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

Elica Group

2018 ANNUAL REPORT -
CONSOLIDATED FINANCIAL STATEMENTS

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Elica Group

DIRECTORS' REPORT

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 heads and central heating boilers. With over 3,800 employees and an annual output of approx. 21 million units, the Elica Group has seven plants, including in Italy, Poland, Mexico, India and China. With many years' experience in the sector, Elica has combined meticulous care for design with 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 revolutionize the traditional image of cooker hoods: they are no longer seen as simple accessory but as a design element that improves the quality of life.

Chief Executive Officer’s view

The 2018 results reflect the strength of the Group’s business model, with growth in own brand product sales, which in the fourth quarter had come to account for 51% of cooking revenue, confirming the Group’s strategy of increasingly focusing on this business and the operating profit over the last 8 quarters.

2018 saw, net of the currency effect and on a like-for-like consolidation scope, major growth in own brand and, particularly Elica brand, sales - up 12% thanks mainly to the innovative product range presented at Eurocucina and marketing and communication investments.

This growth was particularly significant on the Indian, Russian and Western European (German) markets and more than offset the 4.5% decline in OEM revenue following estimated weaker demand in the area and the sales trends of some of the main customers in this operating segment.

The agreement signed with Whirlpool of India and the complimentary nature of our brands also supported growth on the strategic and quickly-expanding Indian market.

The product/channel mix further drove the margin, up to 9% in the fourth quarter and laid the foundation for the long-term objective of a continually increasing operating profit margin.

Finally, operating cash generation improved to Euro 39.5 million and the benefit of the sale of 33% of the Indian subsidiary in the third quarter more than offset investments and lowered the net financial position to Euro 56.3 million from Euro 69.3 million at December 31, 2017, therefore opening up new development opportunities.

Antonio Recinella
Chief Executive Officer

2018 Economic overview and Outlook for 2019[1]

International developments

Global economic growth will decline to 2.9% in 2019. This according to the World Bank's experts in the Global Economic Prospects report. This figure, which is close to the 3% of 2018, owes much to trade tensions and the consequent drop in global trade. The World Bank cut its global trade view for volumes in 2018, 2019 and 2020 by approx. half a percentage point on its June forecast. US growth is expected to contract from 2.9% to 2.5%, with China forecast to return 6.2% - compared to 6.5% for 2018. Eurozone growth is expected to come in at +1.6% (compared to +1.9% in 2018). The wealth produced by the emerging economies is expected to rise 4.2%, with the advanced economies gaining 2%: the former confirms the 2018 figures, while the latter represents a decline of 20 basis points.
The international economic slowdown in Q3 2018 extended also into the final part of the year. The industrial sector particularly saw a generalised decline across many countries which dampened global demand. Global goods trade in November reduced 1.6% (source: Central Planning Bureau), cancelling out October's improvement. After a particularly strong 2017, global trade overall returned to the more contained levels of 2016 and the Global PMI's latest indications on new export orders do not suggest a quick recovery. The risk of a hard landing for the world economy has heightened over the last month. Alongside worsening financial market conditions, economic and political instability have emerged in both the advanced and emerging economies, with economic developments in China weighing heavily on the global outlook.
In the fourth quarter, real Chinese GDP slowed slightly (+6.4% against +6.5% for the previous quarter). In particular, exports were impacted by the continuing protectionist policy of the United States.
In the same period, United States consumer confidence surprisingly weakened (as per the Conference Board) to its lowest level since July 2017. The drop in confidence was partly due to the shutdown, although owed also to the downward revision in autumn of the six-month outlook. As expected, the Federal Reserve left the reference Fed Fund rate unchanged at 2.25%-2.5%, stating that any upcoming raises will depend on improvements in the economy.
The Euro continued to strengthen against the Dollar in January to a monthly average of USD 1.14. Brent rose in the same period to an average of USD 59 per barrel (56.3 in December). Oil price movements going forward will hinge on trade agreements between China and the US and China's economic data, although the sanctions against Venezuela and the country's recent political turmoil may have an impact.
The Q4 2018 Eurozone estimate indicated real GDP growth of 0.2% - stable on the summer months. The aggregate performance reflects the contraction in Italy (-0.2%) and gains in France (+0.3%) and Spain (+0.7%). In terms of prices, according to Eurostat's preliminary estimate, Eurozone inflation in January lowered to 1.4% from 1.6% in December.
The zone overall was impacted by the weakening global picture and particularly slowing investments. This latter particularly weighed on the German economy which is highly dependent on investment goods global demand. The Board of the ECB in January 2019 downgraded its risks outlook for the zone from "balanced" to "downward" due to the more uncertain environment in view of the risk of a no-deal Brexit and country-specific factors, such as the drop in car production in Germany with the entry into force of the new EU regulation. The ECB however considered the risk of recession as low as financial conditions remain highly accommodating and the jobs market continues to improve (in 2018 unemployment of 8.2%, from 9.1% in 2017) and as also evident in the cost of labour and inflation numbers. The slowdown in the Eurozone was confirmed by the recent growth forecast review for 2019 published by the European Commission (1.3% from the previous 1.9%).
In January, the early available indicators confirmed continued economic weakness. The €-coin indicator fell for the third consecutive month, impacted by the continued drop in business and household confidence and the further weakening of the industrial cycle. The European Commission's Economic sentiment indicator (ESI) also saw a further decline (-1.2% on the previous month) to its lowest level since the end of 2016. Falling confidence levels are a common feature across all sectors, except for construction. Looking to the national breakdown, the ESI improved only in France, while reducing in Germany and Italy and remaining substantially stable in Spain.

Cooker hoods market

The **global cooker hoods market** in 2018 grew 1.4%[2] on the previous year, although with diverging regional performances.

[1] Data sources: International Monetary Fund, World Economic Outlook. World Bank, *Global Economic Prospects.*

The **European market** - after expanding in the first half of 2018 (+1.6%) - returned to similar levels as the previous year, decreasing 0.3% in the 12 months of 2018 compared to 2017. Curtailed Western European demand (Germany, France) and in the United Kingdom (due to the uncertainty surrounding "BREXIT") particularly impacted developments. Eastern Europe and Russia again contributed, with demand growth of 2.2% on the previous year, driven by the property market and the weaker penetration of certain product families compared to continental Europe.
Overall, demand in the "EMEA" (Europe, Middle East and Africa) region reduced 0.2% on 2017. Similar performances are expected for 2019. Slight contraction for Western Europe (-0.5% vs 2018); growth in Eastern Europe and Russia of 2.9%. Consolidated demand growth in the "EMEA" region is expected of 0.9% vs 2018.

In **North America,** kitchen hood demand continued to grow (+2.5% on 2017), alongside **Latin America** (+2.0%). Demand growth is expected to continue in 2019 also in this case, driven by a general sector expansion (+2.5% NA; +2.1% LA) and of the wider American economy - in spite of the risk factors outlined previously.

In **Asia** - the largest global market - the expansionary phase entered into in 2017 after the contraction of 2016 continued. The kitchen hood sector in 2018 reported 2.3% growth, driven by **India** (+8.9%) and **China** (+2.5%), which saw a significant recovery in the fourth quarter of 2018. **Japan,** up 2.5% in 2017, saw a decline of 3.0%, in line with the major drop in both domestic and foreign demand - both contracting in the second half of 2018.
Asian growth is expected to pick up in 2019 (+3.8% vs 2018), once again driven by India, China and a Japanese recovery.

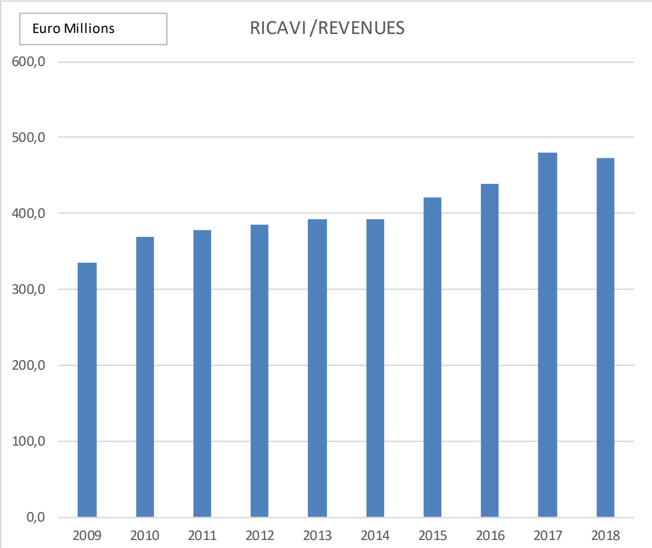
Currency markets

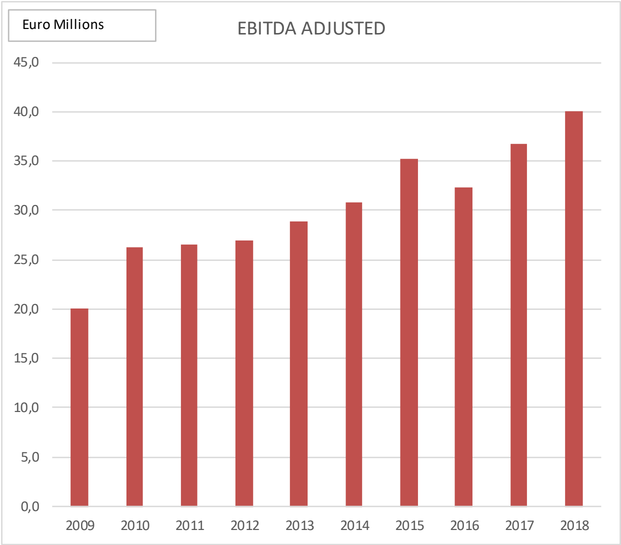
The Euro in 2018, at average exchange rates, substantially strengthened against all currencies, except for the Polish Zloty and UK Sterling, which remained flat.

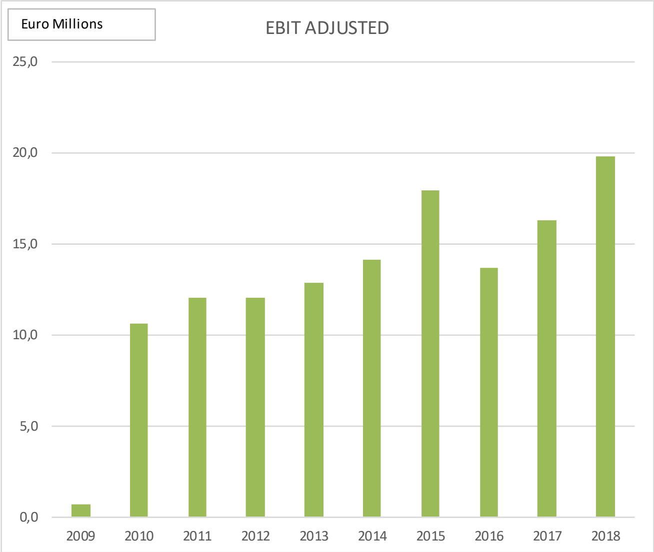
		2018 average	**2017 average**	**%**	**Dec 31, 2018**	**Dec 31, 2017**	**%**
USD	U.S. Dollar	1.18	1.13	4.42%	1.15	1.2	(4.17%)
JPY	Japanese Yen	130.4	126.71	2.91%	125.85	135.01	(6.78%)
PLN	Polish Zloty	4.26	4.26	0.00%	4.30	4.18	2.87%
MXN	Mexican Peso	22.71	21.33	6.47%	22.49	23.66	(4.95%)
INR	Indian Rupee	80.73	73.53	9.79%	79.73	76.61	4.07%
CNY	Chinese Renmimbi	7.81	7.63	2.36%	7.88	7.8	1.03%
RUB	Russian Ruble	74.04	65.94	12.28%	79.72	69.39	14.89%
GBP	UK Sterling	0.88	0.88	0.00%	0.89	0.89	0.00%
Source: ECB							

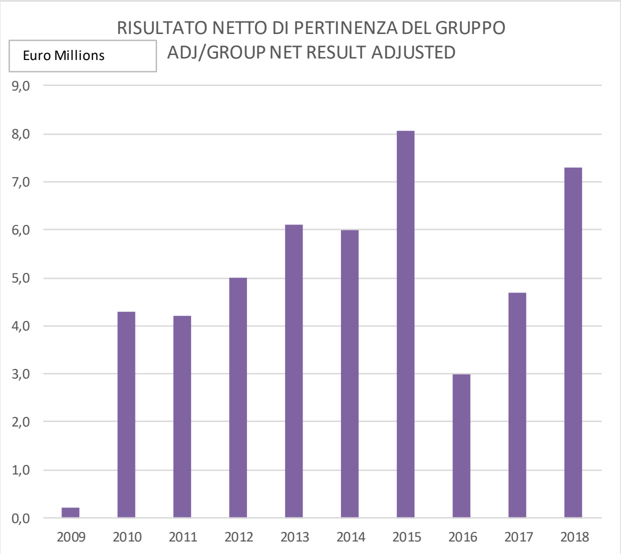
[2]Source: company estimate.

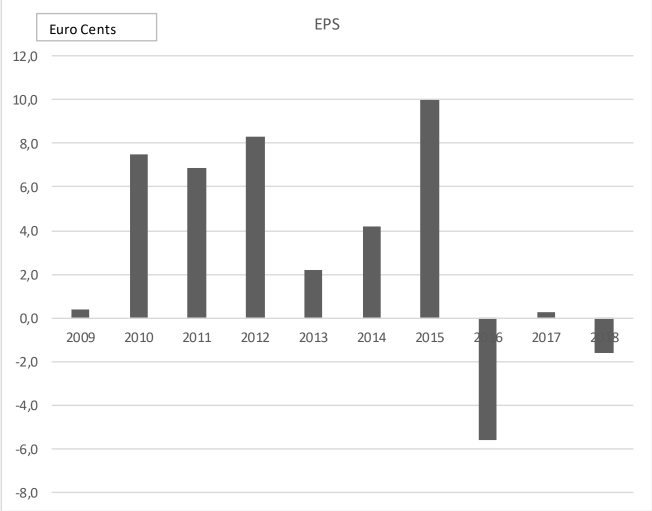
Financial Highlights

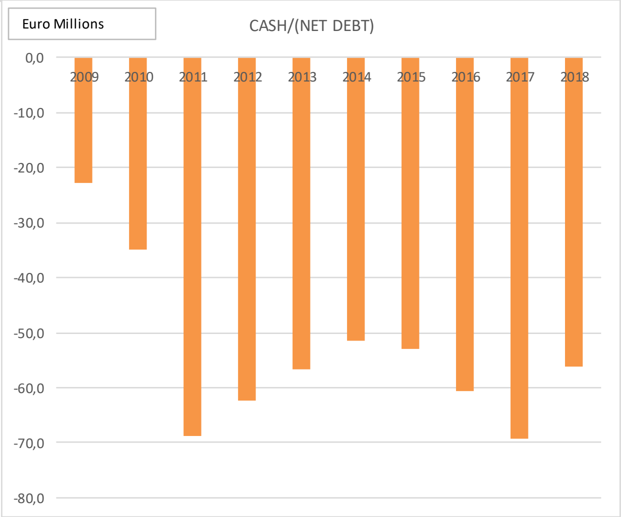












Financial position and performance

In Euro thousands	2018	% revenue	2017	% revenue	2018 Vs 2017%
Revenue	472,387		479,305		(1.4%)
Adjusted EBITDA*	**39,973**	8.5%	**36,840**	7.7%	8.5%
EBITDA	29,818	6.3%	34,521	7.2%	(13.6%)
Adjusted EBIT*	**19,771**	4.2%	**16,324**	3.4%	21.1%
EBIT	8,539	1.8%	14,005	2.9%	(39.0%)
Net financial expense	(4,053)	(0.9%)	(5,242)	(1.1%)	22.7%
Loss on disposal of subsidiaries	-	0.0%	(3,908)	(0.8%)	100.0%
Income taxes	(2,172)	(0.5%)	(3,463)	(0.7%)	37.3%
Profit from continuing operations	2,314	0.5%	1,392	0.3%	66.2%
Adjusted profit for the year*	**10,593**	2.2%	**5,919**	1.2%	79.0%
Profit for the year	2,314	0.5%	1,392	0.3%	66.2%
Profit attribut. to the owners of the Parent - Adjusted*	**7,318**	1.6%	**4,693**	1.0%	56.0%
Profit attributable to owners of the Parent	(961)	(0.2%)	166	0.0%	(678.9%)
Basic earnings per share from continuing operations and discontinued operations (Euro/cents)	(1.55)		0.27		(674.1%)
Diluted earnings per share from continuing operations and discontinued operations (Euro/cents)	(1.55)		0.27		(674.1%)

*See Definitions and Reconciliations

In Euro thousands	Dec 31, 2018	Dec 31, 2017
Cash and cash equivalents	**35,612**	**34,873**
Finance leases and loans and borrowings from other lenders	0	0
Bank loans and borrowings	(37,792)	(57,040)
Current loans and borrowings	**(37,792)**	**(57,040)**
Finance leases and loans and borrowings from other lenders	0	(33)
Bank loans and borrowings	(54,102)	(47,121)
Non-current loans and borrowings	**(54,102)**	**(47,154)**
Net Financial Position	**(56,282)**	**(69,321)**
Assets for derivatives	513	1,014
Liabilities for derivatives (current)	(1,737)	(749)
Liabilities for derivatives (non-current)	(120)	(75)
Net Financial Position - Including Derivatives Effect	**(57,626)**	**(69,132)**

In Euro thousands	Dec 31, 2018	Dec 31, 2017
Trade receivables	51,192	75,923
Inventories	76,196	73,298
Trade payables	(109,916)	(120,541)
Managerial Working Capital	**17,472**	**28,680**
% of annualised revenue	*3.7%*	*6.0%*
Other net assets/ liabilities	(10,801)	(14,682)
Net Working Capital	**6,671**	**13,998**
% of annualised revenue	*1.4%*	*2.9%*

2018 Performance

2018 Revenue

In 2018, Elica realised consolidated revenue of Euro 472.4 million, up 2.2% on 2017 (-1.4% reported), net of the currency effect and the changes to the consolidation scope[3], with the sale of the German subsidiary Exklusiv-Hauben Gutmann on August 28, 2017.

