the investee are recognised under liabilities if the Company has a legal or constructive obligation to cover the investee's further losses.

Inventories

Inventories are measured at the lower of purchase or production cost and net realisable value.

The purchase cost of raw, ancillary, supplies and goods for resale is determined using the weighted average cost method. The production cost of finished products, work in progress and semi-finished products is determined considering the cost of the materials used plus direct operating expenses and overheads.

Net realisable value represents the estimated selling price less expected completion costs and selling costs.

Obsolete and slow moving inventories are written down taking account of their prospects of utilisation or sale.

Trade receivables, and loans and other financial assets

Financial assets other than trade receivables, loans and cash and cash equivalents are initially recognised at fair value, including directly related transaction costs.

Trade receivables and loans are measured at their nominal amount, which normally represents their fair value. In the event of a significant difference between nominal amount and fair value, they are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.

Receivables are adjusted through an allowance for bad debt to reflect their realisable value. The allowance is calculated as the difference between the carrying amount of the receivables and the present value of the expected cash flows, discounted at the effective interest rate on initial recognition.

Non-current assets held-for-sale

Non-current assets (and disposal groups) classified as held-for-sale are measured at the lower of their previous carrying amount and market value less selling costs.

Non-current assets (and disposal groups) are classified as held for sale when their carrying amount is expected to be recovered by means of a sales transaction rather than through use in company operations. This condition is met only when the sale is highly likely, the assets (or group of assets) are available for immediate sale in their current condition and, consequently, management is committed to a sale, which should take place within 12 months of the classification as held for sale.

Cash and cash equivalents

Cash and cash equivalents include cash balances and bank current accounts and deposits repayable on demand plus other highly liquid short term financial investments that can be readily converted into cash and are not subject to a significant risk of a change in value.

Financial liabilities and Equity instruments

Financial liabilities and equity instruments issued by the Company are classified based on the substance of the contractual agreements that generated them and in accordance with the respective definitions of financial liabilities and equity instruments.

Equity instruments consist of contracts which, stripped of the liability component, give rights to a share in the assets of the Company.

The accounting policies adopted for specific financial liabilities and equity instruments are indicated below.

Trade payables and Other Financial liabilities

Trade payables and other financial liabilities are recognised at their nominal amount, which generally represents their fair value. In the event of significant differences between their nominal amount and fair value, trade payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.

Bank and other borrowings

Bank borrowings – comprising non-current loans and bank overdrafts – and loans and borrowings from other lenders, including finance lease payments, are recognised based on the amounts received, less transaction costs, and are subsequently measured at amortised cost using the effective interest rate method.

Derivative instruments and hedge accounting

Derivative financial instruments are used with the intention of hedging, in order to reduce currency, interest rate or market price risks. In compliance with IAS 39, derivative financial instruments can be recognised using “hedge accounting” only when the hedge is formally designated and documented as such and is presumed to be highly effective at inception, such effectiveness can be reliably measured and the hedge is highly effective over the accounting periods for which it was designated.

All derivative financial instruments are measured at fair value in accordance with IAS 39.

When derivative financial instruments qualify for hedge accounting, the following treatment applies:

- for derivatives that hedge scheduled transactions (i.e. cash flow hedges), changes in the fair value of derivative instruments are allocated to equity for the portion considered effective while the portion considered ineffective is recognised in profit or loss;
- for derivatives that hedge receivables and payables recorded in the statement of financial position (i.e. fair value hedges), differences in fair value are recognised in full in profit or loss. Moreover, the value of the hedged item (receivables/payables) is adjusted for the change in the risk hedged, again in profit or loss;
- for derivatives classified as hedges of a net investment in a foreign operation, the effective portion of profits or losses on the financial instruments are recorded under equity. The cumulative gains or losses are reversed from the equity and taken to profit or loss on the sale of the foreign operation.

If hedge accounting cannot be applied, the gains or losses from the fair value measurement of derivative financial instruments are recognised immediately in profit or loss.

Reference should be made to paragraph 7, Risk management, of these notes for information on the management of risks related to exchange rates, interest rates and the value of commodities.

Treasury shares

Treasury shares are recognised at cost and taken as a reduction in equity. The gains and losses deriving from trading of treasury shares, net of the tax effect, are recognised under equity reserves.

Employee benefits

Post-employment benefits

Italian post-employment benefits are considered a defined benefit plan. The cost of the benefits in defined benefit plans is determined using the Projected Unit Credit Method, with actuarial valuations carried out at the end of each reporting period.

On the basis of IAS 19 – Employee benefits, the Company recognises the plan deficit or surplus in the statement of financial position, the service cost and net financial charges in profit or loss and gains or losses on the remeasurement of the assets and liabilities in other comprehensive income. In addition, any income from the plan assets included under net financial charges must be calculated based on the discount rate of the liability.

Up to December 31, 2006, the employees' leaving entitlement of the Italian companies was considered a defined benefit plan. The regulations governing Italian employees' leaving entitlement were modified by Law no. 296 of December 27, 2006 ("2007 Finance Act") and subsequent decrees and regulations issued at the beginning of 2007. In the light of these changes, and specifically with reference to companies with more than 50 employees, only the benefits that accrued prior to January 1, 2007 (and not yet paid at the reporting date) are now considered a defined benefit plan, while those that accrued after this date are considered a defined contribution plan.

Share-based payments

Where the Company recognises additional benefits to senior management and key personnel through stock grant plans, in accordance with IFRS 2 – Share-based payments, these plans represent a form of remuneration to the beneficiaries. Therefore the cost, which is the fair value of these instruments at the assignment date, is recognised in profit or loss over the period between the assignment date and maturity date, with a balancing entry directly in equity. Changes in the fair value after the assignment date do not have an effect on the initial value. At December 31, 2016 there are no such plans in place.

Provisions for risks and charges

Provisions are recognised when the Company has a current obligation that is the result of a past event and it is probable that the obligation must be met.

Provisions are made based on management's best estimate of the cost of fulfilling the obligation at the end of the reporting period and are discounted to their present value when the effect is material.

Revenue and income

Revenue from the sale of goods is recognised when the goods are shipped and the Company has transferred the significant risks and rewards of ownership of the goods to the buyer.

Interest income is recognised on an accruals basis based on the amount financed and the effective interest rate applicable, which is the rate at which the expected future cash flows over the expected life of the financial asset are discounted to equate them with the carrying amount of the asset.

Dividends are recognised when it is established that the shareholders have the right to receive them.

Leases

Leases are classified as finance leases when the terms of the contract are such that they substantially transfer all of the risks and rewards of ownership to the lessee. All the other leases are considered operating leases.

Assets held under finance leases are recognised as Company assets at the lower of their fair value at the date of the lease, and the present value of the minimum lease payments due under the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Finance lease payments are divided between principal and interest in order to apply a constant interest rate to the residual liability. The finance costs are directly recognised in profit or loss for the period.

Operating lease payments are recognised on a straight-line basis over the term of the lease. Benefits received or receivable as an incentive for entering into operating lease agreements are also recognised on a straight-line basis over the duration of the operating lease.

Foreign currency transactions

Monetary assets and liabilities in foreign currency are translated at the reporting date using the exchange rate at the reporting date. Non-monetary assets and liabilities recognised at historical cost in foreign currency are translated using the exchange rate at the transaction date.

Exchange rate differences arising on such transactions or on the translation of monetary assets and liabilities are recognised in profit or loss except for those arising on derivative financial instruments qualified as cash flow hedges. These differences are taken to equity if they are unrealised; otherwise they are recognised in profit or loss.

Government grants

Government grants are recognised when it is reasonably certain that the conditions required to obtain them will be satisfied and that they will be received. Such grants are recognised in profit or loss over the period in which the related costs are recognised, with a reduction in the item to which they relate.

The accounting treatment of benefits deriving from a government loan obtained at a reduced rate are similar to those for government grants. This benefit is calculated at the beginning of the loan as the difference between the loan's initial carrying amount (fair value plus direct costs to obtain the loan) and the amount received, and subsequently recognised in profit or loss in accordance with the rules for the recognition of government grants.

Income taxes

Income taxes for the year represent the sum of current and deferred taxation.

Current income taxes are based on taxable profit for the period as determined under applicable tax law. The liability for current income taxes is calculated using the current rates at the reporting date.

Elica S.p.A. and the subsidiary Airforce S.p.A. have opted to participate in the national tax consolidation in Italy. This means that the IRES (corporation income tax) charge is calculated on a tax base representing the aggregate of the taxable income and tax losses of both companies. The national tax consolidation agreement has a three-year term (2014, 2015 and 2016).

The transactions and mutual responsibilities and obligations between the Parent and the aforementioned subsidiary are defined by a specific consolidation agreement. With regard to their responsibilities, the agreement provides that the Parent is jointly liable with the subsidiary for:

- amounts due by the subsidiary under Article 127(1) of the Income Tax Code;
- payment of amounts due to the tax authorities, should it emerge that sums declared in the consolidated tax return have not been paid;
- consolidation adjustments made based on figures supplied by the subsidiary and contested by the tax authorities.

The income tax asset is shown under Tax assets, determined as the difference between the income taxes for the year, payments on account, withholding taxes and, in general, tax credits.

Tax assets also include current IRES as determined through an estimate of the tax base of the companies taking part in the national tax consolidation, net of payments on account, taxes withheld by third parties and tax credits; tax assets are offset by the corresponding payables that Elica owes the subsidiary for the residual asset under the national tax consolidation.

Any payable arising from offsetting due to a subsidiary with a negative tax base is recognised under payables to subsidiaries.

Deferred tax assets and liabilities arise from timing differences between the carrying amount of assets and liabilities determined in accordance with the financial reporting criteria set out by the Italian civil code and their tax base.

No tax provision has been made in relation to reserves subject to taxation upon distribution as no transactions that could trigger their taxation are planned.

Deferred tax assets are recognised insofar as it is likely that, in the years the deductible timing differences leading to their creation reverse, there will be taxable income not less than the amount of the differences. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced if and to the extent that it is no longer likely that there will be sufficient taxable income against which to recover all or part of the assets.

Deferred tax assets and liabilities are calculated based on the tax rate expected to be in force when the assets are realised or the liabilities extinguished and recognised directly to profit or loss unless they relate to items taken directly to equity, in which case they are also recognised in equity.

Deferred tax assets and liabilities are offset when the Company is legally entitled to do so and when they refer to taxes due to the same tax authority and the Company intends to pay the amounts on a net basis.

2. Accounting standards, amendments and interpretations in force as from January 1, 2016 and not yet applicable by the Company

2.1 Accounting standards, amendments and interpretations in force as from January 1, 2016

The financial schedules utilised are the same as those used for the preparation of the separate financial statements at December 31, 2015. No new accounting standards with a significant impact on the financial statements were adopted in the period.

Recently issued accounting standards, amendments and interpretations in force as from January 1, 2016 and endorsed by the European Commission are the following:

Amendments to IFRS 11 - Accounting for acquisitions of interests in joint operations (applicable to reporting periods beginning on or after January 1, 2016). The amendment provides clarifications on the accounting treatment of acquisitions of interests in joint operations, whose activities constitute a business, as established under IFRS 3. It requires the application of IFRS 3 to such circumstances.

Amendments to IAS 16 and IAS 38 - Clarification of acceptable methods of amortisation and depreciation (applicable to reporting periods beginning on or after January 1, 2016). The amendments to IAS 16 establish that depreciation based on revenue recognition is not appropriate as, according to the amendment, revenue generated by an asset, which includes the use of an asset subject to depreciation, generally reflects factors other than the sole consumption of economic benefits from the asset itself. The amendments to IAS 38 introduce the assumption that revenue-based amortisation criteria are usually inappropriate for the same reasons established by the amendments to IAS 16. However, in the case of intangible assets, this assumption may be overcome, but only in limited circumstances.

Amendments to IFRS - 2012 - 2014 Annual improvements cycle (applicable to reporting periods beginning on or after January 1, 2016). *Inter alia*, the most significant issues considered in these amendments are: for IAS 19, clarification that the discounting rate of a defined benefit plan obligation should be established according to "high-quality corporate bonds or governments bonds" identified in the same currency used to pay the benefits; for IFRS 7, clarification that, in relation to the offsetting of financial assets and liabilities, supplementary disclosure is only obligatory for the annual financial statements. The improvements also clarify that an entity that has transferred financial assets and has derecognised them entirely is required to provide additional information on its "residual involvement", where it has signed service contracts that include an interest in the future performance of the financial assets transferred; for IFRS 5, clarification that there are no accounting impacts where an entity, in changing its disposal plan, reclassifies an asset or a group of assets from/to "held-for-sale" to/from "held-for-distribution". This change in the disposal plan is considered as a continuation of the original plan.

