

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



Elica Group

**2017 ANNUAL REPORT -
CONSOLIDATED FINANCIAL STATEMENTS**

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Elica Group

**DIRECTORS' REPORT ON THE
2017 CONSOLIDATED FINANCIAL STATEMENTS**

The Elica Group 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.

Letter to the Shareholders

Dear Shareholders,

in delivering all-time record revenues for Elica in 2017, we extended our global leadership. In managing also to beat all of our value creation objectives, this major achievement was indeed but one of the factors driving our growth.

The exceptional market response to the Elica brand and growth across all business areas and regions underscore how effective our strategy has been and stems also from an extensive overhaul of the organisational structure.

In 2018, we will step up brand communication to further grow our own brand business, advancing a number of strategic initiatives such as support for the distribution network and product innovation - an area in which we invested heavily in 2017 and will continue to do so.

Our unique products will electrify the market. Borne of the continuous technological innovation which is at our very core, they are not just new technical solutions - but anticipate customer needs and bring to life functionalities and product innovations which introduce new trends to the market.

NikolaTesla is a case in point - a product which excited the market and grew exceptionally in 2017 by combining the functionalities of the cooking hob and the kitchen hood into a single home appliance. Elica has thus successfully tackled the new challenge posed by the market: specialising in air treatment solutions while also launching on the cooking segment.

Inspired by our achievements, we have no intention of taking our foot off the gas but will continue apace on the road to driving further growth for the company and its value.

Francesco Casoli
Executive Chairman

Chief Executive Officer's view

In 2017, we laid the foundations for a clear and common objective, setting out a detailed road-map for the creation of sustainable value over time.

In May 2017, we shared with all stakeholders a three-year Strategic Plan outlining the business's guidelines for developing and growing the profit margin, while also establishing precise targets which were easily surpassed during 2017.

We are indeed extremely proud to have delivered record net revenue for the company, although view it as an even greater feat as we simultaneously laid the foundations for the Group's long-term development, investing heavily in the product and in both the manufacturing and non-manufacturing structure. We simultaneously generated profit margin growth ahead of expectations.

This was all made possible through the careful and continual execution of the Plan guidelines, boosting Elica brand revenue by 32% - with growth across all regions and both the Cooking and Motors business areas - while also driving the profit margin (Adjusted EBITDA +14% YoY). These results were made possible by not only growing sales volumes ahead of expectations, but also by improving the price/mix. The growth of new highly innovative products (such as NikolaTesla) played a key role in this regard.

The year was certainly full of "non-ordinary" events which - although impacting results in terms of non-recurring charges (Euro 3.9 million) - opened up new horizons for the Group. The acquisition of the non-controlling interest in the Chinese subsidiary and the disposal of the German subsidiary¹ have allowed the company to focus resources on investment projects with quicker and better returns.

Prudent management of core business expenditure (net working capital came to 2.9% of net revenue) was offset by investments and outflows in support of non-recurring events, resulting in a net financial position at year end of Euro 69.3 million - comfortably ahead of expectations.

The internal reorganisation launched in 2016 continued, bringing in fresh and highly valued talent to our team such as the Chief Financial Officer and the Chief Marketing Officer.

On the basis of these initial results and buoyed by a strong belief in our strategies, we will continue with the precise and consistent execution of that promised to our stakeholders - quarter after quarter and year after year - without overlooking any development opportunities presented by the market and while also remaining focused on the continued delivery of performances which further drive the Group's expansion and grow returns.

Antonio Recinella
Chief Executive Officer

¹Exklusiv-Hauben Gutmann

2017 Economic overview and outlook for 2018²

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 GDP³ 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 QE⁴ 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 FOMC⁵ 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.

² Data sources: International Monetary Fund, *World Economic Outlook*, and Intesa Sanpaolo Research Department's Macroeconomic Outlook

³ Gross Domestic Product

⁴ Quantitative Easing

⁵ 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 BoJ⁶ 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 PBoC⁷ 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 rate⁸ 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.

⁶ Bank of Japan

⁷ People's Bank of China

⁸ Goods and Services Tax

In 2017, the improving global growth outlook, weather conditions in the United States, the extension of the OPEC agreement⁹ 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%¹⁰ 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 US 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%

IAS/IFRS

The Elica Group's consolidated financial statements as at and for the year ended December 31, 2017 have been prepared in accordance with the IFRS issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission and in accordance with Article 9 of Legislative Decree no. 38/2005.

The accounting policies utilised for the preparation of these consolidated financial statements are consistent with those utilised for the preparation of the consolidated financial statements as at and for the year ended December 31, 2016.

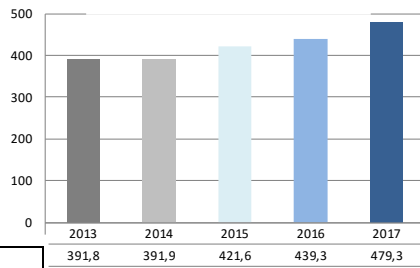
These financial statements are presented in thousands of Euro and all the amounts are rounded to the nearest thousandth, unless otherwise specified.

⁹ Organization of the Petroleum Exporting Countries

¹⁰ Volume data estimated by the company

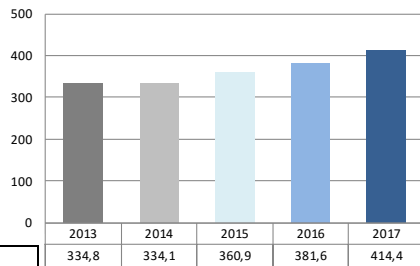
Financial Highlights

CONSOLIDATED REVENUES



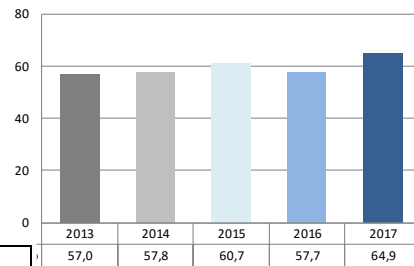
Euro Millions

COOKING REVENUES



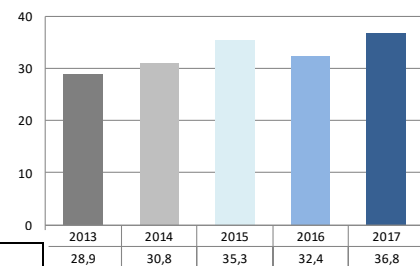
Euro Millions

MOTORS REVENUES



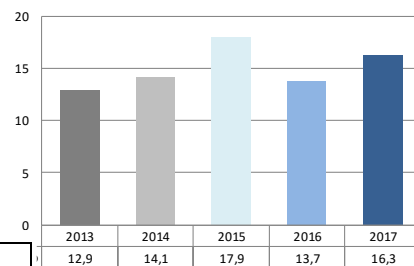
Euro Millions

EBITDA Adjusted



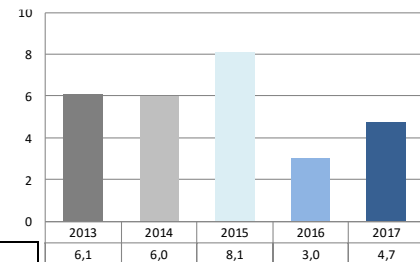
Euro Millions

EBIT Adjusted



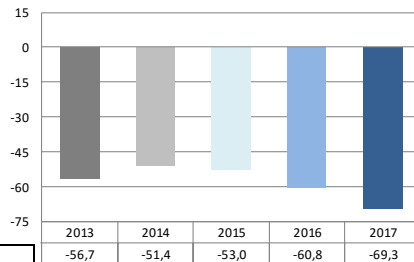
Euro Millions

PROFIT ATTRIBUTABLE TO THE OWNER OF THE PARENT Adjusted



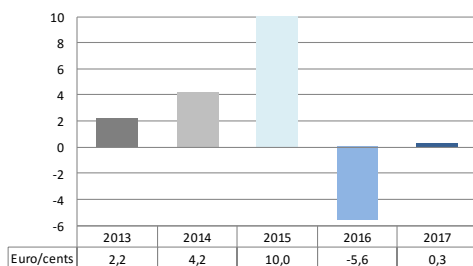
Euro Millions

CASH/(NET DEBT)



Euro Millions

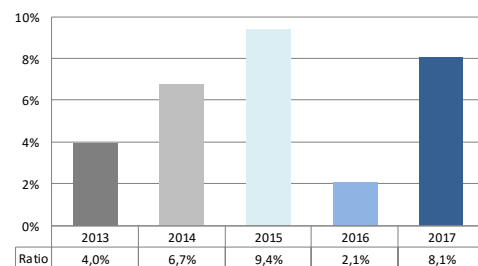
EPS*



Euro/cents

* Earning Per Shares

RONA*



Ratio

* Return On Net Assets

Financial position and performance

<i>In Euro thousands</i>	2017	%	2016	%	2017 Vs 2016	2016	%
		revenue		revenue	%	Restated ¹¹	revenue
Revenue	479,305		439,318		9.1%	434,775	
Adjusted EBITDA*	36,840	7.7%	32,370	7.4%	13.8%	34,488	7.9%
EBITDA	34,521	7.2%	25,229	5.7%	36.8%	27,347	6.3%
Adjusted EBIT*	16,324	3.4%	13,694	3.1%	19.2%	16,366	3.8%
EBIT	14,005	2.9%	3,553	0.8%	294.2%	6,225	1.4%
Net financial charges	(5,242)	(1.1%)	(3,655)	(0.8%)	(43.4%)	(3,538)	(0.8%)
Charges from subsidiary disposal	(3,908)	(0.8%)	0	0.0%	(100.0%)	n.m.	
Income taxes	(3,463)	(0.7%)	(5,398)	(1.2%)	35.9%	n.m.	
Adjusted profit for the year *	5,919	1.2%	3,183	0.7%	86.0%	n.m.	
Profit/(loss) for the year	1,392	0.3%	(5,500)	(1.3%)	125.3%	n.m.	
Profit attribut. to the owners of the parent - Adjusted*	4,693	1.0%	2,990	0.7%	57.0%	n.m.	
Profit/(loss) attributable to the owners of the Parent	166	0.0%	(5,563)	(1.3%)	103.0%	n.m.	
Basic earnings/(loss) per share on continuing operations and discontinued operations (Euro/cents)	0.27		(8.97)		103.0%	n.m.	
Diluted earnings (loss) per share on continuing operations and discontinued operations (Euro/cents)	0.27		(8.97)		103.0%	n.m.	

<i>In Euro thousands</i>	Dec 31, 17	Dec 31, 2016	2016 Restated ¹²
Cash and cash equivalents	34,873	31,998	30,771
Finance leases and other lenders	0	(21)	(18)
Bank loans and borrowings	(57,040)	(59,004)	(59,004)
Current loans and borrowings	(57,040)	(59,025)	(59,022)
Finance leases and other lenders	(33)	(6)	0
Bank loans and borrowings	(47,121)	(33,718)	(33,718)
Non-current loans and borrowings	(47,154)	(33,724)	(33,718)
Net financial position	(69,321)	(60,751)	(61,969)

<i>In Euro thousands</i>	Dec 31, 17	Dec 31, 16	2016 Restated ¹³
Trade receivables	75,923	70,561	72,573
Inventories	73,298	67,732	64,251
Trade payables	(120,541)	(114,831)	(113,060)
Managerial working capital	28,680	23,462	23,764
% of annualised revenue	6.0%	5.3%	5.5%
Other net receivables/payables	(14,682)	(11,755)	(9,825)
Net working capital	13,998	11,708	13,939
% of annualised revenue	2.9%	2.7%	3.2%

2017 performance

2017 Revenue

The Elica Group generated record consolidated revenue of Euro 479.3 million in 2017, up 9.1% on 2016 and 10.2%¹⁴ using a like-for-like consolidation scope, despite the smaller scope of companies following the sale of the German subsidiary Exklusiv-Hauben Gutmann.

Consolidated revenue continued to grow across all business areas in 2017, driven particularly by the 32.2%¹⁵ increase in own brand sales, which were confirmed not only as a driver of revenue but also of global market

¹¹ The 2016 Restated figures include the German subsidiary Gutmann as if it had been sold in 2016 at the same date as the loss of control in 2017.

¹² The 2016 Restated figures include the German subsidiary Gutmann as if it had been sold in 2016 at the same date as the loss of control in 2017.

¹³ The 2016 Restated figures include the German subsidiary Gutmann as if it had been sold in 2016 at the same date as the loss of control in 2017.

¹⁴ The 2016 Restated figures include the German subsidiary Gutmann as if it had been sold in 2016 at the same date as the loss of control in 2017.

¹⁵ The 2016 Restated figures include the German subsidiary Gutmann as if it had been sold in 2016 at the same date as the loss of control in 2017.

share. The Motors business grew revenue 12.4%¹⁶ in 2017 thanks to development initiatives. Alongside the excellent results delivered by the strategy pursued in 2017 on the basis of the guidelines underpinning the Three-year plan, new opportunities have emerged from the corporate operations supporting the Group's future development.

Analysing revenue from sales in the main geographical segments¹⁷, Asian revenue grew strongly (+13.9%¹⁸), thanks particularly to Indian market growth (+42%). EMEA¹⁹ and the Americas sales respectively grew 10.7%²⁰ and 5.5%²¹.

Profitability - FY 2017

Adjusted EBITDA²² was Euro 36.8 million (7.7% of net revenue), up 13.8% on 2016. The profit margin benefitted from improved sales volumes and currency trends, partially offset by reduced supply chain efficiency and increased overheads for the own brand business growth and development strategy. Adjusted EBIT²³ was Euro 16.3 million (3.4% of net revenue), up 19.2% on 2016 and in line with the dynamics reported above impacting the core business profit margins. EBIT of Euro 14.0 million, although impacted for Euro 2.0 million by restructuring charges and for Euro 0.3 million by costs for the disposal of the German subsidiary Exklusiv Hauben Gutmann GmbH, significantly improved on Euro 3.6 million in 2016. This increase was however considerably impacted by Euro 10.1 million of non-core business costs in 2016. The 2017 profit for the year of Euro 1.4 million compared to a loss of Euro 5.5 million in the previous year, impacted by - in addition to that outlined above - Euro 3.9 million of non-core business costs in 2017 from the sale of the German subsidiary Exklusiv Hauben Gutmann GmbH, while benefitting from the non-core business impact of the Patent Box tax relief for 2015 and 2016 recognised for approx. Euro 1 million.

The net financial position at December 31, 2017 was Euro 69.3 million, increasing on Euro 60.8 million at December 31, 2016, both due to the corporate operations completed in the third quarter of 2017 requiring cash outflows of Euro 3.5 million and the increased absorption of resources related to business growth compared to the previous year.

The impact of working capital on annualised revenue of 6.0% increased on 5.3% at December 31, 2016 due to the absorption of resources in support of business growth.

Definitions and reconciliations

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 consolidated income statement.

Adjusted EBITDA is EBITDA net of adjustments. Adjusted EBIT is EBIT net of adjustments.

Net financial income/(charge) is the sum of the Share of profit/(loss) from associates, Financial income, Financial charges, Impairment of available-for-sale financial assets and Exchange rate gains and losses.

The adjusted profit (loss) is the profit (loss) for the period, as reported in the income statement, net of adjustments.

The adjusted profit attributable to the owners of the parent is the profit (loss) for the period attributable to the owners of the parent, as reported in the income statement, net of adjustments.

Adjustments: 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 part of the normal course of business operations, as is the case for restructuring charges.

The earnings per share for 2017 and 2016 were calculated by dividing the profit (loss) attributable to the owners of the parent, as reported in the income statement, by the number of outstanding shares at the respective reporting dates. The numbers of shares in circulation at the reporting date is unchanged on December 31, 2016 (62,047,302).

¹⁶ The 2016 Restated figures include the German subsidiary Gutmann as if it had been sold in 2016 at the same date as the loss of control in 2017.

