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

Elica S.p.A.

2017 ANNUAL REPORT -
SEPARATE FINANCIAL STATEMENTS

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Elica S.p.A.

DIRECTORS' REPORT ON THE 2017 SEPARATE FINANCIAL STATEMENTS

Elica today

The Elica Group has been active in the cooker hood market since the 1970's. Chaired by Francesco Casoli and led by Antonio Recinella, today it is the world leader in terms of units sold and a European leader in the design, manufacture and sale of motors for cooker hoods and central heating boilers. With over 3,800 employees and an annual output of around 21 million units, the Elica Group has seven production facilities, including in Italy, Poland, Mexico, Germany, India and China. With many years of experience in the sector, Elica has combined meticulous care for design with the judicious choice of high-quality materials and cutting-edge technology to guarantee maximum efficiency and low energy consumption, making the Elica Group the prominent market figure it is today. This has enabled the Group to revolutionise the traditional image of cooker hoods: they are no longer seen as simple accessories but as a design element, that improves the quality of life.

2017 economic overview and outlook for 2018[1]

The **Eurozone** recovery which gained steam in 2017 (+2.4%) will continue at a moderate pace in 2018, with expected growth of 2.2% (revised upwards from previous estimates).
2017 GDP[2] growth principally follows stronger exports as part of a wider uptick in global trade and persistently buoyant domestic demand supported by accommodating financial conditions, against a reduction in the risk and uncertainty posed by anti-EU political elements.
2018 will see growth consolidate across the core economies, further reducing the growth gap between the centre and periphery. Looking to the main Eurozone countries in detail, Germany forecasts more moderate growth in 2018 than in 2017 (2.5% in 2017 and 2.3% in 2018) and Spain - which saw continuous growth throughout 2017 - also expects more contained growth in the current year (3.1% in 2017 and 2.4% in 2018), while French growth will build on 2017 (1.8% in 2017 and 1.9% in 2018). Italian growth for the current year is expected to come in slightly under the 2017 level (1.6% in 2017 and 1.4% in 2018).
Domestic demand (+2.1%) will continue to be the main driver of growth in 2018, with consumption expected to grow at approximately at the same pace as 2017 (1.8%). Disposable income levels will benefit from a temporary drop in inflation and stronger employment numbers against moderate salary growth. A half-yearly European Commission survey indicated that in 2018 investment by expanding businesses picked up on the back of high plant usage levels, stable earnings growth and more certain demand conditions.
This growth is expected to continue into 2019, although slightly flattening out - partly due to a reduced level of monetary policy stimulus. In fact, against better general economic conditions, it is highly likely that by the beginning of 2019 the ECB's public and private securities purchasing programme will conclude. The ECB for the moment however is limiting the effect on rates of the upcoming conclusion of expansionary financial policies, and therefore it is not expected that official rates will be raised in 2018, with increases to be seen from 2019. Monetary policy will therefore support the expansionary cycle, with the extension of QE[3] for the duration of 2018 having a delayed effect and rates therefore remaining close to zero.
Expectations over the medium-term for the Eurozone remain contained, with the potential for growth held back by a number of factors such as: low productivity, adverse demographics and, in a number of countries, a significant public and private debt deficit.

The **US economy** grew 2.3% in 2017, thanks to very low inflation, bullish stock markets and a lack of volatility and signs of financial instability, paving the way for a gradual exit from the highly expansive monetary policies of the last decade.
Further growth of 2.7% is estimated for 2018 and of 2.5% for 2019. Continued economic expansion in the short-term reflects not only highly favourable financial conditions and improved consumer confidence, but the support also from favourable estimates on overseas demand and the expected benefit for the general economy from the tax reform reducing corporate tax rates and introducing temporary capital expenditure allowances. The tax reform is therefore expected to stimulate the US economy over the short-term, with stronger domestic demand expected to generate higher imports, thus increasing the current account deficit.
In terms of risks, the great unknown for the current year continues to be inflation, with estimates indicating a slight increase and at such a pace as to allow the FOMC[4] to implement three rate rises in 2018, as expected. In addition, although the consumer fundamentals remain solid, two worrying factors are highlighted: the continual decline of savings levels (currently at their lowest since 2008) and rising household debt levels.
Over a longer timeframe, contained growth is forecast for the US (at approx. 1.2%), reflecting an unchanged tax policy and ongoing growth - although at a slower pace - for all production factors, together with a contracted workforce due to the gradual ageing of the population.

[1] Data sources: International Monetary Fund, World Economic Outlook, and Intesa Sanpaolo Studies and Research Department's Macroeconomic Outlook
[2] Gross Domestic Product
[3] Quantitative Easing
[4] Federal Open Market Committee

The **Japanese** economy remains buoyant thanks to a combination of favourable domestic and international economic factors, resulting in growth of 1.5% in 2017. Continued expansion is forecast for the coming two years, with estimated growth of 1.5% in 2018 and of 1.4% in 2019, thanks to solid contributions both from domestic demand and the overseas channel. Inflation is expected to remain under 1% in 2018, entirely eliminating fears of re-emerging deflation - although far behind the target of the BoJ[5] and justifying therefore the extension of an aggressive expansionary policy. In 2018 and in part of 2019, the fiscal policy is expected to be moderately expansive in view of the raising of the consumption tax from 8% to 10%. This action may generate volatility in terms of growth, but the Japanese economy is solid and the introduction of expansive education measures should offset the restrictive effects of the tax increase. The real economy is in excellent shape, although salary levels remain stationary. The labour market is increasingly under pressure, with the growing demand surplus expected to translate into modest salary increases over the coming two years.
The sustainability of the public debt, increasingly held by the BoJ, is becoming of less relevance as the bank has announced that it will continue debt security purchases at approximately double the rate of net government issues, gradually lessening the risk related to this macroeconomic variable.
Finally, in strictly political terms, the management of constitutional reforms and of the tensions with North Korea may create temporary volatility over the coming two years, although not to such an extent as to put the expected recovery at risk.

In 2017, **Chinese GDP** grew 6.8%. The strongest contributor to growth comes from the major advances made by the financial services sector and both consumer - supported by the expanding labour market and increasing levels of disposable income - and business confidence, driven by increased earnings and revenues. China in 2017, supported by investor expectations, announced a greater opening up to overseas banking and finance sector investment, while reducing import tariffs on 200 consumer goods (including high technological content products).
The good overseas trade forecasts and the growth of imports outstripping that of exports may however recede to a degree in 2018. In particular, in terms of exports, prices may slow and the geopolitical risk posed by the tensions between North Korea and the USA related to possible protectionist measures by the US may heighten. Service sector inflation remains higher than that for goods, with only moderate consumer price inflation forecast (from 1.5% in 2017 to 2.2% in 2018 and 2.1% in 2019). The fiscal policy also continues to support small and medium-sized enterprises, thanks to reductions both in consumption taxes and those upon small and micro businesses and individual businesses announced for the 2018-2019 two-year period. The Chinese authorities also issued regulations to reduce systemic risk to the banking and non-banking sector, with the control of financial risk therefore to remain among the highest priorities of regulators again in 2018, together with environmental protection and the quality of growth in terms of the population's wellbeing.
Over the long-term, the PBoC[6] will maintain the monetary policy of 2018 unchanged, facilitating significant levels of market liquidity, although maintaining rates at slightly above 2017 levels, in particular for longer term maturities. The goal is to limit rising house prices and contain financial risks - slightly raising rates over the coming quarters. The overall picture is therefore of a contained slowdown in economic growth to 6.4% in 2018 and to 6.2% in 2019, with it being estimated that the continued investment in public infrastructure and services will not be sufficient to offset slowing property and manufacturing sector investment.

Indian GDP growth was 6.7% in 2017, featuring slowing consumer numbers as a result of reduced public spending, stronger import growth over exports, with recovering investment partially offsetting these factors. Among the various sectors, the industrial sector recovery stands out, driven by the mining and also the manufacturing sector uptake. Industrial production has in fact improved, particularly on the back of domestic order numbers. This has all been achieved despite lending only increasing slightly and industrial lending contracting, although an improvement is expected in the second part of 2018 thanks to an additional government bank recapitalisation plan.
The public deficit exceeded the 2017 targets and risks remain that the situation will extend also into 2018 and 2019 in view of the spring 2019 elections. Inflation, which in 2017 was 3.3%, is forecast to increase to 5% in 2018, although remaining within the central bank's target despite the expected reduction in the GTS rate[7] on various products. The increase is connected to expected oil prices increases in 2018 and their consequent transfer onto consumer prices, in view of declining business earnings levels.
With the effects from the introduction of the GTS and demonetisation expected to be transitory, GDP growth of 7.2% is forecast for 2018 and of 7.4% in 2019, thanks to the support provided by the fiscal policy and recovering investment facilitated by the long-term effects of the policies implemented over recent years.

[5] Bank of Japan
[6] People's Bank of China
[7] Goods and Services Tax

In 2017, the improving global growth outlook, weather conditions in the United States, the extension of the OPEC agreement[8] to limit oil production and the geo-political tensions in the Middle East supported **oil prices**, which increased approx. 20% between August 2017 and mid-December 2017 to reach over USD 60 per barrel, with a further increase in January 2018. The markets expect a gradual price reduction over the coming 4-5 years, as indicated by medium-term futures which in mid-December were at approx. USD 54 per barrel. In 2017, rising oil prices drove general inflation across the advanced economies, although salary and consumer price inflation remained weak. For 2018, general economic conditions are expected to support the **raw materials sector**, except for industrial ferrous metals (iron and steel) which should slow price growth if changes to the current international trade regulations are not introduced. Short rallies from collective bargaining in Latin America or due to nationalist policies in Asia may however occur in 2018.

In 2017, **the global range hood market** continued to grow - accelerating in the second part of the year - with demand strengthening 2.5%[9] on 2016.
The European market grew 3.7% on the previous year, principally on the basis of strong Eastern European growth (+7.0%), driven by the expanding Turkish (+15.4%) and Russian (+8.8%) markets. In addition, Western Europe (+1.5%) saw moderate expansion, featuring Italian (+3.1%) and Spanish (+4.5%) market growth, while major markets such as Germany and the United Kingdom were substantially stable.
In North America, cooker hood growth continued for the fifth consecutive year (+4.2%) and was accompanied by growth in Latin America which, thanks to the recovery in the second part of the year, saw a return to positive territory (+0.5%) after two years of contraction.
In China, the largest global market, demand levels saw a decisive turnaround after the 2016 contraction, followed by all of the main Asian markets (India +3.9%, Japan +2.5%). These developments supported overall demand growth in Asia of 2.1%.

Currency markets

In 2017 the Euro, at average exchange rates, substantially strengthened against the U.S. Dollar, the Japanese Yen, the Mexican Peso, the Chinese Yuan and the UK Pound.

	2017 average	2016 average	%	Dec 31, 2017	Dec 31, 2016	%
USD	1.13	1.11	1.8%	1.20	1.05	14.3%
JPY	126.71	120.20	5.4%	135.01	123.40	9.4%
PLN	4.26	4.36	(2.3%)	4.18	4.41	(5.2%)
MXN	21.33	20.67	3.2%	23.66	21.77	8.7%
INR	73.53	74.37	(1.1%)	76.61	71.59	7.0%
CNY	7.63	7.35	3.8%	7.80	7.32	6.6%
RUB	65.94	74.14	(11.1%)	69.39	64.30	7.9%
GBP	0.88	0.82	7.3%	0.89	0.86	3.5%

[8] Organization of the Petroleum Exporting Countries
[9] Volume data estimated by the Company

Financial Highlights

In Euro thousands	2017	2016	2017 Vs 2016 %
Revenue	363,084	326,031	11.36%
Adjusted EBITDA	**13,025**	**10,683**	**21.92%**
% of revenue	3.59%	3.30%	
EBITDA	**10,905**	**5,438**	**100.53%**
% of revenue	3.00%	1.70%	
EBIT	**(296)**	**(4,599)**	**-93.57%**
% of revenue	-0.08%	-1.40%	
Net interest expense	**(1,346)**	**(1,460)**	**-7.82%**
% of revenue	-0.37%	-0.40%	
Dividends from subsidiaries	3,021	3,362	-10.14%
% of revenue	0.83%	1.00%	
Write-downs of investments in subsidiaries	(1,980)	(4,050)	n.a.
% of revenue	-0.55%	-1.20%	
Net exchange rate losses	(2,241)	(547)	309.75%
% of revenue	-0.62%	-0.20%	
Subsidiary disposal charges	(21,793)	-	n.a.
% of revenue	-6.00%	n/a	
Loss for the year	**(22,112)**	**(6,541)**	**238.05%**
% of revenue	-6.09%	-2.00%	

In Euro thousands	Dec. 31, 2017	Dec. 31, 2016
Cash and cash equivalents	**8,337**	**9,826**
Financial receivables - related parties	17,053	27,891
Financial payables - related parties	(2,861)	(2,495)
Bank loans and borrowings	(44,966)	(48,898)
Current loans and borrowings	**(30,774)**	**(23,502)**
Bank loans and borrowings	(47,121)	(33,697)
Non-current loans and borrowings	**(47,121)**	**(33,697)**
Net Financial Position	**(69,558)**	**(47,372)**

In Euro thousands	2017	2016
Trade receivables	49,994	44,678
Trade receivables - related parties	31,568	38,650
Inventories	36,032	31,666
Trade payables	(74,546)	(69,427)
Trade payables - related parties	(27,364)	(32,286)
Managerial Working Capital	**15,685**	**13,281**
% of revenue	*4.32%*	*4.10%*
Other net assets	426	2,397
Net working capital	**16,111**	**15,678**
% of revenue	*4.44%*	*4.80%*

2017 performance

In 2017, revenue grew 11.4% on the previous year (+15% from related parties, +11% from third parties).
EBITDA in 2017 of Euro 10.9 million, impacted by restructuring charges of Euro 1.8 million, was up 101% on 2016 which was significantly impacted by non-core business charges of Euro 5.3 million.
Adjusted EBITDA of Euro 13.0 million rose 22% on Euro 10.7 million in 2016, despite increased overheads from the own brand sales growth strategy.
Net interest expense, including the financial component of IAS 19, reduced on 2016 by 7.8%, following the closer focus on the structure and the cost of debt.
The loss of Euro 22.1 million reported for 2017, against the loss of Euro 6.5 million in 2016, is significantly conditioned by the extraordinary negative impact of the disposal of the German subsidiary for Euro 21.8 million.
Managerial Working Capital, equal to 4.3% of revenue, increased on December 2016 due to higher Trade receivables from third parties, the increase in inventories related to the growth strategy for Elica-brand products, in addition to the reduction in trade payables to related companies, also as a result of the corporate operation involving the disposal of the German subsidiary.

Net financial position increased from Euro 47.4 million at December 31, 2016 to Euro 69.6 million at December 31, 2017, due to significant investment by the company in product and process innovation.

Definitions

EBITDA is the operating profit (loss) (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 adjustments.
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 associates and subsidiaries, as per the income statement.
Adjustment items: income items are adjusted 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 assets/liabilities.
Other net assets/liabilities comprise the current portion of Other assets and tax assets, net of the current portion of Provisions for risks and charges, Other liabilities and tax liabilities, as presented in the statement of financial position.
Net Financial Position (NFP) is the sum of Cash and cash equivalents less current loans and borrowings (including the current portion of bank loans and borrowings, Financial assets from related parties and Financial liabilities to related parties, as reported in the statement of financial position) and non-current loans and borrowings (including the non-current portion of bank loans and borrowings, as reported in the statement of financial position).

Reconciliations

In Euro thousands	**2017**	**2016**
Operating loss- EBIT	(296)	(4,599)
(Amortisation and depreciation)	11,201	10,038
EBITDA	10,905	5,438
(Non-recurring service expense)		164
(Non-recurring personnel expense)		1,500
(Disposal of obsolete inventories outside of core business operations)		587
(Additional accrual for legal risks provision with Esperança Real S/A)		2,900
(Restructuring charges)	1,834	93
(Impairment of intangible assets relating to the Gutmann disposal)	285	
Adjusted EBITDA	**13,025**	**10,683**

In Euro thousands	**Dec 31, 2017**	**Dec 31, 2016**
Financial income	1,126	1,294
Financial charges	(2,472)	(2,754)
Net interest expense	**(1,346)**	**(1,460)**

In Euro thousands	**Dec 31, 2017**	**Dec 31, 2016**
Other receivables	2,826	4,738
Tax assets	8,507	6,894
(Provision for risks and charges)	(946)	(669)
(Other payables)	(7,250)	(5,811)
(Tax liabilities)	(2,711)	(2,755)
Other net assets	**426**	**2,397**

Significant events in 2017

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, Elica S.p.A.'s 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 accrue, on a precautionary basis, an additional amount of Euro 2.9 million 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 parent therefore confirms its intention to pursue at all levels the enforcement of its rights. At December 31, 2017, the provision reflects the updated available information.

On March 21, 2017, Elica participated in the 2017 STAR Conference organised in Milan by Borsa Italiana.