Amendments to IAS 1 - Disclosure initiative (applicable to reporting periods beginning on or after January 1, 2016). The amendment clarifies the disclosure elements which may be considered impediments to a clear preparation of the financial statements.

Amendments to IAS 27 - Equity method in separate financial statements (applicable to reporting periods beginning on or after January 1, 2016). The amendment introduces the option of using the equity method for the measurement of investments in subsidiaries, joint ventures and associates in the separate financial statements of the investor. Consequently, following the introduction of the amendment, an entity may recognise these investments in their separate financial statements alternatively at cost, as per IFRS 9 or using the equity method.

2.2 Accounting standards, amendments and interpretations not yet applied and applicable

As required by IAS 8 - Accounting standards, changes in accounting estimates and errors - the main new accounting standards and interpretations, in addition to amendments to the existing standards and interpretations that are already applicable, not yet in force or not yet approved by the European Union (EU), which could be applied in the future to the financial statements, are illustrated below. Management is assessing their potential impact on future financial statements.

IFRS 16 Leases. The IASB issued IFRS 16 Leases in January 2016. The standard defines the principles for the recognition, measurement, presentation and disclosure of leasing contracts, for both parts of the contract, therefore concerning the customer ("lessee") and the supplier ("lessor"). IFRS 16 will be effective from January 1, 2019. Companies may choose to apply the standard before this date, although only if they also apply IFRS 15 Revenue from Contracts with Customers. IFRS 16 completes the IASB project to improve the financial reporting of leases. IFRS 16 replaces the previous IAS 17 Leases and related interpretations. The principal effect of application of the new standard for a lessee will be that all leasing contracts will imply a right to use the asset from the beginning of the contract and, where the relative payments are expected in a specific period, also recognition of a corresponding financial payable. Therefore, IFRS 16 eliminates the breakdown of leases into operating leases and finance leases, as previously the case under IAS 17, introducing a single measurement model. Applying this model, a lessee should recognise: (a) assets and liabilities for all leases with a duration of greater than 12 months, except where the value of the underlying asset is minimal; (b) depreciation of leased assets separately from interest on leasing payables in the income statement. From the first application, the Company expects that there will be an increase in financial liabilities, which it has not yet precisely estimated.

IFRS 15 - Revenue from contracts with customers. On May 28, 2014, the IASB published the new IFRS 15. It replaces the previous IAS 18 and IAS 11, concerning construction contracts, and the relative interpretations IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31. IFRS 15 sets out the principles for the recognition of revenue from contracts with customers, except for those contracts falling within the scope of the standards concerning leases, insurance contracts and financial instruments. The new standard establishes an overall framework to identify the timing and amount of revenue recognition. According to the new standard, the amount that the entity recognises as revenue should reflect the consideration that it has the right to receive following the exchange of the assets transferred to the customer and/or services provided, to be recognised upon fulfilment of the contractual obligations. In addition, to recognise the revenue, the requirement of probable obtainment/receipt of the economic benefits linked to the income is emphasised; for a contract in progress, currently governed by IAS 11, a requirement to recognise revenue taking account of any discounting effect from payments deferred over time is introduced. IFRS 15 should be applied to reporting periods beginning on or after January 1, 2018. On first application, where retrospective application of the new standard is not possible, a modified approach is provided for, whereby the effects of first-time application of the new standard should be recognised in opening equity in the period of first-time application. A preliminary analysis showed that the impacts on the Company's financial statements are not material.

IFRS 9 - Financial Instruments. In July 2014, the IASB issued the definitive version of IFRS 9, replacing the current IAS 39 for the recognition and measurement of financial instruments. IFRS 9 is applicable to reporting periods beginning on or after January 1, 2018. The standard introduces new classification and measurement criteria for financial instruments and a new financial asset impairment model, in addition to rules for the recognition of hedges eligible for "hedge accounting".

3. Significant accounting estimates

In the preparation of the Financial Statements in accordance with IFRS, Elica S.p.A.'s Management must make accounting estimates and assumptions which have an effect on the values of the assets and liabilities and disclosures. Actual results may differ from these estimates. The estimates and assumptions are periodically reviewed and the effects of any changes are promptly recognised.

In this context, the situation caused by the current economic and financial crisis has resulted in the need to make assumptions about a future performance characterised by significant uncertainty, in which results in the coming years could differ from such estimates and, therefore, require adjustments that is not currently possible to estimate or forecast, and these adjustments might even be significant.

The items principally affected by such uncertainty are: goodwill, the allowance for impairment and the provision for inventory write-down, non-current assets, pension funds and other post-employment benefits, provisions for risks and charges and deferred tax assets.

Reference should be made to the notes to each individual item for further information on the aforementioned estimates.

4. Notes to the Separate Financial Statements

INCOME STATEMENT

4.1 Revenue

An analysis of revenue with a breakdown between product sales and service revenue follows:

	2016	2015	Changes
<i>In Euro thousands</i>			
Revenue from product sales	320,229	308,486	11,743
Service revenue	5,803	5,374	429
Revenue	326,031	313,860	12,171

Revenue increased approximately 3.9% on the previous year.

For information on revenue, reference should be made to the Directors' Report.

A breakdown of revenues from third parties and from related parties (principally subsidiaries) is shown below.

	2016	2015	Changes
<i>In Euro thousands</i>			
Third parties	262,787	254,340	8,447
Related parties	63,245	59,520	3,725
Revenue	326,031	313,860	12,171

Revenue from related parties amounts to Euro 63,245 thousand and mainly refers to the sale of components and finished products to the subsidiary AirForce for Euro 1,521 thousand (Euro 1,422 thousand in 2015), to the subsidiary Ariafina for Euro 321 thousand (Euro 273 thousand in 2015), to the subsidiary Elica Group Polska for Euro 36,867 thousand (Euro 34,988 thousand in 2015), to the subsidiary Elicamex for Euro 11,456 thousand (Euro 12,267 thousand in 2015), to the subsidiary Gutmann for Euro 3,187 thousand (Euro 3,445 thousand in 2015), to Elica India for Euro 755 thousand (Euro 575 thousand in 2015), to the Chinese subsidiary Putian for Euro 1,095 thousand (Euro 1,266 thousand in 2015), to the Russian subsidiary Elica Trading for Euro 4,698 thousand (Euro 3,736 thousand in 2015) and to the subsidiary Elica France for Euro 3,343 thousand (Euro 1,547 thousand in 2015). The remaining revenue from related parties relates to the associate ISM S.r.l.. The transfer prices for all transactions are in line with market conditions applied to third parties.

Finally, revenue is analysed by geographical segment below.

	2016	2015	Changes
<i>In Euro thousands</i>			
Europe + CIS	295,147	284,960	10,187
Other countries	15,855	14,884	971
The Americas	15,029	14,016	1,013
Revenue	326,031	313,860	12,171

Third party customers individually generating more than 10% of total revenue accounted for 22.5% of revenue in 2016 compared to 22% in 2015.

4.2 Other operating income

	2016	2015	Changes
<i>In Euro thousands</i>			
Grants related to income	595	736	(141)
Ordinary gains	188	307	(119)
Claims and insurance settlement	263	886	(623)
Expenses recovered	812	805	7
Other revenue and income	925	1,211	(286)
Other operating income	2,783	3,945	(1,162)

Other revenue and income of Euro 925 thousand include the sale of assets, reimbursement of Company costs for cars assigned to employees and energy interruption income.

This item decreased Euro 1,162 thousand, mainly due to Claims and insurance settlement, down Euro 0.6 million.

4.3 Changes in inventories of finished and semi-finished goods

The change in finished and semi-finished products showed a positive balance in 2015 of Euro 1,131 thousand and a positive balance in 2016 as well, amounting to Euro 135 thousand, reflecting the decrease in finished and semi-finished products.

4.4 Increase in internal work capitalised

This item amounted to Euro 3,326 thousand (Euro 3,599 thousand in the previous year) and mainly relates to the capitalisation of costs for the design and development of new products and internal costs incurred for the construction of moulds and industrial equipment and the implementation of new computer programmes.

4.5 Raw materials and consumables

The breakdown of consumables (third parties and related parties) is as follows:

	2016	2015	Changes
<i>In Euro thousands</i>			
Purchases of consumable materials	1,140	1,111	29
Purchases of supplies	444	485	(41)
Purchase of raw materials	96,961	96,928	33
Change in raw materials, consumables and goods for resale	(929)	(502)	(427)
Finished and semi-finished products	113,245	105,976	7,269
Packaging	960	634	326
Other purchases	199	169	30
Shipping expenses on purchases	836	780	56
Raw materials and consumables	212,855	205,582	7,274

The balance is broken down as follows:

	2016	2015	Changes
<i>In Euro thousands</i>			
Third parties	112,872	111,769	1,103
Related parties	99,983	93,813	6,171
Raw materials and consumables	212,855	205,582	7,274

Raw materials and consumables increased approximately Euro 7 million on 2015. Purchases from third parties increased 0.9%, while purchases from related parties increased 6.6%.

Those from related parties amounted to Euro 99,983 thousand (Euro 93,813 thousand in 2015). The most significant item relates to purchases of finished products and goods from the subsidiary Elica Group Polska of Euro 93,721 thousand (Euro 89,572 thousand in 2015). Moreover, the most significant change in this item was due to the change in purchases from this subsidiary. In addition, significant changes in purchases from other companies include Putian (Euro 1.1 million) and Gutmann (Euro 1 million).

The transfer prices of all transactions are in line with market conditions applied to third parties.

4.6 Services

	2016	2015	Changes
<i>In Euro thousands</i>			
Outsourcing	21,601	21,264	337
Transport	4,503	4,400	103
Maintenance and management of finished products	6,673	6,327	346
Consulting	4,691	3,557	1,134
Utilities	2,612	2,860	(248)
Commissions	690	583	107
Travel	1,512	1,479	33
Advertising	1,723	1,020	703
Insurance	620	624	(4)
Directors' and Statutory Auditors' fees	1,732	1,606	126
Trade fairs and promotional events	2,518	1,561	957
Industrial services	274	293	(19)
Banking commissions and charges	292	307	(15)
Other services	3,192	4,098	(906)
Services	52,633	49,979	2,654

Expenses for services increased Euro 2.7 million on the previous year (+5.3%). The principal increases relate to Consulting, up Euro 1,134 thousand, Trade fairs and promotional events, up Euro 957 thousand, and Advertising, up Euro 703 thousand.

In 2016, Other services include communication services of Euro 557 thousand (Euro 500 thousand in 2015), technical assistance costs of Euro 995 thousand (Euro 1,264 thousand in 2015), canteen costs of Euro 334 thousand (Euro 329 thousand in 2015), cleaning costs of Euro 234 thousand (Euro 288 thousand in 2015), vehicle expenses of Euro 371 thousand (Euro 365 thousand in 2015), training courses of Euro 163 thousand (Euro 106 thousand in 2015), medical visits of Euro 78 thousand (Euro 79 thousand in 2015) and personnel recruitment of Euro 223 thousand (Euro 213 thousand in 2015).

The balance is comprised of:

	2016	2015	Changes
<i>In Euro thousands</i>			
Third parties	50,493	48,054	2,439
Related parties	2,140	1,925	215
Services	52,633	49,979	2,654

The increase concerns both services with third parties and related parties.

4.7 Labour cost

Personnel expense in 2016 and 2015 was as follows:

	2016	2015	Changes
<i>In Euro thousands</i>			
Wages and salaries	34,873	34,403	470
Social security expenses	10,760	10,565	195
Post-employment benefits	2,564	2,433	131
Other costs	2,836	1,246	1,590
Labour costs	51,034	48,647	2,387

Personnel expense shows an overall increase of Euro 2,387 thousand. In particular, this increase is due to "Other costs" and mainly relates to the agreement reached with the departing Chief Executive Officer, for Euro 1.5 million.

The table below shows the average number of employees at December 31, 2016 and December 31, 2015:

	2016	2015	Changes
<i>In Euro thousands</i>			
Executives	23	23	0
White-collar	400	384	16
Blue-collar	784	784	0
Others	0	3	(3)
	1,207	1,193	13

4.8 Amortisation and depreciation

These totalled Euro 10,038 thousand, an increase on Euro 9,267 thousand in 2015 (+8.3%). For the changes in amortisation and depreciation, reference should be made to the paragraph on non-current assets.