¹⁷ Data concerns sales revenue by geographic segment and therefore does not refer to the breakdown by operating segment according to the various Group company locations.

¹⁸ The 2016 Restated figures include the German subsidiary Gutmann as if it had been sold in 2016 at the same date as the loss of control in 2017.

¹⁹ Europe, Middle East, Africa and CIS.

²⁰ The 2016 Restated figures include the German subsidiary Gutmann as if it had been sold in 2016 at the same date as the loss of control in 2017.

²¹ The 2016 Restated figures include the German subsidiary Gutmann as if it had been sold in 2016 at the same date as the loss of control in 2017.

²² See Definitions and Reconciliations paragraph

²³ See Definitions and Reconciliations paragraph

The earnings per share so calculated coincide with the earnings per share as per the income statement, as there were no changes to the number of shares in circulation.

The Return on Net Assets (RONA) is calculated as the ratio between EBIT and net invested capital.

Managerial working capital is the sum of Trade receivables plus Inventories, net of Trade payables, as reported 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 receivables and Tax assets, net of the current portion of Provisions for risks and charges, Other payables 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 financial liabilities (including the current portion of Finance leases and other lenders and Bank loans and borrowings, as reported in the Statement of financial position) and Non-current financial assets (including the non-current portion of Finance leases and other lenders and Bank loans and borrowings, as reported in the statement of financial position).

<i>Euro thousands</i>	2017	2016
EBIT	14,005	3,553
(Impairment of goodwill)	-	3,000
(Amortisation and depreciation)	20,516	18,676
EBITDA	34,521	25,229
(Disposal of obsolete inventories outside of core business)		1,644
(Non-recurring service expense)		164
(Non-recurring personnel expense)		1,500
(Impairment of intangible assets relating to the Gutmann sale)	285	
(Additional accrual for legal risks with Esperança Real)		2,900
(Restructuring charges)	2,034	933
Adjusted EBITDA	36,840	32,370

<i>Euro thousands</i>	2017	2016
EBIT	14,005	3,553
(Impairment of goodwill)	0	3,000
(Disposal of obsolete inventories outside of core business)	0	1,644
(Non-recurring service expense)	0	164
(Non-recurring personnel expense)	0	1,500
(Impairment of intangible assets relating to the Gutmann disposal)	285	0
(Additional accrual for legal risks with Esperança Real)	0	2,900
(Restructuring charges)	2,034	933
Adjusted EBIT	16,324	13,694

<i>Euro thousands</i>	2017	2016
Profit/(loss) for the year	1,392	(5,500)
(Impairment of goodwill)	-	3,000
(Disposal of obsolete inventories outside of core business)	-	1,644
(Non-recurring service expense)	-	164
(Non-recurring personnel expense)	-	1,500
(Impairment of intangible assets relating to the Gutmann disposal)	285	-
(Additional accrual for legal risks with Esperança Real)	-	2,900
(Restructuring charges)	2,034	933
(Subsidiary disposal charges)	3,908	
(Adjusted non-recurring income taxes & adjustments)	(1,701)	(1,457)
Adjusted profit for the year	5,919	3,184
Profit attributable to non-controlling interests	-	1
(Non-controlling interest profit adjustments)	-	-
Profit attributable to the owners of the parent - Adjusted	4,693	3,121

	2017	2016
Profit attributable to the owners of the parent <i>(in Euro thousands)</i>	166	(5,563)
Outstanding shares at year-end	62,047,302	62,047,302
Earnings (loss) per share (Euro/cents)	0.27	(8.97)
<i>Euro thousands</i>	Dec. 31, 2017	Dec. 31, 2016
Other receivables	4,180	6,608
Tax assets	14,306	7,982
(Provision for risks and charges)	(6,679)	(4,361)
(Other liabilities)	(16,706)	(15,388)
(Tax liabilities)	(9,784)	(6,596)
Other net receivables/payables	(14,682)	(11,755)

Elica S.p.A. and the financial markets



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 Exklusive Hauben Guttmann was announced. In the initial part of September 2017, financial analyst consensus fully reflected the opportunities generated by the extraordinary 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 parent's website <http://elica.com/corporation> (Corporate Governance section).

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 draft separate financial statements 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 IINFO (www.iinfo.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 parent 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 EMEA²⁴ 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 efficiency²⁵, 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 CAGR²⁶ of net consolidated revenue of 6.8%, of adjusted EBITDA of 12.6%, of adjusted EBIT of 14.3% and net financial position at year-end 2019 of Euro 73 million, with a return on net assets (RONA)²⁷ at year-end 2019 of 10.4%. For the update, please refer to the subsequent points.

²⁴ Europe, Middle East, Africa and CIS

²⁵ Reference is made in particular to Europe

²⁶ Compound Average Growth Rate

²⁷ Return on Net Assets, calculated as the ratio between EBIT and net invested capital

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 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 resources of the parent.

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 parent 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 parent 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 31, 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 parent'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 parent announced that the Board of Directors of Elica S.p.A. would approve the 2017 fourth quarter report on February 12, 2018.

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 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 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 of Elica S.p.A., with immediate effect and for personal reasons.

The Group 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.

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 Group 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.

Research and development

Reference should be made to Note 5.21 for further details on research and development.

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, the Elica Group has for some time been implementing a financial risk monitoring system through a "Financial Risk Policy" approved by the parent's Board of Directors. Within this policy, the Group constantly monitors the financial risks of its operations in order to assess any potential negative impact and takes corrective action where necessary.

The main guidelines for the Group'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 Group'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 Group 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 Group 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 Group 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 Group monitors this exposure, against which there were no hedging transactions at the reporting date; in addition, given the parent's control over its subsidiaries, governance over the respective foreign currency transactions is greatly simplified.

The Group 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 aluminium) are affected by the trends of the principal markets. The Group regularly evaluates its exposure to the risk of changes in the price of commodities and manages this risk through fixing the price in contracts with suppliers and through hedging contracts with financial counterparties.

In particular, between the end and the beginning of the year, the prices and quantities are fixed through both channels described above on the basis of the production budget for the year. 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 target operating profit.

Among the market risks, the Group 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 Group's debt mainly bears a floating rate of interest.

Further to market risks, the Group 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 Group 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 Group and its own financial needs.

The principal factors which determine the liquidity of the Group 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.

Enrico Vita

Independent Director, born in Fabriano (AN) on 16/02/1969, 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)

Elio Cosimo Catania

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

Gennaro Perialisi

Director, born in Monsano (AN) on 14/02/1938, 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.

Davide Croff

Independent Director, born in Venice on 01/10/1947, 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.

Leandro Tiranti

Alternate Auditor, born in Sassoferrato (AN) on 04/05/1966, 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.

Serenella Spaccapaniccia

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

Simona Romagnoli

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

Internal Control, Risk Management 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

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Elica Group structure and consolidation scope

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

Elica S.p.A. - Fabriano (Ancona, Italy) is the parent of the Group ("Elica")²⁸.

Subsidiaries

- o Elica Group Polska Sp.zo.o – Wrocław – (Poland) ("Elica Group Polska"). This wholly-owned company has been operational since September 2005 in the production and sale of electric motors and from December 2006 in the production and sale of exhaust hoods for domestic use;
 - o Elicamex S.A. de C.V. – Queretaro (Mexico) ("Elicamex"). This company was incorporated at the beginning of 2006 (the parent owns 98% directly and 2% through Elica Group Polska). The Group intends to concentrate production for the American markets with this company in Mexico and reap the benefits of optimising operations and logistics;
 - o Leonardo Services S.A. de C.V. – Queretaro (Mexico) ("Leonardo"). This wholly-owned subsidiary was incorporated in January 2006 (the parent owns 98% directly and 2% indirectly through Elica Group Polska Sp.zo.o.). Leonardo Services S.A. de C.V. manages all Mexican staff, providing services to ELICAMEX S.A. de C.V.;
 - o Ariafina CO., LTD – Sagami-hara-Shi (Japan) ("Ariafina"). Incorporated in September 2002 as a 50:50 joint venture with Fuji Industrial of Tokyo, the Japanese hood market leader, Elica S.p.A. acquired control in May 2006 (51% holding) to provide further impetus to the development of the important Japanese market, where high-quality products are sold;
 - o Airforce S.p.A. – Fabriano (Ancona, Italy) ("Airforce"). This company operates in a special segment of the production and sale of hoods. Elica S.p.A. owns 60% of this company;
 - o Airforce Germany Hochleistungs-Dunstabzugssysteme GmbH – Stuttgart (Germany) ("Airforce Germany"). 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 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 (Ancona Italy). This 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 investment in Exklusiv Hauben Gutmann GmbH sold, as indicated in detail in the 2017 Significant Events paragraph above.

²⁸ 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 undertaken between the parent, subsidiaries, associates and other related parties. All transactions were conducted on an arm's length basis in the ordinary course of Group business.

Subsidiaries – 2017 highlights

Reporting package figures					
<i>In Euro thousands</i>	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

Elica S.p.A. also carries out financial transactions with Group companies as part of a general plan to centralise treasury management activities. These loans are interest bearing and at market rates.

Transactions with consolidated companies have been derecognised in the consolidated financial statements. As a result, they are not reported in these notes.

Associates – 2017 highlights

As per local GAAP					
<i>In Euro thousands</i>	Assets	Liabilities	Equity	Revenue	Profit/(loss)
I.S.M. S.r.l.	1,449	27	1,422	142	43

The table below shows the effects of transactions with associates on the statement of financial position and income statement for 2017. No separate disclosure of these balances is provided in the consolidated financial statements, given the immaterial amounts involved, in accordance with Consob resolution No. 15519 of 27 July 2006.

<i>In Euro thousands</i>	Liabilities	Assets	Costs	Revenue
I.S.M. S.r.l.	-	2	-	4

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 parent'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 parent'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 these 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

On behalf of the Board of Directors
The Executive Chairman
Francesco Casoli



Elica Group

2017 CONSOLIDATED FINANCIAL STATEMENTS

ELICA GROUP

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

Consolidated financial statements as at and for the year ended 31 December 2017**Income statement**

<i>In Euro thousands</i>	<i>Note</i>	2017	2016
Revenue	5.1	479,305	439,318
Other operating income	5.2	2,728	2,300
Changes in inventories finished/semi-finished goods	5.4	6,711	2,280
Increase on internal work capitalised	5.3	3,797	4,840
Raw materials and consumables	5.4	(262,447)	(237,591)
Services	5.5	(84,739)	(80,681)
Labour costs	5.6	(93,625)	(87,206)
Amortisation and depreciation	5.7	(20,516)	(18,676)
Other operating expenses and provisions	5.8	(15,175)	(17,098)
Restructuring charges	5.9	(2,034)	(933)
Impairment of goodwill		-	(3,000)
Operating profit		14,005	3,553
Share of profit/(losses) of associates	5.10	(2)	(20)
Financial income	5.11	330	248
Financial charges	5.12	(3,592)	(3,440)
Exchange rate losses	5.13	(1,978)	(443)
Subsidiary disposal charges	5.14	(3,908)	-
Profit/(loss) before taxes		4,855	(102)
Income taxes	5.15	(3,463)	(5,398)
Profit/(loss) from continuing operations		1,392	(5,500)
Profit from discontinued operations		-	-
Profit/(loss) for the year		1,392	(5,500)
of which:			
Attributable to non-controlling interests	5.16	1,226	63
Attributable to the owners of the parent		166	(5,563)
Basic earnings (loss) per share (Euro/cents)	5.17	0.27	(8.97)
Diluted earnings (loss) per share (Euro/cents)	5.17	0.27	(8.97)

Statement of comprehensive income

<i>In Euro thousands</i>		2017	2016
	Note		
Profit/(loss) for the year		1,392	(5,500)
Other comprehensive income/(expense) which may not be subsequently reclassified to profit/(loss) for the year:			
Actuarial gains/(losses) of employee defined plans	5.31	203	(523)
Tax effect concerning the Other income/(expense) which may not be subsequently reclassified to the profit/(loss) for the year		10	(16)
Total other comprehensive income/(expense) which may not be subsequently reclassified to profit/(loss), net of the tax effect		212	(539)
Other comprehensive income/(expense) which may be subsequently reclassified to profit/(loss) for the year:			
Exchange differences on the conversion of foreign financial statements	5.39.3	(2,448)	(4,380)
Net change in cash flow hedges	5.39.3	(130)	3,400
Tax effect concerning the Other income/(expense) which may be subsequently reclassified to the profit/(loss) for the year	5.39.3	(77)	(749)
Total other comprehensive income/(expense) which may be subsequently reclassified to profit/(loss), net of the tax effect		(2,655)	(1,729)
Total other comprehensive expense, net of the tax effect:		(2,443)	(2,268)
Total comprehensive expense for the year		(1,051)	(7,768)
of which:			
Attributable to non-controlling interests		151	75
Attributable to the owners of the parent		(1,202)	(7,843)

Statement of financial position

<i>In Euro thousands</i>	<i>Note</i>	Dec 31, 2017	Dec 31, 2016
Property, plant & equipment	5.19	97,686	95,360
Goodwill	5.20	39,405	42,340
Other intangible assets	5.21	26,063	28,756
Investments in associates	5.22	1,391	1,401
Other receivables	5.23	2,632	230
Tax assets	5.28	417	7
Deferred tax assets	5.33	15,464	15,675
AFS financial assets	5.24	52	56
Derivative financial instruments	5.29	8	-
Total non-current assets		183,118	183,828
Trade receivables	5.25	75,923	70,561
Inventories	5.26	73,298	67,732
Other receivables	5.27	4,180	6,608
Tax assets	5.28	14,306	7,982
Derivative financial instruments	5.29	1,006	1,844
Cash and cash equivalents	5.30	34,873	31,998
Current assets		203,587	186,725
Assets of discontinued operations		-	-
Total assets		386,705	370,553
Liabilities for post-employment benefits	5.31	10,903	11,129
Provisions for risks and charges	5.32	8,916	7,606
Deferred tax liabilities	5.33	3,256	5,080
Finance leases and other lenders	5.42	33	6
Bank loans and borrowings	5.34	47,121	33,718
Other payables	5.35	225	1,768
Tax liabilities	5.37	183	312
Derivative financial instruments	5.29	75	198
Non-current liabilities		70,712	59,817
Provisions for risks and charges	5.32	6,679	4,361
Finance leases and other lenders	5.42	-	21
Bank loans and borrowings	5.34	57,040	59,004
Trade payables	5.38	120,541	114,831
Other payables	5.36	16,706	15,388
Tax liabilities	5.37	9,784	6,596
Derivative financial instruments	5.29	749	1,277
Current liabilities		211,499	201,478
Share capital	5.39.1	12,665	12,665
Capital reserves	5.39.2	71,123	71,123
Hedging, translation and stock option reserves	5.39.3	(14,766)	(13,172)
Reserve for actuarial gains/losses	5.31	(3,197)	(3,423)
Treasury shares	5.39.4	(3,551)	(3,551)
Retained earnings	5.39.5	37,049	45,870
Profit/(loss) attributable to the owners of the parent		166	(5,563)
Equity attributable to the owners of the parent	5.39	99,489	103,949
Capital and reserves attributable to non-controlling interests		3,779	5,246
Profit attributable to non-controlling interests		1,226	63
Equity attributable to non-controlling interests	5.40	5,005	5,309
Total equity		104,494	109,258
Total liabilities and equity		386,705	370,553