On March 24, 2017, the Board of Directors of Elica S.p.A approved the 2016 consolidated financial statements and the directors' report, and the 2016 separate financial statements draft of Elica S.p.A. and the directors' report, prepared in accordance with IFRS, and also approved the 2016 corporate governance and ownership structure report and the remuneration report and the directors' report to the shareholders' meeting on the proposal to authorise the repurchase and utilisation of treasury shares. The Board of Directors also appointed in replacement of Gianna Pieralisi, company director, Cristina Scocchia, who will remain in office until the next shareholders' meeting. The Board approved the proposal to the Shareholders' Meeting of the appointment of Mr. Antonio Recinella, appointed by the Board of Directors of Elica S.p.A. on October 28, 2016, with effect from November 1, 2016, in replacement of the Chief Executive Officer Giuseppe Perucchetti, as a Director of Elica S.p.A., in addition to confirming the appointment of Ms. Cristina Scocchia, in replacement of Gianna Pieralisi. In addition, the Board of Directors confirmed the appointment of the members of the Supervisory Board, extending their mandate until the date for the approval of the 2017 financial statements by the shareholders' meeting. The Board of Directors also assessed the independence of the Directors Elio Catania, Davide Croff, Katia Da Ros and Enrico Vita, declaring them independent in accordance with Article 148, paragraph 3 of the CFA (restated in Article 147-ter, paragraph 4 of the CFA) and under Article 3.C.1. of the Self-governance code for listed companies. In addition, the Board of Statutory Auditors of the company positively assessed the independence of its members. On the same date, in view of the 2016 results, the Board of Directors proposed to not distribute a dividend, in order to maintain all available company resources for investment in future development. In addition, the Board of Directors approved the proposal to the Shareholders' Meeting of the coverage of the 2016 loss through use of "income-related reserves". The Board of Directors also approved the proposal to the Shareholders' Meeting to amend the long-term incentive plan (the "2016-2022 Phantom Stock & Voluntary Co-investment Plan)", approved by the Shareholders' Meeting of April 28, 2016, on the basis of the updated prospectus prepared pursuant to Annex 3A, Table 7 of the Issuers' Regulation published on March 28, 2017 pursuant to applicable regulations. Elica S.p.A.'s Board of Directors called the Shareholders' Meeting at the registered offices in Fabriano, via Ermanno Casoli No. 2, for April 28, 2017 at 9am on single call.

On March 28, 2017, the reports of the directors to the Shareholders' Meeting on the appointment of two directors and the establishment of the remuneration devolving to members of the Board of Directors, in accordance with Article 2386 of the Italian Civil Code and the report of the directors to the Shareholders' Meeting on the proposal to amend the 2016-2022 Phantom Stock and Voluntary Co-investment Plan were made available to the public at the registered office, on the storage mechanism 1INFO (www.1info.it) and on the Elica S.p.A. website https://elica.com/corporation (Investor Relations - Shareholders' Meeting section).

On April 6, 2017, the annual report comprising the draft separate and consolidated financial statements as at and for the year ended December 31, 2016, the directors' report and the statement as per Article 154-bis, paragraph 5 of Legislative Decree no. 58/1998, together with the reports of the board of statutory auditors and the independent auditors, the remuneration report and the 2016 corporate governance and ownership structure report, were made available to the public at the parent's registered office, on the authorised storage mechanism 1INFO (www.1info.it) and on the Elica

S.p.A. website at https://elica.com/corporation (Investor Relations - Annual Report section and Corporate Governance section). The directors’ report to the shareholders concerning the proposal to repurchase and utilise treasury shares was also made available to the public at the registered office, on the authorised storage mechanism 1INFO (www.1info.it) and on the Elica S.p.A. website at https://elica.com/corporation (Investor Relations - Shareholders’ Meeting section). The financial statements and/or summary schedules of Elica S.p.A.’s subsidiaries and associates, as per Article 2429 of the Italian Civil Code, and the subsidiaries’ reporting packages as per Article 36 of the Market Regulation, were also available to the public at the registered office.

On April 28, 2017, Elica S.p.A.’s Shareholders’ Meeting approved the separate financial statements of Elica S.p.A. as at and for the year ended December 31, 2016, the directors’ report, the reports of the board of statutory auditors and the independent auditors and acknowledged the consolidated results of the company for 2016. Elica S.p.A.’s Shareholders’ Meeting also approved the coverage of the 2016 loss through use of “Income-related reserves” and appointed by majority two directors proposed by the Board of Directors, who will remain in office until the Shareholders’ Meeting called to approve the financial statements at December 31, 2017: Antonio Recinella born in Livorno on 5/11/1968 and Cristina Scocchia born in Sanremo on 4/12/1973. According to the company, the appointed directors do not hold Elica S.p.A. shares. Their curricula vitae are available on the website https://elica.com/corporation (Corporate Governance - Other Documents section). The Shareholders’ Meeting also approved the amendment of the long-term incentive plan called the 2016-2022 Phantom Stock & Voluntary Co-investment Plan as per the conditions indicated in the updated prospectus, published on April 6, 2017. The Elica S.p.A. Shareholders’ Ordinary Meeting acknowledged the content of the remuneration report, filed and made available to the public on April 6, 2017 and expressed a favourable opinion on the first section of the report, while also approving, following revocation of the previous authorisation of April 28, 2016, the authorisation to repurchase and utilise treasury shares, pursuant to Article 2357 and 2357-ter of the Italian Civil Code. On the same date, Elica S.p.A.’s Board of Directors appointed Antonio Recinella Chief Executive Officer of Elica S.p.A. and assessed the independence of the director Antonio Recinella, not considering him as independent, and of the director Cristina Scocchia, considering her independent and also appointing her to the Appointments and Remuneration Committee and to the Internal Control and Risk Management Committee.

On May 15, 2017, Elica S.p.A.’s Board of Directors approved the 2017 first quarter report, prepared in accordance with IFRS.
On the same date, the Board of Directors approved the 2017-2019 objectives. The company forecasts a substantial increase in revenue driven by Cooking segment own brand growth, together with increased revenue from the Motors segment. Motors segment development will be driven by the additional revenue generated by new models and the accompanying higher profit margins. Strongest revenue growth is forecast for the EMEA[10] and Americas regions. This growth will be supported by a revolutionary Group digitalisation project. The Plan develops business through a series of measures to boost the consolidated profit margins, centered on cumulative improved production efficiency[11], through a further focus on World Class Manufacturing activities and greater leveraging of technology alongside standardisation, while also converting the changes to the energy labeling regulation into an opportunity. The Group estimates for the 2017-2019 three-year period: a 2017-2019 CAGR[12] of net consolidated revenue of 6.8%, of adjusted EBITDA of 12.6%, of adjusted EBIT of 14.3% and net financial debt at year-end 2019 of Euro 73 million, with a return on net assets (RONA)[13]at year-end 2019 of 10.4%. For the update, please refer to the subsequent points.

On May 17, 2017, Elica S.p.A. 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 May 23, 2017, Elica S.p.A. held presentations and meetings with the financial community and with institutional investors in London.

On June 26, 2017, Elica S.p.A.’s Board of Directors appointed Alessandro Carloni as Group Chief Financial Officer, in replacement of Giampaolo Caselli who held the position on an ad interim basis since October 28, 2016. Alessandro Carloni, satisfying the requirements established by applicable regulations and the By-Laws, was also appointed Corporate Financial Reporting Manager, with the Board of Statutory Auditors issuing a favourable opinion in this regard, replacing Giampaolo Caselli also in this role. On the same date, Elica S.p.A.’s Board of Directors , in line with

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[10] Europe, Middle East, Africa and CIS
[11] Reference is made in particular to Europe
[12] Compound Average Growth Rate
[13] Return on Net Assets, calculated as the ratio between EBIT and net invested capital

the motion passed by the Shareholders' Meeting of April 28, 2017, also launched the second cycle of the 2016-2022 Phantom Stock & Voluntary Co-investment Plan, identifying the Beneficiaries of the 2017-2019 plan cycle and the relative Performance objectives, as per the Prospectus published on March 28, 2017 and available on the website http://elica.com/corporation, Investor Relations/Shareholders' Meeting section, to which reference should be made for greater details.

On July 26, 2017, Elica S.p.A. signed an agreement to acquire 30% of the Chinese subsidiary Zhejiang ELICA Putian Electric Co., Ltd. from the non-controlling interest Du Renyao. The transaction extended governance over the Chinese subsidiary in order to drive forward company results. Consideration for the 30% investment in the Chinese subsidiary was CNY 15 million (Euro 1,907,863 at the ECB exchange rate of July 24, 2017) and was paid in cash utilising available company resources.

On August 28, 2017, Elica S.p.A.'s Board of Directors approved the 2017 half-year report, prepared in accordance with IFRS.

On August 28, 2017, Elica S.p.A. sold 100% of the German company Exklusiv-Hauben Gutmann to Mr. Manuel Fernandez Salgado, Managing Director of the subsidiary, in order to preserve the value created by the Group for shareholders and to concentrate investment and operations on the more rewarding segments of the business. Group development in Germany continues to focus on the Elica brand, which already enjoys a strong presence and good positioning on the most profitable market segments. Consideration for 100% of the German subsidiary Exklusiv-Hauben Gutmann was Euro 2.5 million, to be settled in five tranches at each year-end from December 31, 2019 until December 31, 2023. In addition, Elica transferred to Manuel Fernandez an Exklusiv-Hauben Gutmann loan asset of Euro 11.15 million for consideration of Euro 1. The purchaser granted Elica S.p.A. a call option on 100% of the share capital of Exklusiv-Hauben Gutmann, exercisable at conditions established by the parties at the price of six times the average EBITDA of the last two years, net of net financial debt. In addition, Elica S.p.A. was granted a call option vis-a-vis Exklusiv-Hauben Gutmann on the loan asset transferred, existing at the option exercise date and exercisable at a price of Euro 1, on fulfillment of the conditions established by the parties.

On September 21, 2017, the company was involved in the Italian Stock Market Opportunities Conference, organised in Milan by Banca IMI, through presentations and meetings with institutional investors.

On September 25, 2017, the company announced the completed transfer of the 30% investment in the Chinese subsidiary Zhejiang ELICA Putian Electric Co., Ltd., with effect from September 22, 2017, after all conditions precedent were satisfied.

On November 13, 2017, Elica S.p.A.'s Board of Directors approved the 2017 third quarter report prepared in accordance with IFRS. In addition, on the basis of these results and considering the company's outlook, the Board of Directors updated the 2017 performance targets contained in the 2017-2019 Plan Objectives.

Events after the reporting date and outlook

On January 12, 2018, the company announced that the Board of Directors of Elica S.p.A. would approve the 2017 fourth quarter report on February 12, 2018.

On January 30, 2018, 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 2018 financial calendar.

On January 25, 2018, Elica S.p.A. took part in the Italian Day in Frankfurt, organised by Polytems HIR, Banca Akros and Equinet Bank, making presentations and hosting meetings with institutional investors.

On February 12, 2018, Elica S.p.A.'s Board of Directors approved the 2017 fourth quarter report, prepared according to IFRS.
On the same date, following the changes to the consolidation scope as a result of the disposal of Exklusiv-Hauben Gutmann the Group realigned the 2017-2019 Plan Objectives.
In addition, in line with the Shareholders' Meeting resolution of April 28, 2017, Elica S.p.A.'s Board of Directors launched the third cycle of the 2016-2022 Phantom Stock & Co-investment Plan, identifying the Beneficiaries of the 2018-2020 Plan cycle and the relative performance objective parameters, in line with the prospectus published on March 28, 2017 and available on the website https://elica.com/corporation, Investor Relations/Shareholders' Meeting section, to which reference should be made for greater details of the Plan.

Elica S.p.A.'s Board of Directors called the Shareholders' Meeting at the registered offices in Fabriano, via Ermanno Casoli No. 2, for April 27, 2018 at 9am on single call.

On March 12, 2018 the Board of Directors of Elica S.p.A. noted the resignation of Ms. Cristina Scocchia from the position of independent director at Elica S.p.A., with immediate effect and for personal reasons.

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

IAS/IFRS and 2017-2016 comparability

Elica S.p.A.'s separate financial statements as at and for the year ended December 31, 2017 were 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 as at and for the year ended December 31, 2016.

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 2017 in comparison to the average of other companies listed on the STAR segment (performance of the FTSE Italia STAR index indicated). On January 3, 2017, the official share price was Euro 1.8539. In January and February 2017, the share price contracted as market expectations regarding the 2016 results were revised downwards, with confirmation on February 13, 2017 on announcement of the 2016 preliminary results. The share price thereafter continued to contract to an annual low of Euro 1.4687 per share on February 20, 2017.

The share price thereafter demonstrated consistent (although volatile) growth between March and May 2017, thanks to significant Road-Show initiatives and meetings with the financial market to outline the Group's focus on future opportunities and strategies, culminating on May 15, 2017 with the publication of the Three-Year Strategic Plan. In the subsequent months, although fluctuating, the share price remained at around Euro 1.75 until the end of August - the month in which the 2017 half-year results which surpassed market expectations were published. Simultaneously, the disposal of the German subsidiary Excklusive Hauben Gutmman was announced. In the initial part of September 2017, financial analyst consensus fully reflected the opportunities generated by the non-recurring disposal, sparking a rally which gained further pace in October, thanks also to the opportunity to strengthen relations with overseas institutional investors through attending the London STAR Conference on October 10, 2017. This led to the share recording its yearly high of Euro 2.9104 on October 20, 2017.

In the first week of November 2017, the share price fell significantly, while moderating following publication of the third quarter results (on November 13, 2017), the upwards review of the 2017 performance objectives and the estimate of a slight loss for 2017.

Finally, at the beginning of December 2017 the share price performed in line with the FTSE Italia STAR, as can be seen in the graph - with an official year-end price of Euro 2.4354 per share.

The share capital consists of 63,322,800 ordinary shares bearing the right to vote. The ownership structure of Elica S.p.A. at December 31, 2017 is shown in the corporate governance and shareholder ownership report, available on the company's website http://elica.com/corporation (Corporate Governance section).

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 was involved in industrial research, seeking to improve products as well as organisational, process and structural improvements.

Total research and development costs incurred amounted to Euro 7,373 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 further reduce the already low accident frequency and seriousness rates.

Exposure to risks and uncertainties and financial risk factors

The Elica Group'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 results, Elica has commenced the implementation of a financial risk monitoring system through a "Financial Risk Policy" approved by the company's Board of Directors. Within this policy, the company constantly monitors the financial risks related to the operating activities in order to assess any potential negative impact and undertakes corrective action where necessary.
The main guidelines for the company's risk policy management 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 conclusion, settlement, registration and reporting of results.

We examine in detail the risks to which the company is exposed. In the notes, particularly paragraph 7, we report all the relative figures. **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.

The amount of the currency risk, defined in advance by management of the company 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 or emerging during the year.
The hedge is entered into through agreements with third party lenders for forward contracts and options for the purchase and sale of foreign currency. These transactions are undertaken without any speculative or trading purpose, in line with the strategic policies of a prudent management of the cash flows.
In addition to the aforementioned transaction risks, the company is also exposed to currency risk. The assets and liabilities of consolidated companies whose reporting currency differs from the Euro may be translated into Euro with

carrying amounts that vary according to different exchange rates, with recognition in the translation reserve under equity.
The company monitors this exposure, against which there were no hedging transactions at the reporting date; in addition, given the company's control over its subsidiaries, governance over the respective foreign currency transactions is greatly simplified.

The company is subject to market risk deriving from price fluctuations in commodities used in the production process. The raw materials purchased by the company (including copper and aluminium) are affected by the trends of the principal markets. The company regularly evaluates its exposure to the risk of changes in the price of commodities and manages this risk through fixing the price in 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 on the basis of the production budget for the year. In this way, the company hedges the standard cost of the raw materials contained in the budget against possible increases in commodity prices, achieving the target operating profit.

Among the market risks in addition, the company is also exposed to interest rate risk. Elica Group's management of interest rate risk is in line with longstanding, consolidated practices to reduce the interest rate volatility risk, while at the same time containing the borrowing costs within the established budget limits. The company's debt mainly bears a floating rate of interest.

Further to market risks, the company is exposed to **credit risk.** This concerns the exposure to potential losses deriving from trading partners' non-compliance with obligations. This risk derives in particular from economic-financial factors related to a potential solvency crisis of one or more counterparties.
The company follows the Credit Policy (attached 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.

Liquidity risk is also managed. This 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 liquidity of the company 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 liability 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.

Company bodies

Members of the Board of Directors

Francesco Casoli
Executive Chairman,
born in Senigallia (AN) on 05/06/1961, appointed by resolution of 29/04/2015.

Antonio Recinella
Chief Executive Officer, born in Livorno (LI) on 05/11/1968, appointed by resolution of 28/04/2017 (latest appointment date)

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.

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.

Cristina Scocchia
Independent Director, born in Sanremo (IM) on December 4, 1973, appointed by resolution of 28/04/2017 (latest appointment date)

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.

