

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



**Elica Group**

**2019 ANNUAL REPORT**

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**Elica Group**

**A. DIRECTORS' REPORT**

### **A.1. The Elica Group today**

The Elica Group has been active in the kitchen hood and stoves market since the 1970's. Chaired by Francesco Casoli and led by Mauro Sacchetto, today it is the world leader in terms of units sold. It is also a European leader in the design, manufacture and sale of motors for hoods and central heating boilers. With approx. 3,700 employees, 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.

## A.2. Chief Executive Officer's and President's view

In 2019 Elica confirmed the validity of its strategy as it succeeded in achieving satisfactory results in a business environment that was not immune to global economic uncertainty.

In particular, it further confirmed the efficacy of its strategy of focusing on investments in own brand products, which posted revenue growth, net of the foreign exchange effect of 8.5%, reaching 52% of cooking revenue and driving a further increase in the Group's margins.

Highly satisfactory results were also achieved in terms of cash generation, which, combined with the containing of investments compared to previous years, reduced net financial debt.

From an organisational standpoint, in the second half of 2019 the Group implemented an internal reorganisation process that laid the foundation for further progress over the next three years. In terms of business development, we also expect an important contribution to growth to come from the presentation of new products in 2020, driving growth in both Europe and markets where we are expanding, like North America and Asia Pacific.

Francesco Casoli  
Elica Group President

Mauro Sacchetto  
Chief Executive Officer

### A.3. 2019 Economic overview and Outlook for 2020<sup>1</sup>

#### A.3.1. International developments

Following the slowdown that began to occur in the final three quarters of 2018, the global economy remained weak in 2019; the manufacturing sector in particular weakened considerably.

Heightened trade and geopolitical tensions drove uncertainty regarding global trade, with an impact on business confidence, investments decisions and the global market in general. However, the implementation and presentation of a more accommodating monetary policy blunted the impact of these tensions on the financial markets.

Overall, in 2019 estimates showed global growth of 2.9%, the lowest level since 2008-2009. In addition, slower industrial output was accompanied by weaker trade. In terms of volumes, in the first half of 2019 global trade was up by 1% on the previous year, the smallest increase in a six-month period since 2012. From the geographical standpoint, the countries that contributed the most to weakening global imports were China and emerging and developing markets. The decline in global trade is tied to the reduction of investment spending, as was previously the case in 2015 and 2016.

Inflation on core consumer goods slipped further below target levels in advanced economies and below the historical average in many emerging markets. The few exceptions to this trend were economies in which the significant depreciation of the currency exerted severe pressure on prices (Argentina) and areas in which there was a shortage of essential goods (Venezuela).

Turning to commodities prices, after a temporary recovery in April 2019, oil prices fell following record growth in US production and weak economic growth prospects, above all in emerging markets. In response to this decline, the Organization of the Petroleum Exporting Countries (OPEC) and non-OPEC exporters (including Russia) extended production cuts until March 2020. While procurement concerns drove up the prices of iron and nickel, most base metals declined in price due to trade tensions and concerns of a global economic slowdown.

The outlook for 2020 is for global economic growth of 3.3%. This is the position taken by experts from the International Monetary Fund in the *World Economic Outlook*. The increase is driven by emerging market economies maintaining their sound performances, while advanced economies and China continue to slow, and by a return to around their historical levels by a group of emerging and developing economies that had experienced slowdowns (Brazil, India, Mexico, Russia and Turkey).

Among advanced economies, overall growth is expected to stabilise at 1.6% in 2020-2021. In particular, in the United States, growth is forecast to fall from 2.3% in 2019 to 2% in 2020, reflecting a return to a neutral fiscal position and a further easing of financial conditions. In the Eurozone, growth is expected to rise from 1.2% in 2019 to 1.3% in 2020 due to an increase in external demand. In the UK, it is believed that growth will stabilise at 1.4% in 2020, assuming an orderly departure from the European Union, followed by a gradual transition to a new economic relationship.