4.9 Other operating expenses and provisions

These are detailed as follows:

	2016	2015	Changes
<i>In Euro thousands</i>			
Leases and rentals	257	423	(166)
Rental of vehicles and industrial equipment	1,995	1,862	133
Hardware, software and patents	852	792	60
Other taxes	432	426	6
Magazine and newspaper subscriptions	18	14	4
Sundry equipment	123	145	(22)
Catalogues and brochures	493	255	238
Losses on receivables and allowance for impairment	337	450	(113)
Provisions for risks and charges	4,576	455	4,121
Other prior year expenses and losses	1,140	1,185	(45)
Other operating expenses and provisions	10,221	6,008	4,214

The total increase in this item is Euro 4,214 thousand. The main increase concerns the Provisions for risks and charges. For further details on this item, reference should be made to the note on provisions for risks and charges.

4.10 Restructuring charges

Restructuring charges include the costs of the Company's personnel redundancy plan, which was commenced in 2015 and is particularly aimed at creating a leaner and more optimised organisation. These charges mainly concern personnel expense.

4.11 Share of profit/(loss) from associates and subsidiaries

	2016	2015	Changes
<i>In Euro thousands</i>			
Dividends from subsidiaries	3,362	8,588	(5,226)
<i>Income and expense from subsidiaries and associates</i>	3,362	8,588	(5,226)
<i>Impairment of investments in subsidiaries</i>			
	(4,050)	-	(4,050)
Share of profit/(loss) from associates and subsidiaries	(688)	8,588	(9,276)

Dividends from subsidiaries were distributed in the year by the subsidiaries Airforce S.p.A. for Euro 90 thousand, Ariafina for Euro 1,211 thousand and Elica Group Polska for Euro 2,061 thousand.

Impairment losses on in subsidiaries concern Putian for approximately Euro 3 million and Gutmann for approximately Euro 1 million. These followed impairment testing, details of which are provided in the Investments paragraph of these notes.

4.12 Financial income

Details of financial income are shown below:

	2016	2015	Changes
<i>In Euro thousands</i>			
Interest income from subsidiaries	1,248	835	413
Bank interest income	31	1	30
Other financial income	16	81	(65)
Financial income	1,294	917	377

The increase mainly relates to Interest income from subsidiaries, given the Company's decision to centralise bank loans and borrowings.

4.13 Financial charges

	2016	2015	Changes
<i>In Euro thousands</i>			
<i>Financial charges:</i>			
Interest expense to subsidiaries	134	14	120
on overdrafts and bank loans	2,410	2,780	(370)
on loans and borrowings from other lenders	-	1	(1)
on post-employment benefits	209	215	(6)
Financial charges	2,754	3,009	(256)

Financial charges decreased Euro 256 thousand, mainly in relation to overdrafts and bank loans, principally due to lower money market rates and the lower cost of debt. Financial charges on overdrafts and bank loans also include discount expense of Euro 698 thousand.

4.14 Exchange rate gains/(losses)

	2016	2015	Changes
<i>In Euro thousands</i>			
<i>Exchange rate losses</i>			
Exchange rate losses	(2,903)	(3,400)	497
Exchange rate gains	4,549	3,839	710
Net losses on derivative instruments	(2,193)	(948)	(1,245)
Exchange rate gains/(losses)	(547)	(509)	(38)

Net exchange gains in the year amounted to Euro 1,646 thousand, compared Euro 439 thousand in 2015.

Net losses on derivative instruments of Euro 2,193 thousand in 2016 and Euro 948 thousand in 2015 principally relate to currency derivatives, which are not eligible for hedge accounting under IFRS, although they were entered into for hedging purposes. Accordingly, they were recognised at their fair value with a balancing entry in profit or loss. Due to its loss for the year, Elica S.p.A. did not consider it necessary to reconstitute the translation reserve as per no. 8 *bis* of paragraph 1, Article 2426 of the Italian Civil Code.

4.15 Income taxes

The tax charge in the year is broken down between current and deferred taxes:

	2016	2015	Changes
<i>In Euro thousands</i>			
Current taxes	(129)	(1,800)	1,671
Deferred taxes	882	9	873
Income taxes	753	(1,790)	2,543

The decrease in income taxes is principally due to the reduction in current IRES and IRAP (regional tax on productive activities), the recognition of tax income from the national tax consolidation and the reduction in foreign withholding taxes.

The Company took part in the national tax consolidation as per Article 117 and subsequent articles of the Income Tax Code, with the subsidiary Air Force S.p.A. for the years 2014, 2015 and 2016.

According to the tax consolidation agreements, if a tax loss is transferred to the group participating in the national tax consolidation or if the gross operating profit, interest expense or economic growth assistance deduction are higher than taxable profit, the Company recognises a tax credit for the Group (IRES rate 27.5%); this amount is recognised as "Tax consolidation income" in the income statement.

The reconciliation between the theoretical and effective tax rate is shown (IRES) in the table below.

The change in the effective tax rate is due to non-recurring events, in both 2015 and 2016.

Tax Rate Reconciliation

	2015				2016					
	Tax base	IRES	IRAP	Total	% IRES on tax base	Tax base	IRES	IRAP	Total	% IRES on tax base
IRES rate				27.50%					27.50%	
IRAP rate				4.13%					4.13%	
Income taxes										
- Current	481	207		688		(251)		-	(251)	
- IRES reimbursement/foreign tax	1,111	-		1,111		316	64		380	
- Deferred tax expense (income)	(13)	4		(9)		(741)	(141)		(882)	
[A] TOTAL INCOME TAXES	1,579	211	1,790	18.93%		(676)	(77)	(753)	9.27%	
PROFIT/(LOSS) BEFORE TAXES	8,342				(7,294)					
Tax calculated using local tax rate	2,294			27.50%		(2,006)			27.50%	
Tax effect of exempt income	(9,692)	(2,665)		-31.95%		(5,177)	(1,424)		19.52%	
Tax effect of non-deductible expenses	2,498	687		8.23%		6,066	1,668		-22.87%	
Other differences	554	152		1.83%		2,800	770		-10.56%	
[B] Effective tax charge and tax rate net of substitute tax	1,702	468		5.61%		(3,608)	(992)		13.60%	
Effect of tax reimbursement / Foreign taxes		1,111		13.32%			316		-4.33%	
[C] Effective tax charge and tax rate	1,579			18.93%		(676)			9.27%	

4.16 Other information about income statement items

The research and development costs capitalised and expensed in 2016 are summarised in the table below:

	2016	2015	Changes
<i>In Euro thousands</i>			
R&D costs expensed	4,581	4,521	60
Amortisation of capitalised R&D costs	2,250	1,772	478
Total R&D costs	6,831	6,293	538
R&D costs capitalised during the year	1,555	2,143	(588)

STATEMENT OF FINANCIAL POSITION

4.17 Property, plant and equipment

The tables below detail the changes in property, plant and equipment at December 31, 2015 and 2016. At December 31, 2015:

	Dec 31, 14	Increases	Disposals & other reclassifications	Dec 31, 15	
<i>In Euro thousands</i>					
Land and buildings	35,633	307	-	35,939	
Plant and machinery	62,574	1,700	(2,261)	62,013	
Industrial and commercial equipment	80,346	2,152	(4,527)	77,971	
Other assets	6,250	314	(13)	6,552	
Assets under construction and payments on account	300	418	(251)	466	
Historic cost property, plant and equipment	185,103	4,890	(7,051)	182,942	
	Dec 31, 14	Depreciation	Disposals & other reclassifications	Dec 31, 15	
<i>In Euro thousands</i>					
Land and buildings	14,865	981	-	15,845	
Plant and machinery	50,498	1,736	(2,299)	49,935	
Industrial and commercial equipment	71,026	2,500	(4,597)	68,930	
Other assets	5,981	147	(14)	6,115	
Accumulated depreciation	142,370	5,364	(6,909)	140,825	
	Dec 31, 14	Increases	Disposals & other reclassifications	Depreciation	Dec 31, 15
<i>In Euro thousands</i>					
Land and buildings	20,768	307	-	(981)	20,094
Plant and machinery	12,076	1,700	37	(1,736)	12,078
Industrial and commercial equipment	9,320	2,152	70	(2,500)	9,041
Other assets	269	314	1	(147)	437
Assets under construction and payments on account	302	418	(253)	-	466
Net property, plant and equipment	42,735	4,890	(144)	(5,364)	42,117

Changes in 2016 were as follows:

<i>In Euro thousands</i>	Dec 31, 15	Increases	Disposals & other reclassifications	Dec 31, 16	
Land and buildings	35,939	527	20	36,486	
Plant and machinery	62,013	3,467	(662)	64,818	
Industrial and commercial equipment	77,971	3,806	(1,071)	80,706	
Other assets	6,552	161	(22)	6,691	
Assets under construction and payments on account	466	538	(466)	538	
Historic cost Property, plant and equipment	182,942	8,499	(2,201)	189,238	
<hr/>					
<i>In Euro thousands</i>	Dec 31, 15	Depreciation	Disposals & other reclassifications	Dec 31, 16	
Land and buildings	15,845	959	0	16,804	
Plant and machinery	49,935	1,787	(818)	50,904	
Industrial and commercial equipment	68,930	2,818	(1,238)	70,510	
Other assets	6,115	123	(20)	6,217	
Accumulated Depreciation	140,825	5,687	(2,076)	144,436	
<hr/>					
<i>In Euro thousands</i>	Dec 31, 15	Increases	Disposals & other reclassifications	Depreciation	Dec 31, 16
Land and buildings	20,094	527	20	(959)	19,682
Plant and machinery	12,078	3,467	156	(1,787)	13,914
Industrial and commercial equipment	9,041	3,806	167	(2,818)	10,196
Other assets	437	161	(2)	(123)	474
Assets under construction and payments on account	466	538	(466)	0	538
Net value Property, plant and equipment	42,117	8,499	(125)	(5,687)	44,803

Investments in the year concerned plant and production machinery such as punch machines and testing lines, purchases of moulds and equipment for the launch of new products, in addition to, particularly, new and expanded testing and development capacity with the acquisition of new plant and instruments for the laboratory.

Property, plant and equipment are adequately insured against fire, weather damage and similar risks by means of insurance policies arranged with leading insurance companies.

The financial statements include assets originally acquired under finance leases which by the end of 2010 had all been purchased.

4.18 Goodwill and other intangible assets

Goodwill

The changes in this item in the year were as follows:

<i>In Euro thousands</i>	Dec 31, 15	Acquisitions/ (impairment)	Dec 31, 16
Goodwill	23,342	-	23,342
Goodwill	23,342	-	23,342

Goodwill amounts to Euro 23,342 thousand, in line with 2015.

The recoverable amount of the CGUs was tested by calculating its value in use, which is the present value of expected cash flows using a discount rate which reflects the risks of the CGU at the valuation date.

The Board of Directors approved the impairment test on February 13, 2017, before and independently of the preparation of the financial statements.

In 2011, based on its strategic vision, the Elica Group established the following CGUs as those which best reflect the Group's organisation based on the concept of internationalisation and IAS 36: the Europe CGU, Asia CGU and America CGU.

In addition, a series of assets used in the common interest of the three CGUs was identified and they were therefore not allocated to the various CGUs. For this reason they must be identified as corporate assets and measured in accordance with IAS 36.

Elica S.p.A. is included in the Europe CGU and, in particular, the cash flows used for the impairment test to measure the recoverability of Elica S.p.A.'s assets represent the consolidated profits (losses) of Elica S.p.A. and Elica Group Polska

sp.zo.o. These cash flows were compared with the consolidated invested capital of the two legal entities. This choice was due to the rationalisation whereby Elica Group Polska sells all of its production to Elica S.p.A. which sells them on the market. This organisational structure prevents the company from breaking down the cash flows generated by the two legal entities, in that they are entirely interdependent.

Such calculations discount the cash flows projected over a time horizon of five years, of which the first (2017) is based on the updated budget and the subsequent years (2018-2021) are estimated as follows.

The years 2018-2021 were extrapolated from the 2017 budget, utilising a real annual average growth rate for revenue of approximately 3%, in line with the best estimates available. Raw material costs are expected to show an average annual increase of 0.4% as a percentage of revenue. The variable operational cost components (direct labour, outsourcing and commercial costs) are expected to remain substantially constant in terms of revenue, while the impact of fixed operating expense components on revenue is expected to decrease approximately 0.8% on an average annual basis considering 2017 budget revenue.

Working capital used in operations is expected to decrease on 2016.

The terminal value was determined by discounting the perpetual return of free cash flows estimated for 2021 and considering a growth rate of 1.74%.

The discount rate (WACC), calculated using the Capital Asset Pricing Model (CAPM) technique, was estimated net of taxes (in line with the cash flows to be discounted) at 6.48% (6.82% in 2015). This WACC is determined on the basis of a risk-free rate of 1.6%, a market risk premium of 6.0% and an unlevered beta factor of 0.85.

These valuations did not result in the recognition of impairment losses at December 31, 2016.

Value in use covers the carrying amount at a rate of 1.2.