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

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

Internal Control, Risk Management and Sustainability Committee

Davide Croff (Chairman)
Elio Cosimo Catania
Enrico Vita
Cristina Scocchia

Appointments and Remuneration Committee

Elio Cosimo Catania (Chairman)
Davide Croff
Enrico Vita
Cristina Scocchia

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 Company Registration No.: 00096570429
Ancona REA No. 63006 – VAT Number 00096570429

Investor Relations Manager
Laura Giovanetti
e-mail: l.giovanetti@elica.com Telephone: +39 0732 610727

Elica Group structure

The Elica Group is currently the world's largest manufacturer of cooker hoods for domestic use and is the European leader 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")[14].

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 company 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 Hochleigstungs-Dunstabzugssysteme GmbH – Stuttgart (Germany) ("Airforce Germany"). The investment is held through Airforce S.p.A. (95%).
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 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) (in short Putian), a Chinese company held 96.76% and operating under the Puti brand, a leader in the Chinese home appliances sector, producing and marketing range hoods, gas 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 facility 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 June, 28 2011.
o Elica France S.A.S. - Paris (France) ("Elica France"). This wholly-owned French company was incorporated in 2014.
o Elica GmbH – Munich (Germany), a German company wholly-owned by Elica S.p.A. and incorporated in 2017.
The company Exklusiv Hauben Gutmann GmbH – Mulacker (Germany) ("Gutmann") was held until Elica S.p.A.'s divestment on August 28, 2017.

Associates
o I.S.M. S.r.l. – Cerreto d'Esi (AN-Italy). The company, of which Elica S.p.A. holds 49.385% of the quota Capital, operates within the real estate sector.

Changes in the consolidation scope
In 2017, the company Elica GmbH was incorporated and the holding in Exklusiv Hauben Gutmann GmbH sold, as indicated in detail in the 2017 Significant Events paragraph above.

[14] 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 2017, 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 – 2017 highlights

Reporting package figures

In Euro thousands	Assets	Liabilities	Equity	Revenue	Profit/(loss)
Elicamex S.A.de C.V.	49,650	31,007	18,644	70,834	7,068
Elica Group Polska Sp.z o.o	66,788	39,072	27,716	115,513	4,001
Airforce S.p.A.	12,135	8,618	3,517	23,469	493
Ariafina CO., LTD	10,145	3,139	7,006	22,358	2,955
Leonardo S.A.de C.V.	1,091	1,028	63	9,731	262
Elica Inc.	422	194	228	956	30
Airforce GE (*)	10	5	5	0	(22)
Elica PB India Private Ltd.	13,015	7,943	5,073	24,295	1,828
Zhejiang Elica Putian Electric Co. Ltd	22,048	27,802	(5,754)	16,784	(5,229)
Elica Trading LLC	5,442	4,786	656	11,410	(189)
Elica France S.A.S.	4,518	4,015	502	10,249	447
Elica GmbH	2,607	1,224	1,383	1,695	(142)

(*) 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 58/1998, with Article 89-*bis* of Consob Resolution No.11971/1999 and successive amendments and integrations, Elica S.p.A. provides complete disclosure on the Corporate Governance system adopted at March 15, 2018, 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 https://elica.com/corporation (Corporate Governance section).

Remuneration report

In accordance with Article 123-*ter* of Legislative Decree 58/1998 and Article 84-*quater* of the 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 https://elica.com/corporation (Investor Relations section).

Consolidated non-financial statement

In accordance with Legislative Decree 254/2016 enacting Directive 2014/95/EU, the Elica Group produces a non-financial statement disclosing upon environmental, social, personnel, human rights and anti-corruption matters, helping the reader to understand Group activities, its performance and results and the related impacts. This report is available to the public according to the means and deadlines established by the applicable regulation and on the company website https://elica.com/corporation (Investor Relations/Financial Statements and Reports 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 concerning market regulations, 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's 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.

Fabriano, March 15, 2018

The Board of Directors
THE EXECUTIVE CHAIRMAN
Francesco Casoli

2017 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 2017

Income statement

In Euro	***Note***	**2017**	**2016**
Revenue - third parties	4.1	290,483,640	262,786,673
Revenue - related parties	4.1	72,600,187	63,244,785
Other operating income	4.2	2,230,371	2,783,047
Changes in inventories finished/semi-finished goods	4.3	3,676,648	134,629
Increase in internal work capitalised	4.4	2,684,794	3,325,917
Raw materials and consumables - third parties	4.5	(125,084,521)	(112,872,094)
Raw materials and consumables - related parties	4.5	(114,773,788)	(99,983,064)
Services - third parties	4.6	(52,310,421)	(50,492,976)
Services – related parties	4.6	(2,818,679)	(2,140,301)
Labour costs	4.7	(55,498,219)	(51,033,743)
Amortisation & depreciation	4.8	(11,200,707)	(10,037,807)
Other operating expenses and provisions	4.9	(8,450,575)	(10,221,141)
Restructuring charges	4.10	(1,834,488)	(93,344)
Operating loss		**(295,759)**	**(4,599,420)**
Share of profit/(loss) from associates and subsidiaries	4.11	3,021,253	3,361,630
Write-downs of investments in subsidiaries	4.11	(1,980,000)	(4,049,506)
Financial income	4.12	1,126,007	1,293,659
Financial charges	4.13	(2,471,800)	(2,753,538)
Exchange rate losses	4.14	(2,241,344)	(547,179)
Subsidiary disposal charges	4.38	(21,792,951)	
Loss before taxes		**(24,634,593)**	**(7,294,354)**
Income taxes	4.15	2,522,780	753,294
Loss from continuing operations		**(22,111,813)**	**(6,541,060)**
Profit/(loss) from discontinued operations		-	-
Loss for the year		**(22,111,813)**	**(6,541,060)**

Comprehensive income statement

In Euro	*Note*	2017	2016
Loss for the year		**(22,111,813)**	**(6,541,060)**
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	247,322	(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	4.36.5	**247,322**	**(480,296)**
Other comprehensive income/(expense) which may be subsequently reclassified to profit/(loss) for the year:			
Net change in cash flow hedges		(424,321)	3,534,701
Tax effect concerning the Other income/(expense) which may be subsequently reclassified to the profit/(loss) for the year		31,911	(930,277)
Total other comprehensive income/(expense) which may be subsequently reclassified to profit/(loss) for the period, net of the tax effect	4.36.3	**(392,410)**	**2,604,424**
Total other comprehensive income/(expense), net of the tax effect:		**(145,088)**	**2,124,128**
Total comprehensive expense for the year		**(22,256,901)**	**(4,416,932)**

Statement of financial position

In Euro	***Note***	**Dec 31, 2017**	**Dec 31, 2016**
Property, plant and equipment	4.17	46,803,377	44,802,604
Goodwill	4.18	23,342,460	23,342,460
Other intangible assets	4.18	20,126,762	17,125,791
Investments in subsidiaries	4.19	57,267,531	63,457,941
Investments in associates	4.19	1,376,926	1,376,926
Other receivables	4.20	2,392,192	44,561
Deferred tax assets	4.21	11,301,463	8,761,864
AFS financial assets	4.22	48,992	53,227
Derivative financial instruments	4.28	7,951	-
Total non-current assets		**162,667,655**	**158,965,374**
Trade receivables	4.23	49,993,910	44,677,701
Trade receivables - related parties	4.24	31,567,953	38,650,469
Financial receivables - related parties	4.24	17,052,658	27,891,331
Inventories	4.25	36,032,403	31,666,089
Other receivables	4.26	2,825,531	4,738,254
Tax assets	4.27	8,507,404	6,894,443
Derivative financial instruments	4.28	1,005,991	1,835,216
Cash and cash equivalents	4.29	8,337,425	9,826,270
Current assets		**155,323,275**	**166,179,774**
Assets of discontinued operations			**-**
Total assets		**317,990,930**	**325,145,147**
Liabilities for post-employment benefits	4.30	9,713,285	10,106,190
Provisions for risks and charges	4.31	12,342,463	7,504,094
Deferred tax liabilities	4.21	798,644	933,367
Bank loans and borrowings	4.32	47,121,107	33,697,051
Other payables	4.34	211,218	453,852
Tax liabilities	4.33	183,293	312,229
Derivative financial instruments	4.28	75,199	197,544
Non-current liabilities		**70,445,209**	**53,204,327**
Provisions for risks and charges	4.31	946,000	669,483
Bank loans and borrowings	4.32	44,965,959	48,898,355
Trade payables	4.35	74,545,934	69,426,755
Trade payables - related parties	4.35	27,363,715	32,286,020
Financial payables - related parties	4.35	2,861,067	2,494,618
Other payables	4.34	7,250,051	5,810,908
Tax liabilities	4.33	2,710,685	2,755,327
Derivative financial instruments	4.28	832,995	1,273,139
Current liabilities		**161,476,405**	**163,614,604**
Liabilities of discontinued operations			-
Share capital	4.36.1	12,664,560	12,664,560
Capital reserves	4.36.2	71,123,335	71,123,335
Hedge reserve	4.36.3	331,400	723,810
Reserve for actuarial gains/losses	4.36.5	(2,975,139)	(3,222,460)
Treasury shares	4.36.4	(3,550,986)	(3,550,986)
Retained earnings	4.36.6	30,587,958	37,129,018
Loss for the year		(22,111,813)	(6,541,060)
Equity	4.36	**86,069,316**	**108,326,216**
Total liabilities and equity		**317,990,930**	**325,145,147**

Statement of cash flows

In Euro	2017	2016
Opening cash and cash equivalents	**9,826,270**	**5,801,409**
Operating activities		
Loss	**(22,111,813)**	**(6,541,060)**
Amortisation & depreciation	11,200,707	10,037,807
Non-monetary (income)/charges	23,104	1,941,640
(Income)/Charges on disposals	21,792,951	
Trade working capital	(2,980,048)	(3,202,484)
Other working capital accounts	(1,979,150)	1,179,210
Income taxes paid	1,233,727	(178,375)
Change in provisions	4,832,369	(358,656)
Cash flow from operating activities	**12,011,846**	**2,878,081**
Investing activities		
Investments		
- Intangible	(7,871,658)	(4,945,239)
- Tangible	(8,330,792)	(8,373,034)
- Financial	(5,148,337)	21,457,042
Cash flow from investing activities	**(21,350,788)**	**8,138,769**
Financing activities		
Dividends	-	(608,000)
Increase /(decrease) in loans and borrowings	9,546,781	(4,129,307)
Net changes in other financial assets/liabilities	(415,891)	(1,033,598)
Interest paid	(1,280,794)	(1,221,083)
Cash flow used in financing activities	**7,850,097**	**(6,991,988)**
Increase/(Decrease) in cash and cash equivalents	**(1,488,845)**	**4,024,861**
Closing cash and cash equivalents	**8,337,425**	**9,826,270**

Statement of changes in equity

In Euro thousands	Share capital	Capital reserve	Treasury shares	Retained earnings	Hedging reserve/Post em. ben.	Profit/(loss) for the year	Total equity
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 gain/(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/(loss) 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**
Fair value changes on cash flow hedges net of the tax effect					(392)		**(392)**
Actuarial gains/(losses) on post-employment benefits					247		**247**
Total gains/(losses) recognised directly in equity					**(145)**		**(145)**
Loss for the year						(22,112)	**(22,112)**
Total gains/(losses) recognised in profit or loss						**(22,112)**	**(22,112)**
Allocation of profit/(loss) for the year				(6,541)		6,541	
Other changes							
Dividends							
Balance at December 31, 2017	**12,665**	**71,123**	**(3,551)**	**30,588**	**(2,644)**	**(22,112)**	**86,069**

Notes to the separate financial statements at December 31, 2017

1. Accounting policies
2. Accounting standards, amendments and interpretations in force as from January 1, 2017 and not yet applicable by the company
3. Significant accounting estimates
4. Notes to the separate financial statements
5. Guarantees, commitments and contingent liabilities
6. Risk management
7. Management remuneration and related party transactions
8. Positions or transactions arising from atypical and/or unusual transactions
9. Events after the reporting date
10. Proposal for the approval of the separate financial statements and allocation of 2017 profit

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 statement are given in Euro while the amounts in the notes are given in thousands of Euro.

1.2 Basis of preparation

The separate 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, 2017 are compared with the previous year and consist of the statement of financial position, the income statement, the statement of comprehensive income, 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, 2017 and December 31, 2016, presented for comparative purposes, 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, 2017 with a material impact on the 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 intermediary results relating to the operating profit/(loss) and the profit/(loss) before taxes in order to allow a better assessment of the operating performance.
  The operating profit is the difference between net revenue and operating expenses (this latter including non-monetary items relating to amortisation/depreciation and impairment of current and non-current assets, net of any reversals), including any gains/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 the other comprehensive income statement items recorded directly to equity (other comprehensive income).
- The **statement of financial position** is presented with 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 **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 January 1, 2005 and are deemed to reflect the fair value of the asset at the revaluation date ("deemed cost" as per IFRS 1).

Depreciation is calculated on a straight-line basis over the estimated useful life 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.

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 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.

At each reporting date the company reviews the recoverable value of the goodwill to assess whether an impairment loss has occurred. The recoverable amount of the goodwill is estimated and the amount of the impairment loss, if any, is determined. 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

The 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. The recoverability test requires estimates by the Directors, as it is dependent on the cash flows deriving from the sale of products sold by the company. These estimates are impacted both by the complexity of the assumptions underlying the projected revenues and future profit margins and by the strategic industrial choices of the Directors.

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 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 any impairment loss.

The goodwill and other intangible assets with indefinite useful lives are tested at least annually for impairment and whenever there is an indication of a possible loss in value. The impairment test compares the carrying amount with the recoverable amount, which is the greater of fair value less costs to sell and value in use. Any excess of the carrying amount results in an impairment loss. An impairment loss is recognised to profit and loss. When the reasons for the impairment no longer exist, the impairment losses on the assets are reversed bringing the carrying amount up to the revised estimate of its recoverable amount. The restatement cannot exceed the carrying amount had no impairment been recognised. The reversal of an impairment loss is taken to profit or loss.

For goodwill, the recoverable amount is determined by the Directors through the calculation of the value in use of the cash-generating units (CGUs). Cash generating units are identified based on the Group's organisational and business structure as units that generate cash flows independently through the continuous use of the assets allocated. The impairment loss of the goodwill is taken to profit or loss and, unlike for other items of property, plant and equipment and intangible assets, no reversal is recognised in future years.

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. When it is determined that a potential loss exists, the Directors make valuations on the recoverable amount of those investments in order to identify the potential amount of the loss.

Investments are tested at least annually for impairment and whenever there is an indication of a possible loss in value. The impairment test compares the carrying amount of the investment with the recoverable amount, defined as the higher between the fair value of the investment net of sales costs and the value in use, represented by the present value of the expected revenue streams for the years of operations of the company subject to the impairment test and deriving from its disposal on conclusion of its useful life. Any excess of the carrying amount results in an impairment loss. An impairment loss is recognised to profit and loss. Following the write-down of the cost of the investment, further losses recorded on the investment are recorded under liabilities, where a legal implicit obligation to cover the losses in the investment exists. When the reasons for the impairment no longer exist, the impairment losses are reversed bringing the carrying amount up to the revised estimate of its recoverable amount. The restatement cannot exceed the carrying amount had no impairment been recognised. The reversal of an impairment loss is taken to profit or loss.

Inventories

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

The purchase cost of raw and ancillary materials, 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 are classified in accordance with the underlying contractual agreements and in accordance with the respective definitions of liabilities and Equity instruments.

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

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 loans and borrowings and loans and borrowings from other lenders

Bank loans and borrowings – comprising non-current loans and bank overdrafts – and loans and borrowings from other lenders, including finance lease payables, 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 IFRS, 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.

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 6. Information on risk management of these notes for information on the management of the 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 equivalent to a defined benefit plan. For defined benefit plans, the cost of the benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each year.
On the basis of IAS 19 – Employee benefits, the company presents in the balance sheet the deficit or surplus of the relevant provision, with recognition to the income statement of the labour cost components and net financial charges and the recognition of the gains or losses which derive from the recalculation of the assets and liabilities under Other comprehensive income. In addition, any income from the plan assets included under net financial expenses 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 Group 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, 2017 there are no such plans in place.

Provisions for risks and charges
The company recognises a provision for risks and charges when the risk related to an obligation deriving from a past event is considered probable and a reliable estimate may be made on the amount of the obligation. Provisions are made based on management's best estimate of the cost of fulfilling the obligation at the end of the reporting date and are discounted to their present value when the effect is material. These risks are subject to a high level of complexity and uncertainty, and therefore the amount of the provision for risks and charges is reviewed periodically to reflect the best current estimate of each provision.

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
Foreign currency assets and liabilities are translated at the reporting date using the closing exchange rate. Non-monetary assets and liabilities measured at historical cost in foreign currency are translated using the exchange rate at the transaction date.
Exchange differences arising on such transactions or on the translation of monetary assets and liabilities are recorded in profit or loss except for those arising on derivative financial instruments qualified as cash flow hedges. These differences are recorded in equity if unrealised, otherwise they are recorded in profit or loss for the period.