Emerging and developing economies are expected to record 4.4% growth in 2020, up from an estimated 3.7% in 2019. This performance reflects the combination of the recovery seen in emerging economies, which had fallen short of expectations (in fact, growth in 2020 is forecast at 5.8% in India, up from 4.8% in 2019, at 1.9% in Russia, up from 1.1% in 2019, and at 2.2% in Brazil, up from 1.2% in 2019), and the slowdown in China (6% growth in 2020, compared with 6.1% in 2019).

#### A.3.2 Cooker hoods market<sup>2</sup>

The **global cooker hoods market** in 2019 declined 0.8% on the previous year, although with diverging regional performances.

The **European market** posted a 0.3% decline on the twelve months of 2018, affected in particular by the performance in Eastern Europe, which posted an overall decrease of 1.8% on 2018, primarily owing to the dynamics relating to the Turkish market. After declining in the first six months of 2019 (-0.2% on the first half of 2018), Western Europe recovered, driven in particular by France and the United Kingdom (owing to a pre-Brexit consumption increase), which offset the slowdown in Germany. Overall, demand in Western Europe was up by 0.8% on the twelve months of 2018.

However, in the fourth quarter of 2019, the European market showed signs of a recovery (+1.2% on the fourth quarter of 2018), which is expected to continue into 2020, with consolidated growth in the EMEA region expected to come to approximately 1.4% on 2019.

<sup>1</sup> Data sources: International Monetary Fund, World Economic Outlook. World Bank, *Global Economic Prospects*.

<sup>2</sup> Source: company estimate.

**North America** reported a decrease in demand for kitchen hoods (-2.1% on 2018), affected in particular by the decline in consumption owing to the uncertainty and tensions associated with the subject of tariffs on China. By contrast, **Latin America** recorded a slight increase in demand (+0.6% on 2018), due in particular to the growth in Brazil, with signs of further improvement in the fourth quarter of 2019 (+1% on the fourth quarter of 2018). In 2020 demand on the American market is expected to remain substantially stable compared with the values seen in 2019.

In **Asia** the kitchen hoods sector was down by 1.2% on 2018. In particular, alongside growth in India - supported by higher public and consumer spending - there was a reduction in Chinese demand, primarily owing to uncertainties relating to the trade tensions with the United States. In 2020 demand is expected to fall slightly (-0.5%) compared to the performance in 2019, in China in particular.