Various sensitivity analyses were also carried out, including that concerning the growth factor (g factor), increasing/decreasing the assumptions relating to a growth rate of 0.5%, at the end of which the recoverable amount is still greater than the respective carrying amount; increasing the WACC 0.5%, which still produces a coverage of greater than one; and finally increasing the cost of raw materials by 1%, which instead leads to coverage of less than 1 in the test.

Other intangible assets

The table below shows details of changes in other intangible assets in 2015 and 2016.

<i>In Euro thousands</i>	Dec 31, 14	Increases	Decreases & reclass.	Amortisation	Dec 31, 15
<i>Carrying amount</i>					
Development costs	6,161	2,143	1,051	(1,772)	7,582
Industrial patents and intellectual property rights	6,801	1,023	173	(1,997)	6,001
Concessions, licenses, trademarks and similar rights	106	109	-	(23)	193
Other intangible assets	341	60	3	(111)	293
Assets under development and payments on account	1,613	2,075	(1,226)	-	2,462
Other intangible assets	15,022	5,411	1	(3,903)	16,531

<i>In Euro thousands</i>	Dec 31, 15	Increases	Decreases & reclass.	Amortisation	Dec 31, 16
<i>Carrying amount</i>					
Development costs	7,582	1,555	526	(2,250)	7,413
Industrial patents and intellectual property rights	6,001	1,803	1,101	(1,965)	6,940
Concessions, licenses, trademarks and similar rights	193	73	(44)	(26)	196
Other intangible assets	293	186	0	(110)	369
Assets under development and payments on account	2,462	1,462	(1,717)	0	2,207
Other intangible assets	16,531	5,079	(134)	(4,351)	17,126

Development costs relate to product design and development activities. The increase is mainly attributable to the cost of developing new products.

Industrial patents and intellectual property rights includes the recognition of patents, associated development costs, intellectual property rights and software programmes.

Concessions, licenses, trademarks and similar rights refers to the registration of trademarks by the Company.

Other intangible assets mainly consist of shared costs regarding the development of equipment, mouldings and machinery refurbishment. The criteria applied to amortise intangibles is considered appropriate to reflect the remaining useful life of the assets.

Assets under development and payments on account of Euro 2,207 thousand mainly refer to the design and development of new products and software programmes.

4.19 Investments

Investments in subsidiaries

	Dec 31, 15	Acquisitions & Sub.	Impairment	Increases	Other changes	Dec 31, 16
<i>In Euro thousands</i>						
Investments in subsidiaries	85,603	-	(4,050)	3,000	(21,096)	63,458
Investments in subsidiaries	85,603	-	(4,050)	3,000	(21,096)	63,458

The details of investments in subsidiaries are shown below:

	Dec 31, 2015	Acquisitions & Sub.	Impairment	Increases	Other changes	Dec 31, 2016
<i>In Euro thousands</i>						
Elica Trading LLC	3,880					3,880
Elica Group Polska S.p.zoo	22,276					22,276
Elicamex S.a. de C.V.	30,483				(21,096)	9,387
Leonardo Services S.a. de C.V.	77					77
Ariafina Co.Ltd	49					49
Airforce S.p.A.	1,212					1,212
Exklusiv Hauben Gutmann GmbH	8,869		(1,049)	3,000		10,820
Elica India P.B.	4,071					4,071
Zhejiang Elica Putian Electric Co. Ltd	14,612		(3,001)			11,611
Elica France S.A.S.	74					74
Investments in subsidiaries	85,603	-	(4,050)	3,000	(21,096)	63,458

Investments underwent the following changes in the year.

Elicamex reimbursed MXN 450 million of its variable share capital. Elica S.p.A. holds 98% of this company, with the recognition of a corresponding reduction in the investment of Euro 21,906 thousand.

Elica S.p.A. paid-in Euro 3 million to the capital reserves of the German subsidiary Gutmann.

Following an impairment test, the investment in the Chinese subsidiary Putian was written down for approximately Euro 3 million and in the German subsidiary Gutmann for approximately Euro 1 million.

The recoverable amount of the investments was tested by calculating their value in use, which is the present value of expected cash flows using a discount rate which reflects the risks of the various investments at the valuation date. Such calculations discount the cash flows projected by the business plans of the investments over a time horizon of five years, of which the first (2017) based on the updated budget and the subsequent years (2018-2021), estimated as follows.

In particular, for the period 2018-2021 an extrapolation was carried out using a real annual growth rate for revenue which varies between 0.3% and 3.5%. The terminal value was determined based on a growth rate between 0.9% and 5.0%. For the discount rate (WACC), the interval was estimated at between 5% and 10%.

In particular, for Gutmann, for the period 2018-2021 an extrapolation was carried out using a real annual growth rate for revenue of 3.5%. The terminal value was determined based on a growth rate of 1.4%. The discount rate (WACC) was estimated at 5%.

In particular, for Putian, for the period 2018-2021 an extrapolation was carried out using a real annual growth rate for revenue of 1%. The terminal value was determined based on a growth rate of 4.8%. The discount rate (WACC) was estimated at 7.7%.

The testing of investments did not result in the recognition of impairment losses on these investments in addition to that described above.

Various sensitivity analyses were also carried out, including that concerning the growth factor (g factor), increasing/decreasing the assumptions relating to growth rate g factor of 0.5%. Following these analyses, the recoverable amount was still greater than the respective carrying amounts.

In carrying out the above analyses, the Company utilised different assumptions, including estimates of future sales, prices of raw materials and operating expenses, investments, changes in working capital and the average weighted cost of capital. Naturally, a change in these assumptions could result in a different value in use. The table below summarises the key figures of the subsidiaries' financial statements as at and for the year ended December 31, 2016:

In Euro thousands	% held	Value at Dec 31 2016	Profit/(loss) for the year	Equity
Elicamex S.a.d. C.V.	98%	9,387	7,332	13,313
Elica Group Polska Sp.z o.o.	100%	22,276	2,212	22,380
Airforce S.p.A.	60%	1,212	513	3,219
Ariafina Co.Ltd	51%	49	2,708	7,062
Leonardo Services S.a. de C.V.	98%	77	45	(104)
Exklusiv Hauben Gutmann GmbH	100%	10,820	(5,274)	4,150
Elica PB India Private Ltd.	51%	4,071	525	3,550
Zhejiang Elica Putian Electric Co. Ltd	67%	11,611	(5,116)	(2,726)
Elica Trading LLC	100%	3,880	(51)	901
Elica France S.A.S.	100%	74	57	(895)

Investments in associates

There were no changes in investments in associates during the year.

These investments relate to:

In Euro thousands	Registered Office	% held	Value at Dec 31, 16	Profit/(loss)	Equity	Pro-quota Equity at Dec. 31, 16
Reporting package figures						
I.S.M. S.r.l.	Cerreto D'Esì (AN) - (Italy)	49%	1,377	(41)	2,841	1,403

At December 31, 2016, the Company considered that the value of the investment in I.S.M. S.r.l. was recoverable through the real estate business undertaken by the company and its real estate property.

4.20 Other receivables (non-current)

The breakdown of the other receivables is as follows:

In Euro thousands	Dec 31, 16	Dec 31, 15	Changes
From employees	34	48	(14)
Other	11	15	(4)
Other receivables (non-current)	45	63	(18)

The Euro 18 thousand decrease is principally due to the receivable from INPS (national social security institution) for the earthquake, classified as receivables from employees. Management believes that this amount approximates fair value. This item includes of Euro 11 thousand due after five years.

4.21 Deferred tax assets and liabilities

In Euro thousands	Dec 31, 16	Dec 31, 15	Changes
Deferred tax assets	8,762	9,103	(341)
Deferred tax liabilities	(933)	(750)	(183)
7,828	8,352	(525)	

Deferred tax assets principally relate to non-deductible accruals, goodwill and the tax loss. Deferred tax liabilities mainly refer to unrealised taxes on unrealised exchange rate gains and merger adjustments.

The following table details deferred tax assets and liabilities:

In Euro thousands	Dec 31, 15			Effect on profit or loss		Dec 31, 16	
	Assets	Liabilities	Eq./Other	Costs	Revenue	Assets	Liabilities
Amortisation and depreciation	787			1	(77)	863	
Accruals	1,861			582	(1,451)	2,730	
Costs ded. in future years					(138)	138	
Inventory write-down	727			169		557	
Exchange rate differences		(43)		228			(271)
Merger adjustments		(705)					(659)
Goodwill	309	(3)		59		250	(3)
IRS Valuation	702		(930)				(229)
Post-employment benefits	201		(32)			281	
IRAP refund claim on IRES repayment	1,224					1,224	
Tax loss	1,667		(443)	205	(1,591)	2,609	
Employee bonuses	1,627			1,627	(339)	339	
Total	9,103	(750)	(1,405)	2,872	(3,751)	8,762	(933)

The decrease mainly concerns employee bonuses in connection with the use of deferred tax assets. The increase in liabilities relates mainly to the change in exchange rate differences.

4.22 Available-for-sale financial assets

These relate to investments held by Elica S.p.A. in other companies. The investments are held in unlisted companies whose shares are not traded on a regulated market. Therefore, as there were no purchases or sales of these shares in the last year, their fair value cannot be determined in a reliable manner. The carrying amount, measured at cost, is shown below:

In Euro thousands	Dec 31, 16	Dec 31, 15	Changes
Meccano S.p.A.	15	15	-
Consorzio Energia	4	4	-
Ceced	2	2	-
Other minor investments	32	32	-
AFS financial assets	53	53	-

The above investments are measured at cost in accordance with Article 10 of Law 72/1983 and no revaluations have been carried out pursuant to specific laws. This item did not change on the previous year.

4.23 Trade receivables – third parties

The account consists of:

In Euro thousands	Dec 31, 16	Dec 31, 15	Changes
Receivables within one year	42,929	43,960	(1,031)
Receivables over one year	1,749	2,187	(438)
Trade receivables – third parties	44,678	46,147	(1,469)

Trade receivables decreased overall by Euro 1,469 thousand; this reduction is in part due to an improved internal collection process and partly due to the customer selection actions carried out again in 2016. There are no receivables due after five years.

The Company implements a Credit Policy which governs the management of credit and the mitigation of the related risk. In particular, it is Company policy to transfer the recoverability risk of trade receivables to third parties and, therefore, a significant part of the relative risk is protected by insurance policies with leading international insurance companies.

Doubtful debts are covered by a specific allowance recognised on the basis of a specific analysis of the individual risks and a general allowance calculated in accordance with the Group Credit Policy.

Receivables are adjusted to their fair value through the allowance for impairment.

Management believes that the amount approximates the fair value of the receivables.
 Changes in the allowance for impairment are set out below:

	Dec 31, 16	Dec 31, 15	Changes
<i>In Euro thousands</i>			
Opening balance	4,020	3,674	346
Allowance	337	450	(113)
Utilisations/Releases	(66)	(104)	38
Total	4,291	4,020	271

4.24 Trade and financial receivables from related parties

Receivables from related companies include both receivables of a trading and financial nature from related parties.
 The details are shown in the table below:

	Dec 31, 16	Dec 31, 15	Changes
<i>In Euro thousands</i>			
Receivables from subsidiaries	66,539	45,818	20,721
Receivables from other related parties	-	-	-
Receivables from parents	-	-	-
Receivables from associates	2	2	-
Receivables from related parties	66,541	45,820	20,721

Receivables from subsidiaries are broken down as follows:

	Dec 31, 16	Dec 31, 15	Changes
<i>In Euro thousands</i>			
Elica Trading LLC	4,213	2,328	1,885
Air Force S. p. A.	419	405	14
Elica Group Polska S.p.z.oo	14,784	10,472	4,312
Elicamex S.A. de C.V.	14,064	4,553	9,511
Ariafina Co Ltd	318	274	44
Exklusiv Hauben Gutmann GmbH	17,353	13,936	3,417
Elica PB India Private Ltd.	4,664	4,596	68
Elica France S.A.S.	2,985	1,902	1,083
Zhejiang Elica Putian Electric Co. Ltd	7,739	7,352	387
Receivables from subsidiaries	66,539	45,818	20,721

These include financial assets from subsidiaries, respectively Euro 11,150 thousand from Exklusiv Hauben Gutmann GmbH, Euro 3,929 thousand from the Chinese company Zhejiang Elica Putian Electric Co. Ltd., Euro 4,327 thousand from the Mexican company Elicamex S.a. de C.V., Euro 433 thousand from the French subsidiary Elica France S.A.S, Euro 4,277 thousand from the Polish company Elica Group Polska S.p.z.oo and Euro 3,776 thousand from the Indian company Elica PB India Private. This latter includes the IFRS measurement of the bond that the company subscribed in 2013 which must be converted.

The changes reflect the synergies created in order to optimise cash management.

Receivables from the associate ISM are part of to normal company operations.