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.
Income tax is based on taxable income 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 for a consolidated tax regime in Italy. This means that the IRES (Corporation Tax) charge is calculated on a tax base representing the aggregate of the taxable income and tax losses of the individual companies. The contract is of three-year duration (2017, 2018 and 2019).
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 receivable is shown under Tax Receivables, determined as the difference between the income taxes in the year, payments on account, withholding taxes and, in general, tax credits.
Tax Receivables also include the current IRES charge as determined through an estimate of the taxable income and tax losses of the companies taking part in the Consolidated tax regime, net of payments on account, taxes withheld by third parties and tax credits; tax assets are offset by the amounts due to the subsidiaries from Elica for the residual receivable attributable to the Consolidated tax regime.
The liability for tax losses surrendered by a subsidiary is recorded under Amounts due 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 value of deferred tax assets is revised 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 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 income taxes due to the same tax authority and the company intends to pay the amount on a net basis.

2. Accounting standards, amendments and interpretations in force as from January 1, 2017 and not yet applicable by the company

2.1 Accounting standards, amendments and interpretations in force as from January 1, 2017

The financial schedules utilised are the same as those used for the preparation of the separate financial statements at December 31, 2016. No new accounting policies with significant impact on the financial statements were adopted in the period.

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 endorsed 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 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”. A preliminary analysis showed that the impacts on the Company’s financial statements are not material.

IFRS 16 *Leases*. The International Accounting Standards Board (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 liability. 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 application of the standard, the company expects financial liabilities to increase, which has not yet been precisely estimated.

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 recognized.
In this context, the situation caused by the historic volatility of the financial markets 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 financial statements

INCOME STATEMENT

4.1 Revenue

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

In Euro thousands	2017	2016	Changes
Revenue from product sales	356,745	320,229	36,516
Service revenue	6,339	5,803	536
Revenue	**363,084**	**326,031**	**37,052**

The account increased approximately 11.36% 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.

In Euro thousands	2017	2016	Changes
Third parties	290,484	262,787	27,697
Related parties	72,600	63,245	9,355
Revenue	**363,084**	**326,031**	**37,052**

Revenue from related parties amount to Euro 72,600 thousand; these amounts principally refer to the sale of components and finished products to the subsidiary AirForce for Euro 1,502 thousand (Euro 1,521 thousand in 2016), to the subsidiary Ariafina for Euro 320 thousand (Euro 321 thousand in 2016), to the subsidiary Elica Group Polska for Euro 40,017 thousand (Euro 36,867 thousand in 2016), to the subsidiary Elicamex for Euro 11,938 thousand (Euro 11,456 thousand in 2016), to the subsidiary Gutmann for Euro 2,655 thousand (Euro 3,187 thousand in 2016), to Elica India for Euro 1,181 thousand (Euro 755 thousand in 2016), to the Chinese subsidiary Putian for Euro 811 thousand (Euro 1,095 thousand in 2016), to the Russian subsidiary Elica Trading for Euro 6,180 thousand (Euro 4,698 thousand in 2016) and to the subsidiary Elica France for Euro 6,940 thousand (Euro 3,343 thousand in 2016) and to the subsidiary Elica GmbH for Euro 1,054 thousand. The remaining revenue from related parties concern the associate ISM S.r.l.. All transactions are regulated at prices in line with market conditions applied to third parties.
Finally, revenue is analysed by geographical segment below.

Breakdown of revenue from sales and services by geographic segment and from third party and related companies:

In Euro thousands	2017	2016	Changes
Europe + CIS	332,268	295,147	37,121
Other countries	16,937	15,855	1,082
America	13,879	15,029	(1,150)
Revenue	**363,084**	**326,031**	**37,052**

Third party customers individually generating more than 10% of total revenue accounted for 22.7% of revenue in 2017 compared to 22.5% in 2016.

4.2 Other operating revenue

In Euro thousands	2017	2016	Changes
Grants related to income	529	595	(66)
Ordinary gains	250	188	62
Claims and insurance settlement	177	263	(86)
Expenses recovered	471	812	(341)
Other revenue and income	804	925	(121)
Other operating revenues	**2,230**	**2,783**	**(553)**

Other revenue and income of Euro 804 thousand, as in the previous year, includes various items, including the sale of production assets, employee motor expense recoveries and revenue matured by the company following the agreement with the electricity company which concedes this latter the possibility to interrupt, occasionally, at certain conditions, the provision of energy. The account decreased Euro 553 thousand. This decrease is concentrated in Expenses recovered, reducing 0.3 million. This item mainly includes expenses recovered for transport from customers and suppliers.

4.3 Changes in inventories of finished and semi-finished goods

Changes in inventories of finished and semi-finished goods were positive at December 31, 2016 for Euro 135 thousand and at December 31, 2017 were again positive for Euro 3,677 thousand due to the increase in inventories, in particular of finished products.

4.4 Increase in internal work capitalised

This item amounted to Euro 2,685 thousand (Euro 3,326 thousand in the previous year) and mainly relates to the capitalisation of charges regarding the design and development of new products and internal costs incurred for the construction of mouldings, industrial equipment and the implementation of new computer programmes. Capitalised costs principally relate to personnel.

4.5 Raw materials and consumables

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

In Euro thousands	2017	2016	Changes
Purchases of consumable materials	1,168	1,140	28
Purchases of supplies	519	444	75
Purchase of raw materials	108,187	96,961	11,226
Change in raw materials, consumables and goods for resale	(690)	(929)	239
Finished and semi-finished products	128,928	113,245	15,683
Packaging	650	960	(310)
Other purchases	191	199	(8)
Shipping expenses on purchases	905	836	69
Raw materials and consumables	**239,858**	**212,855**	**27,002**

The balance is broken down as follows:

In Euro thousands	2017	2016	Changes
Third parties	125,085	112,872	12,213
Related parties	114,774	99,983	14,791
Raw materials and consumables	**239,858**	**212,855**	**27,002**

Raw materials and consumables increased approx. Euro 27 million on 2016. Purchases from third parties increased 11%, while purchases from related parties increased 15%.
Those from related parties amounted to Euro 114,774 thousand (Euro 99,983 thousand in 2016). The most significant item relates to the purchases of finished products and goods from the subsidiary Elica Group Polska for Euro 109,364 thousand (Euro 93,721 thousand in 2016) and the amount concerning this subsidiary represents the majority of movement in this item.

All transactions are regulated at prices in line with market conditions applied to third parties.

4.6 Services

In Euro thousands	2017	2016	Changes
Outsourcing	23,348	21,601	1,747
Transport	4,673	4,503	170
Maintenance and management of finished products	6,972	6,673	299
Consulting	3,893	4,691	(798)
Utilities	2,507	2,612	(105)
Commissions	646	690	(44)
Travel	1,453	1,512	(59)
Advertising	2,000	1,723	277
Insurance	621	620	1
Directors' and Statutory Auditors' fees	1,258	1,732	(474)
Trade fairs and promotional events	2,615	2,518	97
Industrial services	288	274	14
Banking commissions and charges	291	292	(1)
Other services	4,565	3,192	1,373
Services	**55,129**	**52,633**	**2,496**

Expenses for services increased Euro 2.5 million on the previous year (+4.7%). The main increases concerned Outsourcing for Euro 1.7 million and Other services for Euro 1.4 million. Consulting however decreased by approx. Euro 0.8 million, in particular Legal and Administrative Consultancy.
In 2016, Other Services include communication services for Euro 553 thousand (Euro 557 thousand in 2016), technical assistance costs for Euro 1,554 thousand (Euro 995 thousand in 2016), canteen costs for Euro 364 thousand (Euro 334 thousand in 2016), cleaning costs Euro 277 thousand (Euro 234 thousand in 2016), vehicle expenses Euro 386 thousand (Euro 371 thousand in 2016), training courses for Euro 83 thousand (Euro 163 thousand in 2016), medical visits for Euro 77 thousand (Euro 78 thousand in 2016) and personnel recruitment costs for Euro 120 thousand (Euro 223 thousand in 2016).

The balance is comprised of:

In Euro thousands	2017	2016	Changes
Third parties	52,310	50,493	1,817
Related parties	2,819	2,140	679
Services	**55,129**	**52,633**	**2,496**

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

4.7 Labour costs

Labour costs incurred in 2016 and 2017 were as follows:

In Euro thousands	2017	2016	Changes
Wages and salaries	39,092	34,873	4,219
Social security charges	12,604	10,760	1,844
Post-employment benefits	2,810	2,564	246
Other costs	992	2,836	(1,844)
Labour costs	**55,498**	**51,034**	**4,465**

Labour costs show an overall increase of Euro 4,465 thousand. This increase relates for Euro 0.7 million to the accrual to the company's Long Term Incentive Plan provision. For further details, reference should be made to the Provisions for risks and charges paragraph. The lesser use, in particular by headquarters, of solidarity contributions in addition contributed to increased personnel expenses.

The table below shows the average number of employees at December 31, 2017 and December 31, 2016:

In Euro thousands	**2017**	**2016**	**Changes**
Executives	26	23	3
White-collar	395	400	(6)
Blue-collar	770	784	(15)
	1,190	**1,207**	**(18)**

4.8 Amortisation and depreciation

This item amounted to Euro 11,201 thousand, an increase on Euro 10,038 thousand on 2016 (+11.6%). For the changes in the year of 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:

In Euro thousands	**2017**	**2016**	**Changes**
Leases and rentals	333	257	76
Rental of vehicles and industrial equipment	2,046	1,995	51
Hardware, software and patents	845	852	(7)
Other taxes	597	432	165
Magazine and newspaper subscriptions	11	18	(7)
Sundry equipment	158	123	35
Catalogues and brochures	175	493	(318)
Losses on receivables and allowance for impairment	639	337	302
Provisions for risks and charges	2,624	4,576	(1,952)
Other prior year expenses and losses	1,024	1,140	(116)
Other operating expenses and provisions	**8,451**	**10,221**	**(1,772)**

This item decreased by a total of Euro 1,772 thousand. The principal decrease concerns Provisions for risks and charges. For further details on this account, reference should be made to the note on provisions for risks and charges.

4.10 Restructuring charges

Restructuring charges of Euro 1.8 million refer to the personnel redundancy plan, implemented in particular to scale down and optimise the company's organisational structure during 2017. Euro 630 thousand of these costs concern the personnel redundancy plan accrual at December 31, 2017, for future departures in accordance with IAS 37. They principally concern personnel expense.

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

In Euro thousands	**2017**	**2016**	**Changes**
Dividends from subsidiaries	3,021	3,362	(341)
Income and expense from subsidiaries and associates	***3,021***	***3,362***	***(341)***
Write-downs (Impairment) of investments in subsidiaries	***(1,980)***	***(4,050)***	***2,070***
Share of profit/(loss) from associates and subsidiaries	**1,041**	**(688)**	**1,729**

Dividends from subsidiaries were distributed in the year by the subsidiaries Airforce S.p.A. for Euro 90 thousand, Ariafina for Euro 1,250 thousand and Elica Group Polska for Euro 1,681 thousand.
Impairment of investments in subsidiaries concern the company Putian for approx. Euro 2 million. This follows an impairment test, details of which are provided in the Investments paragraph of these notes.

4.12 Financial income

Details of financial income are shown below:

In Euro thousands	2017	2016	Changes
Interest income from subsidiaries	1,020	1,248	(228)
Bank interest income	5	31	(26)
Other financial income	101	16	85
Financial income	**1,126**	**1,294**	**(169)**

Financial income principally includes Interest from subsidiaries, in view of the company's decision to centralise bank loans and borrowings to benefit from more favourable market costs.

4.13 Financial charges

In Euro thousands	2017	2016	Changes
Financial charges:			
Interest expense to subsidiaries	110	134	(24)
on overdrafts and bank loans	2,296	2,410	(114)
discounting	(72)	-	(72)
on post-employment benefit provisions	137	209	(72)
Financial charges	**2,472**	**2,754**	**(281)**

The item decreased Euro 281 thousand. This change principally concerns Financial charges on overdrafts and bank loans, principally due to the reduction of money market rates and of the cost of debt. Financial charges on overdrafts and bank loans include also discounts for Euro 901 thousand.

4.14 Exchange rate gains/(losses)

In Euro thousands	2017	2016	Changes
Exchange losses	(6,316)	(2,903)	(3,413)
Exchange rate gains	3,134	4,549	(1,415)
Net gains (losses) on derivative instruments	940	(2,193)	3,133
Exchange rate losses	**(2,241)**	**(547)**	**(1,694)**

Net exchange losses in the year amounted to Euro 1,694 thousand, compared Euro 1,646 thousand in 2016.
Net gains on derivatives were Euro 940 thousand in 2017 and net losses of Euro 2,193 thousand in 2016 principally relate to income on currency derivatives, which in accordance with the accounting standards may not be treated as hedging transactions, although they were agreed for this purpose. Accordingly, they were recognised at their fair value and recognised in the income statement. In view of the result for the year, Elica S.p.A. did not consider it necessary to reconstitute the Exchange rate gains 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:

In Euro thousands	2017	2016	Changes
Current taxes	(28)	(129)	101
Deferred taxes	2,550	882	1,668
Income taxes	**2,523**	**753**	**1,770**

Current taxes include overseas income taxes (Euro 190 thousand) and income from the tax consolidation of Euro 162 thousand. The decrease in current taxes is principally due to the reduction of tax income from the tax consolidation and the reduction in foreign income taxes.
"Income taxes" in fact includes the positive impact calculated by the company for the Patent Box, a tax subsidy granted by the Italian State - with prior agreement - for income deriving from the use of intangible assets (trademarks and patents). The agreement with the tax authorities was signed on December 19, 2017. The amount of the benefit for the years 2016 and 2017 is estimated, while the actual amount was recognised for 2015. The impact for the first two years amounts to approx. Euro 1 million. The impact for 2017, estimated based on the best information available, amounts to approx. Euro 0.7 million.
The company took part in the National Tax Consolidation, as per Article 117 and subsequent articles of the Income Tax Law, with the subsidiary Air Force S.p.A. for the years 2017, 2018 and 2019.
According to the consolidation agreements, in the case of the transfer to the fiscal consolidation (fiscal unit) of a tax loss, of a ROL excess (EBITDA), of an interest charge excess or an excess in the ACE (Economic Growth Support) deduction compared to the assessable income, the company will recognise remuneration equal to the tax advantage gained by the Group (IRES rate 24.00%); this amount is recognised to "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 2016 and 2017.

Tax Rate Reconciliation

	2016					2017				
IRES rate				27.50%					24.00%	
IRAP rate				4.13%					4.13%	
	Assessable	**IRES**	**IRAP**	**Total**	**% IRES on tax base**	**Assessable**	**IRES**	**IRAP**	**Total**	**% IRES on tax base**
Income taxes										
- Current		(251)	-	(251)			(162)		(162)	
- IRES reimbursement / foreign tax		316	64	380			190	-	190	
- Deferred tax – expense		(741)	(141)	(882)			(2,359)	(192)	(2,550)	
[A] TOTAL INCOME TAXES		**(676)**	**(77)**	**(753)**	**9.27%**		**(2,331)**	**(192)**	**(2,523)**	**9.46%**
LOSS BEFORE TAXES	(7,294)					(24,635)				
Tax calculated using local tax rate		(2,006)			27.50%		(5,912)			24.00%
Tax effect of exempt income	(5,177)	(1,424)			19.52%	(11,317)	(2,716)			11.03%
Tax effect of non-deductible expenses	6,066	1,668			-22.87%	25,284	6,068			-24.6%
Other differences	2,800	770			-10.56%	167	40			-0.16%
[B] Effective tax charge and tax rate net of substitute tax	**(3,608)**	**(992)**			**13.60%**	**(10,501)**	**(2,520)**			**10.23%**
Effect of tax reimbursement / Foreign taxes		316			-4.33%		190			-0.77%
[C] Effective tax charge and tax rate		**(676)**			**9.27%**		**(2,331)**			**9.46%**

4.16 Other information about income statement items

The research and development costs capitalised and expensed in 2017 are summarised in the table below:

In Euro thousands	**2017**	**2016**	**Changes**
R&D costs expensed	4,838	4,581	257
Amortisation of capitalised R&D costs	2,535	2,250	285
Total R&D costs	**7,373**	**6,831**	**542**
R&D costs capitalised during the year	**1,757**	**1,555**	**202**

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4.17 Property, plant and equipment

The tables below detail the changes in property, plant and equipment in 2016 and 2017. For 2016:

In Euro thousands	Dec 31, 2015	Increases	Disposals & other reclassifications	Dec 31, 2016
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 of property, plant and equipment	**182,942**	**8,499**	**(2,201)**	**189,238**

In Euro thousands	Dec 31, 2015	Depreciation	Disposals & other reclassifications	Dec 31, 2016
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**

In Euro thousands	Dec 31, 2015	Increases	Disposals & other reclassifications	Depreciation	Dec 31, 2016
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 property, plant and equipment	**42,117**	**8,499**	**(125)**	**(5,687)**	**44,803**

Changes in 2017 were as follows:

In Euro thousands	Dec 31, 2016	Increases	Disposals & other reclassifications	Dec 31, 2017
Land and buildings	36,486	538	-	37,024
Plant and machinery	64,818	3,817	(448)	68,187
Industrial and commercial equipment	80,706	3,701	(980)	83,427
Other assets	6,691	427	(11)	7,107
Assets under construction and payments on account	538	98	(369)	267
Historic cost of property, plant and equipment	**189,238**	**8,580**	**(1,807)**	**196,012**

In Euro thousands	Dec 31, 2016	Depreciation	Disposals & other reclassifications	Dec 31, 2017
Land and buildings	16,804	951	(0)	17,755
Plant and machinery	50,904	2,064	(644)	52,324
Industrial and commercial equipment	70,510	3,162	(903)	72,770
Other assets	6,217	152	(10)	6,359
Accumulated Depreciation	**144,436**	**6,330**	**(1,557)**	**149,208**

In Euro thousands	Dec 31, 2016	Increases	Disposals & other reclassifications	Depreciation	Dec 31, 2017
Land and buildings	19,682	538	0	(951)	19,269
Plant and machinery	13,914	3,817	196	(2,064)	15,863
Industrial and commercial equipment	10,196	3,701	(77)	(3,162)	10,657
Other assets	474	427	(0)	(152)	748
Assets under construction and payments on account	538	98	(369)	-	267
Net property, plant and equipment	**44,803**	**8,580**	**(250)**	**(6,330)**	**46,804**

Investments in the year were made in improving the manufacturing plant and machinery, such as the motors winding line, automated wrapping machines and a pallet-maker and the acquisition of moulds and equipment for the launch of new products.
Property, plant and equipment is adequately insured against fire, weather damage and similar risks by means of insurance policies arranged with leading insurance companies.
The financial statements include assets acquired under finance lease agreements which by the end of 2010 had all been redeemed.