#### A.4. Currency markets

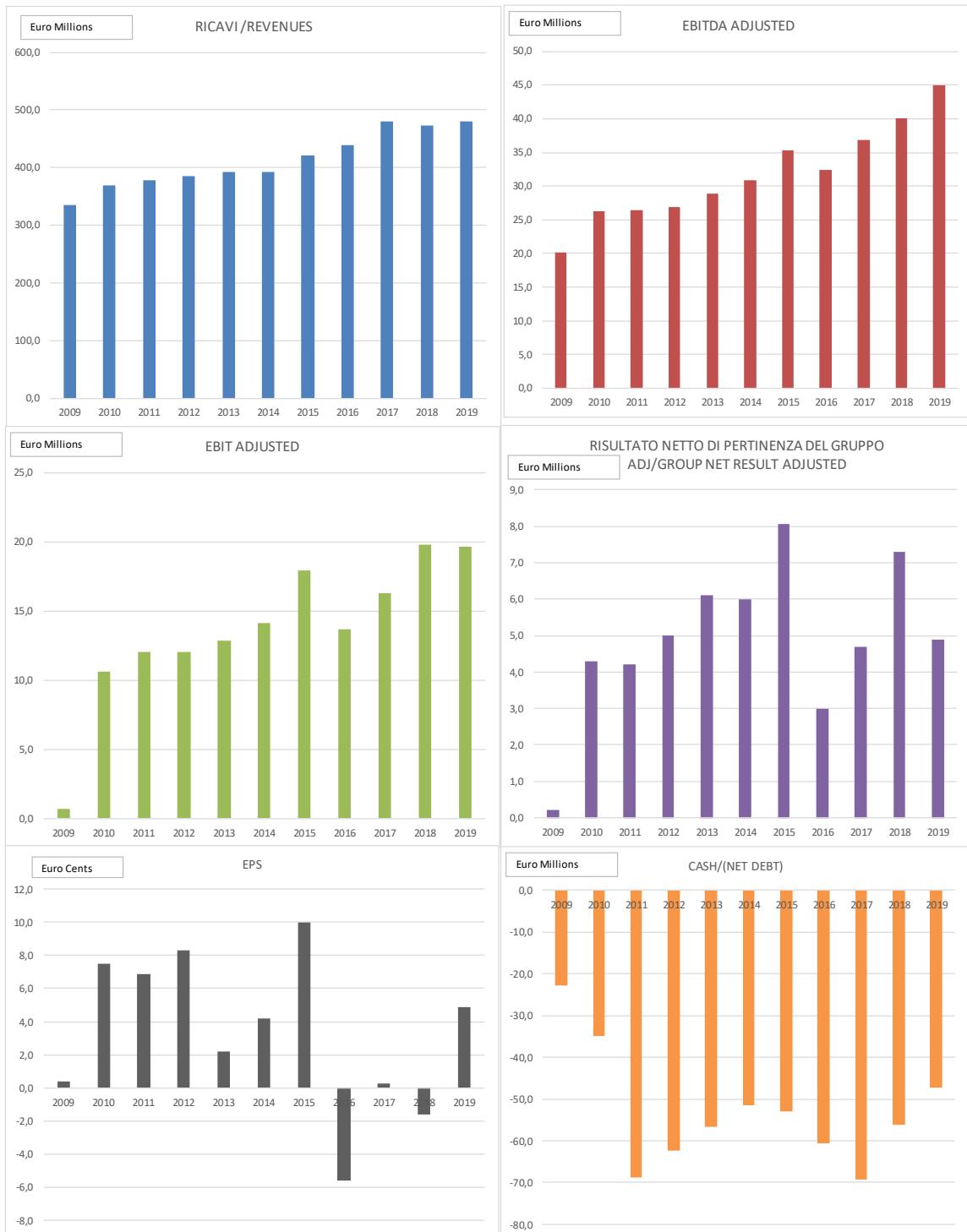
In 2019 the Euro, at average exchange rates, appreciated against the Polish zloty, stable British pound, while depreciating in all other cases.

	2019 average	2018 average	%	Dec 31, 19	Dec 31, 18	%
USD	1.12	1.18	(5.1%)	1.12	1.15	(2.6%)
JPY	122.01	130.40	(6.4%)	121.94	125.85	(3.1%)
PLN	4.30	4.26	0.9%	4.26	4.30	(0.9%)
MXN	21.56	22.71	(5.1%)	21.22	22.49	(5.6%)
INR	78.84	80.73	(2.3%)	80.19	79.73	0.6%
CNY	7.74	7.81	(0.9%)	7.82	7.88	(0.8%)
RUB	72.46	74.04	(2.1%)	69.96	79.72	(12.2%)
GBP	0.88	0.88	0.0%	0.85	0.89	(4.5%)