Statement of cash flows

<i>In Euro thousands</i>	2017	2016
Opening cash and cash equivalents	31,998	34,463
Operating activities		
Profit/(loss) for the year	1,392	(5,500)
Amortisation and depreciation	20,516	18,676
Impairment	-	3,000
Non-monetary (income)/charges	8,705	9,053
(Income)/Charges on disposals	3,908	
Trade working capital	(2,715)	7,507
Other working capital accounts	(648)	1,859
Income taxes paid	(5,620)	(6,694)
Change in provisions	4,457	477
Other changes	(983)	437
Cash flows from operating activities	29,012	28,815
Investing activities		
Investments		
- Intangible	(9,475)	(7,240)
- Tangible	(18,465)	(21,066)
- Financial	-	-
Acquisition/Sale of investments	(3,488)	-
Cash flow from investing activities	(31,427)	(28,307)
Financing activities		
Dividends	(1,261)	(1,831)
Increase/(decrease) in loans and borrowings	12,312	5,632
Net changes in other financial assets/liabilities	(1,593)	(2,457)
Interest paid	(3,089)	(2,948)
Cash flow used in financing activities	6,370	(1,604)
Increase/(decrease) in cash and cash equivalents	3,954	(1,096)
Effect of exchange rate change on liquidity	(1,079)	(1,369)
Closing cash and cash equivalents	34,873	31,998

Statement of changes in equity

	Share capital	Capital reserve	Treasury shares	Retained earnings	Hedge, trans. & post-employ ben. res.	Profit/(loss) for the year	Equity attr. to the owners of the parent	Equity attr. to non- controlling int.	Total
<i>In Euro thousands</i>									
Dec 31, 2015	12,665	71,123	(3,551)	40,630	(14,315)	6,190	112,742	6,466	119,208
Fair value gains on cash flow hedges net of the tax effect					2,651		2,651		2,651
Actuarial losses on post-employment benefits					(516)		(516)	(24)	(539)
Exchange rate losses on translation of foreign subsidiaries' financial statements					(4,416)		(4,416)	35	(4,380)
Total gains/(losses) recognised directly in equity					(2,280)		(2,280)	12	(2,268)
Loss for the year						(5,563)	(5,563)	63	(5,500)
Total gains/(losses) recognised in profit or loss						(5,563)	(5,563)	63	(5,500)
Allocation of loss for the year				6,190		(6,190)			
Other changes				(343)			(343)	(9)	(351)
Dividends				(608)			(608)	(1,223)	(1,831)
Dec 31, 2016	12,665	71,123	(3,551)	45,870	(16,595)	(5,563)	103,949	5,309	109,258
Fair value losses on cash flow hedges net of the tax effect					(207)		(207)		(207)
Actuarial gains on post-employment benefits					226		226	(14)	212
Exchange rate losses on translation of foreign subsidiaries' financial statements					(1,387)		(1,387)	(1,060)	(2,448)
Total gains/(losses) recognised directly in equity					(1,368)		(1,368)	(1,075)	(2,443)
Profit for the year						166	166	1,226	1,392
Total gains/(losses) recognised in profit or loss						166	166	1,226	1,392
Allocation of profit for the year				(5,563)		5,563			
Other changes				(3,258)			(3,258)	805	(2,453)
Dividends								(1,261)	(1,261)
Dec 31, 2017	12,665	71,123	(3,551)	37,049	(17,963)	166	99,489	5,005	104,494

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1. Group structure and activities

The Group's parent, Elica S.p.A. is a company incorporated under Italian law based in Fabriano (AN, Italy). The main activities of the parent and its subsidiaries as well as its registered office and secondary offices are illustrated in the Directors' Report on Operations under "Elica Group structure and Consolidation Scope".

The Euro is the functional and presentation currency of Elica S.p.A. and of the consolidated companies, except for the foreign subsidiaries Elica Group Polska Sp. z o.o., Elicamex S.A. de C.V., Leonardo Services S.A. de C.V., Ariaфина CO., LTD, Elica Inc., Elica PB India Private Ltd, Zhejiang Elica Putian Electric Co. Ltd and Elica Trading LLC which prepare their financial statements in the Polish Zloty, the Mexican Peso (Elicamex S.A. de C.V. and Leonardo Services S.A. de C.V.), Japanese Yen, US Dollar, Indian Rupee, Chinese Renminbi and Russian Ruble respectively.

The Consolidated Financial Statements as and for the year ended December 31, 2017 were approved by the Board of Directors on March 15, 2018 which authorised their publication.

2. Accounting policies and basis of consolidation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) 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 consolidated financial statements as at and for the year ended December 31, 2017 are compared with the previous year and consist of the income statement, the statement of comprehensive income, the statement of financial position, the statement of cash flows, the statement of changes in equity and these notes.

The consolidated 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 statement of cash flows was prepared applying the indirect method. It classifies cash flows respectively from (used in) 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 Group 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 consolidated financial statements.

The consolidated 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.

2.1 Basis of consolidation

The consolidated financial statements as at and for the year ended December 31, 2017 include the financial statements of the parent and the companies it controls directly or indirectly (the subsidiaries). Control exists where the Group contemporaneously has decision-making power over the investee, rights upon variable results (positive or negative) and the capacity to use its decision-making power to affect the amount of profits devolving from its investment in the entity.

The separate financial statements at December 31, 2017 of the parent Elica S.p.A. were prepared in accordance with IFRS, in accordance with Legislative Decree no. 38/2005 and Consob regulations. The financial statements of the Italian subsidiary, Airforce, were prepared in accordance with the Italian Civil Code as supplemented, where necessary, by the OIC accounting standards and those issued by the IASB.

All the Group companies have provided the data and information required to prepare the consolidated financial statements in accordance with IFRS.

For information on the consolidation scope and the associates, reference should be made to section 4 "Composition and changes in the consolidation scope" and 8 "Disclosure pursuant to IAS 24 on management remuneration and related party transactions".

If the consolidation scope changes in the year, the results of subsidiaries acquired or sold during the year are included in the consolidated profit or loss from the date of acquisition until the date of sale.

All significant transactions between companies included in the consolidation scope are eliminated.

Gains and losses arising on intercompany sales of operating assets are eliminated, where considered material.

Non-controlling interests in the net assets of consolidated subsidiaries are recorded separately from equity attributable to the owners of the parent and include the amount attributable to the non-controlling interests at the original acquisition date (see below) and changes in equity after that date.

Losses attributable to non-controlling interests in excess of their share of equity are allocated to equity attributable to the owners of the parent, except to the extent that the non-controlling owners are subject to a binding obligation and have the capacity to cover the losses through further investments.

Consolidation of foreign companies and foreign currency translation

The assets and liabilities of consolidated foreign companies in currencies other than the Euro are translated using the closing exchange rates. Revenue and costs are translated into Euro using the average exchange rate for the year. Translation differences are recognised in the translation reserve until the investment is sold.

At December 31, 2017, the consolidated foreign companies whose functional currency differs from the Euro are Elica Group Polska Sp. z o.o., ELICAMEX S.A. de C.V., Leonardo Services S.A. de C.V., ARIAFINA CO., LTD, Elica Inc, Elica PB India Private Ltd, Zhejiang Elica Putian Electric Co. Ltd and Elica Trading LLC, which use the Polish Zloty, the Mexican Pesos (ELICAMEX S.A. de C.V. and Leonardo Services S.A. de C.V.), the Japanese Yen, the US Dollar, the Indian Rupee, the Chinese Renminbi and the Russian Ruble respectively.

The exchange rates used for translation purposes are set out below:

	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%

Business Combinations

Business combinations are recognised using the acquisition method. According to this method, the amount transferred in a business combination is recognised at fair value, calculated as the sum of the fair value of the assets transferred and the liabilities assumed by the Group at the acquisition date and of the equity instruments issued in exchange for control of the company acquired. Transaction costs are recognised to profit or loss when they are incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at fair value at this date; except for the following items, which are instead measured according to the applicable standard:

- Deferred tax assets and liabilities;
- Employee benefit assets and liabilities;
- Liability or equity instruments relating to share-based payments of the company acquired or share-based payments relating to the Group issued to replace contracts of the entity acquired;
- Assets held for sale and discontinued operations.

Goodwill is calculated as the excess of the sum of considerations transferred in the business combination, the value of equity attributable to non-controlling interests and the fair value of any previously held interests in the acquiree above compared to the fair value of the net assets acquired and liabilities assumed at the acquisition date. If the value of the net assets acquired and the liabilities assumed at the acquisition date exceeds the sum of amounts transferred, any non-controlling interest and the fair value of any previously held interests in the acquiree, this excess is immediately recognized in profit or loss as income deriving from the business combination.

The share of equity attributable to non-controlling interests, at the acquisition date may be measured at fair value or in proportion to the acquiree's recognised net assets. The choice of method is based on each individual transaction.

In a step acquisition of a subsidiary, a business combination is only deemed to occur when control is acquired, which is when the fair value of all the acquiree's identifiable net assets is measured; non-controlling interests are measured at their fair value or in proportion to the fair value of the acquiree's identifiable net assets.

In a step acquisition of an investee, the previously held interest, which was until that time recognised in accordance with IAS 39 – Financial instruments: recognition and measurement, or IAS 28 - Investments in associates or according to IAS 31 – Investments in joint ventures, is treated as if it had been sold and reacquired at the date in when control is acquired. The investee is therefore recognised at the fair value at the acquisition date and the profits and losses arising on measurement are taken to profit or loss. Any amount previously recognised as Other comprehensive income (expense),

which must be taken to profit or loss following the sale of the assets to which it refers, is reclassified to profit or loss. Goodwill or income deriving from an acquisition of control of a subsidiary must be calculated as the sum of the price paid to gain control, the value of non-controlling interests (measured using one of the methods permitted by the standard) and fair value of the previously held non-controlling interest, net of the fair value of the identifiable net assets acquired.

Any payments subject to conditions are considered part of the transfer price of the net assets acquired and are measured at fair value at the acquisition date. If the combination contract establishes a right of repayment of some price elements on the fulfilment of certain conditions, this right is classified as an asset by the acquirer. Any subsequent changes in the fair value are recognised as an adjustment to the original accounting treatment only if they result from additional or improved information concerning fair value and if they occur within 12 months of the acquisition date; all other changes must be recognised in profit or loss.

Once control of an entity has been acquired, transactions in which the parent acquires or sells further non-controlling interests without changing the control exercised over the subsidiary are considered transactions with equity owners and therefore must be recognised in equity. The carrying amount of the controlling interest and the non-controlling interest must be adjusted to reflect the change in the percentage of the investment held and any difference between the amount of the adjustments allocated to non-controlling interests and the fair value of the price paid or received against the transaction is taken directly to equity and allocated to the owners of the parent. No adjustments are made to goodwill or the profits or losses recognised in the income statement. Related costs are recognised in equity in accordance with paragraph 35 of IAS 32.

Business combinations before January 1, 2010 were recognised in accordance with the previous version of IFRS 3.

Investments in associates and joint ventures

An associate is a company in which the Group has significant influence, but not control or joint control. The Group exerts its influence by taking part in the associate's financial and operating policy decisions.

A joint venture is a contractual agreement whereby the Group undertakes a jointly controlled business venture with other parties. Joint control is defined as a contractually shared control over a business. Joint control is defined as the contractually shared control over a business activity and only exists when the financial and operating strategic decisions of the business requires the unanimous consent of the parties sharing control.

The profits and losses, assets and liabilities of associates and joint ventures are recognised in the consolidated financial statements using the equity method, except where the investments are classified as held for sale.

Under this method, investments in associates and joint ventures are recognised in the statement of financial position at cost, as adjusted for changes after the acquisition of the net assets of the associates, less any impairment losses on the individual investments. Losses of the associates and joint ventures in excess of the Group share are not recognised unless the Group has an obligation to cover them. Any excess of the acquisition cost over the Group's share in the fair value of the identifiable assets, liabilities and contingent liabilities at the acquisition date is recognised as Goodwill. Goodwill is included in the carrying value of the investment and is tested for impairment. Any excess of the Group's share in the fair value of the identifiable assets, liabilities and contingent liabilities of the associate over the cost of acquisition is taken to profit or loss in the year of acquisition.

Unrealised profits and losses on transactions between a Group company and an associate or joint venture are eliminated to the extent of the Group's share in the associate or joint venture, except when the unrealised losses constitute a reduction in the value of the asset transferred.

2.2 Accounting policies

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

Property, plant & 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, 2004 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 of the relative assets applying the following percentage rates:

buildings	3%
light constructions	10%
plant and machinery	6 % - 15%
industrial and commercial equipment	10% - 25%
office furniture and equipment	12%
EDP	20%
commercial vehicles	20%
automobiles	25%

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

Purchase cost is also adjusted for grants related to assets already approved to the Group companies. 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 Group’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 Group. 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

The other intangible assets acquired or produced internally are recorded under assets, in accordance with the provisions of IAS 38 – Intangible Assets, when it is probable that the use of the asset will generate future economic benefits and when 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 Group'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 Group only owns intangible assets with definite useful lives.

Impairment testing

At each reporting date, and in any case at least once a year, the Group 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 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 (CGU's). 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.

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

Cash and cash equivalents

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

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the Group 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 of the Group.

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 International Accounting Standards, 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 IASB.

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

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

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

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

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.

The Group recognises the plan deficit or surplus in the statement of financial position, the service cost and net financial expenses in profit or loss and gains or losses on the remeasurement of the assets and liabilities in other comprehensive

income. In addition, any income from the plan assets included under net financial 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 Group 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 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 Group 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 Group 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

In the preparation of the financial statements of the individual Group companies, transactions in foreign currencies entered into by Group companies are translated into the functional currency (the currency in the main area in which the company operates) using the exchange rate ruling at the transaction date or otherwise at the date on which the fair value of the underlying assets/liabilities is determined. 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 ruling at the transaction date.

Exchange rate differences arising on such transactions or on the translation of monetary assets and liabilities are recognised in profit or loss except for those arising on derivative financial instruments qualified as cash flow hedges and any inter-company receivables or payables whose settlement has not been nor can be planned. These differences are taken to equity if unrealised, otherwise they are taken to profit or loss.

Government grants

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

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

Income taxes

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

Deferred income taxation is recorded on temporary timing difference between the financial statements and the taxable profit, recognised using the liability method.

The deferred taxes are calculated based on the fiscal rates applicable when the temporary differences reverse. The deferred tax charges are recognised in the income statement with the exception of those relating to accounts recognised in equity in which case the deferred tax charges are also recognised in equity.

Deferred tax assets are recognised when the income taxes are considered recoverable in relation to the taxable profit expected for the period in which the deferred tax asset is reversed. The carrying amount of deferred tax assets is reviewed at the end of the year and reduced, where necessary. Offsetting between deferred tax assets and liabilities is carried out only for similar items, and if there is a legal right to offset the current deferred tax assets and liabilities; otherwise they are recognised separately under receivables and payables.

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

Tax assets 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 assets; tax assets are offset by the amounts due to the subsidiaries from Elica for the residual amount attributable to the Consolidated tax regime.

The liability for tax losses surrendered by a subsidiary is recorded under Amounts due to subsidiaries.

Earnings per share

Basic earnings per share is calculated based on the net profit of the Group and the weighted average number of shares outstanding at the reporting date. Treasury shares are excluded from the calculation. Diluted earnings per share equate to the basic earnings per share adjusted to assume conversion of all potentially dilutable shares, i.e. all financial instruments potentially convertible into ordinary shares, with a dilutive effect on earnings, increasing the number of shares which potentially may be added to those in circulation under an allocation or utilisation of treasury shares in portfolio under stock grant plans.

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

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

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 Group'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 Group's financial statements are not material.

IFRS 16 – Leases. The IASB issued IFRS 16 Leases in January 2016. The standard defines the principles for the recognition, measurement, presentation and disclosure of leasing contracts, for both parts of the contract, therefore concerning the customer ("lessee") and the supplier ("lessor"). IFRS 16 will be effective from January 1, 2019. Companies may choose to apply the standard before this date, although only if they also apply IFRS 15 Revenue from Contracts with Customers. IFRS 16 completes the IASB project to improve the financial reporting of leases. IFRS 16 replaces the previous IAS 17 Leases and related interpretations. The principal effect of application of the new standard for a lessee will be that all leasing contracts will imply a right to use the asset from the beginning of the contract and, where the relative payments are expected in a specific period, also recognition of a corresponding financial 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 Group expects financial liabilities to increase, which has not yet been precisely estimated.