4.18 Goodwill and other intangible assets

Goodwill

The movements in this item were as follows:

In Euro thousands	**Dec 31, 2016**	**Acquisitions/ (Impairments)**	**Dec 31, 2017**
Goodwill	23,342	-	23,342
Goodwill	**23,342**	**-**	**23,342**

Goodwill totalling Euro 23.3 million is allocated to the Europe Cash Generating Unit (CGU) at Group consolidated level. The item did not change in 2017.
In accordance with international accounting standards applied, and in particular IAS 36, the Elica Group identified three Cash Generating Units (CGU) which reflected the Group situation and its strategic vision: Europe CGU, Asia CGU and America CGU. Some assets of common use between the three CGU's could not be specifically allocated to an individual CGU and were therefore identified as corporate assets and measured in accordance with international accounting standards.
The recoverable amount of the CGU's 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 measurement date.
The impairment test was approved by the Board of Directors on February 12, 2018, independently and prior to the preparation of the financial statements.
For the impairment test upon the goodwill written to the separate financial statements of Elica S.p.A., the combined cash flows (net of internal transactions) of the companies belonging to the Europe CGU (Elica Group Polska, Airforce, Elica Trading, Elica France and Elica GmbH) were used. This is based on the fact that the Group organisational structure does not permit the separation of cash flows generated by the companies of the CGU.
The estimate of the future operating cash flows used for the impairment test, prepared and approved by the Directors, was made based on the 2017-2019 Three-Year Plan, approved on May 15, 2017, appropriately updated for the 2018-2019 forecast figures, to reflect the effects of the deconsolidation of the subsidiary Gutmann, and based on the best estimates made by the directors, for the sole purposes of the impairment test, for the years 2020-2022.

Assumptions of the Discounted cash flow

The principal assumptions utilised by the company for the estimate of the future cash flows for the impairment test were as follows:

	Europe
Weighted average cost of capital (WACC)	6.10%
Growth rate terminal value	1.95%
CAGR revenue period 2018-2022	5.70%

The principal assumptions utilised by the company in the previous year were as follows:

	Europe
Weighted average cost of capital (WACC)	6.50%
Growth rate terminal value	1.70%
CAGR revenue period 2017-2021	2.90%

The Weighted Average Cost of Capital (WACC) utilised to discount the future cash flows was determined utilising the Capital Asset Pricing Model (CAPM). For the calculation of the WACC of the Europe CGU, a free risk rate of 2.0% was used, a market premium risk of 5.5% and a beta-unlevered factor of 0.80.

Assumptions utilised in estimating cash flows

The discounted cash flow model is based on the cash flows for a period of five years, of which the first year (2018) corresponds to the budget approved on February 12, 2018; the year 2019 corresponds to the third year of the strategic plan approved by the Board of Directors on May 15, 2017 and updated in line with the change in consolidation scope on February 12, 2018 and the subsequent three years (2020-2022) estimated through extrapolation of 2019. The main assumptions utilised in the determination of the cash flows were as follows:

- an average cost of raw materials as a percentage of revenue of 51.4%;
- an average cost of the variable operating cost component (direct labour, outsourcing, commercial costs) as a percentage of revenue of 20.7%;
- an average of the fixed operating cost component as a percentage of revenue of 11.4%;
- working capital absorbed by core business activities as a percentage of revenue equal to 9%.

The assumptions utilised in the estimates are based on historical and forecast data of the company, and are in line with information available from independent sector and market analysts in which the Group operates. These estimates are subject to changes, even significant, deriving from uncertainties which continue to effect the markets, and for this reason management continues to periodically monitor the circumstances and events which affect these assumptions and future trends.

Results of the impairment test

The impairment test did not result in the recognition of loss in value of the goodwill. The value in use of the Europe CGU was 5.8 times its carrying amount.

Sensitivity analysis

Various sensitivity analyses were carried out assuming reasonable changes to the base assumptions of these estimates, and in particular the growth rate (+0.7/- 0.9%), the WACC (+/- 0.5%) and the cost of raw materials (+2%). None of the changes considered resulted in a CGU recoverable amount equal to or below the respective carrying amounts.

Other intangible assets

The table below shows details of changes in other intangible assets in 2016 and 2017.

In Euro thousands	**Dec 31, 15**	**Increases**	**Decreases & reclass.**	**Amort.**	**Dec 31, 16**
Carrying amount					
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 & similar rights	193	73	(44)	(26)	196
Other intangible assets	293	186	0	(110)	369
Assets under construction 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**

In Euro thousands	**Dec 31, 16**	**Increases**	**Decreases & reclass.**	**Amort.**	**Dec 31, 17**
Carrying amount					
Development costs	7,413	1,757	834	(2,535)	7,469
Industrial patents and intellectual property rights	6,940	1,839	858	(2,047)	7,590
Concessions, licenses, trademarks & similar rights	196	1,832	9	(124)	1,913
Other intangible assets	369	1,084	-	(165)	1,288
Assets under development and payments on account	2,207	1,646	(1,986)		1,867
Other intangible assets	**17,126**	**8,157**	**(285)**	**(4,871)**	**20,127**

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

The intangible assets under development and payments on account of Euro 1,867 thousand refer principally to the design and development of new products and software application programmes. Assets under development which presumably will be recorded under development costs amount to Euro 665 thousand.
The capitalisation of development costs requires the calculation of estimates by the Directors, as their recoverability is dependent on the cash flows deriving from the sale of products sold by Elica Group.
The recoverable amount of the development costs is greater than the corresponding carrying amount, and therefore it is not necessary to recognise an impairment loss.

4.19 Investments

Investments in subsidiaries

In Euro thousands	Dec 31, 16	Acquisitions & Sub.	Impairment	Increases	Disposals	Dec 31, 17
Investments in subsidiaries	63,458	3,470	(1,980)	4,700	(12,380)	57,268
Investments in subsidiaries	**63,458**	**3,470**	**(1,980)**	**4,700**	**(12,380)**	**57,268**

The details of investments in subsidiaries are shown below:

In Euro thousands	Dec 31, 16	Acquisitions & Sub.	Impairment	Increases	Disposals	Dec 31, 17
Elica Trading LLC	3,880					3,880
Elica Group Polska S.p.zoo	22,276					22,276
Elicamex S.a. de C.V.	9,387					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	10,820			1,560	(12,380)	-
Elica India P.B.	4,071					4,071
Zhejiang Elica Putian Electric Co. Ltd	11,611	1,905	(1,980)	2,190		13,726
Elica France S.A.S.	74			950		1,024
Elica GmbH		1,565				1,565
Investments in subsidiaries	**63,458**	**3,470**	**(1,980)**	**4,700**	**(12,380)**	**57,268**

Investment underwent the following changes in the year.
Elica S.p.A. incorporated the German company, wholly-owned by Elica GmbH, and paid-in the share capital, while increasing the share capital in Elica France for Euro 950 thousand, and for approx. Euro 2 million in Putian. It thereafter paid-in Euro 1.5 million in favour of the subsidiary Gutmann, which was subsequently sold. Reference should be made to paragraph 4.38 for further information.
In addition, on July 26, 2017, with effect from September, Elica S.p.A. signed an agreement to acquire 30% of the Chinese subsidiary Zhejiang ELICA Putian Electric Co., Ltd. from the non-controlling interest Du Renyao. The operation extended governance over the Chinese subsidiary in order to drive forward company results. Consideration for the 30% holding in the Chinese subsidiary was CNY 15 million (approx. Euro 1.9 million) and was paid in cash utilising available company resources.
The table below summarises the key figures derived from the subsidiaries' 2017 financial statements:

In Euro thousands	% held	Value at Dec 31, 2017	Profit/(loss) for the year	Equity
Elicamex S.a.d. C.V.	98%	9,389	7,068	18,644
Elica Group Polska Sp.z o.o	100%	22,275	4,001	27,716
Airforce S.p.A.	60%	1,212	493	3,517
Ariafina Co.Ltd	51%	49	2,955	7,006
Leonardo Services S.a. de C.V.	98%	75	262	63
Elica GmbH	100%	1,565	(142)	1,383
Elica PB India Private Ltd.	51%	4,072	1,828	5,073
Zhejiang Elica Putian Electric Co. Ltd	97%	13,726	(5,229)	(5,754)
Elica Trading LLC	100%	3,880	(189)	656
Elica France S.A.S.	100%	1,024	447	502

The amount of the investment in Elica India includes the Debenture for Euro 3.6 million. In the consolidated financial statements, the non-controlling interest equity in this company is Euro 137 thousand. The companies Elica Francia and Elica GmbH are still in the start-up phase.

The recoverable value of the investments demonstrating indicators of impairment were verified through calculating the respective values in use, represented by the present value of the expected revenue streams for the years of operations of the company subject to the impairment test and deriving from its disposal at termination of the useful life, calculated as per the "Discounted cash flow" method.
The impairment test was approved by the Board of Directors on February 12, 2018, independently and prior to the preparation of the financial statements.
The estimate of the future operating cash flows used for the impairment test, prepared and approved by the Directors, was made based on the 2017-2019 Three-Year Plan, approved on May 15, 2017, appropriately updated for the 2018-2019 forecast figures, to reflect the effects of the deconsolidation of the subsidiary Gutmann, and based on the best estimates made by the directors, for the sole purposes of the impairment test, for the years 2020-2022.

Assumptions of the Discounted cash flow
The principal assumptions utilised by the company for the estimate of the future cash flows for the impairment test of the investments were as follows:

2017	**Weighted average cost of capital (WACC)**	**Growth rate terminal value**	**CAGR revenue period 2019-2022**
Elica Trading LLC	11.69%	1.80%	7.2%
Zhejiang Elica Putian Electric Co. Ltd	7.85%	5.00%	4.5%
Investments in subsidiaries with indicators of Impairment			

The principal assumptions utilised by the company in the previous year were as follows:

2016	**Weighed average cost of capital (WACC)**	**Growth rate terminal value**	**CAGR revenue period 2018-2021**
Elica Trading LLC	13.26%	1.60%	4.93%
Zhejiang Elica Putian Electric Co. Ltd	7.71%	4.80%	2.98%
Investments in subsidiaries with indicators of Impairment			

The Weighted Average Cost of Capital (WACC) utilised to discount the future cash flows was determined utilising the Capital Asset Pricing Model (CAPM).

Assumptions utilised in the estimate of the cash flows
The discounted cash flow model is based on the cash flows for a period of five years, of which the first year (2018) corresponds to the budget approved on February 12, 2018; the year 2019 corresponds to the third year of the strategic plan approved by the Board of Directors on May 15, 2017 and updated in line with the change in consolidation scope on February 12, 2018 and the subsequent three years (2020-2022) estimated through extrapolation of 2019. The principal assumptions utilised in the determination of the cash flows were as follows:

- an average cost of raw materials as a percentage of revenue equal to 64% for Putian and 70% for Elica Trading;
- an average cost of the variable operating cost component (direct labour, outsourcing, commercial costs) as a percentage of revenue of 16% for Putian and 12% for Elica Trading;
- an average of the fixed operating cost component as a percentage of revenue equal to 21% for Putian and 10% for Elica Trading;
- working capital absorbed by core business activities as a percentage of revenue equal to 74% for Putian and 8% for Elica Trading.

The assumptions utilised in the estimates are based on historical and forecast data of the investees, and are in line with information available from independent sector and market analysts in which the company operates. These estimates are subject to changes, even significant, deriving from uncertainties which continue to effect the markets, and for this reason management continues to periodically monitor the circumstances and events which affect these assumptions and future trends.

Results of the impairment test
The tests did not result in impairments to the value of the investment in Elica Trading LLC, as the value in use was 2.45 times the corresponding carrying amount, while resulting in the recognition in the Income Statement of the company of an impairment of Euro 2 million for the company Putian.

Sensitivity analysis

Various sensitivity analyses were carried out in terms of the test on the investment in Elica Trading LLC, assuming reasonable changes to the base assumptions of these estimates, and in particular the growth rate (+/- 2%), the WACC (+/- 5%) and the cost of raw materials (+/-5%). None of the changes considered resulted in an investment recoverable amount equal to or below the respective carrying amounts.

We undertook a sensitivity analysis on the test concerning the investment in Putian, according to the following assumptions and with the following results: changing the growth rate (+/- 2%) the coverage would range between 0.1 and 1.7; changing the WACC (+/- 5%) the coverage would range between 0.7 and 1.13 and, finally, changing the cost of raw materials (+/- 5%) the coverage would range between 0.3 to 2.

Investments in associates

There were no changes in investments in associates during the year.
These investments relate to:

In Euro thousands	**Registered Office**	**% held**	**Carrying amount at Dec 31, 2017**	**Profit/(loss)**	**Equity**	**Pro-quota Equity at Dec. 31, 2017**
Reporting package figures						
I.S.M. S.r.l.	Cerreto D'Esi (AN) - (Italy)	49%	1,377	(4)	2,837	1,401

At December 31, 2017, the company considered the carrying amount of the investment in I.S.M. S.r.l. 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 assets is as follows:

In Euro thousands	**Dec 31, 2017**	**Dec 31, 2016**	**Changes**
From employees	20	34	(14)
Other	2,372	11	2,361
Other assets (non-current)	**2,392**	**45**	**2,347**

Other assets (non-current) increased Euro 2,361 thousand, due to receivables from the third party purchaser of the investment in Gutmann. For further details reference should be made to note 4.38.

Management believes that this amount approximates fair value. This account includes receivables with maturity of greater than five years for Euro 749 thousand, of which Euro 737 thousand concerning the receivable matured from the purchaser on the sale of the subsidiary Gutmann.

4.21 Deferred tax assets and liabilities

In Euro thousands	**Dec 31, 2017**	**Dec 31, 2016**	**Changes**
Deferred tax assets	11,301	8,762	2,539
Deferred tax liabilities	(799)	(933)	134
	10,503	**7,828**	**2,674**

Deferred tax assets principally relate to non-deductible accruals, goodwill and the tax loss. Deferred tax liabilities principally includes the payables for merger adjustments.

The following table details deferred tax assets and liabilities:

In Euro thousands	Dec 31, 2016			Effect on profit or loss		Dec 31, 2017	
	Assets	**Liabilities**	**Eq./Others**	**Costs**	**Revenue**	**Assets**	**Liabilities**
Amortisation and depreciation	863			1	(115)	978	1
Accruals	2,730			466	(837)	3,102	
Costs ded. in future years	138			3	(46)	181	
Inventory write-down	557			1	(211)	766	
Exchange rate differences		(271)			(462)	192	
Gains, Grants		0					
Restructuring charges					(177)	177	
Merger adjustments		(659)			(40)		(618)
Other deferred charges	-						
Goodwill	250	(3)		53		196	(3)
IRS measurement	(229)		124			72	(177)
Post-employment benefits	281					281	
IRAP refund claim on IRES repayment	1,224					1,224	
Tax loss	2,609				(422)	3,032	
Employee bonuses	339			339	(1,102)	1,102	
Total	8,762	(933)	124	863	(3,413)	11,301	(799)

4.22 Available-for-sale (AFS) financial assets

This account relates 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, 2017**	**Dec 31, 2016**	**Changes**
Meccano S.p.A.	15	15	-
Other minor investments	34	38	(4)
AFS financial assets	**49**	**53**	**(4)**

The above investments are recorded at cost and in accordance with article 10 of Law 72/1983 no revaluations have been made pursuant to specific laws. The account did not significantly change on the previous year.