*Source: ECB data*

## A.5. The Elica Group: Operating results and performance

### A.5.1. Financial highlights



## A.5.2. The Elica Group: Financial position and performance

### A.5.2.1. Elica Group Operating Performance

	2019	% revenue	2018	% revenue	19 Vs 18%	2019 - same standards as 2018
<i>In Euro thousands</i>						
Revenue	479,986		472,387		1.6%	479,986
<b>Adjusted EBITDA</b>	<b>45,038</b>	9.4%	<b>39,973</b>	8.5%	12.7%	<b>41,625</b> 8.7%
EBITDA	42,467	8.9%	29,818	6.3%	42.4%	39,054 8.1%
<b>Adjusted EBIT</b>	<b>19,623</b>	4.1%	<b>19,771</b>	4.2%	(0.8%)	<b>19,598</b> 4.1%
EBIT	17,052	3.6%	8,539	1.8%	99.7%	17,027 3.5%
Net financial expense	(5,119)	(1.1%)	(4,053)	(0.9%)	(26.3%)	(4,854) (1.0%)
Income taxes	(4,554)	(1.0%)	(2,172)	(0.5%)	(109.7%)	(4,612) (1.0%)
Profit from continuing operations	7,379	1.5%	2,314	0.5%	218.9%	7,562 1.6%
<b>Adjusted profit for the year</b>	<b>9,333</b>	1.9%	<b>10,593</b>	2.2%	(11.9%)	<b>9,516</b> 2.0%
Profit for the year	7,379	1.5%	2,314	0.5%	218.9%	7,562 1.6%
<b>Adjusted profit attributable to owners of the Parent</b>	<b>5,017</b>	1.1%	<b>7,318</b>	1.5%	(31.4%)	<b>5,200</b> 1.1%
Profit attributable to owners of the Parent	3,063	0.6%	(961)	(0.2%)	418.7%	3,246 0.7%
Basic earnings per share from continuing operations and discontinued operations (Euro cents)	4.84		(1.55)		412.3%	5.13
Diluted earnings per share from continuing operations and discontinued operations (Euro cents)	4.84		(1.55)		412.3%	5.13

In 2019, Elica's **consolidated revenue amounted to Euro 480 million**, +1.6% on the same period of 2018 (+0.3% excluding the currency effect).

The poor market performance continues, with global cooker hood demand estimated to decline 0.8% <sup>3</sup>in 2019, as reflected in the improvement in the fourth quarter of the year. North America continues to perform poorly in particular (-2.1%), while Latin America recovered slightly (+0.6%). Asia (-1.2%) also contracted on the basis of improved Indian demand - supported by higher public and consumer spending - although alongside a Chinese market contraction. The EMEA market continues to be impacted by Turkey, while growth was evident in France and the UK.

**Own brand** sales in 2019 saw further growth of 10% (+8.5% at like-for-like exchange rates), picking up to 11.7% in Q4 (+9.6% at like-for-like exchange rates), thanks in particular to the EMEA regions and India. The overall percentage of own brand sales out of the total Cooking segment revenue rose to 52% (55% in Q4 2019).

**OEM revenue** decreased by 4.5% on the previous year (-6.1% at like-for-like exchange rates), impacted particularly by the slowdown on the American market, despite signs of recovery in the second half in EMEA.

**Motors** sales, representing 13% of total revenue, saw a significant improvement in the fourth quarter of the year (+17.5% on Q4 2019). However, the overall decrease compared to 2018 (-4.4%) is due to the poor performance in the first half of the year, particularly on the Turkish market.

**Adjusted EBITDA, including the IFRS 16 effect**, was Euro 45 million, up 12.7% on 2018 (Euro 40 million), with a margin of 9.4%. Net of the IFRS 16 effect, Adjusted EBITDA in 2019 was Euro 41.6 million, with a margin of 8.7% (8.5% in 2018). The adjustment to the 2019 result was approx. Euro 2.6 million and concerns the extraordinary charge of replacing the previous Chief Executive Officer (Euro 1.3 million) and restructuring charges (Euro 1.3 million). The adjustment to the 2018 result related to the allowance of approx. Euro 10.2 million, mainly for the insolvency of the former German subsidiary Exklusiv-Hauben Gutmann GmbH.

**Adjusted EBIT** was Euro 19.6 million, substantially in line with Euro 19.8 million for 2018, despite higher amortisation and depreciation stemming from the major investment plan supporting the development of the new product range launched in prior years.

**Net financial expense** was Euro 5.1 million, up approx. Euro 1 million over 2018. It included Euro 0.3 million from the impact of the initial application of IFRS 16 and Euro 0.6 million from the impairment of the non-core investment in a real estate company which is an associate of the Group.

**The Profit for the year** was Euro 7.4 million, significantly up on Euro 2.3 million in 2018. Non-controlling interests of Euro 4.3 million were up on the Euro 3.3 million of 2018, mainly reflecting the reduction in the Group's investment in the Indian Joint Venture in September 2018 (from 51% to 25.5%).

<sup>3</sup> Source: company estimate.