This item does not include any receivables due after five years end, except for Euro 519 thousand of the financial asset from Elica India.

4.25 Inventories

Inventories increased approximately Euro 1.1 million.

	Dec 31, 16	Dec 31, 15	Changes
<i>In Euro thousands</i>			
Raw material, ancillary and consumables	12,835	11,948	887
Provision for the write-down of raw materials	(918)	(959)	41
Total	11,918	10,989	929
Work in progress and semi-finished products	8,121	8,138	(17)
Provision for the write-down of work in progress	(507)	(640)	133
Total	7,614	7,499	116
Finished products and goods for resale	13,036	13,164	(128)
Provision for the write-down of finished products	(903)	(1,049)	146
Total	12,134	12,115	19
Inventories	31,666	30,603	1,064

Inventories are stated net of the provision for inventory write-down which amounts to Euro 2,327 thousand (Euro 2,648 thousand at December 31, 2015), in order to provide for the effect of waste, obsolete and slow moving items. The calculation of the provision for the write-down of raw materials, semi-finished and finished products is based on assumptions made by Management.

Inventories also include materials and products that were not physically held by the Company at the reporting date. These items were held by third parties for display, processing, consignment stock or examination.

4.26 Other receivables (current)

The breakdown is as follows:

	Dec 31, 16	Dec 31, 15	Changes
<i>In Euro thousands</i>			
Customs reimbursements	44	49	(5)
Guarantee deposits	134	183	(49)
Advances to suppliers	276	419	(143)
Other	3,302	3,519	(217)
Insurance prepayments	22	14	8
Maintenance prepayments	121	42	79
Advertising prepayments	16	44	(28)
Rental prepayments	224	224	(0)
Other prepayments and accrued income	599	995	(396)
Other receivables (current)	4,738	5,489	(751)

The decrease of Euro 751 thousand particularly relates to other prepayments and accrued income, other and advances to suppliers. Other mainly includes government investment loans. Management believes that this amount approximates the fair value.

It includes Euro 45 thousand due after five years.

4.27 Tax assets (current)

The breakdown of Tax assets is summarised in the table below:

	Dec 31, 16	Dec 31, 15	Changes
<i>In Euro thousands</i>			
IRES	414	-	414
IRAP	208	93	115
VAT	3,797	3,569	228
Other tax assets	2,476	2,509	(33)
Tax assets (current)	6,894	6,171	723

The changes concern the increase in the VAT receivable related to commercial transactions, the increase in the IRAP and IRES assets for payments on account and foreign tax assets. Other tax assets include the tax asset for research and development as per Law no. 190/2014 from the tax authorities. Management believes that this amount approximates fair value.

4.28 Derivative financial instruments

In Euro thousands	Dec 31, 16		Dec 31, 15	
	Assets	Liabilities	Assets	Liabilities
FX derivatives	142	1,006	466	1,720
Interest rate derivatives	-	465	-	469
Commodities derivatives	1,694		121	1,712
Derivative financial instruments	1,835	1,471	588	3,901
of which				
Non-current	-	198	-	166
Current	1,835	1,273	588	3,736
Derivative financial instruments	1,835	1,471	588	3,901

For further information, refer to paragraph 7, Risk management.

4.29 Cash and cash equivalents

In Euro thousands	Dec 31, 16	Dec 31, 15	Changes
Bank and postal deposits	9,817	5,792	4,025
Cash and cash equivalents on hand	9	9	-
Cash and cash equivalents	9,826	5,801	4,025

This item reflects the positive balances of bank current accounts and cash on hand.

For further information, reference should be made to the section on net financial debt in the Directors' Report and the Statement of Cash Flows.

4.30 Liabilities for post-employment benefits

The accrual of Euro 10,106 thousand is the present value of liabilities for post-employment benefits accrued by employees at the end of the reporting period.

The most recent calculation of the present value of this item was performed at December 31, 2016 by Tower Watson actuaries.

The amounts recognised in the income statement were as follows:

In Euro thousands	Dec 31, 2016	Dec 31, 2015	Changes
Current service cost	2,564	2,433	131
Financial charges	209	215	(6)
	2,774	2,648	126

The changes in the present value of post-employment benefit obligations in the reporting period were as follows:

In Euro thousands	Dec 31, 2016	Dec 31, 2015	Changes
Opening balance	9,689	11,807	(2,118)
Current service cost	2,564	2,433	131
Actuarial gains and losses	448	(232)	680
	3,012	2,201	811
Financial charges	209	215	(6)
Pension fund	(2,571)	(2,433)	(138)
Benefits provided	(233)	(2,101)	1,868
	(2,595)	(4,319)	1,724
Liabilities for post-employment benefits	10,106	9,689	417

The interest component of the defined employee benefit plan cost is shown under financial charges, with a resulting increase of Euro 209 thousand in this item for the reporting period. The current service cost and the effect of the curtailment and settlement were recorded under personnel expense. Actuarial gains and losses, amounting to Euro 448 thousand, comprise the actuarial gains (losses) of the defined benefit plans reported in the statement of comprehensive income.

Assumptions used for the calculation:

	Dec 31, 16	Dec 31, 15
Discount rate to determine the obligation	1.60%	2.20%
Rate of inflation	1.65%	2.00%

The discount rates were selected based on the yield curves of high-quality fixed income securities, as in previous years. This financial variable is considered the most significant and therefore chosen for a sensitivity analysis. The objective of a sensitivity analysis is to show how the result of the valuation changes in response to changes in an assumption adopted for the calculation, with all other assumptions unchanged.

Therefore, if the discount rate increased 0.5% (to 2.10%), the obligation would amount to Euro 9,531 thousand, while if the discount rate decreased 0.5% (1.10%), the obligation would amount to Euro 10,734 thousand.

Number of employees

The average number of employees in 2016 was 1,207 (1,193 in 2015), as outlined in note 4.7.

4.31 Provisions for risks and charges

The composition and movements of the provisions are as follows:

<i>In Euro thousands</i>	Dec 31, 15	Provisions	Utilisations/Reclass.	Dec 31, 16
Agents' termination benefits	501	56	(25)	532
Product warranties	635	667	(633)	669
Product disposal	98	380	(174)	304
Legal, tax and other risks	1,622	4,405	(566)	5,491
Long-term incentive plan	3,886	-	(3,886)	-
Personnel	1,550	1,206	(1,550)	1,206
Provisions for risks and charges	8,292	6,714	(6,834)	8,174
of which				
Non-current	2,221			7,504
Current	6,071			669
Provisions for risks and charges	8,292			8,174

Accruals for agents' termination benefits cover possible charges upon the termination of contracts with agents and sales representatives. Changes in the provision reflect adjustments in the indemnities and the utilisations.

Product warranties represent an estimate of the costs likely to be incurred to repair or replace items sold to customers. These provisions reflect the average warranty costs historically incurred by the Company as a percentage of sales still covered by warranty. The provision increased in the year by Euro 34 thousand.

The provision for legal, tax and other risks relates to probable non-existent income and charges to be incurred as a result of ongoing legal disputes. The provisions have been determined based on the best possible estimates, considering available information. The accrual of Euro 4.4 million includes the impact of the first level non-executive judgements in the cases between Esperança Real S/A, Madson Eletrometalurgica Ltda. and Elica S.p.A., issued by the Belo Horizonte Court (Brazil) on March 1, 2017. The case concerns the signing of preliminary agreements in September 1999 for the establishment of a joint venture by Elica S.p.A. and Esperança Real S/A, which were not executed. With the support of legal consultants and sector experts, the Board of Directors assessed the ruling, the technical opinions upon the possible development of the case and its probable final outcome and decided to prudently allocate an additional amount of Euro 2.9 million on a precautionary basis to cover legal risks. These accruals do not imply that the counterparty's legal arguments are valid, but were recognised solely to be fully compliant with IFRS. This led to an accrual of Euro 3.7 million. In any case, the Company confirms that it intends to defend itself at all legal levels.

The provision for personnel includes contractual indemnities and the performance-based bonus accrued for employees in the year, based on the best estimates according to the information available. The utilisations relate to payments in 2016 in this regard.

The Long-Term Incentive Plan concerns the accrued liability at December 31, 2015. This amount was paid in 2016. In 2016, no accruals were made for the 2016-2022 Phantom Stock & Voluntary Coinvestment Plan, as the objectives of the first three years were not considered achievable.

The impact of discounting non-current provisions is not significant.

4.32 Bank loans and borrowings

	Dec 31, 16	Dec 31, 15	Changes
<i>In Euro thousands</i>			
Bank loans and borrowings	82,595	80,654	1,941
Total	82,595	80,654	1,941
Bank borrowings have the following repayment schedules			
On demand or within one year	48,898	36,750	12,148
Within two years	12,206	14,432	(2,226)
Within three years	12,252	10,906	1,346
Within four years	8,539	10,952	(2,413)
Within five years	700	7,239	(6,539)
After 5 years	-	375	(375)
Total	82,595	80,654	1,941
Less amounts to be repaid within one year	48,898	36,750	12,148
Due after one year	33,697	43,904	(10,207)

All bank loans and borrowings are denominated in Euro.

The majority of borrowings indicated above carry a floating rate of interest. While it is exposed to interest rate risk, in 2016, the Company did not systematically hedge its exposure, particularly in terms of current debt. In terms of non-current debt, a number of positions were renegotiated to achieve better financial conditions. For further information on interest rate hedges, reference should be made to paragraph 7, Risk management of these notes.

4.33 Current and non-current tax liabilities

Tax liabilities (non-current)

Changes in non-current tax liabilities relate to the monthly repayment of amounts deferred following the earthquakes in 1997.

This item does not include any payables due after five years. They are reported below:

	Dec 31, 16	Dec 31, 15	Changes
<i>In Euro thousands</i>			
Local income tax – earthquake deferrals	65	91	(26)
Other tax liabilities	58	83	(25)
Employees' leaving entitlement – earthquake deferral	9	13	(4)
Substitute tax – earthquake deferral	0	1	(1)
Estate taxes – earthquake deferral	180	255	(75)
Tax liabilities (non-current)	312	442	(131)

Tax liabilities (current)

	Dec 31, 16	Dec 31, 15	Changes
<i>In Euro thousands</i>			
Other tax liabilities	741	574	167
Employees' income tax withholdings	2,014	1,983	31
Corporate income tax	-	112	(112)
Tax liabilities (current)	2,755	2,668	86

The decrease in the Tax liabilities (current) principally refers to the decrease in other tax liabilities. Management believes that this amount approximates the fair value.

4.34 Other Payables

Other Payables (non-current)

	Dec 31, 16	Dec 31, 15	Changes
<i>In Euro thousands</i>			
Other	89	97	(8)
INAIL contributions – 1997 earthquake deferral	28	39	(11)
INPDAI contributions – 1997 earthquake deferral	13	20	(7)
Employee INPS contributions – 1997 earthquake	324	463	(139)
Other Payables (non-current)	454	619	(165)

The decrease principally relates to deferred payables following the earthquake in 1997, which decrease as the Company makes repayments. The balance does not include any amounts due after five years.

Other payables (current)

	Dec 31, 16	Dec 31, 15	Changes
<i>In Euro thousands</i>			
Payables to social security institutions	1,396	1,571	(175)
Other	61	113	(52)
Payables to personnel for remuneration	4,008	3,037	971
Payables to customers	3	9	(6)
Accrued charges and deferred income	99	113	(14)
Directors and Statutory Auditors	57	252	(195)
Advances from customers	188	177	11
Other Payables (current)	5,811	5,272	539

The increase of Euro 539 thousand is, in particular, due to the Euro 971 thousand increase in Payables to personnel for remuneration, only partially offset by the reduction in the amounts due to Directors and Statutory Auditors and social security institutions.

The increase in payables to personnel relates to termination benefits not yet settled at December 31, 2016.

The item includes Euro 13 thousand due after five years.

4.35 Trade payables to third parties and trade and financial payables to related companies

	Dec 31, 16	Dec 31, 15	Changes
<i>In Euro thousands</i>			
Trade payables	69,427	60,606	8,821
Trade payables to third parties	69,427	60,606	8,821
Payable to subsidiaries	34,770	32,549	2,221
Payables to other related companies	10	10	-
Payables to related companies	34,781	32,559	2,221
Trade and financial payables	104,207	93,166	11,042

These mainly include payables for trade purchases and other costs. Average DPO are approximately 104.

The balance of the payables to other related companies (Euro 10 thousand) includes the payables at December 31, 2016 to Fastnet S.p.A. on trade transactions.

Management believes that the carrying amount of trade payables and other payables reflects their fair value.

Payables to subsidiaries are detailed below.