4.23 Trade receivables – third parties

The account consists of:

In Euro thousands	**Dec 31, 2017**	**Dec 31, 2016**	**Changes**
Receivables within one year	42,519	42,929	(410)
Receivables beyond one year	7,475	1,749	5,726
Trade receivables – third parties	**49,994**	**44,678**	**5,316**

Net trade receivables increased Euro 5,316 thousand; this increase relates to the significant increase in revenue. The account includes receivables beyond 5 years for Euro 2,687 thousand, concerning trade receivables from the former subsidiary Gutmann, whose due dates were extended on the company's sale. For further information, reference should be made to note 4.38.

The company adopts a Credit Policy which governs the management of credit and the reduction of the related risk. In particular, it is company policy to transfer the risk deriving from trade receivable recovery 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 related provision accrued based on a specific analysis of the individual risks and on the basis of a general provision calculated in accordance with the provisions of the Group Credit Policy.

The realignment of receivables to their fair value is achieved through the allowance for impairment.

Management believes that the value approximates the fair value of the receivables.

The changes in the allowance for impairment are set out below:

In Euro thousands	Dec 31, 2017	Dec 31, 2016	Changes
Opening balance	4,291	4,020	271
Allowance	639	337	302
Utilisations/Releases	(1,079)	(66)	(1,013)
Total	3,851	4,291	(440)

4.24 Trade and financial receivables - 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:

In Euro thousands	Dec 31, 2017	Dec 31, 2016	Changes
Receivables from subsidiaries	48,619	66,539	(17,920)
Receivables from other related parties	-	-	-
Receivables from parents	-	-	-
Receivables from associates	2	2	(0)
Receivables from related parties	**48,621**	**66,541**	**(17,920)**

Receivables from subsidiaries are broken down as follows:

In Euro thousands	Dec 31, 2017	Dec 31, 2016	Changes
Elica Trading LLC	3,292	4,213	(921)
Air Force S. p. A.	389	419	(30)
Elica Group Polska S.p.z.oo	12,515	14,784	(2,269)
Elicamex S.A. de C.V.	17,049	14,064	2,985
Ariafina Co Ltd	319	318	1
Exklusiv Hauben Gutmann GmbH	-	17,353	(17,353)
Elica PB India Private Ltd.	3,222	4,664	(1,442)
Elica France S.A.S.	2,253	2,985	(732)
Zhejiang Elica Putian Electric Co. Ltd	8,511	7,739	772
Elica GmbH	1,069	-	1,069
Receivables from subsidiaries	**48,619**	**66,539**	**(17,920)**

The account includes financial receivables from subsidiary companies, respectively for Euro 3,853 thousand from the Chinese company Zhejiang Elica Putian Electric Co. Ltd (Euro 3,929 thousand in 2016), Euro 8,294 thousand from the Mexican company Elicamex S.a. de C.V. (Euro 4,327 thousand in 2016), Euro 433 thousand from the French subsidiary Elica France S.A.S (Euro 433 thousand in 2016), Euro 2,009 thousand from the Polish company Elica Group Polska S.p.z.oo (Euro 4,277 thousand in 2016) and Euro 2,464 thousand from the Indian company Elica PB India Private (Euro 3,776 thousand). This latter receivable includes the IAS measurement of the obligatorily convertible bond loan undertaken by the company in 2013. In 2017, the company Gutmann was sold to third parties and the loan asset at December 31, 2016 was sold for Euro 1. Reference should be made to the specific paragraph for further information.
The changes show the synergies created in order to optimise cash management.
The assets from the associate ISM refer to normal company operations.
The item does not include receivables with a duration beyond five years at the reporting date.

4.25 Inventories

The value of inventories reports an increase of approx. Euro 4.4 million.

In Euro thousands	Dec 31, 2017	Dec 31, 2016	Changes
Raw material, ancillary and consumables	13,782	12,835	947
Provision for the write-down of raw materials	(1,175)	(918)	(257)
Total	**12,607**	**11,918**	**690**
Work in progress and semi-finished products	8,004	8,121	(117)
Provision for the write-down of work in progress	(551)	(507)	(44)
Total	**7,453**	**7,614**	**(161)**
Finished products and goods for resale	17,448	13,036	4,412
Provision for the write-down of finished products	(1,476)	(903)	(573)
Total	**15,972**	**12,134**	**3,839**
Inventories	**36,032**	**31,666**	**4,368**

Inventories are stated net of the provision for inventory write-down which amounts to Euro 3,202 thousand at December 31, 2017 and Euro 2,326 thousand at December 31, 2016, 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 on display, for processing, consignment stock, or for examination.

4.26 Other receivables (current)

The breakdown is as follows:

In Euro thousands	Dec 31, 2017	Dec 31, 2016	Changes
Customs reimbursements	57	44	13
Guarantee deposits	262	134	128
Advances to suppliers	230	276	(46)
Other	1,435	3,302	(1,867)
Insurance prepayments	8	22	(14)
Maintenance prepayments	83	121	(38)
Advertising prepayments	9	16	(7)
Rental prepayments	330	224	106
Other prepayments and accrued income	411	599	(188)
Other receivables (current)	**2,825**	**4,738**	**(1,913)**

This item decreased Euro 1,913 thousand, particularly relating to Other assets. Other Assets mainly refer to government grants for investment obtained, such as Industry 2015, the SM project, the Shell project, the Seal project and photovoltaic plant grants. The decrease is mainly due to the collection of these receivables from the government. Management believes that this amount approximates fair value.

The account includes receivables beyond five years of Euro 13 thousand.

4.27 Tax assets (current)

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

In Euro thousands	Dec 31, 2017	Dec 31, 2016	Changes
IRES	454	414	40
IRAP	-	208	(208)
VAT	6,460	3,797	2,663
Other tax assets	1,593	2,476	(883)
Tax assets (current)	**8,507**	**6,894**	**1,612**

Other tax assets include the receivables for taxes paid overseas to be recovered and the tax receivable for research and development activities as per Law No. 190/2014 from the Tax Authorities.
Management believes that this amount approximates fair value.
The changes concern the increase in the VAT receivable related to commercial transactions.

4.28 Derivative financial instruments

	Dec 31, 2017		Dec 31, 2016	
In Euro thousands	**Assets**	**Liabilities**	**Assets**	**Liabilities**
FX derivatives on foreign exchange	344	600	142	1,006
Interest rate derivatives	8	308	-	465
Commodities derivatives	662	-	1,694	-
Derivative financial instruments	**1,014**	**908**	**1,835**	**1,471**
of which				
Non-current	8	75	-	198
Current	1,006	833	1,835	1,273
Derivative financial instruments	**1,014**	**908**	**1,835**	**1,471**

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

4.29 Cash and cash equivalents

In Euro thousands	Dec 31, 2017	Dec 31, 2016	Changes
Bank and postal deposits	8,332	9,817	(1,485)
Cash and cash equivalents on hand	5	9	(4)
Cash and cash equivalents	**8,337**	**9,826**	**(1,489)**

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 position in the directors' report and to the statement of cash flows.

4.30 Liabilities for post-employment benefits

The amount provisioned in the accounts of Euro 9,713 thousand is the present value of pension liabilities matured by employees at year-end.
The most recent calculation of the present value of this item was performed at December 31, 2017 by actuaries from the company MANAGERS & PARTNERS - ACTUARIAL SERVICES S.P.A.. The amounts recognised in profit or loss were as follows:

In Euro thousands	Dec 31, 2017	Dec 31, 2016	Changes
Current service cost	2,810	2,564	246
Financial charges	137	209	(72)
	2,947	**2,774**	**174**

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

In Euro thousands	Dec 31, 2017	Dec 31, 2016	Changes
Opening balance	**10,106**	**9,689**	**417**
Current service cost	2,810	2,564	246
Actuarial gains and losses	(247)	448	(695)
	2,562	**3,012**	**(450)**
Financial charges	137	209	(72)
Pension fund	(2,819)	(2,571)	(248)
Benefits provided	(274)	(233)	(41)
	(2,955)	**(2,595)**	**(360)**
Liabilities for post-employment benefits	**9,713**	**10,106**	**(393)**

The interest component of the defined employee benefit plan cost is shown under financial charges, with a resulting increase of Euro 137 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 247 thousand, comprise the actuarial gains (losses) of the defined benefit plans reported in the statement of comprehensive income.

Assumptions adopted for the calculation:

	Dec 31, 2017	Dec 31, 2016
Discount rate to determine the obligation	1.30%	1.60%
Rate of inflation	1.50%	1.65%

The discount rates utilised by the company 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% (1.8%), the obligation would amount to Euro 9,263 thousand, while if the discount rate decreased 0.5% (0.8%), the obligation would amount to Euro 10,223 thousand.

Number of employees
The average number of employees in 2017 was 1,190 (1,207 in 2016), as outlined in note 4.7.

4.31 Provisions for risks and charges
The composition and movements of the provisions are as follows:

In Euro thousands	Dec 31, 2016	Provisions	Utilisations/Reclass.	Dec 31, 2017
Agents' termination benefits	532	89	(67)	555
Product warranties	669	946	(669)	946
Product disposal	304	435	(185)	554
Legal risks	5,461	1,678	(393)	6,746
Long-Term Incentive Plan	-	680	-	680
Restructuring provision	-	630	-	630
Personnel	1,206	3,177	(1,206)	3,177
Provisions for risks and charges	**8,174**	**7,635**	**(2,550)**	**13,288**
of which				
Non-current	7,504			12,342
Current	669			946
Provisions for risks and charges	**8,174**			**13,288**

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 277 thousand.
Legal risks provision includes the accrual for the first level judgement in the cases with the Brazilian companies Esperança Real S/A and Madson Eletrometalurgica Ltda. issued against Elica S.p.A by the Belo Horizonte Court (Brazil) on March 1, 2017. The case concerns preliminary agreements signed 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 Directors assessed the ruling, the technical opinions upon the possible development of the case and its probable final outcome, and decided to allocate to the provision for legal risks Euro 4 million, of which Euro 0.3 million in the current year and relating to interest and legal expenses, 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. In any case, the company confirms that it intends to defend itself at all legal levels.
This provision also includes a prudent provision of Euro 0.9 million recognised by the company following an inspection undertaken by the Tax authorities on November 21, 2017. The investigation involves assessments undertaken throughout the country in relation to some companies which, according to the tax inspectors, proposed to their potential clients (among which Elica S.p.A.) the purchase of prototypes created following specific studies and research for the construction of a completely innovative machine and particularly adapted to the needs of the buyer. Given the initial phase of the assessment it is difficult to assess the outcome and possible effects on Elica, but thanks to technical

opinions, the company recognised an accrual of Euro 0.9 million on a purely prudent basis and not on the basis of the inspector's legal grounds, but rather solely to be fully compliant with international accounting standards.
The restructuring provision of Euro 0.6 million was set up on December 31, 2017 for future departures relating to the Parent's personnel redundancy plan, in order to reduce and streamline the organisational structure, in accordance with IAS 37. They principally concern personnel expense.
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 2017 in this regard.
The Long Term Incentive Plan provision concerns the accrued liability at December 31, 2017 for the 2016-2022 Phantom Stock and Voluntary Co-investment Plan. The provision refers to the second cycle of this Plan, which was approved by the Board of Directors of Elica S.p.A. on June 26, 2017. No accrual was recorded for the first cycle as the targets were not achieved. For further details, reference should be made to the Remuneration Report.
The impact of discounting non-current provisions is not significant.

4.32 Bank loans and borrowings

In Euro thousands	**Dec 31, 2017**	**Dec 31, 2016**	**Changes**
Bank loans and borrowings	92,087	82,595	9,492
Total	**92,087**	**82,595**	**9,492**
Bank borrowings have the following repayment schedules			
On demand or within one year	44,966	48,898	(3,932)
Within two years	18,650	12,206	6,444
Within three years	18,108	12,252	5,856
Within four years	7,125	8,539	(1,414)
Within five years	3,238	700	2,538
After 5 years		-	
Total	**92,087**	**82,595**	**9,492**
Less amounts to be repaid within one year	44,966	48,898	(3,932)
Due after one year	**47,121**	**33,697**	**13,424**

All bank loans and borrowings are denominated in Euro.
The majority of borrowings indicated above carry a floating rate of interest. In 2017 the company undertook three new non-current loans and subscribed related IRS contracts on these loans to hedge the variable interest rate.
For further information on interest rate hedges, reference should be made to paragraph 6. Information on risk management of these notes.

4.33 Current and non-current tax liabilities

Tax liabilities (non-current)

The movements in non-current Tax liabilities relate to the monthly payments of the earthquake suspension payables following the earthquake in 1997.
This account does not include payables beyond five years. They are reported below:

In Euro thousands	**Dec 31, 2017**	**Dec 31, 2016**	**Changes**
Local income tax – earthquake deferrals	38	65	(27)
Other tax liabilities	34	58	(24)
Employees' leaving entitlement - earthquake deferral	6	9	(3)
Substitute tax – earthquake deferral	0	-	0
Estate taxes – earthquake deferral	106	180	(74)
Tax liabilities (non-current)	**183**	**312**	**(129)**

Tax liabilities (current)

In Euro thousands	Dec 31, 2017	Dec 31, 2016	Changes
Other tax liabilities	933	741	192
IRPEF withholding	1,778	2,014	(236)
Tax liabilities (current)	**2,711**	**2,755**	**(44)**

The decrease in the account Tax liabilities (current) refers to the decrease in the IRPEF payable.
Management believes that this amount approximates fair value.

4.34 Other Payables

Other payables (non-current)

In Euro thousands	Dec 31, 2017	Dec 31, 2016	Changes
Other liabilities	3	89	(86)
INAIL contributions – 1997 earthquake deferral	16	28	(12)
INPDAI contributions – 1997 earthquake deferral	7	13	(6)
Employee INPS contributions – 1997 earthquake	185	324	(139)
Other payables (non-current)	**211**	**454**	**(243)**

The decrease principally relates to deferred payables following the earthquake in 1997, which decrease as the company makes repayments. The balance does not include payables due after 5 years.

Other payables (current)

In Euro thousands	Dec 31, 2017	Dec 31, 2016	Changes
Payables to social security institutions	2,293	1,396	897
Other	112	61	51
Payables to personnel for remuneration	4,210	4,008	202
Payables to customers	4	3	1
Accrued charges and deferred income	258	99	159
Directors and Statutory Auditors	100	57	43
Advances from customers	274	188	86
Other payables (current)	**7,250**	**5,811**	**1,438**

The account increased Euro 1,438 thousand, in particular due to the increase in Payables to personnel for remuneration of Euro 202 thousand and of Euro 897 thousand in payables to social security institutions, mainly due to the greater compensation impact in the previous year from the Solidarity contribution.
The account includes payables after five years for Euro 11 thousand.

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

In Euro thousands	Dec 31, 2017	Dec 31, 2016	Changes
Trade payables	74,546	69,427	5,119
Trade payables to third parties	**74,546**	**69,427**	**5,119**
Payables to subsidiaries	30,174	34,770	(4,596)
Payables to other related companies	51	10	41
Payables to related companies	**30,225**	**34,781**	**(4,555)**
Trade payables and financial payables	**104,771**	**104,207**	**564**

These mainly include payables for trade purchases and other costs. The average payment days is approximately 101.
The balance of the payables to other related companies (Euro 51 thousand) includes the payables at December 31, 2017 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.

In Euro thousands	Dec 31, 2017	Dec 31, 2016	Changes
Elica Trading LLC	231	20	211
Elica Group Polska S.p.z.oo	25,449	28,366	(2,917)
Air Force S.p.A.	245	269	(24)
Elicamex S.A.	1,473	893	580
Ariafina Co Ltd	1,498	1,645	(147)
Leonardo S.A.	6		6
Zhejiang Elica Putian Electric Co. Ltd	1,081	1,232	(151)
Elica PB India Private Ltd.	159	154	5
Elica France S.A.S.	32	1	31
Exklusiv Hauben Gutmann GmbH	-	2,191	(2,191)
Payables to subsidiaries	**30,174**	**34,770**	**(4,597)**

The balance includes financial liabilities of Euro 2.9 million, in addition to trade payables. The amounts of a commercial nature refer principally to purchases from Elica Group Polska of Euro 25,449 thousand (Euro 28,366 thousand in 2016).

4.36 Equity

For the analysis on the movements in equity, reference should be made to the relative table.
Comments are provided on each of the equity reserves.