3. Significant accounting estimates

In the preparation of the consolidated financial statements in accordance with IFRS, Group management must make accounting estimates and assumptions which have an effect on the values of the assets and liabilities and disclosures. Actual results may differ from these estimates. The estimates and assumptions are periodically reviewed and the effects of any changes are promptly recognised in the consolidated financial statements.

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. Composition and changes to the consolidation scope

At December 31, 2017, the consolidation scope includes the companies controlled by the parent, Elica S.p.A.. Control exists where the parent has the power to determine, directly or indirectly, the financial or management policies of an entity so as to obtain benefits from the activities of the company.

The following table lists the companies consolidated on a line-by-line basis controlled by the parent.

Companies consolidated using the line-by-line method

	Registered Office	Currency	Share capital	Held Direct	Held Indirect	% of investment
Elica S.p.A.	Fabriano (AN) - (Italy)	EUR	12,664,560			
Elicamex S.a.d. C.V.	Queretaro (Mexico)	MXN	8,633,515	98%	2% (b)	100%
Elica Group Polska Sp.z o.o	Wroclaw (Poland)	ZTY	78,458,717	100%	0%	100%
Airforce S.p.A.	Fabriano (AN) - (Italy)	EUR	103,200	60%	0%	60%
Aria fina Co. Ltd	Sagamihara - Shi (Japan)	JPY	10,000,000	51%	0%	51%
Leonardo Services S.a. de C.V.	Queretaro (Mexico)	MXN	1,250,000	98%	2% (b)	100%
Elica GmbH	Munich (Germany)	EUR	25,000	100%	0%	100%
Elica Inc.	Chicago, Illinois (United States)	USD	5,000	0%	100% (a)	100%
Airforce GE	Stuttgart (Germany)	EUR	26,000	0%	95% (c)	95%
Elica PB India Private Ltd.	Pune (India)	INR	392,176,371	51%	0%	51%
Zhejiang Elica Putian Electric Co. Ltd	Shengzhou (China)	CNY	29,300,000	97%	0%	97%
Elica Trading LLC	Saint Petersburg (Russia)	RUB	176,793,102	100%	0%	100%
Elica France S.A.S.	Paris (France)	EUR	50,000	100%	0%	100%

(*) Airforce Germany Hochleistungs-dunstabzugssysteme GmbH

(a) Held through Airforce

(b) Held through EGP

(c) Held through Elicamex

In 2017, Elica GmbH was incorporated and the investment in Exklusiv Hauben Gutmann GmbH was sold. A further 30% investment was acquired in the Chinese company Zhejiang Putian Electric Co. Ltd.

The following table contains a list of associates consolidated using the equity method and held directly or indirectly by the parent:

Associates measured using the equity method

In Euro thousands	Registered Office	Currency	Share capital	Held Direct	Held Indirect	% of investment
I.S.M. S.r.l.	Cerreto d'Esi (AN)	EUR	10	49.39%	0%	49.39%

Reference should be made to section 8 of these notes for data and information on associates.

5. Notes to the income statement, statement of financial position and statement of cash flows

INCOME STATEMENT

5.1 Revenue

Details of the Group's revenue are as follows:

<i>In Euro thousands</i>	2017	2016	Changes
Revenue	479,305	439,318	39,987
Total revenue	479,305	439,318	39,987

For an analysis of revenue, reference should be made to the paragraph of the “Financial position and performance” in the directors' report.

Customers that individually generate more than 10% of total revenue accounted for 13% of revenue in 2017 (15% in 2016).

Group revenue also includes the German subsidiary Gutmann until the date of the loss of control, for approx. Euro 11 million.

5.1.1 Segment reporting

The operating segments are as follows:

- “Europe”: production and sale of cooker hoods, accessories and electric motors developed by the companies based in Europe, i.e. the Italian companies Elica S.p.A. and Airforce S.p.A., the German companies Exklusiv Hauben Gutmann GmbH (until the date of loss of control), Elica GmbH and Airforce Germany GmbH, the Polish company Elica Group Polska Sp.zo.o, the French company Elica France S.A.S. and the Russian company Elica Trading LLC;
- “America”: production and sale of cooker hoods and accessories, developed by the Group companies based in America, i.e. the Mexican companies Elicamex S.A. de C.V. and Leonardo S.A. de C.V. and the US company Elica Inc;
- “Asia and the Rest of the World”: production and sale of cooker hoods, accessories and other products, developed by the Group companies located in Asia, i.e. the Chinese company Zhejiang Putian Electric Co. Ltd., the Indian company Elica PB India Private Ltd. and the Japanese company Aria fina CO., LTD.

The operating segments correspond with the same geographical segments and therefore Europe (specifically Italy, Poland, France, Germany and Russia), America (Mexico and the United States), and Asia (China, India and Japan).

INCOME STATEMENT	Europe		Americas		Asia and the Rest of World		Unallocated items and eliminations		Consolidated	
<i>In Euro thousands</i>	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Segment revenue:										
Third parties	351,088	322,969	70,904	65,496	57,219	51,098	93	(246)	479,305	439,318
Inter-segment	14,250	13,634	196	23	6,217	6,468	(20,663)	(20,124)	-	-
Total revenue	365,338	336,603	71,100	65,519	63,436	57,566	(20,570)	(20,369)	479,305	439,318
Segment profit:	25,635	25,781	8,736	11,521	134	1,386			34,505	38,688
Unallocated overheads									(20,500)	(35,135)
Operating profit									14,005	3,553
Share of income/(expense) from associates									(2)	(20)
Financial income									330	248
Financial charges									(3,592)	(3,440)
Charges from subsidiary disposal									(3,908)	
Exchange rate losses									(1,978)	(443)
Profit/(loss) before taxes									4,855	(102)
Income taxes									(3,463)	(5,398)
Profit/(loss) from continuing operations									1,392	(5,500)
Profit from discontinued operations									-	-
Profit/(loss) for the year									1,392	(5,500)

STATEMENT OF FINANCIAL POSITION	Europe		Americas		Asia and the Rest of World		Unallocated items and eliminations		Consolidated	
<i>In Euro thousands</i>	Dec 17	Dec 16	Dec 17	Dec 16	Dec 17	Dec 16	Dec 17	Dec 16	Dec 17	Dec 16
Assets:										
Segment assets	264,691	252,393	42,002	34,675	47,447	50,205	(11,176)	(19,900)	342,964	317,374
Investments							1,391	1,401	1,391	1,401
Unallocated assets							42,349	51,778	42,349	51,778
Total operating assets	264,691	252,393	42,002	34,675	47,447	50,205	32,565	33,279	386,705	370,553
Total disposal assets or discontinued operations										
Total assets	264,691	252,393	42,002	34,675	47,447	50,205	32,565	33,279	386,705	370,553
Liabilities										
Segment liabilities	(152,033)	(139,240)	(30,730)	(25,906)	(28,660)	(26,672)	33,405	26,173	(178,017)	(165,646)
Unallocated liabilities							(104,194)	(95,649)	(104,194)	(95,649)
Equity							(104,494)	(109,258)	(104,494)	(109,258)
Total operating liabilities	(152,033)	(139,240)	(30,730)	(25,906)	(28,660)	(26,672)	(175,282)	(178,734)	(386,705)	(370,553)
Total liabilities associated with discontinued operations										
Total liabilities	(152,033)	(139,240)	(30,730)	(25,906)	(28,660)	(26,672)	(175,282)	(178,734)	(386,705)	(370,553)

5.2 Other operating income

<i>(in Euro thousands)</i>	2017	2016	Changes
Grants related to income	574	812	(238)
Ordinary gains	576	181	395
Claims and insurance settlement	234	385	(151)
Other revenue and income	1,344	922	422
Total	2,728	2,300	428

This increase mainly refers to ordinary gains and other revenue and income. These latter increased Euro 0.4 million and refer to various items, including the sale of production assets, employee motor expense recoveries and revenue matured by the Group following the agreement with the electricity company which concedes the latter the possibility to interrupt, occasionally, at certain conditions, the provision of energy.

5.3 Increase on internal work capitalised

The Increase on internal works capitalised amounted to Euro 3,797 thousand (Euro 4,840 thousand in the previous year) including Euro 515 thousand related to the Chinese subsidiary (Euro 797 thousand in 2016), Euro 543 thousand to the Mexican subsidiary (Euro 301 thousand in 2016), Euro 54 thousand to the German subsidiary Gutmann until the date of loss of control (Euro 416 thousand in 2016) and Euro 2,685 thousand to Elica S.p.A. (Euro 3,326 thousand in 2016). These increases relate to the capitalisation of costs for the design and development of new products and internal costs incurred for the construction of mouldings, industrial equipment and the introduction of new IT programmes. Internal works capitalised principally comprise labour costs.

5.4 Change in inventories of finished and semi-finished products and raw materials and consumables

<i>In Euro thousands</i>	2017	2016	Changes
Purchase of raw materials	207,170	187,505	19,665
Transport of purchases	7,558	6,896	662
Purchases of consumables	3,154	3,163	(9)
Packaging	2,121	2,264	(143)
Purchases of supplies	695	655	40
Purchases of semi-finished materials	17,893	15,683	2,210
Purchase of finished goods	26,377	24,296	2,081
Other purchases	1,621	1,347	274
Change in raw materials, consumables, supplies and goods	(4,142)	(4,218)	76
Raw materials and consumables	262,447	237,591	24,856
Changes in inventories of finished and semi-finished goods	(6,711)	(2,280)	(4,431)
Total consumables	255,736	235,311	20,425

The two items, Changes in inventories of finished and semi-finished products and Raw materials and consumables may be considered together. The total of these items increased significantly by over Euro 20 million, while these costs as a percentage of revenue decreased from 53.6% in 2016 to 53.4% in 2017.

The increase is particularly concentrated in the purchases of raw materials, in addition to the purchase of semi-finished and finished products. This was in line with higher revenue, only partly offset by the changes in inventories of raw materials, consumables and supplies and finished and semi-finished products.

5.5 Services

<i>In Euro thousands</i>	2017	2016	Changes
Outsourcing	29,026	25,855	3,171
Transport	10,155	9,704	451
Management of finished products	5,437	5,158	279
Consulting	5,727	6,068	(341)
Other professional services	10,320	8,987	1,333
Maintenance	2,591	2,482	109
Utilities	4,464	4,430	34
Commissions	1,874	2,033	(159)
Travel	2,987	3,347	(360)
Advertising	4,976	4,786	190
Insurance	1,131	1,218	(87)
Director and Statutory Auditors' fees	2,022	2,277	(255)
Trade fairs and promotional events	3,091	3,385	(294)
Industrial services	532	492	40
Banking commissions and charges	(406)	(459)	53
Total Services	84,739	80,681	4,058

Expense for service also increased overall by Euro 4,058 thousand, but reduced significantly as a percentage of revenue, from 18.4% to 17.7%.

Other professional services concern: Euro 3.7 million for technical assistance, Euro 771 thousand for communication services, Euro 775 thousand for compliance with regulations and trademark support, Euro 673 thousand for company canteen, Euro 628 thousand for cleaning expenses, Euro 278 thousand for importation services and Euro 632 thousand for motor vehicle expenses.

5.6 Labour costs

Personnel expense incurred by the Group in 2017 and 2016 was as follows:

<i>In Euro thousands</i>	2017	2016	Changes
Wages and salaries	66,264	61,939	4,325
Social security expenses	18,336	16,272	2,064
Post-employment benefits	2,980	2,740	240
Other costs	6,044	6,255	(211)
Labour costs	93,624	87,206	6,417

The increase in this item was Euro 6.4 million. Personnel expense principally concerns Elica S.p.A. for Euro 55,498 thousand (Euro 51,180 thousand in 2016), Elica Group Polska for Euro 12,949 thousand (Euro 9,969 thousand in 2016), Elicamex for Euro 10,016 thousand (Euro 9,045 thousand in 2016), Gutmann until the loss of control for Euro 4,520 thousand (Euro 7,480 thousand in 2016), Putian for Euro 3,566 thousand (Euro 4,175 thousand in 2016), Airforce for Euro 4,066 thousand (Euro 3,763 thousand in 2016) and Elica India for Euro 1,541 thousand (Euro 1,311 thousand in 2016). Personnel expense also includes the accrual for the Long Term Incentive provision for Group employees. For further details reference should be made to the note on Provisions for Risks and Charges.

The table below reports the Group workforce at December 31, 2016 and December 31, 2017. The impact of the change in the consolidation scope is 143 employees of which five in the line Others. Others also includes temporary staff.

Workforce	Dec 31, 2017	Dec 31, 2016	Changes
Executives	33	29	4
White-collar	1,077	1,043	34
Blue-collar	2,183	2,287	(104)
Others	503	304	199
Total	3,796	3,663	133

5.7 Amortisation and depreciation

Amortisation and depreciation increased on the previous year, from Euro 18,676 thousand to Euro 20,516 thousand in 2017.

For further details, reference should be made to the accounting policies and to points 5.19 and 5.21 of these notes.

5.8 Other operating expenses and provisions

These are detailed as follows:

<i>In Euro thousands</i>	2017	2016	Changes
Leases and rentals	3,205	2,487	719
Rental of vehicles and industrial equipment	2,646	2,587	59
Hardware, software and patents	940	920	20
Other taxes	1,407	2,248	(841)
Magazine and newspaper subscriptions	15	25	(10)
Sundry equipment	341	332	10
Catalogues and brochures	318	690	(372)
Losses on receivables and allowance for impairment	809	384	425
Provisions for risks and charges	3,186	4,801	(1,615)
Other prior year expenses and losses	2,308	2,625	(317)
Total	15,175	17,098	(1,922)

This caption decreased Euro 1,922 thousand. The decrease particularly refers to the Provisions for risks and charges of the parent and the Other taxes of the Indian Subsidiary. Both were impacted by non-recurring events in the previous year. The provision for risks and charges mainly concerns the parent and decreased given that the previous year included the impact of the first level judgment 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. On the other hand, the previous year

was impacted by the cost recorded by the Indian company related to the new Indian State law, which imposed an excise duty on manufacturing.

5.9 Restructuring charges

Restructuring charges of Euro 2 million refer for Euro 1.8 million to the parent's personnel redundancy plan, implemented to scale down and optimise its 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. The remaining Euro 200 thousand refers to the subsidiary Gutmann which was recorded before the loss of control. They principally concern personnel expense.

5.10 Share of profit/(loss) from associates

<i>In Euro thousands</i>	2017	2016	Changes
Share of income/(expense) from associates	(2)	(20)	18
Share of profit/(loss) from associates	(2)	(20)	18

These amounts relate to the equity method of accounting for investments in the associate I.S.M. S.r.l..

5.11 Financial income

Details of financial income are shown below:

<i>In Euro thousands</i>	2017	2016	Changes
Interest on bank deposits	226	230	(4)
Other financial income	104	18	86
Financial income	330	248	82

The increase mainly refers to financial income which principally concerns interest received by Elica S.p.A. relating to the reimbursements received from the Italian State for IRES and IRAP taxes of previous years.

5.12 Financial charges

<i>In Euro thousands</i>	2017	2016	Changes
Financial expense:			
on overdrafts and bank loans	2,461	2,402	59
on loans and borrowings from other lenders	(47)	1	(48)
on post-employment benefits	150	229	(79)
Discounts on sales	1,028	808	220
Financial charges	3,592	3,440	152

The increase in financial expense, for Euro 152 thousand, is principally due to financial discounts, which increased Euro 220 thousand.

Paragraph 7 Risk management of these notes reports information on derivative operations.

5.13 Exchange rate gains/(losses)

<i>In Euro thousands</i>	2017	2016	Changes
Exchange losses	(13,008)	(11,108)	(1,900)
Exchange rate gains	11,249	12,673	(1,424)
Charges on derivative instruments	(4,514)	(5,323)	809
Losses on derivative instruments	4,295	3,315	980
Net exchange rate losses	(1,978)	(443)	(1,535)

Net exchange rate losses, excluding transactions in derivative instruments, amounted to Euro 1,759 thousand, compared to net gains of Euro 1,565 thousand in the previous year.