The global market in 2018 reported growth of 1.4% in demand on the previous year. This was led principally by the Asian market (+2.3% vs 2017), particularly India (+8.9% in 2018) and the American markets (+2.3% vs 2017). The EMEA (Europe, Middle East & Africa) market diverged, reporting a slight contraction on 2017 (-0.2%), reflecting on the one hand growth on the Eastern European market (+2.2%) - in particular Russia - while on the other impacted by demand weakness in Continental Europe (Germany, United Kingdom and France), declining 2.1% on the previous year.

In 2018, net of the currency effect and on a like-for-like consolidation scope, own brand product sales rose 12% (10% in Q4 2018), with gains particularly in India, Russia and Western Europe (Germany) more than offsetting the 4.5% OEM revenue contraction on the previous year (-10.7% in Q4 2018). EMEA OEM revenue slowed further in the fourth quarter (-24%), again impacted by forecast lower market demand in the area and the sales of some of the main customers in this operating segment.

The cooking segment contribution to own brand product sales rose to 49% in 2018 and was 51% in the fourth quarter of the year, confirming the Group's strategy of increasingly focus on this product category.

The Motors business, representing 13% of turnover, reported a 2% revenue contraction in 2018. Sales slowed particularly in the fourth quarter (-15.5%), in line with the OEM sector performance in EMEA and reduced demand (particularly in Turkey).

Profitability - FY 2018

Adjusted EBITDA[4] of Euro 40.0 million (Euro 10.5 million in Q4 2018) was up 8.5% on 2017 (Euro 36.8 million), with a revenue margin of 8.5% significantly improving on 7.7% in the previous year and rising to 9% in the fourth quarter. The improving operating margin benefited from higher prices and the improved product/channel mix (growth of own brand sales), which more than offset increasing raw material prices and brand and new product promotion costs and reduced OEM sales, in addition to further cost streamlining in the final quarter of the year.

The Group made an extraordinary accrual of Euro 6.8 million in 2018, of which Euro 4 million in the first half of the year (Euro 5.1 million net of the tax effect), considered necessary in view of the opening of preliminary voluntary insolvency proceedings at the German ex-subsidiary Exklusiv Hauben Gutmann GmbH, against whom Elica S.p.A. has a non-current trade receivable, arising before the disposal on August 28, 2017. On the basis of the settlement reached in February 2019, this receivable shall no longer in fact be recoverable. In addition, Elica S.p.A. shall recognise to Gutmann Euro 2.6 million (with an overall adjustment effect on the EBITDA of Elica S.p.A. of Euro 3.4 million, including the impairment of Euro 0.8 million of the original receivable of Euro 2.5 million of Elica S.p.A. from Manuel Fernandez Salgado), of which Euro 800 thousand to be paid within three weeks from the agreement's conclusion, Euro 1.7 million through the transfer to Gutmann of Elica S.p.A.'s receivable from Manuel Fernandez Salgado for the transfer of the shares of Gutmann and a further Euro 100 thousand to be fully offset against that to be paid by Gutmann for the retransfer of the "Gutmann" brands acquired by Elica S.p.A. in 2017 (with an overall adjustment effect on the EBIT of Elica S.p.A. of Euro 1.1 million, deriving from the impairment of the Gutmann brands recognised to the statement of financial position of Elica S.p.A.).

[3] Net of the contribution of the German subsidiary Exklusiv-Hauben Gutmann, sold on August 28, 2017.
[4] Net of the extraordinary accrual of Euro 6.8 million in 2018 (Euro 5.1 million net of the tax effect) considered necessary in view of the opening of preliminary voluntary insolvency proceedings at the German ex-subsidiary Exklusiv Hauben Gutmann GmbH, against whom Elica S.p.A. has a non-current trade receivable, arising before the disposal. The agreement signed in February 2019 therefore had an additional adjustment impact for Elica S.p.A. of Euro 4.5 million (with an overall effect of Euro 3.4 million on EBITDA and an additional Euro 1.1 million on EBIT, as previously stated) for 2018 (Euro 3.1 million net of the tax effect).

Adjusted EBIT[4] of Euro 19.8 million was up 21.1% on Euro 16.3 million in 2017 (Euro 5.5 million in Q4 2018). This result reflects the business dynamics outlined above.

Financial expense of Euro 4.1 million was significantly down on Euro 5.2 million in 2017, thanks to lower interest on the improved net financial debt, the renegotiation of the medium-term debt and reduced coverage costs and currency losses.

The Adjusted Profit attributable to the owners of the parent [4] of Euro 7.3 million was significantly up on Euro 4.7 million for 2017, thanks principally to the developments outlined above (Euro 2.1 million in Q4 2018). Non-controlling interests were Euro 3.3 million, compared to Euro 1.2 million in 2017. This increase mainly relates to revenue and EBITDA growth in India and the deconsolidation of 30% of the losses of the Chinese subsidiary, which were included in non-controlling interestsin the first 8 months of 2017.

Statement of Financial Position

The Net Financial Position as at December 31, 2018 was Euro 56.3 million, improving on Euro 69.3 million at December 31, 2017, thanks to the sale of 33% of the Indian subsidiary and a generation of operating cash which offset the major investments in support of development.

Operating activities in 2018 generated cash of Euro 39.5 million, compared to Euro 34.6 million in 2017 (+14.1%) - generating in fact stronger cash than investing activities.

Managerial Working Capital on annualised revenue of 3.7% reduced on 6.0% in 2017.

Definitions and reconciliations

EBITDA is the operating profit (EBIT) plus amortisation and depreciation and any impairment losses on goodwill and brands. EBIT is the operating profit as reported in the consolidated income statement.
Adjusted EBITDA is EBITDA net of adjustments. Adjusted EBIT is EBIT net of the relative adjustment items.
Net financial income/(expense) is the sum of the Share of profit/(loss) from associates, Financial income, Financial Expense, Impairment of available-for-sale financial assets and Exchange rate gains and losses.
The adjusted profit is the profit for the year, as reported in the Consolidated Income Statement, net of the relative adjustment items.
The adjusted profit attributable to the owners of the Parent is the profit for the period attributable to the owners of the Parent, as reported in the Consolidated Income Statement, net of adjustments.
Income items are adjusted as a result of: (i) non-recurring events and operations or from operations or events which do not occur frequently; (ii) events and operations not considered as in the normal course of business operations, as is the case for restructuring charges.
The earnings per share for 2018 and 2017 were calculated by dividing the profit attributable to the owners of the Parent, as reported in the Consolidated Income Statement, by the number of outstanding shares at the respective reporting dates. The numbers of outstanding shares at the reporting date is unchanged on December 31, 2017 (62,047,302).
The earnings per share so calculated coincide with the earnings per share as per the consolidated income statement, as there were no changes to the number of outstanding shares.
Managerial Working Capital is the sum of Trade receivables with Inventories, net of Trade payables, as presented in the Statement of Financial Position.
Net Working Capital is the amount of Managerial Working Capital and Other net assets/liabilities. Other net assets/liabilities comprise the current portion of Other assets and Tax Assets, net of the current portion of Provisions for risks and charges, Other liabilities and Tax liabilities, as presented in the Statement of Financial Position.
Net Financial Position (NFP) is the sum of Cash and Cash equivalents and Other financial assets less Current loans and borrowings (including the current portion of amounts due under finance leases and to other lenders and of bank loans and borrowings, as reported in the Statement of Financial Position) and Non-current loans and

[4] Net of the extraordinary accrual of Euro 6.8 million in 2018 (Euro 5.1 million net of the tax effect) considered necessary in view of the opening of preliminary voluntary insolvency proceedings at the German ex-subsidiary Exklusiv Hauben Gutmann GmbH, against whom Elica S.p.A. has a non-current trade commercial receivable, arising before the disposal. The agreement signedconcluded in February 2019 therefore had an additional adjustment impact for Elica S.p.A. of Euro 4.5 million (with an overall effect of Euro 3.4 million on EBITDA and an additional Euro 1.1 million on EBIT, as previously stated) for concerning financial year 2018 (Euro 3.1 million net of the tax effect).

borrowings (including the non-current portion of amounts due under finance leases and to other lenders and of bank loans and borrowings, as reported in the Statement of Financial Position). The Net Financial Position - Including Derivative Instruments is the sum of the Net Financial Position and derivative instrument assets and liabilities, as per the Statement of Financial Position.

The Reconciliations follow:

Euro thousands	**2018**	**2017**
EBIT	**8,539**	**14,005**
(Impairment of Brands - Goodwill)	1,077	-
(Amortisation & Depreciation)	20,202	20,516
EBITDA	**29,818**	**34,521**
(Accrual to the risks provision for settlement with Gutmann)	2,600	-
(Impairment of receivable for sale Gutmann shares, from Manuel Fernandez)	800	-
(Impairment of Intangible assets relating to Gutmann sale)	-	285
(Impairment of pre-sale trade receivable from Gutmann)	6,755	-
(Restructuring charges)	-	2,034
Adjusted EBITDA	**39,973**	**36,840**

Euro thousands	**2018**	**2017**
EBIT	**8,539**	**14,005**
(Impairment of Brands - Goodwill)	1,077	-
(Accrual to the risks provision for settlement with Gutmann)	2,600	-
(Impairment of receivable for sale Gutmann shares, from Manuel Fernandez)	800	-
(Impairment of Intangible assets relating to Gutmann sale)	0	285
(Impairment of pre-sale trade receivable from Gutmann)	6,755	-
(Restructuring charges)	-	2,034
Adjusted EBIT	**19,771**	**16,324**

Euro thousands	**2018**	**2017**
Profit for the year	**2,314**	**1,392**
(Impairment of Brands - Goodwill)	1,077	-
(Accrual to the risks provision for settlement with Gutmann)	2,600	-
(Impairment of receivable for sale Gutmann shares, from Manuel Fernandez)	800	-
(Impairment of Intangible assets relating to Gutmann sale)	-	285
(Impairment of pre-sale trade receivable from Gutmann)	6,755	-
(Restructuring charges)	-	2,034
Income (loss) on disposal of subsidiaries	-	3,908
(Release of discounting receivable from Manuel Fernandez)	(139)	-
(Adjusted non-recurring income taxes & adjusted items)	(2,814)	(1,701)
Adjusted Profit for the year	**10,593**	**5,919**
(Profit attributable to non-controlling interests)	**(3,275)**	**(1,226)**
(Adjusted profit attributable to non-controlling interests)	-	-
Profit attributable to the owners of the Parent - Adjusted	**7,318**	**4,693**

	2018	**2017**
Profit/(loss) attributable to the owners of the Parent *(in Euro thousands)*	(961)	166
Outstanding shares at year-end	62,047,302	62,047,302
Earnings (loss) per share (Euro/cents)	**(1.55)**	**0.27**

Euro thousands	**Dec 31,2018**	**Dec 31,2017**
Other assets	6,589	4,180
Tax assets	17,275	14,306
(Provision for risks and charges)	(9,318)	(6,679)
(Other liabilities)	(14,503)	(16,706)
(Tax liabilities)	(10,844)	(9,784)
Other net assets / liabilities	**(10,801)**	**(14,682)**

Elica S.p.A. and the financial markets

Source: Borsa Italiana

The graph shows (in black) the performance of the Elica S.p.A. share price in 2018 in comparison to the average of other companies listed on the STAR segment (performance of the FTSE Italia STAR index indicated), in purple. On January 2, 2018, the official share price was Euro 2.44. During the months of January and February 2018, the share price declined to Euro 2.060 on March 5, 2018; from that point, the share began to perform strongly and on May 9, 2018 reached a high of Euro 2.56 (peak volumes for the year, as indicated in the graph, of 694,433 on May 8) following the presentation of the results for 2017 and Q1 2018 - the fifth consecutive quarter of revenue and margin growth.

The share saw a volatile decline to Euro 2.285 on October 5, 2018, while thereafter - in line with the index in general - falling to Euro 1.250 on December 20, 2018 and in spite of intensive Road-Show activities and meetings with the financial community and strong results in terms of an improving margin delivering on the announced strategy.
Finally, the share gained ground in the final days of December to reach 1.304.
11 Road Shows, Conferences and events involving the market were held in 2018, with over 160 investors met, laying the basis for long-term growth in line with the results presented over the last 8 quarters.

The Share Capital consists of 63,322,800 ordinary voting shares. The ownership structure of Elica S.p.A. at December 31, 2018 is shown in the Corporate Governance and Shareholder Ownership Report, available on the company website http://elica.com/corporation (Corporate Governance section).

Significant events in 2018

On February 12, 2018, the Board of Directors of Elica S.p.A. approved the additional periodic disclosure for the fourth quarter of 2017, prepared according to IFRS.
On the same date, the Group, following the changes to the consolidation scope as a result of the disposal of the company Exklusiv-Hauben Gutmann GmbH realigned the 2017-2019 Plan Objectives. In addition, the Board of Directors of Elica S.p.A., in line with the Shareholders' Meeting motion of April 28, 2017, 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 Disclosure Document published on March 28, 2017 and available on the website of Elica S.p.A., to which reference should be made for greater details of the Plan.
On the same date, the Board of Directors of Elica S.p.A. called the Shareholders' Meeting.

On March 15, 2018, the Board of Directors of Elica S.p.A approved the 2017 Consolidated Financial Statements and the Directors' Report, and the 2017 Separate Financial Statements of Elica S.p.A. and the Directors' Report, prepared in accordance with IFRS. The Board in addition approved the consolidated non-financial disclosure ("NFD") prepared in accordance with Legislative Decree No. 254/2016. The NFD outlines the Group's activities, performance, results and impact in terms of environmental, social, personnel, human rights and anti-active and passive corruption aspects.

On April 27, 2018, the Shareholders' Meeting of Elica S.p.A. approved the separate financial statements of Elica S.p.A. at December 31, 2017, the Directors' Report, the Board of Statutory Auditors' Report, the Independent Auditors' Report and noted the consolidated results of the company for 2017.
The Shareholders' Meeting of Elica S.p.A. also approved:

- coverage of the loss for 2017 through use of "Retained Earnings".
- appointment of the members of the Board of Directors, who will remain in office for the years 2018, 2019 and 2020, until the Shareholders' Meeting called for the approval of the 2020 financial statements, which shall consist of eight members. The Directors, nominated in the slate filed by the majority shareholder FAN Srl, holding 52.81% of the share capital, and approved by a 99.9% majority were: Francesco Casoli, who assumes the role of Chairperson; Antonio Recinella; Gennaro Pieralisi; Elio Cosimo Catania; Davide Croff; Barbara Poggiali; Cristina Finocchi Mahne and Federica De Medici. Messrs. Elio Cosimo Catania, Davide Croff, Barbara Poggiali, Cristina Finocchi Mahne and Federica De Medici declared their independence in accordance with the regulations in force, including the Consolidated Finance Act, and the Self-Governance Code. On appointment, as far as the company is aware, none of the directors held shares in the company, with the exception of the Chairman Francesco Casoli, who holds directly 160,000 shares and indirectly 33,440,445 shares.
- the appointment of the 3 statutory auditors of the Board of Statutory Auditors and the 2 alternate auditors from Slate No. 1 proposed by the majority shareholder FAN Srl, holder of 52.81% of the share capital, who will remain in office for the years 2018, 2019 and 2020 and approved unanimously: Giovanni Frezzotti, who assumes the role of Chairperson of the Board of Statutory Auditors; Massimiliano Belli, elected statutory auditor; Monica Nicolini, elected statutory auditor; Leandro Tiranti elected alternate auditor; Serenella Spaccapaniccia, elected alternate auditor. At the date of voting, as far as the company is aware, none of the statutory auditors held shares in the company.
- on the first section of the Remuneration Report, filed on April 4, 2018.
- the authorisation to purchase and utilise treasury shares, pursuant to Article 2357 and 2357 ter of the Civil Code, in order to provide the company with an important instrument of strategic and operative flexibility. The new authorisation was preceded by the revocation of that previously granted on April 28, 2017.

On April 27, 2018, the Board of Directors of Elica S.p.A., elected by the Shareholders' Meeting and meeting under the chairmanship of Francesco Casoli:

- confirmed Francesco Casoli and Antonio Recinella as executive directors of Elica S.p.A., assigning the latter the role of C.E.O.;
- assessed the independence of the Directors Elio Catania, Davide Croff, Barbara Poggiali, Cristina Finocchi Mahne and Federica De Medici, 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;

- appointed Elio Catania (Chairperson), Davide Croff and Barbara Poggiali, independent/non-executive directors, as members of the Appointments and Remuneration Committee;
- in addition appointed Davide Croff (Chairperson), Elio Catania and Cristina Finocchi Mahne, independent/non-executive directors, as members of the Control, Risks and Sustainability Committee;
- appointed Independent Director Federica De Medici as Lead Independent Director;
- appointed the Executive Director, Francesco Casoli, as responsible for the Internal Control and Risk Management System.

Furthermore, the Board of Statutory Auditors of the company, in addition to verifying the correct application of the declaration criteria and procedures adopted by the Board of Directors to assess the independence of its members, positively assessed and communicated to the Board of Statutory Auditors the independence of its members.
Alessandro Carloni, holding the necessary requirements pursuant to the Company By-Laws, was confirmed as Corporate Financial Reporting Manager, having heard the opinion of the Board of Statutory Auditors. Mr. Carloni also declared to not holding any Elica S.p.A. shares.

The Board of Directors of Elica S.p.A. on May 7, 2018 approved the 2018 First Quarter Report, prepared in accordance with IFRS accounting standards.
On the same date, Elica S.p.A. announced the signing of an agreement for the early conversion of the bond loan issued by the subsidiary ELICA PB INDIA PRIVATE LTD and fully subscribed by Elica S.p.A., as announced on May 14, 2013.
Following early conversion, Elica S.p.A. acquired an additional holding in Elica PB India Private Ltd, to increase its stake from 51% to 58.45%, as the Indian shareholders of Elica PB India Private Ltd. agreed not to exercise their pre-emptive right to acquire the portion of the share capital converted which would have diluted the company’s investment. They also agreed to waive the option to sell their holding at fair value, according to the agreement. Elica S.p.A. undertook to pay to the Indian shareholders, the latter waiving the purchase option on a portion of the converted share capital, by December 31, 2018, i.e. within three days of any sale of the shares of the Indian company to third parties, INR 105,599,616 (approx. Euro 1.3 million).