4.36.1 Share capital

The share capital at December 31, 2017 amounts to Euro 12,664 thousand, consisting of 63,322,800 ordinary shares with a par value of Euro 0.20 each, fully subscribed and paid-in.

4.36.2 Capital reserves

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

4.36.3 Hedge reserves

In Euro thousands	Dec 31, 2016	Changes in the hedging reserve	Other changes	Dec 31, 2017
Hedging reserve	724	(393)	-	331
	724	**(393)**	**-**	**331**

The hedge reserve contains Euro 331 thousand which represents the positive fair value of hedging derivatives (cash flow hedges) net of the tax effect (in the previous year also positive for Euro 723 thousand).

4.36.4 Treasury shares

	Number	Carrying amount *In Euro thousands*
Opening balance at January 1, 2017	1,275,498	3,551
Closing balance at December 31, 2017	1,275,498	3,551

In 2017, there was no change to the number of treasury shares. At December 31, 2017, the treasury shares in portfolio represent 2% of the share capital.

Reserve for actuarial gains/losses

In Euro thousands	Dec 31, 2016	IAS 19 actuarial effect	Dec 31, 2017
Reserve for post-employment benefit actuarial gains/losses	(3,222)	247	(2,975)
	(3,222)	**247**	**(2,975)**

4.36.6 Retained earnings

In Euro thousands	Dec 31, 2017	Dec 31, 2016	Changes
Legal reserve	2,533	2,533	(0)
IFRS transition reserve	1,675	1,675	0
Extraordinary reserve	26,380	32,921	(6,541)
Retained earnings	**30,588**	**37,129**	**(6,541)**

The increase in the extraordinary reserve of Euro 6,541 thousand is due to the allocation to this item of the 2016 company result.

Information on distributable reserves

The following table shows the equity accounts 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.

Description origin	Amount	Poss. of utilisation	Quota available	*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	**71,123,336**	**A,B,C**	**71,123,336**		
IV Legal reserve	2,532,912	B			
VII Other reserves:					
Extraordinary reserve	26,379,950	A,B,C	22,828,964	6,541,060	
IFRS transition reserve	1,675,096	A,B,C	1,675,096		
Retained earnings	**30,587,958**				
Non-distributable amount	-		7,469,359		
Residual distributable amount	-		88,158,037		
A - to increase share capital					
B - to cover losses					
C: for distribution to shareholders					

The non-distributable quota, in accordance with Article 2426, paragraph 5 of the Italian Civil Code, of Euro 7,469 thousand refers to the residual amount to be amortised of development expenses. The part of the Extraordinary reserve not available for distribution of Euro 3,551 thousand relates to the value of the treasury shares held in portfolio, in accordance with Article 2357-ter of the Italian Civil Code.

4.37 Net financial position

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

In Euro thousands	**Dec 31, 2017**	**Dec 31, 2016**
Cash and cash equivalents	**8,337**	**9,826**
Financial receivables - related parties	17,053	27,891
Financial payables - related parties	(2,861)	(2,495)
Bank loans and borrowings	(44,966)	(48,898)
Current loans and borrowings	**(30,774)**	**(23,502)**
Bank loans and borrowings	(47,121)	(33,697)
Non-current loans and borrowings	**(47,121)**	**(33,697)**
Net financial position	**(69,558)**	**(47,372)**

At December 31, 2017, the net financial position was Euro 69,558 thousand, increasing Euro 22.2 million on December 31, 2016. For further comment, reference is made to the directors' report.

4.38 Investment disposal

Disposal of the investment in Gutmann

Elica S.p.A., on August 28, 2017, sold 100% of the share capital of the German company Exklusiv-Hauben Gutmann, to Mr. Manuel Fernandez Salgado (the Purchaser), former Managing Director of the subsidiary. Over recent years, the German subsidiary has underperformed compared to consolidated earnings and therefore in order to protect the value created by the Group for shareholders and to focus investment and the company on the more profitable aspects of the business its disposal was approved. Group development in Germany will continue to focus on the Elica brand, which already enjoys a strong presence and good positioning on the most profitable market segments. Acquired by Elica S.p.A. in 2008, Exklusiv-Hauben Gutmann specifically manufactures high-end tailor-made range hoods under the Gutmann brand at its Mühlacker facilities.

Consideration for 100% of the German subsidiary Exklusiv-Hauben Gutmann was Euro 2.5 million, to be settled in five tranches at each year-end from December 31, 2019 until December 31, 2023. The receivable from the sale of the investment was discounted and a charge of Euro 192 thousand was recognised under charges from subsidiary disposal.

In addition, Elica transferred to Manuel Fernandez an Exklusiv-Hauben Gutmann loan asset of Euro 11.15 million for consideration of Euro 1. The purchaser granted Elica S.p.A. a call option on 100% of the share capital of Exklusiv-Hauben Gutmann, exercisable at conditions established by the parties at the price of six times the average EBITDA of the last two years, net of the net financial debt. In addition, Elica S.p.A. has a call option against Exklusiv-Hauben Gutmann on the transferred loan asset, existing at the option exercise date and exercisable at a price of Euro 1, on fulfillment of the conditions established by the parties.

The sale of the investment also included the payment terms of Elica's trade receivables from Exklusiv-Hauben Gutmann. Extended payment terms were granted on these receivables without the application of interest, and consequently it was necessary to discount the amount. The discounting effect, equal to Euro 576 thousand, was reclassified under charges from subsidiary sale, as the extended payment terms were related to the sale of the investment in Exklusiv-Hauben Gutmann.

In these separate financial statements of Elica S.p.A. the transaction described above had the following impact on profit or loss:

In Euro thousands	**Dec 31, 2017**
a) Discounting receivable from purchaser	(192)
b) Discounting trade receivable from Gutmann	(576)
c) Charges from transfer of loan asset	(11,150)
d) Investment disposal charges	(9,875)
Charges from subsidiary disposal	**(21,793)**

It is important to note that the company presented to the Tax authorities an appeal concerning the correct tax treatment of the amounts at points a), c) and d). In the calculation of income taxes, these amounts are prudently considered as non-deductible.

5. Guarantees, commitments and contingent liabilities

5.1. Contingent liabilities

The parent 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 company's financial statements at December 31, 2017 to cover legal risks and charges amounts to Euro 6,746 thousand. It includes the accrual for the first level judgement in the cases with the Brazilian companies Esperança Real S/A and Madson Eletrometalurgica Ltda. issued against Elica S.p.A by the Belo Horizonte Court (Brazil) on March 1, 2017. With the support of legal consultants and sector experts, the Directors assessed the ruling, the technical opinions upon the possible development of the case and its probable final outcome, and decided to allocate to the provision for legal risks Euro 4 million, of which Euro 0.3 million in the current year and relating to interest and legal expenses, 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. In any case, the company confirms that it intends to defend itself at all legal levels. 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 judgment 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.

This provision also includes a prudent provision of Euro 0.9 million recognised by the company following an inspection undertaken by the tax authorities on November 21, 2017. The investigation involves assessments undertaken throughout the country in relation to some companies which, according to the tax inspectors, proposed to their potential clients (among which Elica S.p.A.) the purchase of prototypes created following specific studies and research for the construction of a completely innovative machine and particularly adapted to the needs of the buyer. Given the initial phase of the verification it is difficult to assess the outcome and possible effects on Elica, but thanks to technical opinions, the company recognised an accrual of Euro 0.9 million on a purely prudent basis and not on the basis of the inspector's legal grounds, but rather solely to be fully compliant with international accounting standards.

5.2. 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, is held by Mr. Francesco Casoli.
For further information on the matter, reference should be made to the annual corporate governance report, available on the company's website https://elica.com/corporation (Corporate Governance section).

Elica S.p.A. has undertaken guarantees in favour of Putian for credit lines of Euro 17.65 million and Elica Group Polska has a rotating receivable factoring cap of Euro 3.5 million, in addition to a corporate guarantee of Euro 0.65 million in favour of third parties.

Commitments with suppliers for non-current asset purchases at December 31, 2017 amount to approx. Euro 2,599 thousand, principally relating to investments in the production capacity.
The company at December 31, 2017 has commitments in place for the purchase of raw materials, as described in paragraph 6.2.2 Commodity risk.

5.3. Operating leases

At the reporting date there were rental agreements for several industrial and commercial properties, motor vehicle rental agreements and operating leases for hardware and other. The account other operating leases concerns commitments for a new operating lease contracts, signed by the company concerning photovoltaic panels. Future payments due against lease contracts are summarised in the following table:

In Euro thousands	**Dec 31, 2017**	**Dec 31, 2016**	**Changes**
Property rentals	813	620	193
Car and fork lift rental	2,606	3,636	(1,030)
Hardware operating leases	2,763	3,215	(452)
Other operating leases	1,866	2,190	(324)
Operating lease commitments	**8,048**	**9,661**	**(1,613)**

In Euro thousands	**Dec 31, 2017**	**Within 1 year**	**1 - 5 years**	**Beyond 5 years**
Property rentals	813	343	470	-
Car and fork lift rental	2,606	1,018	1,588	-
Hardware operating leases	2,763	638	2,125	-
Other operating leases	1,866	407	1,459	-
Operating lease commitments	**8,048**	**2,406**	**5,641**	**-**

6. Risk management policy

6.1 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 commenced the implementation of a financial risk monitoring system through a “Financial Risk Policy” approved by the Board of Directors of the company. Within this policy, the company constantly monitors the financial risks related to the operating activities in order to assess any potential negative impact and undertakes corrective action where necessary.

The main guidelines for the Company risk policy management are as follows:

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

The company Financial Risk Policy is based on the principle of proficient 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 on 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 conclusion, settlement, registration and reporting of results.

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

6.2 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.

6.2.1 Currency risk

The Company's operating currency is the Euro. However, the Group companies trade also in American 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 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 Management of the company on the basis of the budget for the 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 most significant statement of financial position balances in foreign currency at December 31, 2017 are shown below:

In Euro thousands	**Dec 31, 2017**		**Dec 31, 2016**	
Currency	**Assets**	**Liabilities**	**Assets**	**Liabilities**
CHF	-	(35)	-	(38)
CNY	5,450	(16)	6,963	(1)
GBP	176	(13)	114	(13)
JPY	322	(1,498)	321	(1,639)
PLN	21,028	(25,491)	17,931	(28,385)
RUB	3,990	(231)	4,219	(20)
USD	19,087	(4,477)	22,372	(4,410)
INR	2,355	(159)	3,642	(154)
Foreign currency transactions	**52,408**	**(31,920)**	**55,563**	**(34,659)**

For the purposes of the sensitivity analysis on the exchange rate, the potential movements on the Euro/CHF, Euro/CNY, Euro/GBP, Euro/YEN, Euro/PLN, Euro/RUB, Euro/USD and EUR/INR rates were analysed.

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

In Euro thousands	**Dec 31, 2017**		**Dec 31, 2016**	
Currency	**Appreciation of foreign currencies 5%**	**Depreciation of foreign currencies 5%**	**Appreciation of foreign currencies 5%**	**Depreciation of foreign currencies 5%**
CHF	(2)	2	(2)	2
CNY	286	(259)	367	(332)
GBP	9	(8)	5	(5)
JPY	(62)	56	(69)	63
PLN	(235)	212	(550)	498
RUB	198	(179)	221	(200)
USD	769	(696)	945	(855)
INR	116	(105)	184	(166)
Foreign currency transactions	**1,079**	**(977)**	**1,101**	**(995)**

The hedging operations of Elica as at December 31, 2017 with financial counterparties have a total negative fair value of Euro 256 thousand (Euro 864 thousand in 2016).

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

Currency	Dec 31, 2017 Notional (in foreign currency/000)	Fair value In thousands of Euro	Dec 31, 2016 Notional (in foreign currency/000)	Fair value In thousands of Euro
USD				
Forward	13,870	153	16,050	89
Options	4,400	75	8.433	(454)
PLN				
Forward	25,950	(21)	41,550	(38)
Options	-	-	38,401	(126)
JPY				
Forward	200,000	(119)	228,400	(123)
RUB				
Forward	265,000	(6)	400,300	(24)
Options	134,800	32	-	-
CNY				
Forward	-	-	47,851	(188)
MXN				
Options	177,500	(370)	-	-
FX derivative assets/(liabilities)		**(256)**		**(864)**

For the purposes of the sensitivity analysis on the exchange rate, the potential movements on the EUR/USD, EUR/PLN, EUR/RUB, EUR/JPY and EUR/MXN 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 also the monetary curve rates at December 31, 2017 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 2017 and the first week of January 2018 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% and for EUR/MXN and USD/MXN 11%.
For interest rates on forward exchange contracts, a stress was applied of 50 bps 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 the movements in the exchange rates and the rate curves indicated, maintaining all other variables unchanged, of the Fair Value of the operations in foreign currencies at December 31, 2017 (compared with December 31, 2016):

			Dec 31, 2017		
In Euro thousands	**USD Notional 18,270 USD/000**	**PLN Notional 25,950 PLN/000**	**JPY Notional 200,000 JPY/000**	**RUB Notional 399.8000 RUB/000**	**MXN Notional 177,500 MXN/000**
Depreciation of foreign currencies	898	351	(97)	386	889
Currency depreciation EURO	7	(2)	(4)	(4)	20
Currency depreciation	(7)	(2)	-	16	(18)
Sensitivity to depreciation	**898**	**347**	**(101)**	**398**	**891**
Appreciation of foreign currencies	(1,012)	(396)	111	(645)	(713)
Currency appreciation EURO	(7)	2	4	4	(20)
Currency appreciation	7	2	-	(15)	18
Sensitivity to appreciation	**(1,012)**	**(392)**	**115**	**(656)**	**(715)**

In Euro thousands	Dec 31, 2016 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**

6.2.2 Commodity risk

The is subject to market risk deriving from price fluctuations in commodities used in the production process. The raw materials purchased by the Group (including copper and aluminum) 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. In this way, the Group hedges the standard cost of the raw materials contained in the budget against 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, 2017 are reported below:

Copper hedges *In Euro thousands*	Dec 31, 2017 **Notional**	**Fair value**	Dec 31, 2016 **Notional**	**Fair value**
Forward	9,013	662	8,280	1,694
Commodity derivative assets/(liabilities)	**9,013**	**662**	**8,280**	**1,694**

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, 2017 of Euro 476 thousand.
Similarly, a reduction of 5% results in a decrease in the fair value of forward contracts of Euro 476 thousand.
The Net change in the hedging reserve account is primarily impacted by this issue, increasing Euro 0.5 million, on Euro 0.3 million.

6.2.3 Interest rate risk

The management of interest rate risk by Elica 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's debt, from the sensitivity analysis a decrease of 25 bps in the interest rate curve in the short-term incurs lower interest expense of Euro 173 thousand, while an increase of 25 bps in the same interest rate curve converts into higher interest expense of Euro 173 thousand.
The Group hedges the interest rate risk through the utilisation of four interest rate swaps and through CAP options against specific medium-long term loans at a variable rate.

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

	Dec 31, 2017		Dec 31, 2016	
Instrument *In Euro thousands*	**Notional**	**Fair value**	**Notional**	**Fair value**
Interest Rate Swaps	62,456	(300)	49,625	(465)
CAP	536	-	1,583	-
Interest rate derivative assets/(liabilities)	**62,992**	**(300)**	**51,208**	**(465)**

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 converts into a decrease/increase in the Fair Value of the Interest Rate Swap at December 31, 2017 of Euro 186 thousand.
With reference to the CAP options, the sensitivity analysis carried out on the interest rate curves shows against an increase or decrease in the curve of 25 bps, the fair value remains constant.

6.3 Credit risk

The credit risks represent the exposure of Elica to potential losses deriving from trading partners' non-compliance with obligations. This risk derives in particular from economic-financial factors related to a potential solvency crisis of one or more counterparties.
The company adopts a Group Credit Policy (attached 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, 2017 is based on the carrying amount of the receivables recognised to the accounts, net of the specific insurance coverage, in addition to the nominal value of the guarantees given to third parties. The amount, at the end of December 2017, of receivables covered by insurance or other guarantees was Euro 44.1 million (93.4% of gross receivables).
At December 31, 2017, trade receivables from non-group clients of Euro 50 million (Euro 44.7 million at December 31, 2016), included approx. Euro 6.2 million (Euro 4.3 million at December 31, 2016) concerning overdue receivables, of which Euro 0.3 million over 30 days.
The amount of trade receivables recognised in the statement of financial position is net of the allowance for impairment. The provision is allocated either on a specific basis or on the general basis of overall risks, in accordance with the company's Credit Policy.
For more details, see paragraph 4.23 of these notes.

6.4 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 liquidity of the company are, on the one hand, the resources generated and absorbed by the operating and investing 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.