	Dec 31, 16	Dec 31, 15	Changes
<i>In Euro thousands</i>			
Elica Trading LLC	20	8	12
Elica Group Polska S.p.z.oo	28,366	28,006	360
Air Force S.p.A.	269	371	(102)
Elicamex S.A.	893	134	759
Ariafina Co Ltd	1,645	1,543	102
Zhejiang Elica Putian Electric Co. Ltd	1,232	1,310	(78)
Elica PB India Private Ltd.	154	122	32
Elica France S.A.S.	1	0	1
Exklusiv Hauben Gutmann GmbH	2,191	1,053	1,138
Payables to subsidiaries	34,770	32,549	2,223

The balance includes financial liabilities of Euro 2.5 million, in addition to trade payables. Trade payables mainly refer to purchases from Elica Group Polska of Euro 28,366 thousand (Euro 28,006 thousand in 2015).

4.36 Equity

Reference should be made to the specific statement for an analysis of changes in equity.

Notes are provided to each of the equity items.

Share capital

The share capital at December 31, 2016 amounts to Euro 12,664 thousand, consisting of 63,322,800 ordinary shares with a par value of Euro 0.20 each. It is fully subscribed and paid-in.

Capital reserves

The capital reserves amount to Euro 71,123 thousand and relate to the share premium reserve.

Hedge reserves

	Dec 31, 15	Changes in the hedging reserve	Other changes	Dec 31, 16
<i>In Euro thousands</i>				
Hedging reserve	(1,881)	2,605	-	724

The hedging reserve amounts to Euro 723 thousand, which represents the positive fair value of hedging derivatives (cash flow hedges), net of the tax effect; in the previous year, it was negative by Euro 1,881 thousand.

Treasury shares

	Number	Carrying amount	<i>In Euro thousands</i>
Opening balance at January 1, 2016	1,275,498	3,551	
Closing balance at December 31, 2016	1,275,498	3,551	

In 2016, there was no change in the number of treasury shares. At December 31, 2016, the treasury shares in portfolio represent 2% of the share capital.

Reserve for actuarial gains/losses

	Dec 31, 15	IAS 19 actuarial effect	Dec 31, 16
<i>In Euro thousands</i>			
Reserve for post-employment benefit actuarial gains/losses	(2,742)	(480)	(3,222)

Retained earnings

	Dec 31, 16	Dec 31, 15	Changes
<i>In Euro thousands</i>			
Legal reserve	2,533	2,533	0
IFRS FTA reserve	1,675	1,675	0
Extraordinary reserve	32,921	26,977	5,944
Retained earnings	37,129	31,185	5,944

The Euro 5,944 thousand increase in the extraordinary reserve includes an increase of Euro 6,552 thousand for the allocation of the profit for 2015 and a Euro 608 thousand decrease due to the approval of dividends.

Information on distributable reserves

The following table shows the equity items divided by origin, the possibility of utilisation and distribution, as well as any utilisations in the previous three years. The amounts are in units of Euro.

	Amount	Poss. of utilisation	Available portion	Util. in past 3 years to cover losses	Util. in past 3 years for other reasons
I Share capital	12,664,560	=		-	
II - Share premium reserve	71,123,335	A,B,C	71,123,335	-	-
IV Legal reserve	2,532,912	B		-	
VII Other reserves:					
Extraordinary reserve	32,921,011	A,B,C	29,370,025	1,749,419	
IFRS FTA reserve	1,675,096	A,B,C	1,675,096		
Retained earnings	37,129,018				
Non-distributable portion	-		7,413,237		
Residual distributable amount	-		94,755,219		
A - to increase share capital					
B - to cover losses					
C: for distribution to shareholders					

In accordance with Article 2426, paragraph 5 of the Italian Civil Code, the non-distributable portion of Euro 7,413 thousand refers to the residual amount development costs to be amortised. The part of the extraordinary reserve that is not available for distribution, amounting to Euro 3,551 thousand, relates to the treasury shares held in portfolio, in accordance with Article 2357-ter of the Italian Civil Code.

4.37 Net Financial Debt

(Pursuant to Consob Communication no. DEM/6064293 of 28 July 2006)

In Euro thousands	Dec 31, 16	Dec 31, 15
Cash and cash equivalents	9,826	5,801
Financial receivables from related parties	27,891	21,467
Financial payables to related parties	(2,495)	(2,141)
Bank loans and borrowings	(48,898)	(36,750)
Current loans and borrowings	(23,502)	(17,425)
Bank loans and borrowings	(33,697)	(43,904)
Non-current loans and borrowings	(33,697)	(43,904)
Net Financial Debt	(47,372)	(55,528)

At December 31, 2016, the Net Financial Debt was Euro 47,372 thousand, improving Euro 8.1 million on December 31, 2015. Refer to the Directors' Report for further information.

5. Significant non-recurring events and operations

A summary of the significant non-recurring operations during the year and with their relative impact, net of taxes, on Equity and Profit/(Loss) for the year are shown below.

	Equity	Profit/(Loss) for the year		
In Euro thousands	Amount	%	Amount	%
Financial statements	108,326		(6,541)	
Personnel expense for the CEO's departure	(1,500)	-1.4%	(1,500)	22.9%
Service costs for the CEO's departure	(164)	-0.2%	(164)	2.5%
Taxes relating to tax assessments	(486)	-0.4%	(486)	7.4%
Taxes on costs for CEO's departure	458	0.4%	458	-7.0%
Notional carrying amount	110,018		(4,849)	

Taxes relating to the tax assessment were recognised by the Company to cover the agreed amount of the settlement.

The tax effect of personnel expense of Euro 1.5 million and service costs of Euro 164 thousand concerned the departure of the CEO Perucchetti.

6. Guarantees, commitments and contingent liabilities

6.1. Contingent liabilities

The Company and its subsidiaries are not involved in administrative, judicial or arbitration proceedings that are underway or have been settled by means of a ruling or arbitration award issued in the last 12 months and which might have or might have had an effect on the financial situation or profitability of the Group, except for that indicated below. Group companies have valued the contingent liabilities that could arise from pending judicial proceedings and have made appropriate provisions in their financial statements on a prudent basis.

The provision in the Group Consolidated Financial Statements at December 31, 2016 to cover legal risks and charges amounts to Euro 5,198 thousand.

This amount includes Euro 3.7 million concerning the impact of the first level non-executive judgements in the cases between Esperança Real S/A, Madson Eletrometalurgica Ltda. and Elica S.p.A., issued by the Belo Horizonte Court (Brazil) on March 1, 2017. The case concerns the signing of preliminary agreements in September 1999 for the establishment of a joint venture by Elica S.p.A. and Esperança Real S/A, which were not executed. The provision of Euro 3.7 million covers compensation for direct damage claimed by the counterparty, which the Board of Directors decided to provide for in the full amount to cover legal risks. These accruals do not imply that the counterparty's legal arguments are valid, but were recognised solely to be fully compliant with IFRS.

The judgement also requires Elica S.p.A. to compensate the counterparty for indirect damage of approximately Euro 7.5 million. With the support of legal consultants and sector experts, considering that the judgement is at first level and not definitive (the appeal is pending) or executive, that it has not arisen in Italy and particularly that the legal basis is considered unfounded, the Group considers this payment as not probable. The Company confirms its intention to pursue at all levels the protection of its rights. Management considers that the provision for risks in order to cover possible liabilities from pending or potential disputes is, on the whole, adequate. For additional information, reference should be made to paragraph 4.31 of these notes.

6.2. Guarantees and commitments

In relation to the shareholder agreement signed on December 10, 2007 and renewed on December 18, 2013 (the "Shareholder Agreement"), FAN S.r.l., the parent of Elica S.p.A., and Whirlpool Europe S.r.l. agreed that the Shareholder Agreement should be automatically extended for another two years and therefore until December 18, 2018.

This did not impact control over Elica which, as per Article 93 of the CFA, since December 5, 2016, following the passing of Mrs. Gianna Pieralisi, is held by Mr. Francesco Casoli.

For further information on the matter, reference should be made to Elica S.p.A.'s press release of December 19, 2016 and the Annual Corporate Governance Report, available on the Company's website <http://corporation.elica.com> (Corporate Governance section).

Elica S.p.A. has given guarantees in favour of Putian for credit lines of Euro 14.48 million and Elica Group Polska has a rotating receivable factoring arrangement with a cap of Euro 3.5 million, in addition to Gutmann's corporate guarantee of Euro 1 million in favour of third parties.

Order commitments with suppliers for non-current assets not yet filled at December 31, 2016 amount to approximately Euro 2,228 thousand, principally relating to investments in the productive capacity.

The Company at December 31, 2016 has commitments in place for the purchase of raw materials, as described in paragraph 7.2.2 Commodity Risk.

6.3. Operating leases

At the end of the reporting period there were rental agreements for several industrial and commercial properties, motor vehicle rental agreements and operating leases for hardware and other assets. Other operating leases includes commitments for a new operating leases, signed by the Company for photovoltaic panels. Future lease payments are summarised in the following table:

	Dec 31, 16	Dec 31, 15	Changes
<i>In Euro thousands</i>			
Property rentals	620	738	(118)
Car and fork lift rental	3,636	2,321	1,315
Hardware operating leases	3,215	2,346	869
Other operating leases	2,190	2,560	(370)
Operating lease commitments	9,661	7,965	1,696
<i>In Euro thousands</i>			
	Dec 31, 16	Within 1 year	1 - 5 years
Property rentals	620	256	365
Car and fork lift rental	3,636	1,203	2,327
Hardware operating leases	3,215	819	2,395
Other operating leases	2,190	370	1,820
Operating lease commitments	9,661	2,648	6,907
		After 5 years	
			106

7. Risk management

7.1 Introduction

Elica's operations are exposed to different types of financial risks, including risks associated with fluctuations in exchange rates, interest rates, the cost of its main raw materials and cash flows. In order to mitigate the impact of these risks on the Company's results, Elica S.p.A. has commenced the implementation of a financial risk monitoring system through a "Financial Risk Policy" approved by the Board of Directors. Within this policy, the Company constantly monitors the financial risks of its operations in order to assess any potential negative impact and takes corrective action where necessary.

The main guidelines of the Company's risk management policy are as follows:

- identify the risks related to the achievement of the business objectives;
- assess the risks to determine whether they are acceptable considering the controls in place and if they require additional treatment;
- respond appropriately to risks;
- monitor and report on the current state of the risks and the effectiveness of their control.

The Group Financial Risk Policy is based on the principle of active management and the following assumptions:

- prudent management of the risk with a view to protecting the expected value of the business;
- use of "natural hedges" in order to minimise the net exposure to the financial risks described above;
- undertake hedging transactions within the limits approved by management and only for actual, clearly identified exposures;

The process for the management of the financial risks is structured on the basis of appropriate procedures and controls, based on the correct segregation of the conclusion, settlement, registration and reporting of results.

The paragraphs below include an analysis of the risks to which Elica is exposed, indicating the level of exposure and, for market risk, the potential impact on results of hypothetical fluctuations in the parameters (sensitivity analysis).

7.2 Market risk

According to IFRS 7, market risk includes all the risks directly or indirectly related to the fluctuations of the general market prices and the financial markets in which the Company is exposed:

- currency risk;
- commodity risk, related to the volatility of the prices of the raw materials utilised in the production processes;
- interest rate risk.

In relation to these risk profiles, Elica uses derivative instruments to hedge its risks and does not engage in derivative trading.

The paragraphs below individually analyse the different risks, indicating where necessary, through sensitivity analysis, the potential impact on the results deriving from hypothetical fluctuations in the parameters.

7.2.1 Currency risk

The Company's functional currency is the Euro. However, the Company also trade in US Dollars (USD), British Pounds (GBP), Japanese Yen (JPY), Swiss Francs (CHF), Russian Rubles (RUB) Polish Zloty (PLN), Indian Rupees (INR),

Chinese Yuan (CNY) and Mexican Pesos (MXN). For the currencies in which the Company has higher revenue than costs, changes in the exchange rates between the Euro and these currencies impact the Company's results as follows:

- the appreciation of the Euro has negative effects on revenue and operating results;
- the depreciation of the Euro has positive effects on revenue and operating results.

The amount of the exchange risk, defined in advance by Company Management on the basis of the budget for the reporting period, is gradually hedged over the acquisition process of the orders, up to the amount of the orders corresponding to budget projections.

The hedge is entered into through agreements with third party lenders for forward contracts and options for the purchase and sale of foreign currency. As previously described, these hedges are entered into without any speculative or trading purposes, in line with the strategic policies of prudent cash flow management.