On June 1, 2018, Elica S.p.A. announced the signing of an agreement to sell to Whirlpool of India Limited 33% of the share capital of the Indian subsidiary Elica PB India Private Ltd. together with the other Indian non-controlling owners which sold 16%

On August 2, 2018, the Board of Directors of Elica S.p.A. approved the 2018 Half-Year Report, prepared in accordance with IFRS.

On September 10, 2018, Elica S.p.A., following the agreement signed to sell to Whirlpool of India Limited 33% of the share capital of the Indian subsidiary Elica PB India Private Ltd announced on June 1, 2018, and having obtained antitrust approval in Europe and Turkey, in addition to having satisfied all conditions in the agreement, announced the closing of the Joint Venture between Elica India and Whirlpool of India. In accordance with this agreement, Elica S.p.A. sold to Whirlpool of India Limited 33% of the share capital of the Indian subsidiary Elica PB India Private Ltd., together with the other Indian non-controlling owners, which sold 16%. On closing, Whirlpool of India Limited acquired in total 49% of the Indian subsidiary Elica S.p.A.. On the basis of the blocking agreement with the Indian shareholders, Elica S.p.A. continues to exercise control over Elica PB India Private Ltd., and fully consolidate the company in its financial statements. Alongside the closing of the agreement and the acquisition of the investment, Whirlpool of India Limited signed an exclusive distribution agreement for a number of its cooking segment products with Elica PB India Private Ltd to speed up the development of its business on the Indian market, leveraging on Elica PB India’s distribution structure which, over the last 2 years, has created a comprehensive network of mono-brand stores and reports annual growth rates at over 30%. The consideration for the sale of 33% of the Indian subsidiary Elica PB India Private Ltd, paid by Whirlpool of India Limited on the closing of the Joint Venture, was INR 1,092,163,974.14 (approx. Euro 13.2 million).

On October 30, 2018, the Board of Directors of Elica S.p.A. approved the 2018 Third Quarter results, prepared in accordance with IFRS.

On December 18, 2018, Elica S.p.A. announced that, as per Article 131, paragraph 4, letter b), of the Issuers' Regulation, the shareholder agreement signed on December 10, 2007 - renewed on December 18, 2010, December 18, 2013 and December 18, 2016 - concerning 39,772,725 ordinary shares of Elica S.p.A., equal to 62.809% of the share capital of Elica S.p.A. ("Company"), between FAN S.r.l. ("FAN"), an Italian-registered company, with registered office in Rome, VAT No. 10379911000, holder of 33,440,445 ordinary shares of Elica S.p.A., equal to 52.809% of the share capital of the Company, and Whirlpool Europe S.r.l., now Whirlpool EMEA S.p.A., ("Whirlpool"), an Italian-registered company, with registered office in Pero (MI), VAT No. 00693740425, holder of 6,332,280 ordinary shares of Elica S.p.A. conferred to the agreement, equal to 10.000% of the share capital of the Company, concluded with effect from December 18, 2018, at the end of the term of the shareholder agreement and its mutual resolution.

Events after the reporting date and outlook

Events after the reporting date

On January 30, 2019, in accordance with Article 2.6.2, paragraph 1, letter b) of the Regulations of the Markets Organised and Managed by Borsa Italiana S.p.A., Elica S.p.A. published the Financial Calendar for the year 2019.

On February 12, 2019, the Board of Directors of Elica S.p.A. approved the additional periodic disclosure for the fourth quarter of 2018, prepared according to IFRS and reviewed the 2018 preliminary consolidated results.

On February 27, 2019, Elica S.p.A. announced the reaching - together with the subsidiary Elica GmbH - of a settlement with the company Exklusiv-Hauben Gutmann GmbH ("Gutmann") in insolvency, with its administrators and with its sole shareholder Manuel Fernandez Salgado, to whom the company was sold in August 2017. The agreement was approved by the creditors committee of the Gutmann insolvency and the Administrator of the insolvency and is binding upon the parties. The Board of Directors of Elica S.p.A., in consideration of the opportunity to establish mutual positions on the insolvency declaration of Exklusiv-Hauben Gutmann GmbH and to mitigate the main risks associated with the claims advanced and the disputes threatened against Elica S.p.A and Elica GmbH, assessed the proposal as being in the interest of the company and mandated the Chief Executive Officer to conclude a possible agreement. Elica GmbH also agreed with the proposal. Within the overall framework of the agreement and in settlement of the mutual rights and claims, Elica S.p.A. shall pay Gutmann Euro 2.6 million (with an overall adjustment effect on EBITDA of Elica S.p.A. of Euro 3.4 million, including the impairment of Euro 0.8 million of the original receivable of Euro 2.5 million of Elica S.p.A. from Manuel Fernandez Salgado), of which Euro 800 thousand to be paid within three weeks from the agreement's conclusion, Euro 1.7 million through the transfer to Gutmann of Elica S.p.A.'s receivable from Manuel Fernandez Salgado for the transfer of the shares of Gutmann and a further Euro 100 thousand to be fully offset against that to be paid by Gutmann for the retransfer of the "Gutmann" brands acquired by Elica S.p.A. in 2017 (with an overall adjustment effect on the EBIT of Elica S.p.A. of Euro 1.1 million, deriving from the impairment of the Gutmann brands recognised in the statement of financial position of Elica S.p.A.). Manuel Fernandez Salgado shall owe Elica S.p.A. the residual amount of Euro 800 thousand, due for the transfer of the Gutmann shares. It shall extinguish this obligation by paying Elica S.p.A. Euro 200 thousand by February 28, 2020, considered settlement of the full amount. For completeness, Elica S.p.A. in addition agrees to settle the guarantee provided in 2015 in favour of the company owning the property leased by Gutmann of Euro 1.65 million, which has already been provisioned in the company's financial statements, and to settle the amounts regarding the trade payables arising in favour of Gutmann GmbH after the sale of the company and prior to its declaration of insolvency, related to ordinary operations and amounting to approx. Euro 0.5 million, currently prudently blocked by Elica S.p.A.. Elica S.p.A. therefore updated the 2018 result adjustments. Elica S.p.A., following the opening of the preliminary insolvency proceedings, impaired the trade receivable by Euro 4.0 million when it reported its H1 2018 results. Subsequently, during the 2018 Fourth Quarter, it recognised addition impairment of Euro 2.8 million to cover the insolvency risks of the German company regarding the trade receivable of Elica S.p.A. in view of its continuing insolvency. The agreement concluded therefore had an additional adjustment impact for Elica S.p.A. of Euro 4.5 million (with an overall effect of Euro 3.4 million on EBITDA and an additional Euro 1.1 million on EBIT, as previously stated) concerning financial year 2018 and in settlement of the respective positions, of which Euro 0.8 million with cash effect in 2019.

This transaction definitively concludes all matters between the two companies, excluding any further impact on future financial statements.

Outlook

The World Bank forecasts global economic growth in 2019 of 2.9%, with a reduction in the world trade view over the 2018-2020 three-year period of approx. half a percentage point on the June 2018 forecast. This trend is mainly based on the current international trade tensions and the consequent drop in global trade. In this environment, two-speed growth with a divergence between the "mature" economies and the emerging economies is expected. In particular, while the US economy is estimated to grow 2.5% and the Eurozone 1.6%, the Chinese economy forecasts a 6.2% expansion, with the wealth produced by the Emerging Economies to grow 4.2%. The home appliances business and cooker hoods in particular (as highly sensitive to economic trends), GDP and the property sector are most likely to be impacted by these dynamics.

The Group continues 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 and personnel

This information is outlined in greater detail in the Consolidated Non-Financial Disclosure, prepared by the Group as per Legislative Decree 254/2016, in implementation of Directive 2014/95/EC, and 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).

Research and development

Reference should be made to Note 5.20 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 commenced the implementation 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.

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 operations 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 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 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. Operating in this manner, the Group covers the standard cost of the raw materials contained in the budget from possible increases in commodity prices, achieving the operating profit target.

Among the market risks in addition, the Group is exposed to 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 minimising 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 the non-compliance with obligations by trading partners. This risk derives in particular from economic-financial factors related to a potential solvency crisis of one or more counterparties.
The Group follows the Credit Policy (related to the Financial Risk Policy) which governs credit management and the reduction of the related risk, partly through insurance policies with leading international insurance companies.

Liquidity risk is also managed and 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 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.

Corporate bodies

Members of the Board of Directors

Francesco Casoli
Executive Chairman,
born in Senigallia (AN) on 05/06/1961, appointed by resolution of 27/04/2018.

Antonio Recinella
Chief Executive Officer, born in Livorno (LI) on 5/11/1968, appointed by resolution of 27/04/2018.

Cristina Finocchi Mahne
Independent Director, born in Trieste on 01/07/1965, appointed by resolution of 27/04/2018.

Federica De Medici
Independent Director and Lead Independent Director, born in Pavia on 24/08/1972, appointed by resolution of 27/04/2018.

Davide Croff
Independent Director, born in Venice on 01/10/1947, appointed by resolution of 27/04/2018.

Elio Cosimo Catania
Independent Director, born in Catania on 05/06/1946, appointed by resolution of 27/04/2018.

Barbara Poggiali
Independent Director, born in Milan on 04/03/1963, appointed by resolution of 27/04/2018.

Gennaro Pieralisi
Director, born in Monsano on 14/02/1938, appointed by resolution of 27/04/2018.

Members of the Board of Statutory Auditors

Giovanni Frezzotti
Chairman, born in Jesi (AN) on 22/02/1944, appointed by resolution of 27/04/2018.

Massimiliano Belli
Statutory Auditor, born in Recanati (MC) on 22/08/1972, appointed by resolution of 27/04/2018.

Monica Nicolini
Statutory Auditor, born in Pesaro on 16/04/1963, appointed by resolution of 27/04/2018.

Leandro Tiranti
Alternate Auditor, born in Sassoferrato (AN) on 04/05/1966, appointed by resolution of 27/04/2018.

Serenella Spaccapaniccia
Alternate Auditor, born in Montesangiorgio (AP) on 04/04/1965, appointed by resolution of 27/04/2018.

Control, Risks and Sustainability Committee

Davide Croff (Chairman)
Elio Cosimo Catania
Cristina Finocchi Mahne

Appointments and Remuneration Committee

Elio Cosimo Catania (Chairman)
Davide Croff
Barbara Poggiali

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

Giulio Cocci - Group Controlling & Investor Relations Director
Francesca Cocco – Lerxi Consulting – Investor Relations
Tel: +39 (0)732 610 4205
E-mail: investor-relations@elica.com

Elica Group structure and consolidation scope

Parent

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

Subsidiaries

- Elica Group Polska Sp.zo.o – Wroclaw – (Poland) (in short 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;
- Elicamex S.A. de C.V. – Queretaro (Mexico) (in short 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;
- Leonardo Services S.A. de C.V. – Queretaro (Mexico) (in short 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 the Mexican staff, providing services to ELICAMEX S.A. de C.V;
- Ariafina CO., LTD – Sagamihara-Shi (Japan) (in short Ariafina). Incorporated in September 2002 as an equal Joint Venture with Fuji Industrial of Tokyo, the Japanese range 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;
- Airforce S.p.A. – Fabriano (Ancona, Italy) (in short Airforce). This company operates in a special segment of the production and sale of hoods. Elica S.p.A. owns 60% of this company;
- Airforce Germany Hochleigstungs-Dunstabzugssysteme GmbH – Stuttgart (Germany) (in short Airforce Germany). The 95% holding is held by Airforce S.p.A.. The company is no longer operative and is expected to be removed from the German Federal Bulletin by the summer of 2019. On removal, the shareholder shall be repaid the share capital and the company deconsolidated.
- 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.;
- Elica PB India Private Ltd. – Pune (India) (in short Elica India). Elica PB India Private Ltd. is involved in the production and sale of Group products. At December 31, 2017, Elica S.p.A. held 51% of the Indian company's share capital. In 2018, following the conversion of the Debenture, the Elica Group increased its holding to 58% and thereafter sold its share to a third party, holding at year-end 25.5%. Thanks to the signing of a shareholder agreement with the Indian shareholders, the Elica Group continues to have control.
- Zhejiang Elica Putian Electric CO.,LTD. – Shengzhou (China) (in short Putian), a Chinese company held 99% and operating under the Puti brand, a leader in the Chinese home appliances sector, producing and marketing range hoods, gas hobs and kitchenware sterilisers. Putian is one of the main players in the Chinese hood market and the principal company developing Western-style hoods. The production site is located in Shengzhou, a major Chinese industrial district for the production of cooking appliances.
- Elica Trading LLC – St. Petersburg (Russian Federation) (in short Elica Trading), a Russian company held 100%, incorporated on June 28, 2011.
- Elica France S.A.S. - Paris (France) (in short Elica France), a wholly-owned French company incorporated in 2014.
- Elica GmbH – Munich (Germany), a German company wholly-owned by Elica S.p.A. and incorporated in 2017.

Associates

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

Changes in the consolidation scope

There were no changes in the consolidation scope compared to December 31, 2017.

Related party transactions

In 2018, transactions were entered into with subsidiaries, associates and other related parties.
All transactions were conducted on an arm's length basis in the ordinary course of business. For further information, reference should be made to note 8.

Subsidiaries – 2018 Highlights

Reporting package figures

In Euro thousands	**Assets**	**Liabilities**	**Equity**	**Revenue**	**Profit/(loss)**
Elicamex S.a.d. C.V.	60,723	37,368	23,354	70,253	3,722
Elica Group Polska Sp.z o.o	58,663	33,053	25,610	111,657	2,674
Airforce S.p.A.	12,201	8,408	3,793	24,668	390
Ariafina CO., LTD	11,312	3,452	7,859	23,190	3,016
Leonardo S.A.de C.V.	1,862	1,610	252	10,675	195
Elica Inc.	391	122	269	994	30
Airforce GE(*)	10	5	5	-	-
Elica PB India Private Ltd.	17,593	9,766	7,827	29,113	2,917
Zhejiang Elica Putian Electric Co. Ltd	18,991	20,051	(1,060)	15,715	(2,320)
Elica Trading LLC	5,599	4,337	1,262	12,532	744
Elica France S.A.S.	4,831	4,131	700	12,414	198
Elica GmbH	4,347	3,829	518	6,320	(1,865)

(*) 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 – 2018 Highlights

As per local GAAP

In Euro thousands	**Assets**	**Liabilities**	**Equity**	**Revenue**	**Profit/(loss)**
I.S.M. s.r.l.	1,488	23	1,465	143	43

The table below summarises transactions with associates in 2018. 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.

In Euro thousands	**Liabilities**	**Assets**	**Costs**	**Revenue**
I.S.M. srl	-	2	-	5

IFRS

The Elica Group's Consolidated Financial Statements as at and for the year ended December 31, 2018 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 financial statements are consistent with those utilised for the preparation of the financial statements as at and for the year ended December 31, 2017.
These financial statements are presented in thousands of Euro and all the amounts are rounded to the nearest thousandth, unless otherwise specified.

Corporate Governance and Ownership Structure Report

In accordance with Article 123-*bis* of Legislative Decree 58/1998, with Article 89-*bis* of Consob Resolution No.11971/1999 and successive amendments and integrations, Elica S.p.A. provides complete disclosure on the Corporate Governance system adopted at March 15, 2018, in line with the recommendations of the Self-Governance Code (July 2015 edition), in the Annual Corporate Governance Report, available on the Company 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 the indications at 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 disclosure

In accordance with Legislative Decree 254/2016 enacting Directive 2014/95/EC, the Elica Group produces a non-financial disclosure of 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.
For the basis upon which it is considered that the company is not under the direction and control of the parent, in accordance with 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 7, 2019

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

Elica Group

2018 CONSOLIDATED FINANCIAL STATEMENTS

ELICA GROUP- Consolidated Financial Statements as at and for the year ended 31 December 2018

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

Income Statement

In Euro thousands	***Note***	**2018**	**2017**
Revenue	5.1	472,387	479,305
Other operating income	5.2	2,991	2,728
Change in inventories finished/semi-finished products	5.4	184	6,711
Increase on internal work capitalised	5.3	3,687	3,797
Raw materials and consumables	5.4	(251,535)	(262,447)
Services	5.5	(83,333)	(84,739)
Personnel expense	5.6	(87,606)	(93,625)
Amortisation and depreciation	5.7	(20,202)	(20,516)
Other operating expenses and accruals	5.8	(26,957)	(15,175)
Restructuring charges	5.9	-	(2,034)
Impairment of Goodwill/Brands	5.40	(1,077)	-
Operating profit		**8,539**	**14,005**
Share of profit/(loss) of associates	5.10	(6)	(2)
Financial income	5.11	968	330
Financial expense	5.12	(3,485)	(3,592)
Exchange rate gains/(losses)	5.13	(1,530)	(1,978)
Income (loss) on disposal of subsidiaries (Other non operating revenue)		-	(3,908)
Profit before taxes		**4,486**	**4,855**
Income taxes	5.14	(2,172)	(3,463)
Profit from continuing operations		**2,314**	**1,392**
Profit/(loss) from discontinued operations		-	
Profit for the year		**2,314**	**1,392**
of which:			
Attributable to non-controlling interests	5.15	3,275	1,226
Attributable to the owners of the Parent		(961)	166
Basic earnings (loss) per share (Euro/cents)	5.16	(1.55)	0.27
Diluted earnings (loss) per share (Euro/cents)	5.16	(1.55)	0.27