Net losses on derivative instruments were Euro 219 thousand in 2017 compared to losses of Euro 2,008 thousand in 2016.

Exchange rate gains and losses principally concern: Elica S.p.A. (net loss of approx. Euro 3 million), Elicamex S.A. de C.V. (net gain of Euro 57 thousand), Elica Group Polska Sp. z o.o (net gain of Euro 1,158 thousand) and Elica Trading LLC (net gain of Euro 60 thousand).

5.14 Charges from subsidiary disposal

Sale 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 cooker 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 debt position. Elica S.p.A. was also granted 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 for Elica's trade receivables due 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 disposal, as the extended payment terms were related to the sale of the investment in Exklusiv-Hauben Gutmann.

In these consolidated financial statements of the Elica Group the transaction described above had the following impact on profit or loss:

<i>In Euro thousands</i>	2017
a) Discounting receivable due from purchaser	(192)
b) Discounting trade receivables due from Gutmann	(576)
c) Charges from the transfer of the loan asset	(11,150)
d) Income from the disposal of the investment	8,010
Charges from subsidiary disposal	(3,908)

Elica S.p.A. requested a tax ruling from the tax authorities, relating to the correct tax treatment of the transaction, currently considered in these financial statements on a prudent basis, or rather for a large part considered as non-deductible.

5.15 Income taxes

Income taxes in 2017 and 2016 are broken down as follows:

	2017	2016	Changes
<i>In Euro thousands</i>			
Current taxes	(5,032)	(5,346)	314
Deferred taxes	1,570	(52)	1,622
Income taxes	(3,463)	(5,398)	1,935

Income taxes in the year decreased Euro 1.9 million on 2016. The balance comprises current and deferred taxes. Current taxes refer principally to the Mexican subsidiary for Euro 2.7 million and to the Japanese subsidiary for Euro 1.5 million. Deferred tax income in 2017 mainly refers to Elica S.p.A., in part offset by the reversal of deferred tax assets of the subsidiary Putian and the utilisation of deferred tax assets by Elica France and Elica India, against profits matured.

For 2017, the parent's theoretical tax rate (theoretical tax on pre-tax income) was 28.13% compared to 31.63% in 2016, based on the corporate income tax (IRES) and regional tax on productive activities (IRAP) rates applicable to the reported taxable income for the year ended December 31, 2017, while they vary from country to country according to local legislation in force for the other foreign Group companies.

The table below shows a reconciliation between the theoretical and effective income taxes ("IRES" for the Italian Group companies) paid by the parent.

The effective tax rate increased from -5.335% to 74.3% also due to non-recurring events in the previous year, and not representative of the ordinary performance of the business in the current year. Income taxes in fact includes the positive impact calculated by the parent 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 booked 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.

Reconciliation between expected and effective tax rates

	<u>2017</u>					<u>2016</u>				
	Taxable profit	Income taxes	IRAP	Total		Taxable profit	Income taxes	IRAP	Total	
Theoretical IRES rate										
Theoretical IRAP rate										
<i>(in Euro thousands)</i>										
Income taxes										
- Current		4,793	49	4,843			6,636	53	6,689	
- IRES tax refund and other		190	-	190			316	64	380	
- Deferred – cost (income)		(1,378)	(192)	(1,570)			(1,529)	(141)	(1,670)	
[A] TOTAL INCOME TAXES		3,605	(143)	3,462	74%		5,423	(24)	5,398	-5335%
PROFIT/(LOSS) BEFORE TAXES	4,855					(102)				
Tax calculated using local tax rate		1,165			24.0%		(28)			27.50%
Tax effect of (income)/expenses not considered for tax purposes	(15,816)	(3,796)			-78.2%	(726)	(98)			96.40%
Tax effect on the different tax rates of the foreign subsidiaries	22,895	5,495			113.2%	14,489	3,984			-3920.10%
Other differences	167	40			0.8%	2,797	668			-657,2%
[B] Effective tax charge and tax rate net of substitute tax	12,101	2,904			59.8%	16,459	4,526			-4453.40%
Tax credit for Polish investments		512			10.5%		581			-571.80%
Effect of tax refund and other		190			3.9%		316			-310.90%
[C] Effective tax charge and tax rate	12,101	3,605			74.3%	16,459	5,423			-5335%

5.16 Profit/(loss) attributable to non-controlling interests

The profit/(loss) attributable to non-controlling interests relates to those subsidiaries not wholly-owned by the Elica Group and in particular to Aria fina CO., LTD (non-controlling interest of 49%), Airforce S.p.A. (40%), Airforce Germany Hochleistungs-Dunstabzugssysteme GmbH (43%), Elica PB India Private Ltd. (49%) and Zhejiang Elica Putian Electric Co. Ltd (33.24% until the acquisition date of 30% by the Group and 3.24% for the remaining period).

5.17 Basic earnings per share – Diluted earnings per share

The calculation of basic and diluted earnings per share is based on the following data:

	2017	2016
From continuing and discontinued operations:		
Profit/(loss) attributable to the owners of the parent <i>(In Euro thousands)</i>	166	(5,563)
Average number of ordinary shares net of treasury shares	62,047,302	62,047,302
Basic earnings (loss) per share	0.27	(8.97)
Weighted average number of ordinary shares to calculate diluted result per share	62,047,302	62,047,302
Diluted earnings (loss) per share	0.27	(8.97)
From continuing operations		
Profit/(loss) attributable to the owners of the parent <i>(In Euro thousands)</i>	166	(5,563)
Average number of ordinary shares net of treasury shares	62,047,302	62,047,302
Basic earnings (loss) per share	0.27	(8.97)
Weighted average number of ordinary shares to calculate diluted result per share	62,047,302	62,047,302
Diluted earnings (loss) per share	0.27	(8.97)

5.18 Other information on the income statement

The research and development costs recognised in profit and loss in 2016 and 2017 are summarised in the table below:

	2017	2016	Changes
<i>In Euro thousands</i>			
R&D costs expensed	5,971	4,978	993
Amortisation of capitalised R&D costs	3,133	2,835	298
Total R&D costs	9,104	7,813	1,291
R&D costs capitalised during the year	2,290	3,172	(882)

Development costs capitalised in the year regard product design and development activities.

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5.19 Property, plant and equipment

The table below shows details of the changes in property, plant and equipment in 2016.

	Dec 31, 2015	Increases	Disposals & other reclassifications	Other changes	Dec 31, 2016
<i>In Euro thousands</i>					
Land and buildings	70,359	756	(132)	(1,639)	69,344
Plant and machinery	85,929	7,362	(1,065)	(1,645)	90,581
Industrial and commercial equipment	99,823	10,033	(1,963)	(1,122)	106,771
Other assets	15,400	1,579	(712)	(506)	15,761
Assets under construction and payments on account	1,528	2,859	(325)	(1,081)	2,981
Historical cost of property, plant and equipment	273,039	22,589	(4,197)	(5,993)	285,438

	Dec 31, 2015	Depreciation	Disposals & other reclassifications	Other changes	Dec 31, 2016
<i>In Euro thousands</i>					
Land and buildings	23,681	1,999	-	(552)	25,128
Plant and machinery	64,816	3,451	(964)	(1,039)	66,264
Industrial and commercial equipment	84,017	4,969	(1,451)	(880)	86,655
Other assets	11,746	1,485	(657)	(543)	12,031
Accumulated depreciation	184,260	11,904	(3,072)	(3,014)	190,078

	Dec 31, 2015	Increases	Disposals & other reclassifications	Other changes	Depreciation	Dec 31, 2016
<i>In Euro thousands</i>						
Land and buildings	46,678	756	(132)	(1,087)	(1,999)	44,216
Plant and machinery	21,113	7,362	(101)	(606)	(3,451)	24,317
Industrial and commercial equipment	15,806	10,033	(512)	(242)	(4,969)	20,116
Other assets	3,654	1,579	(55)	37	(1,485)	3,730
Assets under construction and payments on account	1,528	2,859	(325)	(1,081)	-	2,981
Net property, plant and equipment	88,779	22,589	(1,125)	(2,979)	(11,904)	95,360

Changes in 2017 were as follows:

	Dec 31, 2016	Increases	Disposals & other reclassifications	Other changes	Dec 31, 2017
<i>In Euro thousands</i>					
Land and buildings	69,344	1,041	(94)	(539)	69,752
Plant and machinery	90,581	8,260	(790)	(2,052)	95,999
Industrial & commercial equipment	106,771	8,704	(1,619)	(47)	113,809
Other assets	15,761	1,339	(517)	(2,418)	14,165
Assets under construction and payments on account	2,981	507	(1,146)	(1,272)	1,070
Historical cost of property, plant and equipment	285,438	19,851	(4,166)	(6,328)	294,795

	Dec 31, 2016	Depreciation	Disposals & other reclassifications	Other changes	Dec 31, 2017
<i>In Euro thousands</i>					
Land and buildings	25,128	1,849	(83)	(195)	26,699
Plant and machinery	66,264	3,951	(751)	(1,561)	67,903
Industrial and commercial equipment	86,655	6,167	(1,365)	(21)	91,436
Other assets	12,031	1,385	(461)	(1,883)	11,072
Accumulated depreciation	190,078	13,352	(2,660)	(3,660)	197,110

	Dec 31, 2016	Increases	Disposals & other reclassifications	Other changes	Depreciation	Dec 31, 2017
<i>In Euro thousands</i>						
Land and buildings	44,216	1,041	(11)	(344)	(1,849)	43,053
Plant and machinery	24,317	8,260	(39)	(491)	(3,951)	28,096
Industrial and commercial equipment	20,116	8,704	(254)	(26)	(6,167)	22,373
Other assets	3,730	1,339	(56)	(535)	(1,385)	3,093
Assets under construction and payments on account	2,981	507	(1,146)	(1,272)	-	1,070
Net property, plant and equipment	95,360	19,851	(1,506)	(2,668)	(13,352)	97,686

The investments made in the year mainly regarded the upgrading and expansion of facilities, improvements to the manufacturing plant and machinery, the acquisition of new mouldings and equipment for the launch of new products and the development of hardware for the implementation of new projects.

Other changes principally include net exchange rate losses of Euro 0.9 million, in addition to the impact of the deconsolidation of Gutmann.

The item includes any assets acquired under finance lease agreements. The Group does not hold any assets under finance lease contracts.

The historical cost criteria remains the measurement method used for property, plant and equipment after initial recognition.

The historical cost includes revaluations permitted by previous legislation on first time application as considered representative of the fair value of the property, plant and equipment when the revaluation was made.

5.20 Goodwill

<i>In Euro thousands</i>	Dec 31, 2017	Dec 31, 2016	Changes
Goodwill allocated to subsidiaries	39,405	42,340	(2,935)
Goodwill	39,405	42,340	(2,935)

Details of the allocations are provided below:

<i>In Euro thousands</i>	Dec 31, 2016	Gutmann disposal	Other changes	Dec 31, 2017
Europe	36,482	(2,749)	190	33,923
America	-	-	-	-
Asia	5,858	-	(376)	5,482
	42,340	(2,749)	(186)	39,405

The goodwill, amounting to Euro 39.4 million, is allocated to the three Cash Generating Units (CGU's) as indicated in the table, which illustrates the changes during the year. "Other changes" include the change in goodwill due to the translation effect.

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

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.

Discounted cash flow assumptions

The main assumptions utilised by the Group to estimate the future cash flows for the impairment test were as follows:

	Europe	America	Asia
Weighted average cost of capital (WACC)	6.10%	9.40%	7.60%
Growth rate terminal value	1.95%	2.30%	4.85%
CAGR revenue 2018-2022	5.70%	12.20%	-2.30%

The main assumptions utilised by the Group in the previous year were as follows:

	Europe	America	Asia
Weighted average cost of capital (WACC)	6.50%	9.60%	7.70%
Growth rate terminal value	1.70%	2.70%	3.80%
CAGR revenue 2017-2021	2.90%	2.70%	0.50%

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, America and Asia CGUs a free risk rate was utilised equal respectively to 2.0%, 5.5% and 3.6%, a market risk premium equal to 5.5% and a beta-unlevered factor equal to 0.80% for the Europe CGU and 0.79% for the America and Asia CGUs.

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; 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:

- average cost of raw materials as a percentage of revenue of 51.4% for the Europe CGU, 62.9% for the Asia CGU and 55.5% for the American CGU;
- average cost of the variable operating cost component (direct labour, outsourcing, commercial costs) as a percentage of revenue of 18.1%;
- average of the fixed operating cost component as a percentage of revenue of 18.2%;
- working capital absorbed by core business activities as a percentage of revenue equal to 9% for the Europe CGU, 3% for the Asia CGU and 5% p.a. for the American CGU.

The assumptions utilised in the estimates are based on historical and forecast data of the Group, 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 impairment losses on the goodwill. The value in use of the Europe CGU was 5.8 times its carrying amount (Euro 123.1 million). The value in use of the America CGU was 2.2 times its carrying amount (Euro 19.7 million). The value in use of the Asia CGU was 11.5 times its carrying amount (Euro 23.5 million).

Sensitivity analysis

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

5.21 Other intangible assets

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

	Dec 31, 2015	Increases	Other changes and reclassifications	Amort.	Dec 31, 2016
<i>In Euro thousands</i>					
Carrying amount					
Development costs	9,309	3,172	245	(2,835)	9,891
Industrial patents and intellectual property rights	8,746	2,796	2,869	(2,788)	11,623
Concessions, licenses, trademarks & similar rights	1,539	73	(45)	(132)	1,435
Other intangible assets	3,036	246	(21)	(1,016)	2,245
Assets under development and payments on account	6,046	1,253	(3,736)	-	3,563
Other intangible assets	28,676	7,540	(688)	(6,771)	28,756

	Dec 31, 2016	Increases	Other changes and reclassifications	Amort.	Dec 31, 2017
<i>In Euro thousands</i>					
Carrying amount					
Development costs	9,891	2,290	(788)	(3,133)	8,260
Industrial patents and intellectual property rights	11,623	2,822	571	(3,022)	11,994
Concessions, licenses, trademarks & similar rights	1,435	1,832	(1,148)	(196)	1,923
Other intangible assets	2,245	1,253	(1,014)	(809)	1,675
Assets under development and payments on account	3,563	1,683	(3,036)	-	2,210
Other intangible assets	28,756	9,880	(5,415)	(7,160)	26,063

At December 31, 2017, intangible assets amounted to Euro 26,062 thousand, a net decrease of Euro 2.694 thousand on the previous year.

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 include the recognition of patents, associated development costs, intellectual property rights and software programmes. The increase principally relates to the parent and costs for the new patents developed.

Concessions, licenses, brands and similar rights refers to the registration of brands by Group companies.

Other intangible assets mainly relate to technologies developed.

Assets under development and payments on account of Euro 2,210 thousand refer in part to advances and the development of projects for the implementation of new IT platforms, the design and development of new software applications and in part to the development of new products. Assets under development which presumably will be recorded under development costs amount to Euro 665 thousand.

The Other changes column shows a net exchange rate loss of Euro 393 thousand and a reduction of Euro 4.5 million due to the deconsolidation of Gutmann.

The criteria applied to amortise intangible assets is believed to adequately reflect the residual useful life of the assets.

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 the 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.

5.22 Investments in associates

The table below shows changes in investments in associates:

	Dec 31, 16	Reversals/ (Impairment losses)	Other changes	Dec 31, 17
<i>In Euro thousands</i>				
Investments in associates	1,401	(2)	(8)	1,391
Investments in associates	1,401	(2)	(8)	1,391

The column Reversals/ (Impairment losses), showing net impairment losses of Euro 2 thousand, includes the balance of the adjustments made during the year to the investment, based on the profit/(loss) for the year.