The following table shows foreign currency balances at December 31, 2016 in the statement of financial position for the most significant currencies:

In Euro thousands Currency	Dec 31, 16		Dec 31, 15	
	Assets	Liabilities	Assets	Liabilities
CHF	-	(38)	-	(38)
CNY	6,963	(1)	7,232	(1,203)
GBP	114	(13)	338	(23)
JPY	321	(1,639)	276	(1,543)
PLN	17,931	(28,385)	17,146	(27,555)
RUB	4,219	(20)	2,334	(8)
USD	22,372	(4,410)	6,676	(2,118)
INR	3,642	(154)	3,441	(122)
MXN	-	-	84	-
Foreign currency transactions	55,563	(34,659)	37,527	(32,610)

For the purposes of the sensitivity analysis on the exchange rate, the potential changes in the Euro/CHF, Euro/CNY, Euro/GBP, Euro/YEN, Euro/PLN, Euro/RUB, Euro/USD, EUR/INR and EUR/MXN.

The following table shows the sensitivity to reasonably possible changes in exchange rates, with all other variables unchanged, due to changes in the value of current assets and liabilities in foreign currencies.

In Euro thousands Currency	Dec 31, 16		Dec 31, 15	
	Depreciation of foreign currencies 5%	Appreciation of foreign currencies 5%	Depreciation of foreign currencies 5%	Appreciation of foreign currencies 5%
CHF	(2)	2	(2)	2
CNY	367	(332)	317	(287)
GBP	5	(5)	17	(15)
JPY	(69)	63	(67)	60
PLN	(550)	498	(548)	496
RUB	221	(200)	122	(111)
USD	945	(855)	240	(217)
INR	184	(166)	175	(158)
MXN	-	-	4	(4)
Foreign currency transactions in the Statement of Financial Position	1,101	(995)	258	(234)

Elica's hedges at December 31, 2016 with financial counterparties have a total negative fair value of Euro 864 thousand. The table below shows the details of the notional and fair values:

Currency	Dec 31, 16		Dec 31, 15	
	Notional (in foreign currency/000)	Fair Value In Euro thousands	Notional (in foreign currency/000)	Fair Value In Euro thousands
USD				
Forward	16,050	89	54,920	(933)
Options	167,634	(454)	-	-
PLN				
Forward	41,550	(38)	196,820	(290)
Options	38,401	(126)	22,242	(31)
JPY				
Forward	228,400	(123)	200,000	42
RUB				
Forward	400,300	(24)	206,000	60
CNY				
Forward	47,851	(188)	5,000	(102)
FX derivative assets/(liabilities)		(864)		(1,254)

For the purposes of the sensitivity analysis on the exchange rate, the potential changes in the EUR/USD, EUR/PLN, EUR/RUB, EUR/JPY and EUR/CNY and the EUR and foreign exchange interest rate curves were analysed.

In the stress testing we have stressed not only the spot to spot exchange rate, but the monetary curve rates at December 31, 2016 as well in order to show the effect of changes in the rate curve.

For this purpose, the maximum change in the interval between the beginning of November 2016 and the first week of January 2017 was considered.

For the EUR/USD exchange rates a stress of 6% was applied, for EUR/PLN 6%, for EUR/JPY 7%, for EUR/RUB 25%, for USD/CNY 5.0% and for EUR/MXN and USD/MXN 11%.

For interest rates on forward exchange contracts, a stress of 50 bps was applied for the Eurozone rates, 50 bps for the US rates, 50 bps for the Polish rates, 200 bps for the Russian rates, 50 bps for the Chinese rates and 50 bps for the Japanese rates.

The following table shows the sensitivity to changes in the exchange rates and the rate curves indicated, with all other variables unchanged, of the fair value of the transactions in foreign currencies at December 31, 2016 (compared with December 31, 2015):

In Euro thousands	Dec 31, 16				
	USD Notional	PLN Notional	JPY Notional	RUB Notional	CNY Notional
	183,684	79,951	228,400	400,300	47,851
	USD/000	PLN/000	JPY/000	RUB/000	CNY/000
Depreciation of foreign currencies	1,470	(54)	(91)	395	(263)
Currency depreciation EURO	18	(13)	(4)	(5)	(13)
Currency depreciation	(17)	12	-	19	15
Sensitivity to depreciation	1,471	(55)	(95)	409	(261)
Appreciation of foreign currencies	(1,622)	(40)	105	(658)	219
Currency appreciation EURO	(19)	13	4	5	12
Currency appreciation	17	(12)	0	(18)	(16)
Sensitivity to appreciation	(1,624)	(39)	109	(671)	215

In Euro thousands	Dec 31, 15				
	USD Notional	PLN Notional	JPY Notional	RUB Notional	CNY Notional
	54,920 USD/000	219,062 PLN/000	200,000 JPY/000	206,000 RUB/000	5,000 CNY/000
Depreciation of foreign currencies	1,453	(81)	(100)	530	32
Currency depreciation EURO	67	12	(4)	-	3
Currency depreciation	(69)	12	-	-	(3)
Sensitivity to depreciation	1,451	(57)	(104)	530	32
Appreciation of foreign currencies	(1,639)	97	115	(883)	(35)
Currency appreciation EURO	(68)	(12)	4	-	(2)
Currency appreciation	67	(12)	-	-	3
Sensitivity to appreciation	(1,640)	73	119	(883)	(34)

7.2.2 Commodity risk

The Group is subject to market risk deriving from fluctuations in commodity prices used in the production process. The raw materials purchased by the Group (including copper and aluminium) are affected by the trends of the principal markets. The Group regularly evaluates its exposure to the risk of changes in the price of commodities and manages this risk through fixing the price of contracts with suppliers and through hedging contracts with financial counterparties. In particular, between the end and the beginning of the year, on the basis of the production budget for the year, the prices and quantities were fixed through both channels described above. Operating in this manner, the Group covers the standard cost of the raw materials contained in the budget from possible increases in commodity prices, achieving the operating profit target.

The notional value and the relative value of the copper derivatives in place at December 31, 2016 are reported below:

Copper coverage In Euro thousands	Dec 31, 16		Dec 31, 15	
	Notional	Fair value	Notional	Fair value
Forward	8,280	1,694	15,383	(1,591)
Commodity derivative assets/(liabilities)	8,280	1,694	15,383	(1,591)

In addition, commodity risk is measured through sensitivity analyses, in accordance with IFRS 7. The changes in the prices of copper utilised for the sensitivity analysis were based on the volatility of the market rates.

This analysis highlights a revaluation in the price of copper of 5%, resulting in an increase in the fair value of forward contracts at December 31, 2016 of Euro 490 thousand.

Similarly, a reduction of 5% results in a decrease in the fair value of forward contracts of Euro 490 thousand.

The net change in the hedging reserve is primarily impacted by this issue, increasing Euro 1.2 million, on Euro 0.7 million.

7.2.3 Interest rate risk

Elica's management of interest rate risk is in line with longstanding, consolidated practices to reduce the volatility risk on the interest rates, while at the same time minimising the borrowing costs within the established budget limits.

The Group's debt mainly bears a floating rate of interest.

Relating to the Group debt, from the sensitivity analysis a decrease of 25 bps in the interest rate curve in the short-term incurs lower financial charges of Euro 118 thousand, while an increase of 25 bps in the same interest rate curve converts into higher financial charges of Euro 118 thousand.

The Group hedges the interest rate risk through the utilisation of four interest rate swaps and through cap options against specific non-current loans at a variable rate.

The table below shows the details of the notional and fair values:

Instrument <i>In Euro thousands</i>	Dec 31, 16		Dec 31, 15	
	No. of contracts	Fair value	No. of contracts	Fair value
Interest rate swaps	49,625	(465)	67,432	(469)
Caps	1,583	-	3,812	-
Interest rate derivative assets/(liabilities)	51,208	(465)	71,244	(469)

The interest rate risk is also measured through sensitivity analyses, in accordance with IFRS 7. The changes in the interest rate curve utilised for the sensitivity analysis were based on the volatility of the market rates.

The analysis shows that a decrease in the interest rate curve of 25 bps generates a Euro 223 thousand decrease in the fair value of the IRS at December 31, 2016.

However, an increase of 25 bps in the curve would cause a Euro 221 thousand increase in the fair value of the IRS. With reference to the caps options, the sensitivity analysis carried out on the interest rate curves shows that, with a 25 bp increase or decrease in the curve, the fair value remains constant.

7.3 Credit risk

The credit risks represent the exposure of Elica to potential losses deriving from the non-compliance of obligations by trading partners. This risk derives in particular from economic-financial factors related to a potential solvency crisis of one or more counterparties.

The Company follows the Group Credit Policy (related to the Financial Risk Policy) which governs credit management and the reduction of the related risk, partly through insurance policies with leading international insurance companies.

The maximum theoretical credit risk exposure for the Company at December 31, 2016 is based on the carrying amount of recognised receivables, net of the specific insurance coverage, in addition to the nominal value of the guarantees given to third parties. At the end of December 2016, receivables covered by insurance or other guarantees amounted to Euro 43.4 million (93% of gross receivables).

At December 31, 2016, trade receivables from third party of Euro 44.7 million (Euro 46.1 million at December 31, 2015), included approximately Euro 4.3 million (Euro 4.8 million at December 31, 2015) concerning overdue receivables, of which Euro 0.3 million over 60 days.

The amount of trade receivables recognised in the statement of financial position is net of the allowance for impairment. The allowance is accrued either on a specific basis or generally to cover overall risks, in accordance with the Company's Credit Policy.

For more details, see paragraph 4.23 of these notes.

7.4 Liquidity risk

The liquidity risk represents the risk related to the unavailability of financial resources necessary to meet short-term commitments assumed by the Company and its own financial needs.

The principal factors which determine the Company's liquidity are, on the one hand, the resources generated and absorbed by the operating and investment activities and on the other the due dates and the renewal of the payable or liquidity of the financial commitments and also market conditions. These factors are monitored constantly in order to guarantee a correct equilibrium of the financial resources.

The following table shows the expected cash flows in relation to the contractual expiries of trade payables and various financial liabilities from derivatives.

<i>In Euro thousands</i>	Dec 31, 16		
	Within 1 year	1 - 5 years	After five years
Bank loans and borrowings	48,898	33,697	-
Trade and other payables	107,511	441	13
Total	156,409	34,138	13

<i>In Euro thousands</i>	Dec 31, 15		
	Within 1 year	1 - 5 years	After five years
Bank loans and borrowings	36,750	43,529	375
Trade and other payables	96,282	619	15
Total	133,032	44,148	390

The Company has non-current loans with major financial counterparties which include an obligation to comply with financial covenants based on the Consolidated Financial Statements and/or the financial statements of the borrowing Company.

In particular, the covenants on some of the loans do not immediately determine default of the line through non-compliance of the limits, but in the first instance impose an increase in the cost of the loan.

At December 31, 2016 the level of the covenants in question were complied with both in relation to the increase in the cost of the loan and the level of default of the credit line.

Management believes that at the present time, the funds available, in addition to those that will be generated from operating and financial activities, will permit the Group to satisfy its requirements deriving from investment activities, working capital management and repayment of debt in accordance with their maturities.

For details on the Net Financial Debt, reference should be made to note 4.37 of the notes.

7.5 Classification of financial instruments

In Euro thousands	Dec 31, 16	Dec 31, 15
AFS financial assets	53	53
Derivative financial instruments	-	-
Non-current assets	53	53
Trade receivables and loan assets	111,220	91,966
Derivative financial instruments	1,835	588
Cash and cash equivalents	9,826	5,801
Current assets	122,881	98,355
Bank loans and borrowings	33,697	43,904
Derivative financial instruments	198	166
Non-current liabilities	33,895	44,070
Trade and financial	104,207	93,166
Bank loans and borrowings	48,898	36,750
Derivative financial instruments	1,273	3,736
Current liabilities	154,379	133,651

The Company believes that the carrying amounts approximate fair value. In relation to the measurement methods of the individual items, reference should be made to paragraph 1 Accounting policies of these notes.

7.6 Fair value hierarchy according to IFRS 7

IFRS 7 requires that the classification of financial instruments valued at fair value is determined based on the quality of the input sources used in the valuation of the fair value.

The IFRS 7 classification implies the following hierarchy:

- Level 1: determination of fair value based on prices listed in active markets for identical assets or liabilities. The instruments with which the Company operates directly on active markets or in OTC markets characterised by an adequate level of liquidity belong to this category;
- Level 2: determination of fair value based on other inputs than the listed prices included in "Level 1" but which are directly or indirectly observable. In particular instruments with which the Company operates on OTC markets, not characterised by an adequate level of liquidity are included in this category;
- Level 3: determination of fair value based on valuation models whose input is not based on observable market data.

The classification of the financial instruments may have a discretionary element, although not significant, where in accordance with IFRS, the Company utilises, where available, prices listed on active markets as the best estimate of the fair value of derivative instruments.