Statement of comprehensive income

In Euro thousands	*Note*	2018	2017
Profit for the year		**2,314**	**1,392**
Other comprehensive income/(expense) which will not be subsequently reclassified to profit/(loss) for the year:			
Actuarial gains/(losses) on defined benefit plans	5.30	409	203
Tax effect of Other income/(expense) which will not be subsequently reclassified to the profit or loss		-	10
Total items which will not be subsequently reclassified to profit or loss, net of the tax effect		**409**	**212**
Other comprehensive income/(expense) which will be subsequently reclassified to profit or loss:			
Exchange differences on the conversion of foreign financial statements	5.38.3	902	(2,448)
Net change in cash flow hedges	5.38.3	(1,541)	(130)
Tax effect of Other income/(expense) which will be subsequently reclassified to profit or loss	5.38.3	440	(77)
Total items which will be subsequently reclassified to profit or loss, net of the tax effect		**(200)**	**(2,655)**
Total other comprehensive income/(expense), net of the tax effect:		**209**	**(2,443)**
Comprehensive income/(expense)		**2,523**	**(1,051)**
of which:			
Attributable to non-controlling interests		3,420	151
Attributable to the owners of the parent		(896)	(1,202)

Statement of financial position

In Euro thousands	*Note*	Dec 31, 2018	Dec 31, 2017
Property, plant & equipment	5.18	102,854	97,686
Goodwill	5.19	39,273	39,405
Other intangible assets	5.20	27,146	26,063
Investments in associates	5.21	1,396	1,391
Other assets	5.22	300	2,632
Tax assets	5.27	-	417
Deferred tax assets	5.32	18,339	15,464
AFS financial assets	5.23	52	52
Derivative financial instruments	5.28	-	8
Total non-current assets		**189,360**	**183,118**
Trade receivables	5.24	51,192	75,923
Inventories	5.25	76,196	73,298
Other assets	5.26	6,589	4,180
Tax assets	5.27	17,275	14,306
Derivative financial instruments	5.28	513	1,006
Cash and cash equivalents	5.29	35,612	34,873
Current assets		**187,377**	**203,587**
Assets of discontinued operations		**-**	**-**
Total assets		**376,736**	**386,705**
Liabilities for post-employment benefits	5.30	10,465	10,903
Provisions for risks and charges	5.31	10,647	8,916
Deferred tax liabilities	5.32	2,992	3,256
Finance leases and loans and borrowings from other lenders		-	33
Bank loans and borrowings	5.33	54,102	47,121
Other liabilities	5.34	64	225
Tax liabilities	5.36	53	183
Derivative financial instruments	5.28	120	75
Non-current liabilities		**78,443**	**70,712**
Provisions for risks and charges	5.31	9,318	6,679
Finance leases and loans and borrowings from other lenders		-	-
Bank loans and borrowings	5.33	37,792	57,040
Trade payables	5.37	109,916	120,541
Other liabilities	5.35	14,503	16,706
Tax liabilities	5.36	10,844	9,784
Derivative financial instruments	5.28	1,737	749
Current liabilities		**184,110**	**211,499**
Liabilities directly related to discontinued operations			
Share capital	5.38.1	12,665	12,665
Capital reserves	5.38.2	71,123	71,123
Hedging and translation reserves	5.38.3	(15,096)	(14,766)
Actuarial reserve losses	5.30	(2,802)	(3,197)
Treasury shares	5.38.4	(3,551)	(3,551)
Income-related reserves	5.38.5	41,535	37,049
Profit/(loss) attributable to the owners of the Parent		(961)	166
Equity attributable to the owners of the Parent	**5.38**	**102,913**	**99,489**
Capital and reserves attributable to non-controlling interests		7,995	3,779
Profit attributable to non-controlling interests		3,275	1,226
Equity attributable to non-controlling interests	**5.39**	**11,270**	**5,005**
Total equity		**114,183**	**104,494**
Total liabilities and equity		**376,736**	**386,705**

Statement of Cash Flows

In Euro thousands	**2018**	**2017**
Opening cash and cash equivalents	**34,873**	**31,998**
Operating activities		
Profit for the year	**2,314**	**1,392**
Amortisation and depreciation	20,202	20,516
Impairment losses	1,077	-
Non-monetary (income)/charges	6	8,705
(Income)/loss on disposal of subsidiaries		3,908
Trade working capital	10,825	(2,715)
Other working capital accounts	880	(648)
Income taxes paid	(6,169)	(5,620)
Change in provisions	4,161	4,457
Other changes	36	(983)
Cash flow from operating activities	**33,333**	**29,012**
Investing activities		
Investments		
- Intangible assets	(8,334)	(9,475)
- Property, plant and equipment	(19,459)	(18,465)
- Financial assets:	(0)	0
Acquisition/Sale of investments (change of control)	-	(3,488)
Cash flow used in investing activities	**(27,794)**	**(31,427)**
Financing activities		
(Acquisition)/Sale of treasury shares and investments (no change of control)	9,731	-
Other movements in share capital	-	-
Dividends	(1,356)	(1,261)
Increase (decrease) in financial liabilities	(12,299)	12,312
Net changes in other financial assets/liabilities	354	(1,593)
Interest paid	(1,857)	(3,089)
Cash flow from (used in) financing activities	**(5,428)**	**6,370**
Increase in cash and cash equivalents	**111**	**3,954**
Net translation effect on cash and cash equivalents	628	(1,079)
Closing cash and cash equivalents	**35,612**	**34,873**

Statement of changes in equity

In Euro thousands	Share capital	Share premium reserve	Acquisition/Sale treasury shares	Retained earnings	Hedge, trans. & actuarial. res.	Profit (loss) for the year	Equity attr. to the owners of Parent	Equity attr. to non-controlling int.	Total
Balance at December 31, 2016	**12,665**	**71,123**	**(3,551)**	**45,870**	**(16,595)**	**(5,563)**	**103,949**	**5,309**	**109,258**
Fair value changes on cash flow hedges net of the tax effect					(207)		**(207)**		**(207)**
Actuarial gains/(losses) 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 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**	**(1,202)**	**151**	**(1,051)**
Allocation of profit for the year				(5,563)		5,563	-		-
Other changes				(3,258)			**(3,258)**	805	**(2,453)**
Dividends							-	(1,261)	**(1,261)**
Balance at December 31, 2017	**12,665**	**71,123**	**(3,551)**	**37,049**	**(17,963)**	**166**	**99,489**	**5,005**	**104,494**
Fair value changes on cash flow hedges net of the tax effect					(1,101)		**(1,101)**		**(1,101)**
Actuarial gains on post-employment benefits					395		**395**	14	**409**
Exchange rate gains on translation of foreign subsidiaries' financial statements					771		**771**	131	**902**
Total gains recognised directly in equity	-	-	-	-	**65**	-	**65**	**145**	**209**
Profit/(loss) for the year						(961)	**(961)**	3,275	**2,314**
Total gains/(losses) recognised in profit or loss	-	-	-	-	**65**	**(961)**	**(896)**	**3,420**	**2,523**
Allocation of profit for the year				166		(166)	-		-
Other changes				4,320			**4,320**	4,201	**8,520**
Dividends				-			-	(1,356)	**(1,356)**
Balance at December 31, 2018	**12,665**	**71,123**	**(3,551)**	**41,535**	**(17,898)**	**(961)**	**102,912**	**11,270**	**114,182**

Table of contents – Notes to the Consolidated Financial Statements at December 31, 2018

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.zo.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 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 at and for the year ended December 31, 2018 were approved by the Board of Directors on March 7, 2019 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, issued by the International Accounting Standards Board and endorsed by the European Union, as well as in accordance with Article 9 of Legislative Decree no. 38/2005 and related CONSOB regulations.
The consolidated financial statements as at and for the year ended December 31, 2018 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, 2018 and December 31, 2017, 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, 2018 with a material impact on the Financial Statements.

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

2.1 Basis of consolidation

The Consolidated Financial Statements as at and for the year ended December 31, 2018 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, 2018 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 compensation 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, 2018, the consolidated foreign companies whose functional currency differs from the Euro are Elica Group Polska Sp.zo.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 Renmimbi and the Russian Ruble respectively.

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

		2018 average	2017 average	%	Dec 31, 2018	Dec 31, 2017	%
USD	U.S. Dollar	1.18	1.13	4.42%	1.15	1.2	-4.17%
JPY	Japanese Yen	130.4	126.71	2.91%	125.85	135.01	-6.78%
PLN	Polish Zloty	4.26	4.26	0.00%	4.30	4.18	2.87%
MXN	Mexican Peso	22.71	21.33	6.47%	22.49	23.66	-4.95%
INR	Indian Rupee	80.73	73.53	9.79%	79.73	76.61	4.07%
CNY	Chinese Renmimbi	7.81	7.63	2.36%	7.88	7.8	1.03%
RUB	Russian Ruble	74.04	65.94	12.28%	79.72	69.39	14.89%

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 must be treated as if it was sold and repurchased at the date of the acquisition of control. 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 activities 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 in 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 Group reviews the recoverable value of the goodwill to assess whether an impairment loss has occurred and determine the amount of any impairment. An impairment loss is immediately taken to profit or loss and is not reversed in a subsequent period.

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

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

Research costs

The research costs are taken to profit or loss when incurred.

Development costs

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.

Where the above conditions are not met; the cost is recorded in the Income Statement.

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, or with greater frequency when there is indication of impairment. The recoverability test requires estimates by the Directors, as 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 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 expert, 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 Unit (CGU). Cash Generating Units is 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, differing to that for other 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, ancillary, supplies and goods for resale is determined using the weighted average cost method.
The production cost of finished products, work in progress and semi-finished products is determined considering the cost of the materials used plus direct operating expenses and overheads.
Net realisable value represents the estimated selling price less expected completion costs and selling costs.
Obsolete and slow-moving inventories are written down taking account of their prospects of utilisation or sale.

Trade receivables and loans and other financial assets

Financial assets other than trade receivables, loans and cash and cash equivalents are initially 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 a loss allowance 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 principally through a sale transaction rather than through continuing use. This condition is met only when the sale is highly probable, 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 mitigate currency, interest rate or market price risks. In compliance with IFRS, derivative financial instruments can be recognised using "hedge accounting" only when the hedge is formally designated and documented as such and is presumed to be highly effective at inception, such effectiveness can be reliably measured and the hedge is highly effective over the accounting periods for which it was designated.
All derivative financial instruments are measured at fair value in accordance with IASB.
When derivative financial instruments qualify for hedge accounting, the following treatment applies:

- for derivatives that hedge forecast transactions (i.e. cash flow hedges), the cumulative change in the fair value of derivative instruments is taken to equity for the portion considered effective while the portion considered ineffective is recognised in profit or loss;
- for derivatives that hedge assets and liabilities in the statement of financial position (i.e. fair value hedges), fair value gains or losses are recognised in profit or loss. Moreover, the hedging gain or loss adjusts the carrying amount of the hedged item (asset/liability) and is also recognised 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.
For the management of the risks related to exchange rates and interest rates, reference should be made to section 7. Information on risk management in these Notes.

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, with the recognition of the service cost and interest cost in profit or loss and the recognition of actuarial gains or losses in other comprehensive income. In addition, any income on the plan assets included under net interest cost is calculated based on the discount rate of the liability.

Up to December 31, 2006, the post-employment benefits of the Italian companies were considered a defined benefit plan. The regulations governing Italian post-employment benefts were modified by Law no. 296 of December 27, 2006 ("2007 Finance Act") and subsequent decrees and regulations issued in the first few months 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, 2018 there are no such plans in place, there are only monetary phantom stock plans.

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

The new IFRS 15, which became applicable for annual reporting periods beginning on or after January 1, 2018, establishes an overall framework to identify the timing and amount of revenue recognition.

IFRS 15 requires the recognition and measurement of revenue from contracts with customers according to the following five steps: (i) identification of the contract with the customer; (ii) identification of the performance obligations (i.e. the contractual commitments to transfer goods and/or services to a customer); (iii) determination of the transaction price; (iv) allocation of the transaction price to the performance obligations identified on the basis of the stand alone sales price of each good or service and (v) recognition of revenue upon satisfaction of the relative performance obligation (i.e. on the transfer to the customer of the asset or service promised). The transfer is considered complete when the customer obtains control of the goods or services, which may occur over time or at a point in time. 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 goods transferred to the customer and/or services provided, to be recognised upon fulfilment of the contractual obligations. In addition, to recognise the revenue, IFRS emphasises that collectability of the consideration must be probable ; for contract in progress, the standards require the recognition of revenue considering the effect of any discounting due to payments collected over time. On initial application, the Group chose the "modified approach", whereby the effects of first-time application of the new standard are recognised in opening equity. The impacts on the separate and consolidated financial statements are immaterial.

Interest income is recorded on an accruals basis, according to the amount financed and the effective interest rate applicable. This is the rate at which the expected future cash flow over the life of the financial asset is discounted to equate them with the carrying amount of the asset.
Dividends are recognised when it is established that the shareholders have the right to receive them.

Leases
Leases are classified as finance leases when the terms of the contract are such that they substantially transfer all of the risks and rewards of ownership to the lessee. All the other leases are considered operating leases.
Assets held under finance leases are recognised as company assets at the lower of their fair value at the date of the lease, and the present value of the minimum lease payments due under the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Finance lease payments are divided between principal and interest in order to apply a constant interest rate to the residual liability. The finance costs are directly recognised in profit or loss for the period.
Operating lease payments are recognised on a straight-line basis over the term of the lease. Benefits received or receivable as an incentive for entering into operating lease agreements are also recognised on a straight-line basis over the duration of the operating lease.

Foreign currency transactions
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 at the transaction date or otherwise at the date on which the fair value of the underlying assets/liabilities is determined. Foreign monetary currency assets and liabilities are translated at the reporting date using the closing exchange rate. Non-monetary assets and liabilities measured at historical cost in foreign currency are translated using the exchange rate at the transaction date.
Exchange 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 has a three-year term (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 in the year, payments on account, withholding taxes and, in general, tax credits.
Tax Assets also include the current IRES charge as determined on an estimate of the taxable income and tax losses of the companies taking part in the Consolidated tax regime, net of payments on account, taxes withheld by third parties and tax credits; tax assets are offset by the amounts due to the subsidiaries from Elica for the residual asset 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 balance sheet 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, 2018

The financial statements utilised are the same as those used for the preparation of the consolidated financial statements at December 31, 2017. IFRS 15 was applied concerning revenues and IFRS 9 concerning financial instruments, but the resulting impacts were not significant on these consolidated financial statements.

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

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

IFRS 16 – Leases. The IASB issued IFRS 16 Leases in January 2016. The standard defines the principles for the recognition, measurement, presentation and disclosure of leasing contracts, for both parts of the contract, therefore concerning the customer (“lessee”) and the supplier (“lessor”). IFRS 16 will be effective from January 1, 2019. Companies may choose to apply the standard before this date, although only if they also apply IFRS 15 Revenue from Contracts with Customers. IFRS 16 completes the IASB project to improve the financial reporting of leases. IFRS 16 replaces the previous IAS 17 Leases and related interpretations. The principal effect of application of the new standard for a lessee will be that all leasing contracts will imply a right to use the asset from the beginning of the contract and, where the relative payments are expected in a specific period, also recognition of a corresponding financial payable. Therefore, IFRS 16 eliminates the breakdown of leases into operating leases and finance leases, as previously the case under IAS 17, introducing a single measurement model. Applying this model, a lessee should recognise: (a) assets and liabilities for all leases with a duration of greater than 12 months, except where the value of the underlying asset is minimal; (b) depreciation of leased assets separately from interest on leasing payables in the income statement.

From the application of this standard, the Group expects an increase in financial payables and the recognition of a right of use. The value of the impact on the two accounts in the balance sheet will approximate that reported in the paragraph on operating lease commitments, net of the discounting effect and of the considerations on short-term operating leases and underlying assets with low values.

3. Significant accounting estimates

In the preparation of the Consolidated Financial Statements in accordance with IFRS, the Group's Management must make accounting estimates and assumptions which have an effect on the values of the assets and liabilities and disclosures. Actual results may differ from these estimates. The estimates and assumptions are periodically reviewed and the effects of any changes are promptly recognised in 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 trade receivable loss allowance and the provision for inventory write-down, non-current assets (intangible assets and property, plant and equipment), 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, 2018, 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 by 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	Wroklaw (Poland)	ZTY	78,458,717	100%	0%		100%
Airforce S.p.A.	Fabriano (AN) - (Italy)	EUR	103,200	60%	0%		60%
Ariafina 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	393,650,000	26%	0%		26%
Zhejiang Elica Putian Electric Co. Ltd	Shengzhou (China)	CNY	98,911,764	99%	0%		99%
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 2018 a stake was sold in Elica PB India Private Ltd., while maintaining control. 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 Consolidated Financial Statements

Income Statement

5.1 Revenue

Details of the Group's revenue are as follows:

In Euro thousands	**2018**	**2017**	**Changes**
Revenue	472,387	479,305	(6,918)
Total revenue	**472,387**	**479,305**	**(6,918)**

For an analysis of revenue, reference should be made to the Financial position and performance in "2018 Performance" paragraph in the Directors' Report.
Customers that individually generate more than 10% of total revenue accounted for 13.1% of revenue in 2018 (13.4% in 2017).

In 2018, the Group concluded the review of the Corporate Reporting system without substantial amendments to the set of internal reports reviewed periodically by management, but eliminated the breakdown by geographic location in which the companies are located. The various reports provide a global overview at Group level. This new reporting system is in line with the conclusion of the Group Reorganisation process which provides greater scope on the responsibility of individual reporting to the Chief Executive Officer for the Group. This reporting is in line with Management strategy, with an increasing global footprint. In this manner the Group can provide information which enables readers of the financial statements to evaluate the nature and effects on the financial statements of the strategies undertaken and of the general economic context.
As per IFRS 8, beginning with this report, segment reporting is reviewed and reported in line with that utilised by management for the undertaking of operational decisions and therefore one single Operating Segment, corresponding to the Elica Group.

5.2 Other operating income

(Euro thousands)	**2018**	**2017**	**Changes**
Grants related to income	788	574	214
Ordinary gains	163	576	(413)
Claims and insurance settlement	281	234	47
Other revenues and income	1,759	1,344	415
Total other operating income	**2,991**	**2,728**	**263**

The account increased approx. Euro 0.3 million deriving from the increase in grants for Euro 0.2 million and the offsetting of the decrease in ordinary gains and an increase in Other revenue and income. These latter include the sale of fixed assets and the reimbursement invoiced by the Parent for cars allocated to employees.