The table below shows the carrying values at the end of the previous year and as at December 31, 2017.

	Purchase cost	Pro-quota post-acquis. gain/loss (exclud. dividends)	Balance at Dec 31, 17	Purchase cost	Pro-quota post-acquis. gain/loss (exclud. dividends)	Balance at Dec 31, 16
<i>In Euro thousands</i>						
I.S.M. S.r.l.	1,899	(508)	1,391	1,899	(498)	1,401
Total	1,899	(508)	1,391	1,899	(498)	1,401

5.23 Other receivables (non-current)

The breakdown of the Other receivables is as follows:

	Dec 31, 2017	Dec 31, 2016	Changes
<i>In Euro thousands</i>			
From employees	22	54	(32)
Other	2,610	176	2,434
Other receivables (non-current)	2,632	230	2,402

Management believes that this amount approximates fair value.

Other assets (non-current) increased Euro 2,434 thousand, mainly due to the amount due from the third party purchaser of the investment in Gutmann. For further details reference should be made to note 5.15.

5.24 Available-for-sale financial assets

This item regards investments held by the Elica Group in other companies. The investments are held in non-listed 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:

	Dec 31, 2017	Dec 31, 2016	Changes
<i>In Euro thousands</i>			
Meccano S.p.A.	15	15	-
Other minor investments	36	41	(4)
AFS financial assets	52	56	(4)

5.25. Trade receivables

<i>In Euro thousands</i>	Dec 31, 2017	Dec 31, 2016	Changes
Trade receivables	75,923	70,561	5,362
Trade receivables	75,923	70,561	5,362

These increased Euro 5,362 thousand, principally due to the increase in revenue in 2017.

The Group implements a Credit Policy which governs the management of credit and the mitigation of the related risk.

In particular, it is Group policy to transfer the recoverability risk of trade receivables from third parties and, therefore, a significant part of the relative risk is protected by insurance policies with leading international insurance companies.

Receivables are recognised net of the allowance for impairment, amounting to Euro 4,256 thousand (Euro 4,798 thousand in 2016), accrued based on a specific analysis of the individual risks and a general allowance calculated in accordance with the Group Credit Policy.

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

The allowance for the year, considered adequate to adjust receivables to their realisable value, was Euro 809 thousand.

The receivables from the associate I.S.M. at December 31, 2017 amounted to Euro 2 thousand (Euro 2 thousand in 2016) and derive from ordinary operations.

5.26 Inventories

<i>In Euro thousands</i>	Dec 31, 2017	Dec 31, 2016	Changes
Raw materials, ancillary and consumables	29,367	28,033	1,334
Provision for the write-down of raw materials	(2,635)	(1,610)	(1,025)
Total	26,732	26,423	309
Work in progress and semi-finished products	14,435	14,865	(430)
Provision for the write-down of work in progress	(794)	(712)	(82)
Total	13,641	14,153	(512)
Finished products and goods for resale	35,278	28,907	6,371
Provision for the write-down of finished products	(2,358)	(1,757)	(601)
Total	32,920	27,150	5,770
Payments on account	6	6	-
Total inventories	73,298	67,732	5,567

The value of inventories increased Euro 5,567 thousand, also due to the strong growth in revenue.

Inventories are stated net of the provision for inventory write-down of approximately Euro 5,787 thousand, in order to take into consideration the effect of waste, obsolete and slow moving items and the risk estimates of the use of some categories of raw materials and semi-finished products based on assumptions made by management.

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

The provision for inventory write-down is calculated based on assumptions made by Management and amounts to 7.3% of inventories (5.7% in 2016).

5.27 Other receivables (current)

The breakdown is as follows:

<i>In Euro thousands</i>	Dec 31, 2017	Dec 31, 2016	Changes
Other assets	2,934	4,870	(1,936)
Prepayments and accrued income	1,246	1,738	(492)
Other receivables (current)	4,180	6,608	(2,428)

Other assets mainly refer to government grants for investment obtained by the parent, 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 amounts from the government.

Management believes that this amount approximates fair value.

5.28 Tax assets

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

<i>In Euro thousands</i>	Dec 31, 2017	Dec 31, 2016	Changes
IRES	457	932	(475)
IRAP	-	208	(208)
VAT	7,254	4,227	3,027
Other tax assets	6,594	2,615	3,979
Tax assets (current)	14,306	7,982	6,324

The two principal balances concern VAT and Other tax assets. The change in the VAT asset relates to the timing of trade transactions. Other tax assets concern the parent for Euro 1.6 million and the balance mainly refers to the tax asset for research and development as per Law no. 190/2014 from the tax authorities. Management believes that this amount approximates fair value. The residual amount of other tax assets refers to advances paid by foreign companies. Management believes that this amount approximates fair value.

The non-current portion of tax assets amounts to Euro 417 thousand. This amount relates to the Indian subsidiary.

5.29 Derivative financial instruments

<i>In Euro thousands</i>	Dec 31, 2017		Dec 31, 2016	
	Assets	Liabilities	Assets	Liabilities
FX derivatives on foreign exchange	344	516	150	1,010
Interest rate derivatives	8	308	-	465
Commodities derivatives	662	-	1,694	-
Derivative financial instruments	1,014	824	1,844	1,475
of which				
Non-current	8	75	-	198
Current	1,006	749	1,844	1,277
Derivative financial instruments	1,014	824	1,844	1,475

For a description of the above item, reference should be made to paragraph 7 Risk management of these notes.

5.30 Cash and cash equivalents

<i>In Euro thousands</i>	Dec 31, 2017	Dec 31, 2016	Changes
Bank and postal deposits	34,837	31,963	2,874
Cash in hand and similar	36	35	1
Cash and cash equivalents	34,873	31,998	2,875

This account reflects the positive balances of bank current accounts and cash on hand. The increase was due to a different composition in the Group's net financial position. The carrying amount of these assets reflects their fair value. For further information, reference should be made to the section on net financial debt in the directors' report.

5.31 Liabilities for post-employment benefits

The Elica Group reports obligations of Euro 10,903 thousand, reflecting the present value of liabilities for post-employment benefits accrued by employees at the end of the reporting period.

The most recent calculation of the present value of this item was performed at December 31, 2017 by the company MANAGERS & PARTNERS - ACTUARIAL SERVICES S.p.A..

The amounts recognised in profit or loss were as follows:

	Dec 31, 2017	Dec 31, 2016	Changes
<i>In Euro thousands</i>			
Current service cost	2,980	2,740	240
Interest expense	150	229	(79)
	3,130	2,969	161

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

	Dec 31, 2017	Dec 31, 2016	Changes
<i>In Euro thousands</i>			
Opening balance	11,129	10,619	510
Current service cost	2,980	2,740	240
Actuarial gains and losses	(203)	523	(726)
	13,907	13,882	25
Interest expense	150	229	(79)
Pension fund	(2,805)	(2,563)	(242)
Benefits provided	(348)	(419)	71
	(3,004)	(2,753)	(251)
Retirement benefit liabilities	10,903	11,129	(226)

The interest component of the defined employee benefit plan cost is shown under financial expenses, with a resulting increase of Euro 150 thousand in this item for the year. The current service cost and the effect of the curtailment were recorded under personnel expense. Actuarial gains and losses, amounting to Euro 203 thousand, comprise the actuarial gains (losses) of the defined benefit plans reported in the consolidated statement of comprehensive income. The specific reserve set up amounts, net of the tax effect, to a negative Euro 3.2 million for the Group and Euro 148 thousand for the non-controlling interests.

The costs relating to current employee services and utilisations of pension funds respectively include the charges and settlements in the year.

Assumptions used for the calculation

	Dec 31, 2017	Dec 31, 2016
Discount rate to determine the obligation	1.30%	1.60%
Expected salary growth rate	2.00%	2.44%
Rate of inflation	1.50%	1.65%

The discount rates utilised by the Group 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 10,394 thousand, while if the discount rate decreased 0.5% (0.8%), the obligation would amount to Euro 11,476 thousand.

At December 31, 2017 employees numbered 3,796 (3,663 in 2016), as detailed in paragraph 5.7.

5.32 Provisions for risks and charges

The composition and changes of the provisions are as follows:

<i>In Euro thousands</i>	Dec 31, 2016	Provisions	Utilisation/Reversal	Other changes	Dec 31, 2017
Agents' termination benefits	554	91	(67)	-	579
Product warranties	1,783	1,677	(1,229)	(349)	1,883
Legal risks	5,491	1,678	(423)	-	6,746
Long Term Incentive Plan		680	-	-	680
Personnel	1,206	3,332	(1,333)	102	3,307
Restructuring	840	630		(840)	630
Other	2,093	679	(1,212)	209	1,770
Provisions for risks and charges	11,967	8,768	(4,264)	(878)	15,595
of which					
Non-current	7,606				8,916
Current	4,361				6,679
Provisions for risks and charges	11,967				15,595

Accruals for agents' termination benefits cover possible charges upon the termination of contracts with agents and sales representatives.

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. "Other changes" include Euro 300 thousand related to Gutmann at December 31, 2016.

The provision for legal risks relates to likely costs and charges to be incurred as a result of ongoing legal disputes, estimated by Management on the basis of the best information available.

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. 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 Group 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.

The Personnel provision includes contractual indemnities and employee bonuses accrued in the year and based on the best estimates possible according to the information available, which will be paid in the subsequent year.

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 Elica S.p.A.'s Board of Directors 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 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 item "Other changes" includes the provision accrued in the previous year by the subsidiary Gutmann, which was deconsolidated in 2017.

The column Other changes relates to exchange rate gains/losses for Euro 122 thousand.

The impact of the discounting on the non-current provisions is not material.

5.33 Deferred tax assets – Deferred tax liabilities

At December 31, 2017, details of deferred tax assets and liabilities, determined on the basis of the asset-liabilities method, were as follows:

<i>(in Euro thousands)</i>	Dec 31, 2017	Dec 31, 2016	Changes
Deferred tax assets	15,464	15,675	(212)
Deferred tax liabilities	(3,256)	(5,080)	1,824
Total	12,208	10,595	1,612

The table below shows all the types of timing differences that gave rise to deferred taxes:

<i>In Euro thousands</i>	Dec 31, 2016		Other changes/Equity	Costs	(Revenue)	Dec 31, 2017	
	Assets	Liabilities				Assets	Liabilities
Amortisation and depreciation	1,447	(799)	(1,018)	18	(115)	1,762	0
Accruals	4,323	-	721	466	(981)	4,117	-
Losses carried forward	6,924	-	1,641	1,170	(422)	4,535	-
Inventory write-down	782	-	156	1	(230)	855	-
Exchange rate differences	(167)	(279)	(124)	220	(462)	264	(345)
Restructuring charges	-	-	-	-	(177)	177	-
Allocation of acquisition price	-	(2,984)	(296)	-	5	-	(2,692)
Other accruals (e.g. personnel expense, LTI, employee bonuses and post-employment benefits and R&D)	996	(559)	(226)	339	(1,104)	1,428	-
Goodwill	250	(3)	2	111	-	196	(62)
Other	1,122	(455)	(791)	75	(589)	2,130	(156)
	15,675	(5,080)	65	2,401	(4,075)	15,464	(3,256)

The column Other changes/Equity includes all the changes in deferred tax assets and liabilities which do not have a balancing entry in profit or loss affecting deferred tax income or expenses; they mainly include the effects of the deconsolidation of Gutmann with a positive effect of Euro 1.3 million on the item “Accumulated losses”, a negative effect of Euro 766 thousand on the item Amortisation and a negative effect of Euro 559 thousand on the item Others. The item also includes the measurement of the cash flow hedge for Euro 77 thousand, in addition to the exchange rate effect and reclassifications.

Management of each Group company decides whether to recognise deferred tax assets by assessing projected future recovery based on budget projections.

“Other” includes deferred tax assets of Euro 1,313 thousand concerning the investments in Poland.

The Chinese subsidiary has accrued tax losses utilisable, although the Group has prudently not recognised a related deferred tax asset for Euro 2.4 million.

5.34 Bank loans and borrowings

<i>(in Euro thousands)</i>	Dec 31, 2017	Dec 31, 2016	Changes
Bank loans and borrowings	104,161	92,722	11,439
Total	104,161	92,722	11,439
Bank loans and borrowings have the following repayment schedules:			
On demand or within one year	57,040	59,004	(1,964)
Within two years	18,650	12,227	6,423
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 five years	-	-	-
Total	104,161	92,722	11,439
Less amounts to be repaid within one year	57,040	59,004	(1,964)
Due after one year	47,121	33,718	13,403

The majority of borrowings indicated above carry a floating rate of interest. In 2017 the Group 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 7, Risk management of these notes.

5.35 Other payables (non-current)

	Dec 31, 2017	Dec 31, 2016	Changes
<i>In Euro thousands</i>			
Other liabilities	16	1,401	(1,385)
INAIL contributions – 1997 earthquake deferral	16	28	(12)
INPDAl contributions – 1997 earthquake deferral	7	13	(6)
Employee INPS contributions – 1997 earthquake	186	326	(140)
Other Payables (non-current)	225	1,768	(1,543)

The Euro 1.5 million decrease is principally due to the reduction of Euro 1.3 million in the liability of Elica Group Polska for the acquisition of ISM Poland, now classified under current payables. The balance principally therefore concerns the parent Elica for Euro 211 thousand (Euro 454 thousand in 2016). The Elica S.p.A. liability decreased principally following the payment of a portion of the amounts that were deferred following the earthquake in 1997.

5.36 Other payables (current)

	Dec 31, 2017	Dec 31, 2016	Changes
<i>In Euro thousands</i>			
Due to social security institutions	2,803	1,877	926
Other	5,248	5,293	(45)
Due to personnel for remuneration	6,802	6,752	50
Accrued liabilities and deferred income	1,298	1,021	277
Customer advances	454	388	66
Directors and statutory auditors	100	57	43
Other payables (current)	16,706	15,388	1,318

This item shows a net increase of Euro 1,318 thousand. This increase refers to Social Security Institution Payables related to the parent Elica S.p.A. and mainly attributable to the higher offsetting impact in the previous year of the solidarity contributions.

5.37 Current and non-current tax liabilities**Tax liabilities (non-current)**

	Dec 31, 2017	Dec 31, 2016	Changes
<i>In Euro thousands</i>			
Local income tax – earthquake deferrals	38	64	(26)
Other tax liabilities	34	59	(25)
Employees' leaving entitlement - earthquake deferral	6	9	(3)
Estate taxes – earthquake deferral	106	180	(74)
Tax liabilities (non-current)	183	312	(129)

The decrease mainly relates to the payment in the year of payables that were deferred following the earthquake in 1997. Management believes that this amount approximates fair value.

Tax liabilities (current)

	Dec 31, 2017	Dec 31, 2016	Changes
<i>In Euro thousands</i>			
Other tax liabilities	7,116	3,728	3,388
IRPEF withholding	2,168	2,425	(257)
Income tax liabilities for the year	500	443	57
Tax liabilities (current)	9,784	6,596	3,188

Overall, this item is up Euro 3.2 million. The increase concerns Other tax liabilities for Euro 3.4 million, principally concerning the overseas subsidiaries, in particular Elica Group Polska, Elicamex and Aria fina. Management believes that this amount approximates fair value.

5.38 Trade payables

<i>In Euro thousands</i>	Dec 31, 2017	Dec 31, 2016	Changes
Trade payables	120,541	114,831	5,710
Trade payables	120,541	114,831	5,710

Trade payables mainly include payables for trade purchases and other costs. Management believes that the carrying amount of trade payables and other liabilities reflects their fair value.

5.39 Equity attributable to the owners of the parent

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

5.39.1 Share capital

The share capital at December 31, 2017 amounts to Euro 12,664,560, consisting of 63,322,800 ordinary shares with a par value of Euro 0.20 each. It is fully subscribed and paid-in.