	Dec 31, 2017		
In Euro thousands	**Within 1 year**	**1 - 5 years**	**After 5 years**
Bank loans and borrowings	44,966	47,121	0
Trade and other payables	109,143	217	11
Total	**154,109**	**47,338**	**11**

	Dec 31, 2016		
In Euro thousands	**Within 1 year**	**1 - 5 years**	**After 5 years**
Bank loans and borrowings	48,898	33,697	-
Trade and other payables	107,511	441	13
Total	**156,409**	**34,138**	**13**

The company has with major financial counterparties Medium-Long term loan contracts which include an obligation to respect financial covenants based on the consolidated financial statements and/or of the borrowing company.
In particular the structure of the covenants on some of the Medium/long-term loans do not immediately imply default if the ceilings are not complied with, but in the first instance result in an increase in borrowing costs.
At December 31, 2017 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 moment, the funds available, in addition to those that will be generated b operating and financing activities, will permit the Grf to satisfy its requirements deriving from investment activities, working capital management and repayment of debt at their due dates.
For details on the net financial position, reference should be made to note 4.37 of the notes.

6.5 Classification of the financial instruments

In Euro thousands	**Dec 31, 2017**	**Dec 31, 2016**
AFS financial assets	49	53
Derivative financial instruments	8	-
Non-current assets	**57**	**53**
Trade receivables and loan assets	98,615	111,220
Derivative financial instruments	1,006	1,835
Cash and cash equivalents	8,337	9,826
Current assets	**107,958**	**122,881**
Bank loans and borrowings	47,121	33,697
Derivative financial instruments	75	198
Non-current liabilities	**47,196**	**33,895**
Trade and financial payables	104,771	104,207
Bank loans and borrowings	44,966	48,898
Derivative financial instruments	833	1,273
Current liabilities	**150,570**	**154,379**

The company considers that the book values of the accounts approximate their fair value. In relation to the valuation methods for the individual accounts, reference should be made to paragraph 1 Accounting principles and policies of these Notes.

6.6 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 which the company operates directly on active markets or in "Over the Counter" 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 which the company operates on "Over the Counter" 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 discretional 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, 2017 and December 31, 2016 belong to level 2 of the fair value hierarchy, except for commodities which belong to level 1.

6.7 Derivative contracts at December 31, 2017

The table below shows the following information on derivative instruments at December 31, 2017:

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

December 31, 2017		**Notional Value**				**Carrying amount**
In Euro thousands						**Balance Sheet**
Interest rate risk		Maturity within 1 year		Maturity over 1 year		
Cash Flow hedge as per IFRS		18,955		43,501		(300)
Fair value hedge						
as per IFRS						-
Not considered hedges as per IFRS		536				-
Total derivatives on interest rates		**19,491**		**43,501**	**-**	**(300)**
Foreign currency risks		Maturity within 1 year		Maturity over 1 year		
	sales	purchases	sales	purchases		
Cash Flow hedge as per IFRS (Cash Flow Hedge)	13,828	1,481				82
Fair value hedge						
as per IFRS						
Not considered hedges as per IFRS	-	9,444				(338)
Total derivatives on foreign exchange	**13,828**	**10,925**				**(256)**
Management of commodity risk		Maturity within 1 year		Maturity over 1 year		
	sales	purchases	sales	purchases		
Cash Flow hedge as per IFRS		9,013				662
Fair value hedge						
as per IFRS						
Not considered hedges as per IFRS						
Total derivatives on commodities		**9,013**				**662**

December 31, 2016		**Notional Value**				**Carrying amount**
In Euro thousands						**Balance Sheet**
Interest rate risk		Maturity within 1 year		Maturity over 1 year		
Cash Flow hedge as per IFRS		16,108		33,517		(465)
Fair value hedge						
as per IFRS		-		-		-
Not considered hedges as per IFRS		1,031		552		-
Total derivatives on interest rates		**17,319**		**34,069**	**-**	**465**
Foreign currency risks		Maturity within 1 year		Maturity over 1 year		
	sales	purchases	sales	purchases		
Cash Flow hedge as per IFRS	8,799	9,143				(123)
Fair value hedge						
as per IFRS						
Not considered hedges as per IFRS	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 IFRS		8,280				1,694
Fair value hedge						
as per IFRS						
Not considered hedges as per IFRS						
Total derivatives on commodities		**8,280**				**1,694**

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

Assets/ Financial liabilities *In Euro thousands*	Fair value Dec 31, 17	Fair value Dec 31, 16	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 344; Liabilities (600).	Assets 142; Liabilities (1,006).	Level 2	(1)	n/a	n/a
2) Interest rate swaps	Assets (*)8; Liabilities (308).	Liabilities (*) (465)	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.

7. Disclosure on management remuneration and related party transactions

As required by law, the total remuneration of Directors, Statutory Auditors and Managers with strategic roles also in other companies are reported below.

7.1 Remuneration of Directors, Statutory Auditors and Senior Executives

The remuneration of the above-mentioned persons in total amounted to Euro 3,745 thousand. This amount does not include the accrual to the Long Term Incentive provision, as per Note 4.31. The details are reported in the remuneration report. This report is available on the company's website https://elica.com/corporation (Investor Relations section).

7.2 Management and coordination activity

Elica S.p.A. is indirectly controlled by the Casoli Family through Fintrack S.p.A. of Fabriano (AN - Italy).
Elica S.p.A. is not subject to management and co-ordination pursuant to Article 2497 and subsequent 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 company's 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; it has independent decision-making capacity with clients and suppliers and independently manages its treasury in accordance with the corporate scope.

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 Ruling agreements were signed with the National Tax Authorities.
The tables below show key figures for subsidiaries and the amount of transactions performed with them as at and for the year ended December 31, 2017.

Subsidiaries – 2017 highlights

Reporting package figures

In Euro thousands	Assets	Liabilities	Equity	Revenue	Profit/(loss)
Elicamex S.A.de C.V.	49,650	31,007	18,644	70,834	7,068
Elica Group Polska Sp.z o.o	66,788	39,072	27,716	115,513	4,001
Airforce S.p.A.	12,135	8,618	3,517	23,469	493
Ariafina CO., LTD	10,145	3,139	7,006	22,358	2,955
Leonardo S.A.de C.V.	1,091	1,028	63	9,731	262
Elica Inc.	422	194	228	956	30
Airforce GE (*)	10	5	5	-	(22)
Elica PB India Private Ltd.	13,015	7,943	5,073	24,295	1,828
Zhejiang Elica Putian Electric Co. Ltd	22,048	27,802	(5,754)	16,784	(5,229)
Elica Trading LLC	5,442	4,786	656	11,410	(189)
Elica France S.A.S.	4,518	4,015	502	10,249	447
Elica GmbH	2,607	1,224	1,383	1,695	(142)

(*) 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:

In Euro thousands	Dec 31, 2017	Dec 31, 2016	Changes
Loans from subsidiaries			
Zhejiang Elica Putian Electric Co. Ltd	3,853	3,929	(76)
Elica PB India Private Ltd.	2,464	3,776	(1,312)
Elica France S.A.S.	433	433	-
Elicamex S.A.	8,294	4,327	3,967
Elica Group Polska S.p.z.oo	2,009	4,277	(2,268)
Exklusiv Hauben Gutmann GmbH	-	11,150	(11,150)
	17,053	**27,891**	**(10,839)**
Loans to subsidiaries			
Elicamex S.A.	1,380	874	506
Ariafina Co.Ltd	1,481	1,621	(140)
	2,861	**2,495**	**366**

The table below summarises the transactions and balances with related parties in 2017:

Related Parties *In Euro thousands*	**Trade/ Financial/ Derivative assets**	**Trade/ Financial/ Derivative liabilities**	**Revenue, Other Revenue and Financial Income**	**Financial Costs and Charges**
subsidiaries				
Elicamex S.a.d. C.V.	17,049	1,473	12,280	79
Ariafina Co.Ltd	319	1,498	323	49
Elica Group Polska S.p.z.oo	12,515	25,449	40,698	111,525
Air Force S.p.A.	389	245	1,504	748
Zhejiang Elica Putian Electric Co. Ltd	8,511	1,081	1,144	3,526
Exklusiv Hauben Gutmann GmbH		-	2,905	1,274
Elica PB India Private Ltd.	3,222	159	1,312	166
Elica Trading LLC	3,292	231	6,207	266
Elica France S.A.S.	2,253	32	6,973	68
Elica GmbH	1,069		1,057	-
associates				
I.S.M. S.r.L.	2	-	1	-
other related parties				
Fastnet S.p.a.	-	51	-	52

Dividends are not reported in the present table.

Transactions with other related parties

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

Transactions of a commercial 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 of Elica).

The trading relationship with Fastnet S.p.A. is part of a strategic partnership to develop projects and implement advanced technological solutions; these projects have accompanied and continue to accompany the growth of the business: from intranet solutions to extranet solutions, from wiring to wireless solutions, from software consultancy to hardware consultancy and from training to web marketing.

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

In 2017, there were no such transactions to be reported.

9. Subsequent events

For information on events after the year-end, reference should be made to the directors' report.

10.Proposal for the approval of the 2017 financial statements and allocation of the loss as approved by the Board of Directors on March 15, 2018

Dear Shareholders,

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

1.1 Approval of the financial statements as at and for the year ended December 31, 2017; Directors' report; Board of statutory auditors' report; Non-financial statement; Independent auditors' report. Presentation of the consolidated financial statements at December 31, 2017;

We inform that the 2017 financial statements, which we present for your approval, report a loss of Euro 22,111,813 and equity of Euro 86,069,316.

More generally, we propose approval of the 2017 Separate financial statements, 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, 2017.

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

1.2 Resolutions on the loss for the year.

We propose the coverage of the loss through utilisation of "Income-related reserves".

We thank you for your assistance.

Fabriano, March 15, 2018

The Board of Directors
THE EXECUTIVE CHAIRMAN
Francesco Casoli

Disclosure pursuant to Article 149 of the Consob Issuers' Regulation

The following table, prepared pursuant to Article 149-*duodecies* of the Consob Issuers Regulations, shows the payments made in 2017 for audit and other services provided by the independent auditors and entities associated with them.

Type of service	**Service provider**	**Company**	**Fees** *In Euro thousands*
Audit	Kpmg. S.p.A.	Elica S.p.A.	175
Other Services	Kpmg. S.p.A.	Elica S.p.A.	36
Other Services	Kpmg Advisory S.p.A.	Elica S.p.A.	24
KPMG network fees			**235**

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 Alessandro Carloni, 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 compilation of the financial statements for 2017.
We also attest that:

- the 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 correct representation of the balance sheet, financial situation and result for the year of the issuer.
- The directors' report includes a reliable analysis on the performance and operating result as well as the situation of the issuer together with a description of the principal risks and uncertainties to which they are exposed.

Fabriano, March 15, 2018

The Chief Executive Officer Antonio Recinella	Corporate financial reporting manager Alessandro Carloni

KPMG

KPMG S.p.A.
Revisione e organizzazione contabile
Via 1° Maggio, 150/A
60131 ANCONA AN
Telefono +39 071 2901140
Email it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

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

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

To the shareholders of ELICA S.p.A.

Report on the audit of the separate financial statements

Opinion

We have audited the separate financial statements of ELICA S.p.A. (the "Company"), which comprise the statement of financial position as at 31 December 2017, the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of ELICA S.p.A. as at 31 December 2017 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the separate financial statements*" section of our report. We are independent of ELICA S.p.A. in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the separate financial statements of the current year. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverability of goodwill

Notes to the separate financial statements: 1.4 – Accounting policies: Goodwill, Impairment test; note 4.18 – Goodwill

Key audit matter	Audit procedures addressing the key audit matter
The separate financial statements at 31 December 2017 include goodwill of €23.3 million. At least annually, the directors determine the recoverable amount of goodwill by calculating its value in use. This method, by its very nature, requires a high level of directors' judgement about the forecast operating cash flows during the calculation period, as well as the discount and growth rates of those cash flows. The directors have forecast the operating cash flows on the basis of the 2018-2022 forecasts (the"2018-2022 forecasts") and the revenue's estimated long-term growth rates and profitability. For the above reasons, we believe that the recoverability of goodwill is a key audit matter.	Our audit procedures, which also involved our own valuation specialists, included: — understanding and analysing the process used to prepare the 2018-2022 forecasts; — analysing the reasonableness of the key assumptions used by the directors to determine the recoverable amount of goodwill. Our analyses included comparing the key assumptions used to the Company's historical data and external information, where available; — analysing the valuation models adopted by the Company for reasonableness and consistency with professional practice; — checking the sensitivity analyses disclosed in the notes with reference to the key assumptions used for impairment testing, including raw material cost, the weighted average cost of capital and the long-term growth rate; — assessing the appropriateness of the disclosures provided in the notes about goodwill and related impairment test.

Recoverability of the investment in the subsidiary Zhejiang Elica Putian Electric Co. Ltd

Notes to the separate financial statements: note 1.4 – Accounting policies: Investments in subsidiaries; note 4.19 – Investments in subsidiaries

Key audit matter	Audit procedures addressing the key audit matter
The separate financial statements at 31 December 2017 include the investment in the subsidiary Zhejiang Elica Putian Electric Co. Ltd ("Elica China") of €13.7 million. The directors have determined the recoverable amount of the investment in Elica China by calculating its value in use. This method, by its very nature, requires a high level of judgement about the forecast operating cash flows during the calculation period, as well as the discount and growth rates of those cash flows.	Our audit procedures, which also involved our own valuation specialists, included: — understanding and analysing the process used to prepare the 2018-2022 forecasts; — analysing the reasonableness of the key assumptions used by the directors to determine the recoverable amount of the investment in Elica China. Our analyses included comparing the key assumptions used to the Company's historical data and external information, where available;

The directors have forecast the operating cash flows on the basis of the 2018-2022 forecasts (the"2018-2022 forecasts") and the revenue's estimated long-term growth rates and profitability. For the above reasons, we believe that the recoverability of the investment in Elica China is a key audit matter.	— analysing the valuation models adopted by the Company for reasonableness and consistency with professional practice; — checking the sensitivity analyses disclosed in the notes with reference to the key assumptions used for impairment testing, including raw material cost, the weighted average cost of capital and the long-term growth rate; — assessing the appropriateness of the disclosures provided in the notes about the investment in Elica China and the related impairment test.

Recoverability of development costs

Notes to the separate financial statements: note 1.4 – Accounting policies: Research and development costs; note 4.18 – Other intangible assets

Key audit matter	Audit procedures addressing the key audit matter
The separate financial statements at 31 December 2017 include costs of €8.2 million incurred to develop new products, comprising €0.7 million recognised as intangible assets under development and payments on account. The capitalisation of development costs requires directors' estimates, as their recoverability depends on the forecast cash flows from the sale of the products sold by the Company. These estimates are based on both the complex assumptions underlying the projections of revenue and profitability and the directors' strategic business decisions. Due to the complexity and subjectivity of the above estimates, we believe that the recovery of development costs is a key audit matter.	Our audit procedures included: — understanding the process for the assessment of the recoverability of development costs and assessing the design and implementation of controls and procedures to assess the operating effectiveness of material controls; — analysing the trend of the most significant discrepancies in costs capitalised on a regular basis, comparing them with the previous year and discussing the findings with the relevant internal departments; — analysing the recoverability valuation models adopted by the Company for reasonableness and consistency with professional practice and sample-based reasonableness test of the forecast variables; — assessing the appropriateness of the disclosures provided in the notes about development costs.

Measurement of provisions for legal risks

Notes to the separate financial statements: note 1.4 – Provisions for risks and charges; note 4.31 – Provisions for risks and charges; note 5.1 – Contingent liabilities

Key audit matter	**Audit procedures addressing the key audit matter**
The separate financial statements at 31 December 2017 include provisions for legal risks of €6.7 million. Estimating the provisions for legal risks is extremely complex and of an uncertain nature. The Company regularly reviews the carrying amount of the provisions for risks and charges to obtain the present best estimate of each accrual. Due to the complexity and uncertainty of the above estimates, we believe that the measurement of provisions for legal risks is a key audit matter.	Our audit procedures included: — understanding the process for the assessment of provisions for legal risks and assessing the design and implementation of controls and procedures to assess the operating effectiveness of material controls; — analysing documents and discussing the method used to calculate the provisions for legal risks with the relevant internal departments; — sending written requests for confirmation to the external advisors assisting the directors with the remeasurement of the provisions for legal risks; — assessing the appropriateness of the disclosures provided in the notes about the provisions for legal risks.

Responsibilities of the directors and board of statutory auditors ("Collegio Sindacale") of ELICA S.p.A. for the separate financial statements

The 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 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Company's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the separate financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the Company or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the Company's financial reporting process.

Auditors' responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

— identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

— obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;

— evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

— conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern;

— evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 29 April 2015, the shareholders of ELICA S.p.A. appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2015 to 31 December 2023.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the separate financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale*, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The directors of ELICA S.p.A. are responsible for the preparation of the Company's directors' report and report on corporate governance and ownership structure at 31 December 2017 and for the consistency of such reports with the related separate financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the Company's separate financial statements at 31 December 2017 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report and the specific 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. at 31 December 2017 and have been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Ancona, 26 March 2018

KPMG S.p.A.

(signed on the original)

Gianluca Geminiani
Director of Audit