5.3 Increase in internal work capitalised

The Increase in internal work capitalised, amounting to Euro 3,687 thousand (Euro 3,797 thousand in the previous year), includes Euro 350 thousand related to the Chinese subsidiary (Euro 515 thousand in 2017), Euro 582 thousand to the Mexican subsidiary (Euro 543 thousand in 2017) and Euro 2,755 thousand Elica S.p.A. (Euro 2,685 thousand in 2017). 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 personnel expense.

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

In Euro thousands	**2018**	**2017**	**Changes**
Purchase of raw materials	193,136	207,170	(14,034)
Transport of purchases	6,456	7,558	(1,102)
Purchases of consumables	2,946	3,154	(208)
Packaging	2,202	2,121	81
Purchases of workshop supplies	946	695	251
Purchases of semi-finished products	17,585	17,893	(308)
Purchase of finished goods	29,895	26,377	3,518
Other purchases	1,887	1,621	266
Change in inventory of raw materials, consumables, supplies and goods	(3,518)	(4,142)	624
Raw materials and consumables	**251,535**	**262,447**	**(10,912)**
Change in inventories of finished and semi-finished products	**(184)**	**(6,711)**	**6,527**
Total consumables	**251,351**	**255,736**	**(4,385)**

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 decreased by Euro 4.4 million, while these costs as a percentage of revenue decreased from 53.4% in 2017 to 53.2% in 2018.
In detail the Raw materials and consumables account reduced approx. Euro 11 million, in particular for the cost for raw material and transport on purchases offset by the value of the cost of purchases of finished products, while the account Change in inventories of finished and semi-finished products decreased resulting in a charge of Euro 6.5 million.

5.5 Services

In Euro thousands	**2018**	**2017**	**Changes**
Outsourcing	26,691	29,026	(2,335)
Transport	10,020	10,155	(135)
Management of finished products	5,588	5,437	151
Consulting	5,602	5,727	(125)
Other professional services	9,979	10,320	(341)
Maintenance	2,440	2,591	(151)
Utilities	4,215	4,464	(249)
Commissions	1,684	1,874	(190)
Travel	2,847	2,987	(140)
Advertising	5,876	4,976	900
Insurance	1,230	1,131	99
Director and Statutory Auditors' fees	2,029	2,022	7
Trade fairs and promotional events	4,054	3,091	963
Industrial services	681	532	149
Banking commissions and charges	396	406	(10)
Total Services	**83,333**	**84,739**	**1,406**

Service expenses reduced overall by Euro 1,4 million, reducing as a percentage of revenues from 17.7% to 17.6%. The largest decrease was in the item Outsourcing expenses and was offset by an increase in Advertising and Trade fairs and promotional events also due to the participation at Eurocucina, a biannual event.
Other professional services concern: Euro 3.9 million for technical assistance, Euro 755 thousand for communication services, Euro 920 thousand for compliance with regulations and trademark support, Euro 645 thousand for company canteen, Euro 522 thousand for cleaning expenses, Euro 312 thousand for import services and Euro 603 thousand for motor vehicle expenses.

5.6 Personnel expense

Personnel expense incurred by the Group in 2018 and 2017 was as follows:

In Euro thousands	2018	2017	Changes
Wages and salaries	62,203	66,264	(4,061)
Social security expenses	16,605	18,336	(1,731)
Post-employment benefits	3,014	2,980	34
Other costs	5,784	6,044	(260)
Total personnel expense	**87,606**	**93,625**	**(6,019)**

The item reduced Euro 6 million in part due to the consolidation impact of Gutmann in the first months of 2017 for Euro 4.5 million. Personnel expense principally concerns Elica S.p.A. for Euro 53,293 thousand (Euro 55,498 thousand in 2017), Elica Group Polska for Euro 12,905 thousand (Euro 12,949 thousand in 2017), the Mexican subsidiary for Euro 10,950 thousand (Euro 10,016 thousand in 2017), Putian for Euro 3,156 thousand (Euro 3,566 thousand in 2017), Airforce for Euro 4,156 thousand (Euro 4,066 thousand in 2017), Elica India for Euro 1,774 thousand (Euro 1,541 thousand in 2017) and Elica GmbH for Euro 1,126 thousand (Euro 408 thousand in 2017). Personnel expense also includes the accrual for the Long Term Incentive provision for Group employees and employee bonuses. 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, 2017 and December 31, 2018.

Workforce	Dec 31, 2018	Dec 31, 2017	Changes
Executives	36	33	3
White-collar	1,134	1,077	57
Blue-collar	2,213	2,183	30
Others	440	503	(63)
Total	**3,823**	**3,796**	**27**

5.7 Amortisation and depreciation

Amortisation and depreciation are substantially in line with the previous year, reducing from Euro 20,516 thousand in 2017 to Euro 20,202 thousand in 2018.
For further details on depreciation, reference should be made to the accounting policies and to points 5.18 and 5.20 of these Notes.

5.8 Other operating expenses and accruals

These are detailed as follows:

In Euro thousands	2018	2017	Changes
Leases and rentals	2,482	3,205	(723)
Rental of vehicles and industrial equipment	2,697	2,646	51
Fees to use hardware, software and patents	938	940	(2)
Other taxes	1,269	1,407	(138)
Magazine and newspaper subscriptions	14	15	(1)
Sundry equipment	265	341	(76)
Catalogues and brochures	699	318	381
Losses on receivables and loss allowance	10,406	809	9,598
Provisions for risks and charges	6,275	3,186	3,089
Other prior year expenses and losses	1,912	2,308	(396)
Total Other operating expenses and accruals	**26,957**	**15,175**	**11,782**

This item increased Euro 11.8 million. The principal increases concerned the item Losses on receivables and loss allowance and Provisions for risks and charges. Elica S.p.A. impaired the trade receivable from Gutmann, by Euro 6.8 million, and impaired the receivable due from the acquirer of Gutmann shares of Euro 0.8 million to its market value. Elica S.p.A. also accrued under “Provisions for risks and charges” a risk provision of Euro 1.65 million to cover the guarantee issued to third parties and a provision of Euro 2.6 million against the settlement agreement with Gutmann. For further details, reference should be made to Note 5.40.

5.9 Restructuring charges

Restructuring charges in the previous year included costs from the personnel redundancy plan of the Parent, implemented in particular to scale down and optimise the Parent's organisational structure during 2017. Euro 630 thousand of these costs concern the personnel redundancy plan accrual at December 31, 2017, which was still in place for Euro 179 thousand at December 31, 2018 for future departures in accordance with IAS 37. They principally concern personnel expense.

5.10 Share of profit/(loss) from associates

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:

In Euro thousands	**2018**	**2017**	**Changes**
Interest on bank deposits	225	226	(1)
Other financial income	743	104	639
Financial income	**968**	**330**	**638**

The increase mainly relates to the item other financial income which contains the release of the discounted portion of the Parent's receivable due from Gutmann at the time of the sale of this company. The receivable is completely impaired in these financial statements.

5.12 Financial expense

In Euro thousands	**2018**	**2017**	**Changes**
Financial expense:			
on overdrafts and bank loans	2,088	2,461	(373)
on loans and borrowings from other lenders	6	(47)	53
on post-employment benefits	220	150	70
Financial discounts	1,172	1,028	144
Financial expense	**3,485**	**3,592**	**(107)**

The Euro 107 thousand decrease in financial expense is due to the decrease in interest from banking institutions also due to the reduction in the debt in part offset by the increase in financial discounts.

5.13 Exchange rate gains/(losses)

In Euro thousands	**2018**	**2017**	**Changes**
Exchange rate losses	(26,653)	(13,008)	(13,645)
Exchange rate gains	26,081	11,249	14,832
Charges on derivative instruments	(6,045)	(4,514)	(1,531)
Losses on derivative instruments	5,087	4,295	792
Net exchange rate losses	**(1,530)**	**(1,978)**	**448**

Net exchange rate losses, excluding transactions in derivative instruments, amounted to Euro 572 thousand, compared to net losses of Euro 1,759 thousand in the previous year. Exchange rate gains and losses principally concern: Elica S.p.A. for a net gain of approx. Euro 382 thousand, Elicamex S.A. de C.V. for a net loss of Euro 218 thousand and Elica Trading LLC for a loss of Euro 114 thousand.
Net losses on derivative instruments were Euro 959 thousand in 2018 compared to losses of Euro 216 thousand in 2017. Paragraph 7 Risk management of these notes reports information on derivatives.

5.14 Income taxes

Income taxes in 2018 and 2017 are broken down as follows:

In Euro thousands	2018	2017	Changes
Current taxes	(5,534)	(5,032)	(502)
Deferred taxes	3,362	1,570	1,792
Income taxes	**(2,172)**	**(3,463)**	**1,290**

Income taxes in the year decreased Euro 1.3 million on 2017. The balance comprises current and deferred taxes. Current taxes refer principally to the Indian subsidiary for Euro 1.2 million, to the Mexican subsidiary for Euro 1.6 million and to the Japanese subsidiary for Euro 1.5 million. Deferred tax income in 2018 principally relates to Elica S.p.A. and the German subsidiary Elica GmbH. The deferred tax income increased in particular for the provision related to the transaction described in Note 5.40.

For 2018, the Parent's theoretical tax rate (theoretical tax on pre-tax income) was 28.13%, similar to 2017, 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, 2018, 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 decreased from 74.3% to 49.1% We report that the amount in 2017 includes, in addition to that for the year, the portion of the Patent box subsidy for 2015 and 2016.

Reconciliation between expected and effective tax rates

		2018					2017				
	Theoretical IRES rate	24.00%					24.00%				
	Theoretical IRAP rate	4.13%					4.13%				
	(in Euro thousands)	**Taxable profit**	**Income taxes**	**IRAP**	**Total**	**% IRES on profit/(loss) before tax**	**Taxable profit**	**Income taxes**	**IRAP**	**Total**	**% IRES on profit/(loss) before tax**
	[A] TOTAL INCOME TAXES		**2,204**	**(32)**	**2,172**	**49.1%**		**3,605**	**(143)**	**3,463**	**74.0%**
	PROFIT BEFORE TAXES	**4,486**					**4,855**				
+	Tax calculated using local tax rate		1,077			24.0%		1,165			24.0%
+	Tax effect of (income)/expenses not considered for tax purposes	(30,965)	(7,432)			-165.6%	-15,816	-3,796			-78.2%
-	Tax effect on the different tax rates of the foreign subsidiaries	27,629	6,631			147.7%	22,895	5,495			113.2%
-	Other differences	316	76			1.7%	167	40			0.8%
	[B] Effective tax charge and tax rate net of substitute tax	**1,468**	**352**			**7.9%**	**12,101**	**2,904**			**59.8%**
-	Tax credit for Polish investments		1,204			26.8%		512			10.5%
-	Effect of tax refund and other		648			14.4%		190			3.9%
	[C] Effective tax charge and tax rate	**1,468**	**2,204**			**49.1%**	**12,101**	**3,605**			**74.3%**

5.15 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 Ariafina CO., LTD (non-controlling interest 49%), Airforce S.p.A. (40%), Airforce Germany Hochleistungs-Dunstabzugssysteme GmbH (43%), Elica PB Private Ltd. (49% for the first months of the year, 42% in the period subsequent to the conversion of the Debenture and 74.5% on the sale of 33% to Whirlpool) and Zhejiang Elica Putian Electric Co. Ltd (from 3% to 1% based on the increase in the share capital made by the Group during the year).

5.16 Basic earnings per share – Diluted earnings per share

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

	2018	2017
From continuing and discontinued operations:		
Profit/(loss) attributable to the owners of the Parent (In Euro thousands)	(961)	166
Average number of ordinary shares net of treasury shares	62,047,302	62,047,302
Basic earnings per share	**(1.55)**	**0.27**
Weighted average number of ordinary shares to calculate diluted earnings per share	62,047,302	62,047,302
Diluted earnings per share	**(1.55)**	**0.27**
From continuing operations		
Profit/(loss) attributable to the owners of the Parent (In Euro thousands)	(961)	166
Average number of ordinary shares net of treasury shares	62,047,302	62,047,302
Basic earnings per share	**(1.55)**	**0.27**
Weighted average number of ordinary shares to calculate diluted earnings per share	62,047,302	62,047,302
Diluted earnings per share	**(1.55)**	**0.27**

5.17 Other information on the income statement

The research and development costs taken to profit or loss in 2017 and 2018 are summarised in the table below:

In Euro thousands	2018	2017	Changes
R&D costs expensed	5,501	5,971	(470)
Amortisation of capitalised R&D costs	2,624	3,133	(509)
Total R&D costs	**8,125**	**9,104**	**(979)**
R&D costs capitalised during the year	**2,713**	**2,290**	**423**

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

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5.18 Property, plant and equipment

The table below shows details of the changes in property, plant and equipment in 2017.

In Euro thousands	Dec 31, 2016	Increases	Disposals & other reclassifications	Other changes	Dec 31, 2017
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**

In Euro thousands	Dec 31, 2016	Depreciation	Disposals & other reclassifications	Other changes	Dec 31, 2017
Land and buildings	25,128	1,849	(83)	(195)	26,699
Plant and machinery	66,264	3,951	(751)	(1,561)	67,903
Industrial & 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**

In Euro thousands	Dec 31, 2016	Increases	Disposals & other reclassifications	Other changes	Depreciation	Dec 31, 2017
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 & 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**

Changes in 2018 were as follows:

In Euro thousands	Dec 31, 2017	Increases	Disposals & other reclassifications	Other changes	Dec 31, 2018
Land and buildings	69,752	5,068	(143)	(104)	74,573
Plant and machinery	95,999	4,541	(2,274)	257	98,523
Industrial and commercial equipment	113,809	8,384	(3,690)	(242)	118,262
Other assets	14,165	1,843	(282)	(372)	15,354
Assets under construction and payments on account	1,070	398	(350)	(630)	488
Historical cost of property, plant and equipment	**294,795**	**20,235**	**(6,739)**	**(1,091)**	**307,200**

In Euro thousands	Dec 31, 2017	Depreciation	Disposals & other reclassifications	Other changes	Dec 31, 2018
Land and buildings	26,699	2,048	(16)	(183)	28,548
Plant and machinery	67,903	4,166	(2,150)	128	70,047
Industrial and commercial equipment	91,436	6,588	(3,676)	(135)	94,213
Other assets	11,072	1,164	(270)	(428)	11,538
Accumulated depreciation	**197,110**	**13,966**	**(6,112)**	**(618)**	**204,346**

In Euro thousands	Dec 31, 2017	Increases	Disposals & other reclassifications	Other changes	Depreciation	Dec 31, 2018
Land and buildings	43,053	5,068	(126)	78	(2,048)	46,025
Plant and machinery	28,096	4,541	(124)	129	(4,166)	28,475
Industrial and commercial equipment	22,373	8,384	(14)	(107)	(6,588)	24,048
Other assets	3,093	1,843	(12)	56	(1,164)	3,817
Assets under construction and payments on account	1,070	398	(350)	(630)	-	488
Net property, plant and equipment	**97,686**	**20,235**	**(626)**	**(473)**	**(13,966)**	**102,854**

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, in addition to the expansion of the production capacity in Mexico through the extension of the existing plant.

Other changes include net exchange rate losses of Euro 221 thousand.

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 remain 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.

5.19 Goodwill

In 2018, the Group concluded the review of the Corporate Reporting system without substantial amendments to the set of internal reports reviewed periodically by management, but eliminated the breakdown by geographic location in which the companies are located. The various reports provide a global overview at Group level. This new reporting system is in line with the conclusion of the Group Reorganisation process which provides greater scope on the responsibility of individual reporting to the Chief Executive Officer for the Group. This reporting system is in line with Management strategy, with an increasing global footprint. In this manner the Group can provide information which enables readers of the financial statements to evaluate the nature and effects on the financial statements of the strategies undertaken and of the general economic context.
In line with the new Group strategic vision, which centres on international expansion, and the altered market conditions in which our market and sales channel leadership is paramount, Elica S.p.A. has forged a new path for the business and established new organisational and disclosure policies with the historical *Cash Generating Units* Europe, *Asia* and *America* becoming increasingly integrated. For this reason, during 2018 it was considered necessary to establish a new global model, with a single Cash Generating Unit, the *Elica Group* which best reflects the current Group situation and IFRS (IAS 36).

In Euro thousands	Dec 31, 2018	Dec 31, 2017	Changes
Goodwill allocated to subsidiaries	39,273	39,405	(132)
Goodwill	**39,273**	**39,405**	**(132)**

The goodwill, amounting to Euro 39.3 million, is allocated to the Elica Group, as the single Cash Generating Unit (CGU) as indicated in the table, which illustrates the changes during the year. “Other changes” include the change in goodwill due to the translation effect.
The recoverable amount of the CGU was tested by calculating its value in use, which is the present value of expected cash flows using a discount rate which reflects the risks of the CGU at the valuation date.
The impairment test was approved by the Board of Directors on March 7, 2019, 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 best estimates of the directors, for the sole purposes of the impairment test.

Discounted cash flow assumptions

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

	2018
Weighted average cost of capital (WACC)	7.5%
Growth rate terminal value	2.31%
CAGR revenue period 2019-2023	5.90%

The Weighted Average Cost of Capital (WACC) utilised to discount the future cash flows was determined utilising the Capital Asset Pricing Model (CAPM). For the calculation of the WACC a free risk rate of 3.1% was used, a market premium risk of 5.1% and a beta-unlevered factor of 0.87.

Assumptions utilised in estimating cash flows

The discounted cash flow model is based on the financial cash flows for a period equal to five years, calculated on the basis of the best estimates made by the directors, for the sole purposes of the impairment test. The main assumptions utilised in the determination of the cash flows were as follows:

-average impact of the cost of sales on revenue equal to 68.7%;
-average impact of the variable component of the cost of sales on revenue of 5%;
-average impact of the fixed general and administration costs on revenue of 20.3%;
-impact of Free Cash Flow on revenue equal to 2.9%.