5.39.2 Capital reserves

These amount to Euro 71,123 thousand and entirely relate to the share premium reserve. In accordance with IFRS, the costs of the share capital increase, amounting to Euro 3,650 thousand, net of the relevant tax effect of Euro 2,190 thousand, were taken to the share premium reserve.

5.39.3 Hedging and translation reserve

These reserves show a negative balance of Euro 14,766 thousand (negative balance of Euro 13,172 thousand at December 31, 2016) and underwent the following changes: translation of financial statements expressed in foreign currencies (ELICAMEX S.A. de C.V., Leonardo S.A. de C.V., Elica Group Polska Sp.zo.o, ARIAFINA CO., LTD, Elica Inc., Elica PB India Private Ltd., Zhejiang Elica Putian Electric Co. Ltd and Elica Trading LLC) resulting in a decrease of Euro 1,387 thousand, including the fair value changes of cash flow hedges, net of the negative tax effect of Euro 207 thousand. In particular, the portion concerning the fair value change is a positive Euro 130 thousand, while the tax impact is Euro 77 thousand.

The change in the translation reserve was a negative Euro 1,387 thousand for the Group and a negative Euro 1,060 thousand for non-controlling interests, therefore netting a negative Euro 2,248 thousand.

<i>In Euro thousands</i>	Dec 31, 2016	Reserve adjustment	Dec 31, 2017
Hedge reserve	309	(207)	102
Translation reserve	(13,481)	(1,387)	(14,868)
Hedging and translation reserve	(13,172)	(1,594)	(14,766)

5.39.4 Treasury shares

	Number	Carrying amount <i>In Euro thousands</i>
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.

5.39.5 Retained earnings

These decreased from Euro 45,870 thousand in 2016 to Euro 37,049 thousand in 2017. The decrease of Euro 8,821 thousand includes Euro 5,563 thousand to the allocation of the loss in 2016 and Euro 3,258 thousand related to Other Changes. Other changes includes for Euro 1.9 million the impact of the acquisition of a further 30% in Putian and for Euro 0.7 million the transfer from non-controlling interests to the Group of Putian's deficit.

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% holding in the Chinese subsidiary was CNY 15 million (approx. Euro 1.9 million) and was paid in cash utilising available company resources. This transaction became effective in September 2017.

5.40 Equity attributable to non-controlling interests

This decreased by Euro 304 thousand, principally due to:

- an increase of Euro 1,226 thousand for the allocation of the 2017 profit attributable to non-controlling interests;
- a decrease of Euro 1,060 thousand concerning the non-controlling interest in the translation effect arising from the financial statements of the investees ARIAFINA CO., LTD, Elica PB India Private Ltd., Zhejiang Elica Putian Electric Co Ltd and Elica Trading LLC, expressed in foreign currencies;
- a decrease of Euro 1,261 thousand for the distribution of dividends by Ariafina and Airforce;
- an increase of Euro 0.7 million for the transfer between non-controlling interests and the Group of Putian's deficit.

5.41 Reconciliation between the parent's and Consolidated equity and Profit/(loss) for the year

The following table contains a reconciliation between Elica S.p.A.'s equity and profit/(loss) for the year and consolidated equity and profit/(loss) for the year.

December 31, 2016 and December 31, 2017

<i>In Euro thousands</i>	Dec 31, 2017		Dec 31, 2016	
	Profit/(loss)	Equity	Profit/(loss)	Equity
Parent's separate financial statements	(22,112)	86,069	(6,541)	108,326
Elimination of the effect of intercompany transactions net of tax effect:				
Non-realised gains on non-current assets	(304)	(825)	(174)	(555)
Non-realised gains on sale of goods	(60)	(64)	70	(4)
Tax effect	139	222	33	82
Dividends received from consolidated companies	(3,021)	(3,021)	(3,362)	(3,362)
Other	401	2,245	82	(168)
Share of expenses/(income) from investments	(2)	24	(20)	26
Carrying amount of consolidated companies	1,980	(59,761)	4,060	(63,963)
Equity and profit of the subsidiaries consolidated on a line-by-line basis	6,735	60,410	3,593	48,064
Impact of disposal of fully consolidated subsidiary	17,880	113		
Allocation of differences to assets of consolidated companies and related amortisation/depreciation and impairment losses				
Intangible assets and property, plant and equipment	(243)	5,873	(242)	7,226
Goodwill arising on consolidation	-	13,209	(3,000)	13,584
Consolidated financial statements	1,392	104,494	(5,500)	109,258
Attributable to the owners of the parent	166	99,489	(5,563)	103,949
Attributable to non-controlling interests	1,226	5,005	63	5,309

5.42 Net financial position, default risk and covenants

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

<i>In Euro thousands</i>	Dec 31, 2017	Dec 31, 2016	31/12/2016 restated
Cash and cash equivalents	34,873	31,998	30,771
Finance leases and other lenders	0	(21)	(18)
Bank loans and borrowings	(57,040)	(59,004)	(59,004)
Current loans and borrowings	(57,040)	(59,025)	(59,022)
Finance leases and other lenders	(33)	(6)	0
Bank loans and borrowings	(47,121)	(33,718)	(33,718)
Non-current loans and borrowings	(47,154)	(33,724)	(33,718)
Net financial position	(69,321)	(60,751)	(61,969)

For further information on changes in the net financial position, reference should be made to the directors' report. Reference should be made to section 7 Risk management of these notes for information on default risk and covenants on debt.

5.43 Significant non-recurring events and operations

There was nothing to report in 2017.

6. Guarantees, commitments and contingent liabilities

6.1. Contingent liabilities

The parent and its subsidiaries are not involved in administrative, judicial or arbitration proceedings that are underway or have been settled by means of a ruling or arbitration award issued in the last 12 months and which might have or might have had an effect on the financial situation or profitability of the Group, except for that indicated below.

Group companies have valued the contingent liabilities that could arise from pending judicial proceedings and have made appropriate provisions in their financial statements on a prudent basis.

The provision in the Group's consolidated 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. The parent confirms its intention to pursue at all levels the protection of its rights. 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. 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 Group 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.

Management considers that the provision for risks in order to cover possible liabilities from pending or potential disputes is, on the whole, adequate. For additional information, reference should be made to paragraph 4.31 of these notes.

6.2 Guarantees and commitments

Group commitments for the purchase of raw materials amount to Euro 0.8 million, in addition to those listed in paragraph 7.2.2 Commodity risk, while the amount relating to non-current asset purchases at December 31, 2017 was approximately Euro 2,599 thousand, principally relating to investments in production capacity.

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 parent’s website <https://elica.com/corporation> (Corporate Governance section).

The Group has not given any significant guarantees, except for those provided by Elica S.p.A. in favour of Putian for credit lines of Euro 17.65 million and Elica Group Polska has a rotating receivable factoring arrangement with a cap of Euro 3.5 million, in addition to a corporate guarantee of Euro 0.65 million in favour of third parties.

6.3. Operating leases

At the end of the reporting period there were leases for several industrial and commercial properties, motor vehicle rental agreements and operating leases for hardware and photovoltaic panels. Future lease payments due from the Group for operating leases are summarised in the following table:

	Dec 31, 2017	Dec 31, 2016	Changes
<i>In Euro thousands</i>			
Property rentals	3,064	11,143	(8,079)
Car and fork lift rental	3,082	4,102	(1,020)
Hardware operating leases	2,890	3,232	(342)
Other operating leases	1,955	2,199	(244)
Operating lease commitments	10,991	20,676	(9,685)

	Dec 31, 2017	Within 1 year	1 - 5 years	Beyond 5 years
<i>In Euro thousands</i>				
Property rentals	3,064	1,075	1,990	0
Car and fork lift rental	3,082	1,192	1,889	0
Hardware operating leases	2,890	695	2,180	15
Other operating leases	1,955	448	1,484	23
Operating lease commitments	10,991	3,410	7,544	37

The significant decrease on the previous year relates to the item “Property rentals”. This item in the previous year also included the commitment of the Group relating to the warehouse leased by Gutmann, a company which the Group sold in 2017.

7. Risk management

7.1 Introduction

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, the Elica Group has for some time been implementing of a financial risk monitoring system through a “Financial Risk Policy” approved by the parent’s Board of Directors. Within this policy, the Group constantly monitors the financial risks of its operations in order to assess any potential negative impact and takes corrective action where necessary.

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

7.2 Market risk

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

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

In relation to these risk profiles, the Group uses derivative instruments to hedge its risks. The Group does not engage in derivative trading.

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

7.2.1 Currency risk

The Group's functional currency is the Euro. However, the Group companies also trade in US Dollars (USD), British Pounds (GBP), Japanese Yen (JPY), Polish Zloty (PLN), Mexican Pesos (MXN), Swiss Francs (CHF), Russian Roubles (RUB), Chinese Reminbi (CNY) and the Indian Rupee (INR). In all of these currencies, except for the Swiss Franc, the Polish Zloty, the Chinese Reminbi, the Mexican Peso, the Elica Group has higher revenue than costs; therefore changes in the exchange rates between the Euro and these currencies impact the Group 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 Group 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. 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.

In addition to the aforementioned transaction risks, the Group is also exposed to translation risk. The assets and liabilities of consolidated companies whose 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 Group monitors this exposure, against which there were no hedging operations at the reporting date; in addition, given the parent's control over its subsidiaries, governance over the respective foreign currency transactions is greatly simplified.

The most significant statement of financial position balances in foreign currency at December 31, 2017 are shown below:

<i>In Euro thousands</i>	Dec 31, 2017		Dec 31, 2016	
Currency	Assets	Liabilities	Assets	Liabilities
CHF	-	(35)	-	(38)
CNY	5,277	29	6,785	16
GBP	177	(13)	115	(13)
JPY	322	(1,498)	321	(1,639)
PLN	20,607	(22,212)	18,325	(25,203)
RUB	3,988	(231)	4,218	(20)
USD	39,007	(29,888)	39,180	(26,662)
MXN	(30)	79	80	99
INR	2,355	(157)	3,642	(153)
Foreign currency transactions	71,703	(53,926)	72,666	(53,613)

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

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

<i>In Euro thousands</i>				
Currency	Dec 31, 2017		Dec 31, 2016	
	Depreciation of foreign currencies 5%	Appreciation of foreign currencies 5%	Depreciation of foreign currencies 5%	Appreciation of foreign currencies 5%
CHF	2	(2)	2	(2)
CNY	(253)	279	(324)	358
GBP	(8)	9	(5)	5
JPY	56	(42)	63	(69)
PLN	76	(84)	328	(362)
RUB	(179)	198	(200)	221
USD	(434)	480	(596)	659
MXN	(2)	3	(9)	9
INR	(105)	116	(166)	184
Total	(846)	936	(907)	1,003

The hedging operations at December 31, 2017 with financial counterparties have a total negative Fair Value of approx. Euro 171 thousand.

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

Currency	Dec 31, 2017		Dec 31, 2016	
	Notional thousands (foreign currency)	Fair Value In thousands of Euro	Notional thousands (foreign currency)	Fair Value In thousands of Euro
USD				
Forward	19,170	237	16,050	94
Options	4,400	75	14,148	(454)
PLN				
Forward	25,950	(21)	41,550	(38)
Options	-	-	38,401	(126)
JPY				
Forward	200,000	(118)	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)	-	-
		(171)		(860)

The notional exposure in USD aggregates transactions respectively in USD/EUR and in USD/MXN; the latter amount to USD 4,500 thousand.

For the purposes of the sensitivity analysis on the exchange rate, the potential changes in the EUR/USD, EUR/PLN, EUR/RUB, EUR/JPY and USD/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 USD/MXN and EUR/MXN 11%.

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

The following table shows the sensitivity in the statement of comprehensive income to the changes in the exchange rates and the rate curves indicated, with all other variables unchanged, of the fair value of the transactions in foreign currencies at December 31, 2017 (compared with December 31, 2016):

Dec 31, 2017					
<i>In Euro thousands</i>	USD Notional 23,570 USD/000	PLN Notional 25,950 PLN/000	JPY Notional 200,000 JPY/000	RUB Notional 399,800 RUB/000	MXN Notional 177,500 MXN/000
Depreciation of foreign currencies	443	351	(97)	386	(713)
Currency depreciation EURO	6	(2)	(4)	(4)	(20)
Currency depreciation	(6)	(2)	-	16	18
Sensitivity to depreciation	443	(347)	(101)	398	(715)
Appreciation of foreign currencies	(648)	(396)	111	(645)	889
Currency appreciation EURO	(8)	2	4	4	20
Currency appreciation	8	2	-	(15)	(18)
Sensitivity to appreciation	(648)	(392)	115	(656)	891

Dec 31, 2016					
<i>In Euro thousands</i>	USD Notional 189,399 USD/000	PLN Notional 79,951 PLN/000	JPY Notional 228,400 JPY/000	RUB Notional 400,300 RUB/000	CNY Notional 47,851 CNY/000
Depreciation of foreign currencies	1,048	(54)	(91)	395	(263)
Currency depreciation EURO	18	(13)	(4)	(5)	(13)
Currency depreciation	(17)	12	-	19	15
Sensitivity to depreciation	1,049	(55)	(95)	409	(261)
Appreciation of foreign currencies	(1,283)	(40)	105	(658)	219
Currency appreciation EURO	(19)	13	4	5	12
Currency appreciation	17	(12)	-	(18)	(16)
Sensitivity to appreciation	(1,285)	(39)	109	(671)	215

7.2.2 Commodity risk

The Group 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 aluminium) are affected by the trends of the principal markets. The Group regularly evaluates its exposure to the risk of changes in the price of commodities and manages this risk through fixing the price of contracts with suppliers and through hedging contracts with financial counterparties.

In particular, between the end and the beginning of the year, on the basis of the production budget for the year, the prices and quantities were fixed through both channels described above. 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 target operating profit.

The notional value and the relative value of the copper derivatives in place at December 31, 2017 are reported below:

Copper hedges <i>In Euro thousands</i>	Dec 31, 2017		Dec 31, 2016	
	Notional	Fair value	Notional	Fair value
Forward	9,013	662	8,280	1,694
Commodity derivatives assets/(liabilities)		662		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 shows an increase in the price of copper of 5% would result in an increase in the fair value of forward contracts at December 31, 2016 of Euro 476 thousand.

Similarly, a reduction of 5% results in a decrease in the fair value of forward contracts of Euro 476 thousand.

7.2.3 Interest rate risk

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

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

Relating to the Group debt, from the sensitivity analysis a decrease of 25 bps in the interest rate curve in the short-term incurs lower 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 interest rate swaps and through cap options against specific non-current loans at a variable rate.

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

	Dec 31, 2017	Fair value	Dec 31, 2016	Fair value
<i>In Euro thousands</i>	Notional		Notional	
Interest rate swap	62,456	(300)	49,625	(465)
CAP	536	-	1,583	-
Interest derivatives assets/(liabilities)		(300)		(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 change in the interest rate curve of -25/+25 bps generates a Euro 186 thousand decrease/increase in the fair value of the IRS at December 31, 2017.

With reference to the cap options, the sensitivity analysis carried out on the interest rate curve shows that, with a 25bp increase or decrease in the curve, the fair value remains constant.

7.3 Credit risk

The credit risks represent the exposure of the Elica Group 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 Group 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.

The maximum theoretical credit risk exposure for the Group at December 31, 2017 is based on the carrying amount of recognised receivables, net of the specific insurance coverage, in addition to the nominal value of the guarantees given to third parties.

At December 31, 2017, trade receivables of Euro 75.9 million (Euro 70.6 million at December 31, 2016) included approx. Euro 11.9 million (Euro 8.5 million at December 31, 2016) of overdue receivables. 1.3% of receivables (0.8% at December 31, 2016) were overdue by more than 60 days.

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

For more details, see paragraph 5.25 of the present notes.