All the derivative instruments in place at December 31, 2016 and December 31, 2015 belong to level 2 of the fair value hierarchy, except for commodities which belong to level 1.

7.7 Derivative contracts at December 31, 2016

The table below shows the following information on derivative instruments at December 31, 2016:

- the notional value of the derivative contracts, broken down by maturity;
- the carrying amount of these contracts, represented by their fair value.

December 31, 2016	Notional value		Carrying amount	
<i>In Euro thousands</i>				
Interest rate risk				
Cash flow hedge as per IAS 39		Maturity within 1 year		Maturity over 1 year
		16,108		33,517
Fair value hedge				
as per IAS 39				-
Not considered hedges under IAS 39		1,031		552
Total derivatives on interest rates	17,319		34,069	-
Foreign currency risks		Maturity within 1 year		Maturity over 1 year
	sales	purchases	sales	purchases
Cash flow hedge as per IAS 39	8,799	9,143		(123)
Fair value hedge				
as per IAS 39				
Not considered hedges under IAS 39	40,617	20,935		(741)
Total derivatives on foreign exchange	49,416		30,078	(864)
Management of commodity risk		Maturity within 1 year		Maturity over 1 year
	sales	purchases	sales	purchases
Cash flow hedge as per IAS 39		8,280		1,694
Fair value hedge				
as per IAS 39				
Not considered hedges under IAS 39				
Total derivatives on commodities	8,280			1,694

December 31, 2015	Notional value				Carrying amount
<i>In Euro thousands</i>	Maturity within 1 year		Maturity over 1 year		
Interest rate risk					
Cash flow hedge as per IAS 39		17,193		50,238	(469)
Fair value hedge					
as per IAS 39					
Not considered hedges under IAS 39		999		2,094	-
Total derivatives on interest rates		18,192		52,332	(469)
Foreign currency risks		Maturity within 1 year		Maturity over 1 year	
	sales	purchases	sales	purchases	
Cash flow hedge as per IAS 39	5,124	5,296			(31)
Fair value hedge					
as per IAS 39					
Not considered hedges under IAS 39	59,414	29,552			(1,223)
Total derivatives on foreign exchange	64,538	34,848	-	-	(1,254)
Management of commodity risk		Maturity within 1 year		Maturity over 1 year	
	sales	purchases	sales	purchases	
Cash flow hedge as per IAS 39		11,652		2,477	(1,591)
Fair value hedge					
as per IAS 39					
Not considered hedges under IAS 39					
Total derivatives on commodities	-	11,652	-	2,477	(1,591)

The details of the process followed in order to identify fair value are shown below:

<i>In Euro thousands</i>	Financial assets/ Financial liabilities	Fair value Dec 31, 16	Fair value Dec 31, 15	Fair value hierarchy	Valuation techniques & key inputs	Significant unobservable inputs	Relationship between the unobservable inputs and the fair value
1) Currency forwards and options		Assets 142; Liabilities (1,006).	Assets 466; Liabilities (1,720).	Level 2	(1)	n/a	n/a
2) Interest rate swaps		Liabilities (*)(465)	Liabilities (*)(469)	Level 2	(2)	n/a	n/a

(*) designated hedges

(1) Discounted cash flows. The future cash flows are estimated based on the forward currency rates (from the forward currency rates observable at the end of the period) and the forward contract rates, discounted at a rate which reflects the credit risk of the various counterparties.

(2) Discounted cash flows. The future cash flows are estimated based on the forward interest rates (from the interest rate curve observable at the end of the period) and the interest rate contracts, discounted at a rate which reflects the credit risk of the various counterparties.

8. Management compensation and related party transactions

As required by law, the total compensation of Directors, Statutory Auditors and Senior Executives, including in other companies, is reported below.

8.1 Remuneration of Directors, Statutory Auditors and Senior Executives

The remuneration of the above-mentioned persons totalled Euro 5,159 thousand. The details are reported in the remuneration report. This report is available on the Company's website <http://corporation.elica.com> (Investor Relations section).

8.2 Management and coordination

Elica S.p.A. is indirectly controlled by the Casoli family through Fintrack S.p.A. of Fabriano (AN - Italy).

Francesco Casoli, Chairman of Elica S.p.A., is a shareholder and Sole Director of Fintrack S.p.A., a holding company that does not carry out management and coordination activities in accordance with Article 2497 and subsequent articles of the Italian Civil Code. This conclusion derives from the fact that the controlling shareholder does not carry out management activities within the Company and, although exercising voting rights at the shareholders' meeting, does not have any involvement in the financial, production or strategic programmes of the Company, which is governed by a Board of Directors responsible for operating control. The Board of Directors has also appointed an independent CEO for ordinary operational management. The Company therefore carries out its operations through a totally autonomous and independent decision-making process.

Francesco Casoli holds a majority of the share capital of Fintrack S.p.A., thus exercising control over the Issuer, pursuant to Article 93 of the Consolidated Finance Act.

During the year, transactions with related parties took place. All transactions were conducted on an arm's length basis in the ordinary course of business. With regards to transfer prices - applied to transactions between Elica S.p.A. and Elica Group Polska and Elicamex - specific agreements have been signed with the national tax authorities.

The tables below show key figures for subsidiaries and the amount of transactions entered into with them at and for the year ended December 31, 2016.

Subsidiaries – 2016 Financial Highlights

Reporting package figures

In Euro thousands	Assets	Liabilities	Equity	Revenue	Profit/(loss)
Elicamex S.A.de C.V.	39,065	25,751	13,313	65,519	7,332
Elica Group Polska Sp.z o.o	60,191	37,810	22,380	99,398	2,212
Airforce S.p.A.	11,781	8,562	3,219	22,618	513
Ariafina CO., LTD	10,108	3,046	7,062	21,665	2,708
Leonardo S.A.de C.V.	1,211	1,315	(104)	9,047	45
Exklusiv Hauben Gutmann GmbH	27,069	22,919	4,150	21,884	(5,274)
Elica Inc.	386	159	227	551	16
Airforce GE (*)	32	5	27	0	(30)
Elica PB India Private Ltd.	12,341	8,791	3,550	16,791	525
Zhejiang Elica Putian Electric Co. Ltd	23,978	26,704	(2,726)	17,999	(5,116)
Elica Trading LLC	6,408	5,507	901	9,592	(51)
Elica France S.A.S.	3,048	3,943	(895)	5,588	57

(*) Airforce Germany Hochleistungs-dunstabzugssysteme GmbH

Elica also carries out transactions with Group companies as part of a general plan to centralise treasury management activities. These loans are interest bearing and at market rates. The details are shown below:

	Dec 31, 16	Dec 31, 15	Changes
<i>In Euro thousands</i>			
<u>Loans to subsidiaries</u>			
Zhejiang Elica Putian Electric Co. Ltd	3,929	4,107	(178)
Elica PB India Private Ltd.	3,776	3,905	(129)
Elica France S.A.S.	433	433	0
Elicamex S.A.	4,327	998	3,329
Elica Group Polska S.p.z.oo	4,277	1,373	2,904
Exklusiv Hauben Gutmann GmbH	11,150	10,650	500
	27,891	21,467	6,425
<u>Loans from subsidiaries</u>			
Elica Group Polska S.p.z.oo	0	483	(483)
Elicamex S.A.	874	133	741
Ariafina Co.Ltd	1,621	1,526	95
	2,495	2,141	353

The table below summarises the transactions and balances with related parties in 2016:

Related Parties	Trade/ Financial/ Derivative Receivables	Trade/ Financial/ Derivative Payables	Financial Costs and Charges	Revenue, Other Revenue and Financial Income
<i>In Euro thousands</i>				
<i>subsidiaries</i>				
Elicamex S.a.d. C.V.	14,064	893	22	11,685
Ariafina Co.Ltd	318	1,645	55	325
Elica Group Polska S.p.z.oo	14,784	28,366	95,495	37,617
Air Force S.p.A.	419	269	677	1,524
Zhejiang Elica Putian Electric Co. Ltd	7,739	1,232	2,958	1,502
Exklusiv Hauben Gutmann GmbH	17,353	2,191	2,824	3,528
Elica PB India Private Ltd.	4,664	154	159	1,044
Elica Trading LLC	4,213	20	52	4,723
Elica France S.A.S.	2,985	1	1	3,393
<i>associates</i>				
I.S.M. S.r.L.	2	-	-	2
<i>other related parties</i>				
Fastnet S.p.a.	-	10	35	-

Dividends are not reported in the present table.

Transactions with other related parties

Among the other related parties, Elica carries out transactions exclusively of a trading nature with Fastnet S.p.A.. There are no transactions with Fintrack S.p.A. or FAN S.r.l..

Transactions of a trading and financial nature

The table above shows the main operating and financial amounts arising from trading transactions with Fastnet S.p.A. (40.81% interest held by the parent company of Elica).

The transactions with Fastnet S.p.A. are part of a strategic partnership to develop projects and implement advanced technological solutions: from intranet solutions to extranet solutions, from wiring to wireless solutions, from software consultancy to hardware consultancy and from training to web marketing.

9. Positions or transactions arising from atypical and/or unusual operations

In 2016, there were no such transactions to be reported.

10. Events after the reporting date

For information on events after the reporting date, reference should be made to the directors' report.

Fabriano, March 24, 2017

The Board of Directors
THE EXECUTIVE CHAIRMAN
Francesco Casoli

Disclosure pursuant to Article 149-duodecies of the Consob Issuers Regulation

The following table, prepared pursuant to Article 149-duodecies of the Consob Issuers Regulations, shows the payments made in 2016 for audit and other services provided by the independent auditors and entities associated with them.

Type of service	Service provider	Company	Fees <i>In Euro thousands</i>
Audit	KPMG S.p.A.	Elica S.p.A.	165
Other services	KPMG S.p.A.	Elica S.p.A.	9
Other services	KPMG Advisory S.p.A.	Elica S.p.A.	200
KPMG network fees			374

Attestation on the Separate Financial Statements as per Article 81-ter of Consob Regulation no. 11971 of May 14, 1999 and subsequent amendments and integrations

I, the undersigned Antonio Recinella, as Chief Executive Officer, and Giampaolo Caselli, Corporate Financial Reporting Manager of Elica S.p.A., in consideration of Article 154-*bis*, paragraphs 3 and 4, of Legislative Decree no. 58 of February 24, 1998, attest to:

- the adequacy, considering the Company's characteristics, and
- the effective application

of the administrative and accounting procedures for the preparation of the Separate Financial Statements in 2016.

We also attest that:

- the Separate Financial Statements:
 - a) correspond with the accounting books and records;
 - b) were prepared in accordance with the IFRS endorsed by the European Union and with article 9 of Legislative Decree no. 38/2005;
 - c) provide a true and fair view of the issuer's financial position and results of operations.
- The Directors' Report includes a reliable analysis of the issuer's performance, results of operations and situation, together with a description of the main risks and uncertainties to which it is exposed.

March 24, 2017

The Chief Executive Officer
Antonio Recinella

Corporate Financial
Reporting Manager
Giampaolo Caselli



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(Translation from the Italian original which remains the definitive version)

Independent auditors' report pursuant to articles 14 and 16 of Legislative decree no. 39 of 27 January 2010

To the shareholders of
Elica S.p.A.

Report on the separate financial statements

We have audited the accompanying separate financial statements of Elica S.p.A. (the "company") as at and for the year ended 31 December 2016, which comprise the income statement, the statements of comprehensive income, financial position, cash flows, changes in equity and notes thereto.

Directors' responsibility for the separate financial statements

The company's directors are responsible for the preparation of separate financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05.

Independent auditors' responsibility

Our responsibility is to express an opinion on these separate financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing (ISA Italia) promulgated pursuant to article 11 of Legislative decree no. 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of separate financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the

KPMG S.p.A. è una società per azioni di Elica S.p.A. e fa parte del network KPMG di società indipendenti affiliate a KPMG International Companies («KPMG International»), entità di diritto svizzero.

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Elica S.p.A.
Independent auditors' report
31 December 2016

reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the separate financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the separate financial statements give a true and fair view of the company's financial position as at 31 December 2016 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05.

Report on other legal and regulatory requirements

Opinion on the consistency of the directors' report and certain information presented in the report on corporate governance and ownership structure with the separate financial statements

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion, as required by the law, on the consistency of the directors' report and the information presented in the report on corporate governance and ownership structure required by article 123-bis.4 of Legislative decree no. 58/98, which are the responsibility of the company's directors, with the separate financial statements. In our opinion, the directors' report and the information presented in the report on corporate governance and ownership structure referred to above are consistent with the separate financial statements of Elica S.p.A. as at and for the year ended 31 December 2016.

Ancona, 28 March 2017

KPMG S.p.A.

(signed on the original)

Gianluca Geminiani
Director of Audit