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 affect the markets, and for this reason management continues to periodically monitor the circumstances and events which affect these assumptions and future trends.

Results of the impairment test

The impairment test did not result in the recognition of loss in value of the goodwill. The value in use of the CGU was 2.65 times its book value (Euro 452 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 (+/- 5%), the WACC (+/- 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 book values.

5.20 Other intangible assets

The table below shows details of changes in other intangible assets in 2017 and 2018.

In Euro thousands	Dec 31, 2016	Increases	Other changes and reclassifications	Amort.	Dec 31, 2017
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**

In Euro thousands	Dec 31, 2017	Increases	Other changes and reclassifications	Amort.	Dec 31, 2018
Carrying amount					
Development Costs	8,260	2,713	521	(2,624)	8,870
Industrial patents and intellectual property rights	11,994	4,146	1,174	(2,810)	14,504
Concessions, licenses, trademarks & similar rights	1,923	129	6	(1,438)	620
Other intangible assets	1,675	298	6	(440)	1,538
Assets under development and payments on account	2,210	1,072	(1,669)	-	1,613
Other intangible assets	**26,062**	**8,358**	**38**	**(7,312)**	**27,146**

At December 31, 2018, intangible assets amounted to Euro 27,146 thousand, a net increase of Euro 1,083 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 1,613 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 1,053 thousand.

The Other changes column includes an exchange gain of Euro 64 thousand.

Amortisation, depreciation and impairment losses includes, in addition to the amortisation and depreciation for the year, the impairment of the Gutmann brand at fair value, for Euro 1,077 thousand, required following the transaction described in paragraph 5.40.

The criteria applied to amortise intangibles is considered appropriate to reflect the remaining 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 book value, and therefore it is not necessary to recognise an impairment loss.

5.21 Investments in associates

The table below shows changes in investments in associates:

In Euro thousands	Dec 31, 2017	Reversals/ (Impairment losses)	Other changes	Dec 31, 2018
Investments in associates	1,391	(6)	11	1,396
Investments in associates	**1,391**	**(6)**	**11**	**1,396**

The column Reversals/ (Impairment losses), showing net impairment losses of Euro 6 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, 2018.

In Euro thousands	**Purchase cost**	**Pro-quota post-acquis. gain/loss (exclud. dividends)**	**Balance at Dec 31, 2018**	**Purchase cost**	**Pro-quota post-acquis. gain/loss (exclud. dividends)**	**Balance at Dec 31, 2017**
I.S.M. S.r.l.	1,899	(503)	1,396	1,899	(508)	1,391
Total	**1,899**	**(503)**	**1,396**	**1,899**	**(508)**	**1,391**

5.22 Other assets (non-current)

The breakdown of the Other assets is as follows:

In Euro thousands	**Dec 31, 2018**	**Dec 31, 2017**	**Changes**
From employees	9	22	(13)
Other assets	291	2,610	(2,319)
Other assets (non-current)	**300**	**2,632**	**(2,332)**

Other non-current assets decreased following the reclassification to Other current assets of Euro 1.7 million and the impairment of the residual Euro 0.8 million of the receivable from the third party acquirer of the investment in Gutmann in 2017 following the transactions described in Note 5.40.
Management believes that this amount approximates fair value.

5.23 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:

In Euro thousands	**Dec 31, 2018**	**Dec 31, 2017**	**Changes**
Meccano S.p.A.	15	15	-
Other minor investments	36	36	-
AFS financial assets	**52**	**52**	**-**

5.24. Trade receivables

In Euro thousands	**Dec 31, 2018**	**Dec 31, 2017**	**Changes**
Trade receivables	51,192	75,923	(24,731)
Trade receivables	**51,192**	**75,923**	**(24,731)**

Trade receivables decreased Euro 24,731 thousand. This decrease is in part due to the choice of the Group to impair the receivable from the German company Gutmann, in part due to the revenue recorded in the fourth quarter of 2018 and in part due to an improvement in the collection activities during the year with a consequent reduction in DSO (Days Sales Outstanding) of the Group.
As described in the Directors` Report; the Company made an extraordinary accrual of Euro 6.8 million in 2018 (Euro 5.1 million net of the tax effect), considered necessary in view of the opening of preliminary voluntary insolvency proceedings at the German ex-subsidiary Exklusiv Hauben Gutmann GmbH, against whom Elica S.p.A. has a non-

current trade receivable, arising before the disposal on August 28, 2017. This devaluation is confirmed by the operation described in Note 5.40, to which reference should be made for further details.

The Group implements a Group Credit Policy which governs the management of credit in order to mitigate the risk.

In particular, it is Group policy to transfer the recoverability risk of receivables to third parties and, therefore, various derivatives are utilised among which insurance policies with leading international insurance companies.

Receivables are recognised net of the loss allowance, amounting to Euro 13,865 thousand (Euro 4,256 thousand in 2017), accrued in accordance with the Group Credit Policy, in addition to the impairment illustrated above.

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

The loss allowance for the year, considered adequate to adjust receivables to their realisable value, was Euro 10,406 thousand.

The receivables from the associate I.S.M. at December 31, 2018 amounted to Euro 2 thousand (Euro 2 thousand in 2017) and derive from ordinary operations.

5.25 Inventories

In Euro thousands	**Dec 31, 2018**	**Dec 31, 2017**	**Changes**
Raw material, ancillary and consumables	31,183	29,367	1,816
Provision for the write-down of raw materials	(3,071)	(2,635)	(436)
Total	28,112	26,732	1,380
Work-in-progress and semi-finished products	15,679	14,435	1,244
Provision for the write-down of semi-finished products	(1,043)	(794)	(249)
Total	14,636	13,641	995
Finished products and goods for resale	37,104	35,278	1,826
Provision for the write-down of finished products	(3,657)	(2,358)	(1,298)
Total	33,447	32,920	528
Payments on account	-	6	(6)
Total inventories	**76,196**	**73,298**	**2,898**

Closing inventories increased Euro 2,898 thousand.

Inventories are stated net of the provision for inventory write-down of approximately Euro 7,770 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 9.3% of inventories (7.3% in 2017).

5.26 Other assets (current)

The breakdown is as follows:

In Euro thousands	**Dec 31, 2018**	**Dec 31, 2017**	**Changes**
Other assets	4,781	2,934	1,847
Prepayments and accrued income	1,808	1,246	562
Other assets (current)	**6,589**	**4,180**	**2,409**

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. Prepayments and accrued income include advanced insurance premiums, maintenance fees and rental charges. This item includes the reclassification previously recorded as third party non-current receivables, which for Euro 1.7 million, were ceded to Gutmann, following the transaction described in Note 5.40. This explains the largest part of the change. Management believes that this amount approximates fair value.

5.27 Tax assets

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

In Euro thousands	Dec 31, 2018	Dec 31, 2017	Changes
VAT	8,691	7,254	1,437
Other tax assets	8,584	7,051	1,533
Tax assets (current)	**17,275**	**14,306**	**2,970**

The change in the VAT asset relates to the timing of trade transactions. Other tax assets concern the Parent for Euro 2.5 million and the balance for Euro 1 million foreign tax credits and the remainder mainly the tax asset for research and development as per Law No. 190/2014 from the tax authorities. The residual amount of other tax assets refers to advances paid by foreign companies. Management believes that this amount approximates fair value.
In the previous year the non-current portion included a receivable of the Indian subsidiary.

5.28 Derivative financial instruments

	Dec 31, 2018		Dec 31, 2017	
In Euro thousands	**Assets**	**Liabilities**	**Assets**	**Liabilities**
FX derivatives	513	415	344	516
Interest rate derivatives	-	366	8	308
Commodities derivatives	-	1,076	662	-
Derivative financial instruments	**513**	**1,857**	**1,014**	**824**
of which				
Non-current	-	120	8	75
Current	513	1,737	1,006	749
Derivative financial instruments	**513**	**1,857**	**1,014**	**824**

For a description of the above account, reference should be made to paragraph 7. Information on risk management of these Notes.

5.29 Cash and cash equivalents

In Euro thousands	Dec 31, 2018	Dec 31, 2017	Changes
Bank and postal deposits	35,587	34,837	750
Cash in hand and similar	25	36	(11)
Cash and cash equivalents	**35,612**	**34,873**	**739**

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.

5.30 Liabilities for post-employment benefits

The Elica Group reports obligations of Euro 10,465 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, 2018 by the service company Managers &Partners – Actuarial Services S.p.A..
The amounts recognised in profit or loss were as follows:

In Euro thousands	Dec 31, 2018	Dec 31, 2017	Changes
Current service cost	3,014	2,980	34
Interest expense	220	150	70
	3,234	**3,130**	**104**

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

In Euro thousands	Dec 31, 2018	Dec 31, 2017	Changes
Opening balance	**10,903**	**11,129**	**(226)**
Current service cost	3,014	2,980	34
Actuarial gains and losses	(409)	(203)	(206)
	13,508	**13,906**	**(398)**
Interest cost	220	150	70
Pension fund	(2,711)	(2,805)	94
Benefits provided	(551)	(348)	(203)
	(3,042)	**(3,003)**	**(39)**
Liabilities for post-employment benefits	**10,465**	**10,903**	**(438)**

The interest component of the defined employee benefit plan cost is shown under financial expense, with a resulting increase of Euro 220 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 409 thousand, comprise the actuarial gains (losses) of the defined benefit plans reported in the Statement of Comprehensive Income. The specific reserve set up amounts, net of the tax effect, to a negative Euro 2.8 million for the Group and Euro 134 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, 2018	Dec 31, 2017
Discount rate to determine the obligation	1.57%	1.30%
Expected salary growth rate	2.00%	2.00%
Rate of inflation	1.50%	1.50%

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% (2.07%), the obligation would amount to Euro 10,423 thousand, while if the discount rate decreased 0.5% (1.07%), the obligation would amount to Euro 10,491 thousand.
At December 31, 2018 employees numbered 3,823 (3,796 in 2017), as detailed in paragraph 5.6.

5.31 Provisions for risks and charges

The composition and movements of the provisions are as follows:

In Euro thousands	Dec 31, 2017	Provisions	Utilisation/Reversal	Other changes	Dec 31, 2018
Agents' termination benefits	579	129	(134)		574
Product warranties	1,883	2,109	(1,424)	4	2,572
Legal risks	6,746	4,670	(1,141)		10,275
Long Term Incentive Plan	680	388	-		1,068
Personnel	3,307	2,887	(3,177)	(10)	3,007
Restructuring	630	-	(451)		179
Other	1,770	1,690	(1,152)	(17)	2,291
Provisions for risks and charges	**15,595**	**9,272**	**(7,479)**	**(23)**	**19,965**
of which					
Non-current	8,916				10,647
Current	6,679				9,318
Provisions for risks and charges	**15,595**				**19,965**

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

The provision for product warranties reflects an estimate of the costs likely to be incurred to repair or replace items sold to customers. These provisions reflect the average warranty costs historically incurred by the company as a percentage of sales still covered by warranty.

The provision 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 Euro 4 million on a precautionary basis to cover legal risks. These accruals do not imply that the counterparty's legal arguments are valid, but were recognised solely to be fully compliant with IFRS. In any case, the company confirms that it intends to defend itself at all legal levels.
Elica S.p.A. also accrued a risk provision for Euro 1.65 million against the guarantee issued, which based on the agreement as per Note 5.40 permitted the payment, with the company owner of the building leased by Gutmann and a provision of Euro 2.6 million against the settlement with Gutmann. Reference should be made to Note 5.40 for further details.

This provision for risks and charges also includes Euro 0.6 million prudently accrued residually by the Company following an investigation undertaken by the Tax Agency on November 21, 2017. The investigation involves verifications 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. After the notification of the assessment advice, received on July 6, 2018, on September 17, 2018 the assessment was formalised (Article 13 of Legislative Decree No. 472 of 1997), with a payment to the Tax Agency of an amount equal to the tax credit contested, in addition to interest and penalties in accordance with legal provisions. Also on September 17, 2018, the Tax Agency notified of a deed of recovery of the tax credit and two assessment advices relating to the recovery of IRES, IRAP and VAT. In relation to the three deeds Elica proposed three separate appeals, notified to the counterparty on October 12, 2018, which will be presented before the Ancona Provincial Commission Court.
The restructuring provision of Euro 0.2 million includes the residual provision 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 Personnel provision includes contractual indemnities and employee bonuses accrued in the year, based on the best estimates according to the information available. The utilisations relate to payments in 2018 in this regard.
The Long Term Incentive Plan provision concerns the accrued liability at December 31, 2018 for the 2016-2022 Phantom Stock and Voluntary Co-investment Plan. The provision refers to the second and third cycle of this Plan, which was approved by the Board of Directors of Elica S.p.A. respectively on June 26, 2017 and February 12, 2018. 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 column Other changes relates to exchange rate gains/losses for Euro 22 thousand.
The impact of discounting non-current provisions is not significant.

5.32 Deferred tax assets – Deferred tax liabilities

At December 31, 2018, details of deferred tax assets and liabilities, determined on the basis of the asset-liabilities method, were as follows:

(in Euro thousands)	**Dec 31, 2018**	**Dec 31, 2017**	**Changes**
Deferred tax assets	18,339	15,464	2,876
Deferred tax liabilities	(2,992)	(3,256)	264
Total	**15,347**	**12,208**	**3,140**

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

In Euro thousands	Dec 31, 2017 Assets	Dec 31, 2017 Liabilities	Other changes/Equity	Costs	(Revenue)	Dec 31, 2018 Assets	Dec 31, 2018 Liabilities
Amortisation, depreciation and provisions	5,879	-	(20)	1,232	(4,145)	9,083	(271)
Losses carried forward	4,535	-	880	145	(564)	4,074	-
Inventory write-down	855	-	(8)	66	(485)	1,283	-
Exchange rate differences	264	(345)	(474)	152	(50)	405	(113)
Restructuring charges	177	-	-	127	-	50	-
Allocation of acquisition price	-	(2,692)	(119)	-	(135)	-	(2,438)
Other accruals (e.g. personnel expense, LTI, employee bonuses and post-employment benefits and R&D)	1,428	-	12	921	(924)	1,419	-
Goodwill	196	(62)	(59)	53	-	143	(3)
Other	2,130	(156)	13	433	(188)	1,882	(167)
	15,464	**(3,256)**	**224**	**3,129**	**(6,491)**	**18,339**	**(2,992)**

The column Other change/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. The item also includes the measurement of the cash flow hedge for Euro 440 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 1,193 thousand concerning the investments in Poland.
The Chinese subsidiary has accrued tax losses utilisable, although the Group has prudently not recognised the related deferred tax asset of Euro 2.7 million.

5.33 Bank loans and borrowings

(Euro thousands)	Dec 31, 2018	Dec 31, 2017	Changes
Bank loans and borrowings	91,894	104,161	(12,267)
Total	**91,894**	**104,161**	**(12,267)**
Bank loans and borrowings have the following repayment schedules:			
On demand or within one year	37,792	57,040	(19,248)
Within two years	17,933	18,650	(717)
Within three years	16,717	18,108	(1,391)
Within four years	12,726	7,125	5,601
Within five years	6,549	3,238	3,311
After 5 years	177	-	177
Total	**91,894**	**104,161**	**(12,267)**
Less amounts to be repaid within one year	37,792	57,040	(19,248)
Due after one year	**54,102**	**47,121**	**6,981**

The majority of borrowings indicated above carry a floating rate of interest. In 2018 the Group agreed two 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. Information on risk management of these Notes.

5.34 Other liabilities (non-current)

In Euro thousands	Dec 31, 2018	Dec 31, 2017	Changes
Other liabilities	13	16	(3)
Deferred INAIL contributions – 1997 earthquake	5	16	(11)
Deferred INPDAI contributions – 1997 earthquake	-	7	(7)
Deferred Employee INPS contributions – 1997 earthquake	46	186	(140)
Other liabilities (non-current)	**64**	**225**	**(161)**

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.

5.35 Other liabilities (current)

In Euro thousands	Dec 31, 2018	Dec 31, 2017	Changes
Due to social security institutions	2,784	2,803	(19)
Other	3,728	5,248	(1,520)
Due to personnel for remuneration	5,793	6,802	(1,009)
Accrued liabilities and deferred income	1,548	1,298	250
Customer advances	549	454	95
Directors and statutory auditors	100	100	-
Other liabilities (current)	**14,503**	**16,706**	**(2,203)**

This item shows a net decrease of Euro 2,203 thousand. This decrease is concentrated in the item personnel for remuneration, and in part due to the higher remuneration impact in the previous year of the mobility contribution, and in Other liabilities, following the payment in 2018 of the residual quota of the payable of Elica Group Polska for the acquisition of ISM Poland.

5.36 Current and non-current tax liabilities

Tax liabilities (non-current)

In Euro thousands	Dec 31, 2018	Dec 31, 2017	Changes
Deferred local income tax – earthquake	11	38	(27)
Other tax liabilities	10	34	(24)
Deferred post-employment benefits - earthquake	2	6	(4)
Deferred estate taxes – earthquake	31	106	(76)
Tax liabilities (non-current)	**53**	**183**	**(131)**

The changes in non-current Tax liabilities relate to the monthly payments of the amounts that were deferred following the earthquake in 1997. Management believes that this amount approximates fair value.

Tax liabilities (current)

In Euro thousands	Dec 31, 2018	Dec 31, 2017	Changes
Other tax liabilities	2,880	3,628	(748)
IRPEF withholding	2,323	2,168	155
Income tax liabilities for the year	5,641	3,988	1,653
Tax liabilities (current)	**10,844**	**9,784**	**1,060**

Overall, this item is up Euro 1 million. The increase refers to income tax liabilities for the year, principally concerning the foreign subsidiaries, in particular Arafina and Elicamex; to which the largest increase concerns. Management believes that this amount approximates fair value.

5.37 Trade payables

(Euro thousands)	Dec 31, 2018	Dec 31, 2017	Changes
Trade payables	109,916	120,541	(10,625)
Total	**109,916**	**120,541**	**(10,625)**

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.

5.38 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.