7.4 Liquidity risk

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

The principal factors which determine the liquidity of the Group 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	within one year	1 - 5 years	after five years
<i>In Euro thousands</i>				
Finance leases and other lenders		0	33	0
Bank loans and borrowings		57,040	47,121	0
Trade payables and other payables		137,019	217	11
Commitment by due date				

	Dec 31, 2016	within one year	1 - 5 years	after five years
<i>In Euro thousands</i>				
Finance leases and other lenders		21	6	-
Bank loans and borrowings		59,004	33,718	-
Trade payables and other payables		130,219	1,755	13
Commitment by due date		189,244	35,479	13

The Group has non-current loans with major financial counterparties contracts which include an obligation to comply with financial covenants based on the Group's consolidated financial statements and/or the financial statements of the borrowing company.

At December 31, 2017 the covenants in question were complied with, both in relation to the increase in the borrowing costs and the default of the credit line.

Management believes that at the present time, the funds available, in addition to those that will be generated by operating and financing activities, will permit the Group 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 5.42 of the notes.

7.5 Classification of the financial instruments

<i>In Euro thousands</i>	Dec 31, 2017	Dec 31, 2016
AFS financial assets	52	56
Derivative financial instruments	8	-
Non-current assets	60	56
Derivative financial instruments	1,006	1,844
Trade receivables	75,923	70,561
Cash and cash equivalents	34,873	31,998
Current assets	111,802	104,403
Finance leases and other lenders	33	6
Bank loans and borrowings	47,121	33,718
Derivative financial instruments	75	198
Non-current liabilities	47,229	33,922
Trade payables	120,541	114,831
Finance leases and other lenders	-	21
Bank loans and borrowings	57,040	59,004
Derivative financial instruments	749	1,277
Current liabilities	178,330	175,133

The Group believes that the carrying amounts approximate fair value. In relation to the measurement methods of the individual items, reference should be made to paragraph 2. Accounting policies and basis of consolidation in these notes.

7.6 Fair value hierarchy according to IFRS 7

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

The IFRS 7 classification implies the following hierarchy:

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

The classification of the financial instruments may have a discretionary element, although not significant, where in accordance with IFRS, the Group 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.

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

Financial Assets/Liabilities	Fair value at	Fair value at				Relationship
<i>In Euro thousands</i>	Dec 31, 2017	Dec 31, 2016	Fair value hierarchy	Valuation techniques & key inputs	Significant unobservable inputs	between the unobservable inputs and the fair value
1) Currency forwards and options	Assets 344; Liabilities (516)	Assets 146; Liabilities (1,005)	Level 2	(a)	n/a	n/a
2) Interest rate swaps	Assets 8; Liabilities (designated hedges) (308)	Liabilities (designated hedges) (465)	Level 2	(b)	n/a	n/a

(a) Discounted cash flow. 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.

(b) Discounted cash flow. 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.

The table below reports the following information on derivative instruments at December 31, 2017 and December 31, 2016:

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

Dec 31, 2017	Notional Value				Carrying amount
<i>In Euro thousands</i>	Maturity within 1 year		Maturity after 1 year		
Interest rate risk					
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	sales	purchases	sales	purchases	
Cash flow hedge as per IFRS	14,496	5,233			167
Fair value hedge as per IFRS					
Not considered hedges as per IFRS		9,444			(338)
Total derivatives on currency risks					(171)
Management of commodity risk	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

Dec 31, 2016	Notional Value				Carrying amount
<i>In Euro thousands</i>	Maturity within 1 year		Maturity after 1 year		
Interest rate risk					
Cash flow hedge as per IFRS	16,308		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	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	43,846	29,552	-	-	(736)
Total derivatives on currency risks	52,645	32,153	-	-	(860)
Management of commodity risk	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

8. Disclosure pursuant to IAS 24 on management remuneration and related party transactions

The Group is indirectly controlled by the Casoli family through Fintrack S.p.A. of Fabriano (Ancona, Italy).

The company is not subject to management and co-ordination pursuant to Article 2497 and subsequent articles of the Italian Civil Code.

This conclusion derives from the fact that the controlling shareholder does not carry out management activities within the company and, although exercising voting rights at the shareholders' meeting, does not have any involvement in the financial, production or strategic programmes of the company, which is governed by a Board of Directors responsible for operating control. The parent's Board of Directors has also appointed an independent CEO for ordinary operational management. The parent, 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.

8.1 Remuneration of Directors, Statutory Auditors and Senior Executives

The remuneration of the above-mentioned persons totalled Euro 3,760 thousand. This amount does not include the accrual to the Long Term Incentive provision.

The details are reported in the remuneration report. This report is available on the parent's website <https://elica.com/corporation> (Investor Relations section).

8.2 Share-based payments

There were none in 2017.

8.3 Information on subsidiaries

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.

8.3.1. Subsidiaries – 2017 Highlights

Elica also carries out financial transactions with Group companies as a result of loans it grants them as part of a general plan to centralise cash management activities. These loans are interest bearing and at market rates. Transactions with consolidated companies have been derecognised in the consolidated financial statements. As a result, they are not reported in these notes.

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

8.3.2. Subsidiaries with significant non-controlling interests

	Country	Non-controlling interest	Profit/(loss) to non-controlling interests Dec 31, 17	Profit/(loss) of non-controlling interests Dec 31, 16	Equity non-controlling interests Dec 31, 17	Equity non-controlling interests Dec 31, 16
<i>In Euro thousands</i>						
Airforce S.p.A.	Italy	40%	195	208	1,433	1,319
Ariafina Co.Ltd	Japan	49%	1,448	1,327	3,433	3,460
Airforce Germany Hochleistungs- dunstabzugssysteme GmbH	Germany	43%	(9)	(13)	2	11
Elica PB India Private Ltd.	India	49%	966	325	137	(704)
Zhejiang Elica Putian Electric Co. Ltd (*)	China	3%	(1,374)	(1,783)	1	1,222
Consolidated total			1,226	63	5,005	5,309

(*) Profit/(Loss) of non-controlling interest includes the amount matured until the acquisition by the Group of a further 30%.

Reporting package figures <i>In Euro thousands</i>	Airforce S.p.A.		Ariafina Co. Ltd		Elica PB India Private Ltd.	
	Dec 31, 2017	Dec 31, 2016	Dec 31, 2017	Dec 31, 2016	Dec 31, 2017	Dec 31, 2016
Current assets	10,322	10,007	8,553	8,396	10,964	9,816
Non-current assets	1,813	1,774	1,592	1,712	2,052	2,525
Current liabilities	7,404	7,435	3,139	3,046	6,131	4,874
Non-current liabilities	1,214	1,126	-	-	1,812	3,918
Equity attributable to the owners of the parent	2,084	3,011	3,573	3,602	4,936	4,254
Equity attributable to non-controlling interests	1,433	208	3,433	3,460	137	(704)
Revenue	23,469	22,618	22,358	21,665	24,295	16,791
Operating profit	821	951	4,463	4,124	3,068	964
Profit for the year	493	513	2,955	2,708	1,828	525
Dividends paid to third parties	(60)	(60)	(1,201)	(1,163)	-	-
Change in net financial position	(580)	146	32	2,286	1,338	120

8.4 Information on the associate

The table below reports the key highlights of the associate, based on its financial statements in accordance with Italian GAAP.

8.4.1 Associates – key data at December 31, 2017

<i>In Euro thousands</i>	Registered Office	% held	Quota capital	Equity	Profit for year
I.S.M. S.r.l.	Cerreto d'Esi (AN-Italy)	49.39%	10	1,422	43

<i>In Euro thousands</i>	I.S.M. S.r.l. Dec 31, 2017	Dec 31, 2016
Current assets	190	236
Non-current assets	1,259	1,175
Current liabilities	19	24
Non-current liabilities	8	8
Equity	1,422	1,379
Revenue	142	141
Operating profit	49	23
Profit for the year	43	13
Dividends paid to third parties	-	-
Change in net financial position	(56)	(130)

This company operates in the real estate sector.

8.4.2. Commercial transactions with associates

The table below summarises transactions associates in 2017. No separate disclosure of these positions is provided in the consolidated financial statements, given the immaterial amounts involved, in accordance with Consob resolution no. 15519 of July 27, 2006. All transactions were conducted on an arm's length basis in the ordinary course of business.

	Payables	Receivables	Costs	Revenue
<i>In Euro thousands</i>				
I.S.M. srl	-	2	-	4

8.5 Transactions with other related parties

In 2017, transactions with other related parties took place. All transactions were conducted on an arm's length basis in the ordinary course of business. No separate disclosure of these positions is provided in the consolidated financial statements, given the immaterial amounts involved, in accordance with Consob resolution no. 15519 of July 27, 2006.

The table below shows the main balances in the statement of comprehensive income and statement of financial position arising from trading transactions with FASTNET S.p.A. (40.81% interest held by FAN, the parent of Elica). No transactions took place with Fintrack S.p.A. (company that indirectly controls the parent Elica S.p.A.) and with FAN S.r.l. (parent of Elica S.p.A.).

	Payables	Receivables	Costs	Revenue
<i>In Euro thousands</i>				
Fastnet S.p.A.	51	-	53	-

The statement of comprehensive income and statement of financial position balances arise from trading transactions conducted to purchase goods and services on an arm's length basis.

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.

The Procedures for Transactions with Related Parties is published on the parent's website <https://elica.com/corporation> (Corporate Governance section).

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

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

10. Events after the reporting date

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

Fabriano, March 15, 2018

On behalf of the Board of Directors
The Executive Chairman
Francesco Casoli

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

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

Type of service <i>In Euro thousands</i>	Service provider	Company	Remuneration
Audit	Kpmg S.p.A.	Elica S.p.A.	175
Audit	Kpmg S.p.A.	Air Force S.p.A.	14
Audit	KPMG Cardenas Dosal, S.C.	Elicamex S.A. de C.V.	21
Audit	KPMG Polska (*)	Elica Group Polska S.p.z.o.o.	32
Audit	KPMG China	Zhejiang Elica Putian Electric Co. Ltd	28
Audit	B S R & Co. LLP (KPMG network)	Elica PB India Private Ltd.	17
Audit	KPMG Japan	Ariafina CO., LTD	10
Other services	Kpmg S.p.A.	Elica S.p.A.	36
Other services	Kpmg Advisory S.p.A.	Elica S.p.A.	24
Other services	B S R & Co. LLP (KPMG network)	Elica PB India Private Ltd.	3
Other services	KPMG China	Zhejiang Elica Putian Electric Co. Ltd	2
KPMG network fees			362

(*) KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.

Attestation on the consolidated 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 Group's characteristics and
- the effective application,

of the administrative and accounting procedures for the preparation of the consolidated financial statements in 2017.

We also attest that:

- the consolidated financial statements:

- a) correspond with the accounting books and records;

- b) were prepared in accordance with the IFRS endorsed by the European Union and with Article 9 of Legislative Decree no. 38/2005;

- c) provide a true and fair view of the issuers' financial position and results of operations and of the other companies in the consolidation scope.

- The directors' report includes a reliable analysis of the issuer's performance, results of operations and situation, together with a description of the main risks and uncertainties to which it is exposed.

Fabriano, March 15, 2018

The Chief Executive Officer
Antonio Recinella

Corporate Financial
Reporting Manager
Alessandro Carloni

List of holdings in non-listed companies, including foreign companies, of over 10% at the reporting date

<i>In Euro thousands</i>	Registered Office	% total	of which % direct	of which % indirect	held by (*)	“Direct” holding value	“Indirect” holding value	consolidation method
Elicamex S.a.d. C.V.	Queretaro (Mexico)	100%	98%	2%	Elica Group Polska Sp.z o.o	9,389	192	line-by-line
Elica Group Polska Sp.z o.o	Wroclaw (Poland)	100%	100%	n/a	n/a	22,275	n/a	line-by-line
Airforce S.p.A.	Fabriano (AN) - (Italy)	60%	60%	n/a	n/a	1,212	n/a	line-by-line
Ariafina Co.Ltd	Sagamihara - Shi (Japan)	51%	51%	n/a	n/a	49	n/a	line-by-line
Leonardo Services S.a. de C.V.	Queretaro (Mexico)	100%	98%	2%	Elica Group Polska Sp.z o.o	75	2	line-by-line
Elica Inc.	Chicago, Illinois (United States)	100%	0%	100%	Elicamex S.a.d. C.V.		324	line-by-line
Airforce Germany Hochleistungs- dunstabzugssysteme Gmbh	Stuttgart (Germany)	95%	0%	95%	Airforce S.p.A.		5	line-by-line
Elica PB India Private Ltd.	Pune (India)	51%	51%	n/a	n/a	4,072	n/a	line-by-line
Zhejiang Elica Putian Electric Co. Ltd	Shengzhou (China)	97%	97%	n/a	n/a	13,726	n/a	line-by-line
Elica Trading LLC	Saint Petersburg (Russia)	100%	100%	n/a	n/a	3,880	n/a	line-by-line
I.S.M. s.r.l.	Cerreto D'Esi (AN) - (Italy)	49%	49%	n/a	n/a	1,391	n/a	equity
Elica France S.A.S.	Paris (France)	100%	100%	n/a	n/a	1,024	n/a	line-by-line
Elica GmbH	Munich (Germany)	100%	100%	n/a	n/a	1,565	n/a	line-by-line

(*) name and legal status of any subsidiaries that hold direct investments in non-listed companies and investment.



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(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 consolidated financial statements

Opinion

We have audited the consolidated financial statements of the ELICA Group (the "Group"), which comprise the statement of financial position as at 31 December 2017, the income statement and statements of other 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 consolidated financial statements give a true and fair view of the financial position of the ELICA Group 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 consolidated financial statements" section of our report. We are independent of ELICA S.p.A. (the "Company") 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 consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KPMG S.p.A. è una società per azioni di diritto italiano e fa parte del network KPMG di entità indipendenti affiliate a KPMG International Cooperative ("KPMG International"), entità di diritto svizzero.

Ancona Asola Bari Bergamo
Bologna Bolzano Brescia
Cagliari Como Firenze Genova
Lecce Milano Napoli Novara
Padova Palermo Parma Perugia
Pescara Roma Torino Treviso
Trieste Varese Verona

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Recoverability of goodwill

Notes to the consolidated financial statements: 2.2 – Accounting policies: Goodwill, note 5.20 – Goodwill

Key audit matter	Audit procedures addressing the key audit matter
The consolidated financial statements at 31 December 2017 include goodwill of €39.4 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 Group'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 development costs

Notes to the consolidated financial statements: note 2.2 – Accounting policies: Research and development costs; note 5.21 – Other intangible assets

Key audit matter	Audit procedures addressing the key audit matter
The consolidated financial statements at 31 December 2017 include costs of €8.9 thousand 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 Group. These estimates are based on both the complex assumptions underlying the	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;



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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.	— analysing the recoverability valuation models adopted by the Group 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.
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Measurement of provisions for legal risks

Notes to the consolidated financial statements: note 2.2 – Accounting policies: Provisions for risks and charges, note 5.32 – Provisions for risks and charges, note 6.1 – Contingent liabilities

Key audit matter	Audit procedures addressing the key audit matter
The consolidated 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 Group 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 subjectivity 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 consolidated financial statements

The directors are responsible for the preparation of consolidated 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 Group's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the consolidated 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



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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 Group's financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 consolidated 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 consolidated 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction,



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supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 consolidated 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 consolidated 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 Group'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 consolidated 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 Group's consolidated 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 consolidated financial statements of the ELICA Group at 31 December 2017 and have been prepared in compliance with the applicable law.



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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.

Statement pursuant to article 4 of the Consob regulation implementing Legislative decree no. 254/16

The directors of ELICA S.p.A. are responsible for the preparation of a non-financial statement pursuant to Legislative decree no. 254/16. We have checked that the directors had approved such non-financial statement. In accordance with article 3.10 of Legislative decree no. 254/16, we attested the compliance of the non-financial statement separately.

Ancona, 26 March 2018

KPMG S.p.A.

(signed on the original)

Gianluca Geminiani
Director of Audit