5.38.1 Share capital

The share capital at December 31, 2018 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.

5.38.2 Equity-related 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.

5.38.3 Hedging and translation reserve

These reserves show a negative balance of Euro 15,096 thousand (negative balance of Euro 14,766 thousand at December 31, 2017) 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 an increase of Euro 771 thousand, including the fair value changes of cash flow hedges, net of the negative tax effect of Euro 1,101 thousand. In particular, the portion concerning the fair value change is a negative Euro 1,541 thousand, while the tax impact is Euro 440 thousand.
The change in the translation reserve was a positive Euro 771 thousand for the Group and a positive Euro 131 thousand for non-controlling interests, therefore totalling Euro 902 thousand.

In Euro thousands	**Dec 31, 2017**	**Reserve adjustment**	**Dec 31, 2018**
Hedge reserve	102	(1,101)	(999)
Translation reserve	(14,868)	771	(14,097)
Hedge and translation reserve	**(14,766)**	**(330)**	**(15,096)**

5.38.4 Treasury shares

In 2018, there was no change to the number of treasury shares. At December 31, 2018, the treasury shares in portfolio represent 2% of the Share Capital totalling 1,275,498 shares.

5.38.5 Income-related reserves

These increased from Euro 37,049 thousand in 2017 to Euro 41,535 thousand in 2018. The increase of Euro 4,486 thousand is due for Euro 166 thousand to the allocation of the profit in 2017 and for Euro 4,320 thousand to Other Changes.
The Other changes represents the impact of the change in the investment in the company Elica India, among all the changes undertaken in 2018, described below.
On May 7 Elica S.p.A. announced the signing of an agreement for the early conversion of the bond loan issued by the subsidiary ELICA PB INDIA PRIVATE LTD and fully subscribed by Elica S.p.A., as announced on May 14, 2013.
Following early conversion, Elica S.p.A. acquired an additional holding in Elica PB India Private Ltd, to increase its stake from 51% to 58.45%, as the Indian shareholders of Elica PB India Private Ltd. agreed not to exercise their right to acquire the portion of the share capital converted which would have diluted the company's investment and to waive the option to sell their investment at fair value, according to the agreement. Elica S.p.A. undertook the obligation to pay to the Indian shareholders waiving the pre-emptive option for a portion of the converted share capital, by December 31, 2018, i.e. within three days of any sale of the shares of the Indian company to third parties, INR 105,599,616 (approx. Euro 1.3 million).
On June 1, 2018, Elica S.p.A. announced the signing of an agreement for the sale to Whirlpool of India Limited of 33% of the share capital of the Indian subsidiary Elica PB India Private Ltd. together with the other Indian non-controlling shareholders disposing of 16%
On September 10, 2018, Elica S.p.A., following on from the agreement signed for the sale to Whirlpool of India Limited of 33% of the share capital of the Indian subsidiary Elica PB India Private Ltd announced on June 1, 2018, and receipt of antitrust approval in Europe and Turkey, in addition to satisfaction of all conditions stipulated by the agreement, announced the closing of the Joint Venture between Elica India and Whirlpool of India. In accordance with this agreement, Elica S.p.A. sold to Whirlpool of India Limited 33% of the share capital of the Indian subsidiary Elica PB India Private Ltd., together with the other Indian non-controlling shareholders disposing of 16%. On closing, Whirlpool of India Limited acquired in total 49% of the Indian subsidiary Elica S.p.A.. On the basis of the blocking agreement with the Indian shareholders, Elica S.p.A. continues to exercise control over Elica PB India Private Ltd., and fully

consolidate the company in its financial statements. Alongside the closing of the agreement and the acquisition of the investment, Whirlpool of India Limited signed an exclusive distribution agreement for a number of its cooking segment products with Elica PB India Private Ltd to speed up the development of its business on the Indian market, leveraging on Elica PB India's distribution structure which, over the last 2 years, has created a comprehensive network of mono-brand stores and reports annual growth rates at over 30%. The consideration for the sale of 33% of the Indian subsidiary Elica PB India Private Ltd, paid by Whirlpool of India Limited on the closing of the Joint Venture, was INR 1,092,163,974.14:

Given that the Group maintains control of Elica India, the impacts of this transaction, as per IFRS, are recorded as transactions between shareholders.

5.39 Equity attributable to non-controlling interests

The item, amounts to Euro 11.3 million and increased Euro 6.3 million mainly due to:

- an increase of Euro 3,275 thousand for the allocation of the 2018 profit attributable to non-controlling interests;
- an increase of Euro 131 thousand concerning the non-controlling interest share of the translation effect of financial statements of the investee companies ARIAFINA CO., LTD, Elica PB India Private Ltd. and Zhejiang Elica Putian Electric Co Ltd, expressed in foreign currencies;
- a decrease of Euro 1,356 thousand for the distribution of dividends by Ariafina and Airforce;
- an increase of Euro 4.3 million for the transfer between the Group and non-controlling interests of the share of assets of Elica India, following that described in the previous paragraph.

5.40 Settlement agreement reached with Gutmann

On February 27, 2019, Elica S.p.A. announced the reaching - together with the subsidiary Elica GmbH - of a settlement with the company Exklusiv-Hauben Gutmann GmbH ("Gutmann") in insolvency, with its administrators and with its sole shareholder Manuel Fernandez Salgado, to whom the company was sold in August 2017. The agreement was approved by the creditors committee of the Gutmann insolvency and the Administrator of the insolvency and is binding upon the parties. The Board of Directors of Elica S.p.A., in consideration of the opportunity to establish mutual positions on the insolvency declaration of Exklusiv-Hauben Gutmann GmbH and to mitigate the main risks associated with the claims advanced and the disputes threatened against Elica S.p.A and Elica GmbH, assessed the proposal as being in the interest of the company and mandated the Chief Executive Officer to conclude a possible agreement. Elica GmbH also agreed with the proposal.

Within the overall framework of the agreement and in settlement of the mutual rights and claims, Elica S.p.A. shall recognise to Gutmann Euro 2.6 million (with an overall adjustment effect on the EBITDA of Elica S.p.A. of Euro 3.4 million, including the impairment of Euro 0.8 million of the original receivable of Euro 2.5 million of Elica S.p.A. from Manuel Fernandez Salgado), of which Euro 800 thousand to be paid within three weeks from the agreement's conclusion, Euro 1.7 million through the transfer to Gutmann of Elica S.p.A.'s receivable from Manuel Fernandez Salgado for the transfer of the shares of Gutmann and a further Euro 100 thousand to be fully offset against that to be paid by Gutmann for the retransfer of the "Gutmann" brands acquired by Elica S.p.A. in 2017 (with an overall adjustment effect on the EBIT of Elica S.p.A. of Euro 1.1 million, deriving from the impairment of the Gutmann brands recognised to the statement of financial position of Elica S.p.A.).

Manuel Fernandez Salgado shall remain liable to pay to Elica S.p.A. the residual amount of Euro 800 thousand, due for the transfer of the Gutmann shares. This obligation will be extinguished paying Elica S.p.A. Euro 200 thousand by February 28, 2020, considered full settlement of his entire debt position.

For completeness, Elica S.p.A. in addition agrees to settle the guarantee provided in 2015 in favour of the company owning the property leased by Gutmann of Euro 1.65 million, which has already been provisioned in the company's accounts, and to settle the amounts regarding the trade payables arising in favour of Gutmann GmbH after the sale of the company and prior to its declaration of insolvency, related to ordinary operations and amounting to approx. Euro 0.5 million, currently prudently blocked by Elica S.p.A..

This transaction definitively concludes all disputes between the two companies, excluding further impacts on future accounts.

Following the opening of the preliminary insolvency proceedings, Elica had partially impaired the trade receivable - for an amount of Euro 4.0 million - recognised when communicating its H1 2018 results. Subsequently, during the 2018 Fourth Quarter a further impairment of Euro 2.8 million was made to cover the insolvency risks of the German company regarding the trade receivable of Elica S.p.A. in view of its continuing insolvency. This devaluation is confirmed by the agreement described above.

The effects of the above transaction are illustrated below:

In Euro thousands	
a) Impairment of trade receivables from Gutmann - pre-sale	6,755
b) Impairment of receivable from Manuel Fernandez	800
c) Loss allowance for settlement agreement	2,600
d) Loss allowance to cover property rental guarantee	1,650
e) Impairment of Brands	1,077

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, 2017 and December 31, 2018

	Dec 31, 2018		Dec 31, 2017	
In Euro thousands	**Profit/(loss)**	**Equity**	**Profit/(loss)**	**Equity**
Parent's separate financial statements	**529**	**85,492**	**(22,112)**	**86,069**
Elimination of the effect of intercompany transactions net of tax effect:				
Unrealised gains on non-current assets	205	(620)	(304)	(825)
Unrealised gains on sale of goods	(170)	(234)	(60)	(64)
Tax effect	(9)	205	139	222
Dividends received from consolidated companies	(5,395)	(5,395)	(3,021)	(3,021)
Other	(373)	29	401	2,245
Share of profit/loss from investments	**(6)**	**18**	**(2)**	**24**
Carrying amount of consolidated companies	**5,000**	**(59,400)**	**1,980**	**(59,761)**
Equity and profit of the subsidiaries consolidated on a line-by-line basis	**9,713**	**75,341**	**6,735**	**60,410**
Impact of disposal of fully consolidated subsidiary	(6,944)	-	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	(238)	5,585	(243)	5,873
Goodwill arising on consolidation	-	13,160	-	13,209
Consolidated financial statements	**2,314**	**114,183**	**1,392**	**104,494**
Attributable to the owners of the parent	(961)	102,913	166	99,489
Attributable to non-controlling interests	3,275	11,270	1,226	5,005

5.42 Net financial position, default risk and covenants

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

In Euro thousands	**Dec 31, 2018**	**Dec 31, 2017**	**Changes**
Cash and cash equivalents	**35,612**	**34,873**	**739**
Finance leases and loans and borrowings from other lenders	0	0	0
Bank loans and borrowings	(37,792)	(57,040)	19,248
Current net financial liabilties	**(37,792)**	**(57,040)**	**19,248**
Finance leases and other lenders	0	(33)	33
Bank loans and borrowings	(54,102)	(47,121)	(6,981)
Non-current net financial liabilities	**(54,102)**	**(47,154)**	**(6,948)**
Net Financial Position	**(56,282)**	**(69,321)**	**13,039**
Assets for derivatives	513	1,014	(501)
Liabilities for derivatives (current)	(1,737)	(749)	(988)
Liabilities for derivatives (non-current)	(120)	(75)	(45)
Net Financial Position - Including the effect of derivatives	**(57,626)**	**(69,132)**	**11,505**

For further information on changes in net financial position, reference should be made to the Directors' Report.
Concerning the default risk and covenants on debt, reference should be made to section 7. Information on risk management of these Notes.

5.43 Significant non-recurring events and operations

There were no events to report in 2018, except that described on the sale of the investment in Elica India.

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, 2018 to cover legal risks and charges amounts to Euro 10,275 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 Euro 4 million on a precautionary basis to cover legal risks. These accruals do not imply that the counterparty's legal arguments are valid, but were recognised solely to be fully compliant with IFRS. In any case, the company confirms that it intends to defend itself at all legal levels. The judgement also requires Elica S.p.A. to compensate the counterparty for indirect damage of approximately Euro 7.5 million. With the support of legal consultants and sector experts, considering that the judgment is at first level and not definitive (the appeal is pending) or executive, that it has not arisen in Italy and particularly that the legal basis is considered unfounded, the Group considers this payment as not probable. The company confirms its intention to pursue at all levels the protection of its rights. Management considers that the provision for risks in order to cover possible liabilities from pending or potential disputes is, on the whole, adequate. For additional information, reference should be made to paragraph 5.31 of these notes.
This provision also includes a provision of Euro 0.6 million prudently accrued residually by the Company following an investigation undertaken by the Tax Agency on November 21, 2017. The investigation involves verifications 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. After the notification of the assessment advice, received on July 6, 2018, on September 17, 2018 the assessment was formalised (Article 13 of Legislative Decree No. 472 of 1997), with a payment to the Tax Agency of an amount equal to the tax credit contested, in addition to interest and penalties in accordance with legal provisions. Also on September 17, 2018, the Tax Agency notified of a deed of recovery of the tax credit and two assessment advices relating to the recovery of IRES, IRAP and VAT. In relation to the three deeds Elica proposed three separate appeals, notified to the counterparty on October 12, 2018, which will be presented before the Ancona Provincial Commission Court.

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 5.31 of these notes.

6.2. Guarantees and commitments

Group commitments for the purchase of raw materials amount to Euro 2.8 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, 2018 was approximately Euro 1,415 thousand, principally relating to investments in production capacity.

The shareholder agreement signed on December 10, 2007 - renewed on December 18, 2010, December 18, 2013 and December 18, 2016 - concerning 39,772,725 ordinary shares of Elica S.p.A., equal to 62.809% of the share capital of Elica S.p.A. ("Company"), between FAN S.r.l. ("FAN"), holder of 33,440,445 ordinary shares of Elica S.p.A., equal to 52.809% of the share capital of the Company, and Whirlpool Europe S.r.l., now Whirlpool EMEA S.p.A., ("Whirlpool"), holder of 6,332,280 ordinary shares of Elica S.p.A. conferred to the agreement, equal to 10.000% of the share capital of the Company, concluded with effect from December 18, 2018, on the conclusion of the duration of the shareholder agreement and its mutual resolution.
This did not impact control over Elica which, as per Article 93 of the CFA, is held by Mr. Francesco Casoli.
For further information on the matter, reference should be made to the Annual Corporate Governance Report, available on the Company 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 18.6 million, in favour of Elica Group Polska for a rotating receivable factoring arrangement with a cap of Euro 3.5 million and in favour of Elicamex for a receivable factoring with a cap of Euro 1.5 million. There exists a Corporate Guarantee of Euro 0.65 million and a Patronage of Euro 1 million in favour of third parties, for a total of Euro 1.65 million, which are described in paragraph 5.40

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:

In Euro thousands	Dec 31, 2018	Dec 31, 2017	Changes
Property leases	4,212	3,064	1,148
Car and fork lift rental	5,160	3,082	2,078
Hardware operating leases	2,111	2,890	(779)
Other operating leases	1,567	1,955	(388)
Operating lease commitments	**13,050**	**10,991**	**2,059**

In Euro thousands	Dec 31, 2018	Within 1 year	1 - 5 years	After 5 years
Property leases	4,212	1,536	2,638	38
Car and fork lift rental	5,160	1,353	3,498	310
Hardware operating leases	2,111	819	1,292	0
Other operating leases	1,567	449	1,118	0
Operating lease commitments	**13,050**	**4,157**	**8,546**	**348**

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 commenced the implementation 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, 2018 are shown below:

In Euro thousands	Dec 31, 2018		Dec 31, 2017	
Currency	**Assets**	**Liabilities**	**Assets**	**Liabilities**
CHF	-	(37)	-	(35)
CNY	2,451	(30)	5,277	29
GBP	335	(11)	177	(13)
JPY	365	(1,608)	322	(1,498)
PLN	19,683	(15,905)	20,607	(22,212)
RUB	3,853	(7)	3,988	(231)
USD	44,243	(34,012)	39,007	(29,888)
MXN	-49	52	(30)	79
INR	2,410	(132)	2,355	(157)
Foreign currency transactions	**73,291**	**(51,690)**	**71,703**	**(53,926)**

For the purposes of the sensitivity analysis on the exchange rate, the potential movements on the Euro/CHF, Euro/CNY, Euro/GBP, Euro/YEN, Euro/PLN, Euro/RUB, Euro/USD, 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:

In Euro thousands	Dec 31, 2018		Dec 31, 2017	
Currency	**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	(115)	127	(253)	279
GBP	(15)	17	(8)	9
JPY	59	(65)	56	(42)
PLN	(180)	199	76	(84)
RUB	(184)	203	(179)	198
USD	(487)	538	(434)	480
MXN	(1)	1	(2)	3
INR	(108)	120	(105)	116
Total	**(1,029)**	**1,138**	**(846)**	**936**

The hedging operations at December 31, 2018 with financial counterparties have a total positive Fair Value of approx. Euro 98 thousand.

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

Currency	Dec 31, 2018		Dec 31, 2017	
	Notional *thousands (foreign currency)*	**Fair Value** *In thousands of Euro*	**Notional** *thousands (foreign currency)*	**Fair Value** *In thousands of Euro*
USD				
Forward	11,800	(186)	19,170	237
Options	5,800	(73)	4,400	75
PLN				
Forward	34,000	21	25,950	(21)
Options			-	-
JPY				
Forward	160,000	51	200,000	(118)
Options	100,000	(15)	-	-
RUB				
Forward	225,000	144	265,000	(6)
Options	121,000	(1)	134,800	32
MXN				
Options	114,000	157	177,500	(370)
		98		**(171)**

The notional exposure in USD aggregates operations respectively in USD/EUR and in USD/MXN; the net notional of the latter amount to USD 10.4 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, EUR/MXN 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, 2018 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 2018 and the first week of January 2019 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 foreign currency derivatives in place at December 31, 2018 (compared with December 31, 2017):

In Euro thousands	Dec 31, 2018				
	USD Notional 17,600 USD/000	**PLN Notional 34,000 PLN/000**	**JPY Notional 260,000 JPY/000**	**RUB Notional 346,000 RUB/000**	**MXN Notional 114,000 MXN/000**
Depreciation of foreign currency	562	448	(31)	190	(491)
Euro exchange rate depreciation	1	(1)	9	(32)	1
Exchange rate depreciation	(10)	(1)	7	73	5
Sensitivity to depreciation	**553**	**446**	**(15)**	**231**	**(485)**
Appreciation of foreign currency	(3)	1	(9)	24	(1)
Euro exchange rate appreciation	12	1	(7)	(47)	(5)
Exchange rate appreciation	(960)	(505)	36	(317)	612
Sensitivity to appreciation	**(951)**	**(503)**	**20**	**(340)**	**606**

In Euro thousands	Dec 31, 2017 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 currency	443	351	(97)	386	(713)
Euro exchange rate depreciation	6	(2)	(4)	(4)	(20)
Exchange rate depreciation	(6)	(2)	-	16	18
Sensitivity to Depreciation	**443**	**(347)**	**(101)**	**398**	**(715)**
Appreciation of foreign currency	(648)	(396)	111	(645)	889
Euro exchange rate appreciation	(8)	2	4	4	20
Exchange rate appreciation	8	2	-	(15)	(18)
Sensitivity to appreciation	**(648)**	**(392)**	**115**	**(656)**	**891**

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. Operating in this manner, the Group covers the standard cost of the raw materials contained in the budget from possible increases in commodity prices, achieving the operating profit target.

The notional value and the relative value of the copper derivatives in place at December 31, 2018 are reported below:

Copper hedges *In Euro thousands*	**Dec 31, 2018** **Notional**	**Fair value**	**Dec 31, 2017** **Notional**	**Fair value**
Forwards	15,761	(1,076)	9,013	662
Commodity derivatives assets/(liabilities)		**(1,076)**		**662**

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

This analysis highlights a revaluation in the price of copper of 5%, resulting in an increase in the fair value of forward contracts at December 31, 2018 of Euro 659 thousand.

Similarly, a reduction of 5% results in a decrease in the fair value of forward contracts of Euro 659 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 minimising the borrowing costs within the established budget limits.

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

Relating to the Group debt, from the sensitivity analysis a decrease of 25 bps in the interest rate curve in the short-term incurs lower interest expense of Euro 141 thousand, while an increase of 25 bps in the same interest rate curve converts into higher interest expense of Euro 141 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, 2018		Dec 31, 2017	
In Euro thousands	**Notional**	**Fair value**	**Notional**	**Fair value**
Interest Rate Swap	63,966	(366)	62,456	(300)
CAP	-	-	536	-
Interest derivatives assets/(liabilities)		**(366)**		**(300)**

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 325 thousand decrease/increase in the fair value of the IRS at December 31, 2018.

In July 2018 the only CAP option expired.

7.3 Credit risk

The credit risks represent the exposure of the Elica Group to potential losses deriving from the non-compliance of obligations by trading partners. This risk derives in particular from economic-financial factors related to a potential solvency crisis of one or more counterparties.
The Group follows the Group Credit Policy (related to the Financial Risk Policy) which governs credit management and the reduction of the related risk, partly through insurance policies with leading international insurance companies.
The maximum theoretical credit risk exposure for the Group at December 31, 2018 is based on the carrying amount of recognised receivables, net of the specific insurance coverage, non-recourse receivables factored and letters of credit, in addition to the nominal value of the guarantees given to third parties.
At December 31, 2018, trade receivables of Euro 51.2 million (Euro 75.9 million at December 31, 2017) included approx. Euro 7 million (Euro 11.9 million at December 31, 2017) of overdue receivables. 2.3% of receivables (1.3% at December 31, 2017) were overdue by more than 60 days.
The amount of trade receivables recognised in the statement of financial position is net of the loss allowance.
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 5.24 of these notes.

7.4 Liquidity risk

The liquidity risk represents the risk related to the unavailability of financial resources necessary to meet short-term commitments assumed by the 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 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, 2018 *In Euro thousands*	**within one year**	**1 - 5 years**	**after five years**
Finance leases and loans and borrowings from other lenders	-	-	-
Bank loans and borrowings	37,792	53,925	177
Trade payables and other liabilities	124,409	64	10
Commitment by due date	**162,201**	**53,989**	**187**

In Euro thousands **Dec 31, 2017**	**within one year**	**1 - 5 years**	**after five years**
Finance leases and loans and borrowings from other lenders	-	33	-
Bank loans and borrowings	57,040	47,121	-
Trade payables and other liabilities	137,019	217	11
Commitment by due date	**194,059**	**47,371**	**11**

The Group has non-current loans with major financial counterparties 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.
In particular the structure of the covenants on some of the non-current loans do not immediately determine default of the line through non respecting of the limits, but in first instance result in an increase in the cost of the loan.
At December 31, 2018 the level of the covenants in question were complied with, both in relation to the increase in the cost of the loan and the level of default of the credit line.
Management believes that at the present time, the funds available, in addition to those that will be generated from operating and financial activities, will permit the Group to satisfy its requirements deriving from investment activities, working capital management and repayment of debt in accordance with their maturities.
For details on the Net Financial Debt, reference should be made to note 5.42 of the notes.

7.5 Classification of the financial instruments

In Euro thousands	**Dec 31, 2018**	**Dec 31, 2017**
AFS financial assets	52	52
Derivative financial instruments	-	8
Non-current assets	**52**	**60**
Derivative financial instruments	513	1,006
Trade receivables	51,192	75,923
Cash and cash equivalents	35,612	34,873
Current assets	**87,317**	**111,802**
Finance leases and loans and borrowings from other lenders	-	33
Bank loans and borrowings	54,102	47,121
Derivative financial instruments	120	75
Non-current liabilities	**54,222**	**47,229**
Trade payables	109,916	120,541
Finance leases and loans and borrowings from other lenders	-	-
Bank loans and borrowings	37,792	57,040
Derivative financial instruments	1,737	749
Current liabilities	**149,445**	**178,330**

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. This category includes instruments in which the Group operates directly on active markets or in OTC markets characterised by an adequate level of liquidity;
- 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, this category includes instruments in which the Group operates on OTC markets, not characterised by an adequate level of liquidity;
- 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 require discretion, although not significant judgement, although, 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, 2018 and December 31, 2017 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 *In Euro thousands*	**Fair value at Dec 31, 2018**	**Fair value at Dec 31, 2017**	**Fair value hierarchy**	**Valuation techniques & key inputs**	**Significant unobservable inputs**	**Relation between the unobservable inputs and the fair value**
1) Currency forwards and options	Assets 373; Liabilities (275)	Assets 344; Liabilities (516)	Level 2	(a)	n/a	n/a
2) Interest rate swaps	Assets 0; Liabilities (designated hedges) (366)	Assets 8; Liabilities (designated hedges) (308)	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, 2018 and December 31, 2017:

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

Dec 31, 18	**Notional Value**				**Carrying amount**
In Euro thousands	**Maturity within 1 year**		**Maturity after 1 year**		
Interest rate risk s					
Cash flow hedges as per IFRS	17,624		46,342		(366)
Fair value hedges as per IFRS	-		-		-
Not considered hedges as per IFRS	-		-		-
Total derivatives on interest rates	**17,624**		**46,342**		**(366)**
Currency risks	sales	purchases	sales	purchases	
Cash flow hedges as per IFRS	52,765	30,759	-	-	(43)
Fair value hedges as per IFRS					
Not considered hedges as per IFRS	795	6,586	-	-	141
Total derivatives on currency risks	**53,560**	**37,345**	**-**	**-**	**(98)**
Commodity risk	sales	purchases	sales	purchases	
Cash Flow hedge as per IFRS		15,761			1,076
Fair Value hedge as per IFRS					
Not considered hedges as per IFRS					
Total derivatives on commodities		**15,761**			**1,076**

Dec 31, 2017	Notional Value				Carrying amount
In Euro thousands	**Maturity within 1 year**		**Maturity after 1 year**		
Interest rate risk					
Cash flow hedges as per IFRS	18,955		43,501		(300)
Fair value hedges as per IFRS					
Not considered hedges as per IFRS	536				
Total derivatives on interest rates	**19,491**		**43,501**		**(300)**
Currency risks	sales	purchases	sales	purchases	
Cash flow hedges as per IFRS	14,496	5,233			167
Fair value hedges as per IFRS					
Not considered hedges as per IFRS		9,444			(338)
Total derivatives on currency risks					**(171)**
Commodity risks	sales	purchases	sales	purchases	
Cash flow hedges as per IFRS		9,013			662
Fair value hedges as per IFRS					
Not considered hedges as per IFRS					
Total derivatives on commodities		**9,013**			**662**

8. Disclosure pursuant to IAS 24 on management compensation 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 of the 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 3,980 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 2018.

8.3 Information on subsidiaries

The tables below show key financial figures for the year ended December 31, 2018.

8.3.1. Subsidiaries – 2018 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.d. C.V.	60,723	37,368	23,354	70,253	3,722
Elica Group Polska Sp.z o.o	58,663	33,053	25,610	111,657	2,674
Airforce S.p.A.	12,201	8,408	3,793	24,668	390
Ariafina CO., LTD	11,312	3,452	7,859	23,190	3,016
Leonardo S.A.de C.V.	1,862	1,610	252	10,675	195
Elica Inc.	391	122	269	994	30
Airforce GE(*)	10	5	5	-	-
Elica PB India Private Ltd.	17,593	9,766	7,827	29,113	2,917
Zhejiang Elica Putian Electric Co. Ltd	18,991	20,051	(1,060)	15,715	(2,320)
Elica Trading LLC	5,599	4,337	1,262	12,532	744
Elica France S.A.S.	4,831	4,131	700	12,414	198
Elica GmbH	4,347	3,829	518	6,320	(1,865)

(*) Airforce Germany Hochleistungs-dunstabzugssysteme Gmbh

8.3.2. Subsidiaries with significant non-controlling interests

In Euro thousands	Country	Non-controlling interest Dec 31, 2018	Profit/(loss) attr. to non-controlling interests Dec 31, 2018	Profit/(loss) attr. to non-controlling interests Dec 31, 2017	Equity non-controlling interests Dec 31, 2018	Equity non-controlling interests Dec 31, 2017
Airforce S.p.A.	Italy	40%	154	195	1,543	1,433
Ariafina Co.Ltd	Japan	49%	1,478	1,448	3,851	3,433
Airforce Germany Hochleistungs-dunstabzugssysteme Gmbh	Germany	43%	-	(9)	2	2
Elica PB India Private Ltd. (*)	India	75%	1,690	966	5,831	137
Zhejiang Elica Putian Electric Co. Ltd (*)	China	1%	(47)	(1,374)	42	1
Consolidated total			**3,275**	**1,226**	**11,270**	**5,005**

(*) Profit/(Loss) of non-controlling interest includes the amount matured until the acquisition and from the sale of the Group share.

Reporting package figures	Airforce S.p.A.		Ariafina Co.Ltd		Elica PB India Private Ltd.	
In Euro thousands	Dec 31, 2018	Dec 31, 2017	Dec 31, 2018	Dec 31, 2017	Dec 31, 2018	Dec 31, 2017
Current assets	10,552	10,322	9,635	8,553	15,580	10,964
Non-current assets	1,649	1,813	1,677	1,592	2,013	2,052
Current liabilities	7,120	7,404	3,452	3,139	7,569	6,131
Non-current liabilities	1,288	1,214	-	-	2,197	1,812
Equity attributable to the owners of the parent	2,250	2,084	4,008	3,573	1,996	4,936
Equity attributable to non-controlling interests	1,543	1,433	3,851	3,433	5,831	137
Revenue	24,668	23,469	3,016	22,358	29,113	24,295
Operating profit	694	821	4,553	4,463	4,082	3,068
Profit for the year	390	493	3,016	2,955	2,917	1,828
Dividends paid to third parties	(60)	(60)	(1,296)	(1,201)		-
Change in net financial position	470	(580)	796	32	2,392	1,338

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, 2018

In Euro thousands	**Registered Office**	**% held**	**Quota capital**	**Equity**	**Profit for the year**
I.S.M. S.r.l.	Cerreto d'Esi (AN-Italy)	49.39%	10	1,465	43

	I.S.M. S.r.l.	
In Euro thousands	**Dec 31, 2018**	**Dec 31, 2017**
Current assets	95	190
Non-current assets	1,393	1,259
Current liabilities	15	19
Non-current liabilities	8	8
Equity	1,465	1,422
Revenue	143	142
Operating profit	49	49
Profit for the year	43	43
Dividends paid to third parties	-	-
Change in net financial position	(95)	(56)

This company operates in the real estate sector.

8.4.2. Trade transactions with associates

The table below summarises transactions with associates in 2018. 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.

In Euro thousands	**Payables**	**Receivables**	**Costs**	**Revenue**
I.S.M. S.r.l.	-	2	-	5

8.5 Transactions with other related parties

In 2018, 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) and with the Ermanno Casoli Foundation. 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.). Information is provided below of the transactions with the Indian shareholders of Elica India P.B. In fact, as described in Note 5.38.5, on the basis of the blocking agreement with the Indian shareholders, Elica S.p.A. continues to exercise control over Elica PB India Private Ltd., and fully consolidate the company in its financial statements. Therefore, the Indian shareholders are related parties of the Group.

In Euro thousands	**Payables**	**Receivables**	**Costs**	**Revenue**
Fastnet S.p.A.	6		44	
Ermanno Casoli Foundation			121	
Indian shareholders (*)	18		859	

(*) Pralhad Bhutada, Pallavi Bhutada, Dileep Shringarpure, Sham Bhaltad and Nishant Hundiwala.

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 balances with the Ermanno Casoli foundation derive from donations. The balances with the Indian shareholders refer to salaries, incentives and expense reimbursements.
The cost/revenue and asset/liability balances arise from trading transactions conducted to purchase goods and services on an arm's length basis.

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

9. Government grants as per Article 1, paragraphs 125-129, of Law No. 124/2017

For the detail of the grants received reference should be made to the National State Aid register. The following information is provided:

Euro thousands	**Receivables at Jan 1, 2018**	**Vested in 2018**	**Collected 2018**	**Receivables at Dec 31, 2018**	**Description**
Airforce S.p.A.					
Fondimpresa	14	5	(14)	5	Staff training grant from Fondimpresa
Elica S.p.A.					
Photovoltaic Grant (**)	249	427	(315)	360	Grant on photovoltaic plant installed on the roof of the Castlefidardo and Cerreto D'Esi industrial buildings issued by FSE
Cost reimbursement grant	13	-	(13)	-	Grant on the costs incurred for trainees disbursed by ANPAL Servizi S.p.a.
Research tax credit	1,093	909	(1,093)	909	Research & Development Credit introduced by Article 1, paragraph 35 of Law No. 190 of December 23, 2014 (2015 Stability Law), offset in form F24
Industry 2015	138	-	-	138	Research and Development grant from Ministry for Economic Development
RESPIRE project	(81)	100	-	19	Research grant from European Union
H@H Project	47	-	-	47	Research and Development grant from Ministry for University and Scientific Research
SEAL project	307	-	-	307	Research and Development grant from Ministry for University and Scientific Research
SHELL Project	173	-	-	173	Research and Development grant from Ministry for University and Scientific Research
Project SM	104	-	-	104	Research and Development grant from Ministry for University and Scientific Research
SMARTFAN project	-	62	(193)	(131)	Research grant from European Union
Fondimpresa	-	86	(86)	-	Training personnel grant from Fondimpresa
Fondirigenti	-	15	-	15	Training executives grant from Fondimpresa
Total Grants	2,056	1,604	(1,714)	1,946	

(**) Includes advances received

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

There were no such transactions in 2018 to be reported.

11. Events after the reporting date

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

Fabriano, March 7, 2019

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 2018 for audit and other services provided by the independent auditors and entities associated with them.

Type of service *In Euro thousands*	**Service provider**	**Company**	**Remuneration**
Audit	Kpmg S.p.A.	Elica S.p.A.	174
Audit	Kpmg S.p.A.	Air Force S.p.A.	14
Audit	KPMG Cardenas Dosal, S.C.	Elicamex S.A. de C.V.	24
Audit	KPMG Polska (*)	Elica Group Polska S.p.z.o.o.	31
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.	42
Other services	KPMG (Registered) India	Elica S.p.A.	7
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
K.P.M.G. network fees			**352**

(*) 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

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

- the adequacy considering the company`s characteristics and
- the effective application,

of the administrative and accounting procedures for the preparation of the 2018 consolidated financial statements.
We also declare 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) give a true and fair view of the financial position and results of operations of the issuer 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 7, 2019

The Chief Executive Officer
Antonio Recinella

Corporate Financial
Reporting Manager
Alessandro Carloni

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

In Euro thousands	**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.	-	344	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)	26%	26%	n/a	n/a	2,653	n/a	line-by-line
Zhejiang Elica Putian Electric Co. Ltd	Shengzhou (China)	99%	99%	n/a	n/a	15,735	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	1,396	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	2,565	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 2018, the income statement and the 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 2018 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 "parent") 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.

Recoverability of goodwill

Notes to the consolidated financial statements: note 2.2 – Accounting policies: Goodwill, Impairment testing; note 5.19 – Goodwill.

Key audit matter	Audit procedures addressing the key audit matter
The consolidated financial statements at 31 December 2018 include goodwill of €39.3 million. At least annually, the directors determine the recoverable amount of goodwill by calculating its value in use. This method, by its very nature, requires a high level of directors' judgement about the forecast operating cash flows during the calculation period, as well as the discount and growth rates of those cash flows. The directors have forecast the operating cash flows on the basis of the 2019-2023 forecasts (the"2018-2023 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 specialists, included: — understanding and analysing the process used to prepare the 2019-2023 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 parent 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 the related impairment test.

Recoverability of development costs

Notes to the consolidated financial statements: note 2.2 – Accounting policies: Research and development costs; note 5.20 – Other intangible assets

Key audit matter	Audit procedures addressing the key audit matter
The consolidated financial statements at 31 December 2018 include costs of €9.9 thousand incurred to develop new products, comprising €1.0 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;

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.

Responsibilities of the parent's directors and board of statutory auditors ("Collegio Sindacale") 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 conditions for liquidating the parent 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, 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 parent's shareholders 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 parent 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 parent's directors are responsible for the preparation of the group's directors' report and report on corporate governance and ownership structure at 31 December 2018 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 2018 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 group's consolidated financial statements at 31 December 2018 and have been prepared in compliance with the applicable law.

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

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 consolidated non-financial statement pursuant to Legislative decree no. 254/16. We have checked that the directors had approved such consolidated non-financial statement. In accordance with article 3.10 of Legislative decree no. 254/16, we attested the compliance of the consolidated non-financial statement separately.

Ancona, 18 March 2019

KPMG S.p.A.

(signed on the original)

Gianluca Geminiani
Director of Audit