The profit attributable to owners of the parent amounted to Euro 3.1 million (Euro 3.2 million excluding the effect of IFRS 16, which totalled Euro -0.2 million), recovering considerably on the loss of Euro 0.96 million in 2018.

### A.5.2.2 Elica Group Equity and Financial Performance

<i>In Euro thousands</i>	<b>Dec 31, 19</b>	<b>Jan 1, 19</b>	<b>Dec 31, 18</b>
Cash and cash equivalents	35,613	35,612	35,612
Bank loans and borrowings (current)	(27,317)	(37,792)	(37,792)
Bank loans and borrowings (non-current)	(55,451)	(54,102)	(54,102)
<b>Net Financial Position</b>	<b>(47,155)</b>	<b>(56,282)</b>	<b>(56,282)</b>
Lease liabilities IFRS 16 (current)	(3,525)	(2,961)	-
Lease liabilities IFRS 16 (non-current)	(8,233)	(8,829)	-
<b>Net Financial Position - Including the effects of IFRS 16</b>	<b>(58,913)</b>	<b>(68,073)</b>	<b>(56,282)</b>
Assets for derivatives	498	513	513
Liabilities for derivatives (current)	(386)	(1,737)	(1,737)
Liabilities for derivatives (non-current)	(198)	(120)	(120)
<b>Net Financial Position – Including the effects of IFRS 16 and derivatives</b>	<b>(58,999)</b>	<b>(69,416)</b>	<b>(57,626)</b>

**The Net Financial Position**, net of the IFRS 16 effect of Euro 11.8 million at December 31, 2019, was Euro 47.2 million, compared to Euro 56.3 million at December 31, 2018. The improvement mainly relates to the generation of cash flows from operating activities (Euro 39.1 million in 2019, substantially in line with the previous year) and lower capex (Euro 21.2 million compared to Euro 27.8 million in 2018).

<i>In Euro thousands</i>	<b>Dec 31, 19</b>	<b>Jan 1, 19</b>	<b>Dec 31, 18</b>
Trade receivables	55,022	51,192	51,192
Inventories	72,890	76,196	76,196
Trade payables	(110,100)	(109,916)	(109,916)
<b>Managerial Working Capital</b>	<b>17,812</b>	<b>17,472</b>	<b>17,472</b>
% annualised revenue	3.7%	3.7%	3.7%
Other net assets/liabilities	(9,671)	(10,801)	(10,801)
<b>Net Working Capital</b>	<b>8,141</b>	<b>6,671</b>	<b>6,671</b>

The impact of **Managerial Working Capital** on annual revenue was 3.7% in 2019, unchanged on 2018.

### A.5.2.3 Definitions and reconciliations

#### A.5.2.3.1. Definitions

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 the relative adjustment items. 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 financial assets and Exchange rate gains and losses.

The adjusted profit is the profit for the period, as presented in the Consolidated Income Statement, net of the relative adjustment items.

The adjusted profit attributable to owners of the Parent is the result for the period attributable to the Group, as published in the Consolidated Income Statement, net of the relative adjustment items.

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

The earnings per share for 2018 and 2019 were calculated by dividing the Profit attributable to owners of the parent, as defined in the Consolidated Income Statement, by the number of outstanding shares at the respective reporting dates. The numbers of shares in circulation at the reporting date was 63,322,800, while at December 31, 2018 was 62,047,302.

Managerial Working Capital is the sum of Trade receivables with Inventories, net of Trade payables, as presented in the Consolidated 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 Receivables, net of the current portion of Provisions for risks and charges, Other liabilities and Tax liabilities, as presented in the Consolidated Statement of Financial Position.

Net Financial Position (NFP) is the sum of Cash and Cash equivalents and Other financial assets less Current bank loans and borrowings and lease liabilities and loans and borrowings to other lenders, as reported in the Statement of Financial Position and Non-current bank loans and borrowings and lease liabilities and loans and borrowings to other lenders, as reported in the Statement of Financial Position. Lease liabilities showed a nil balance.

Net Financial Position - Including the effects of IFRS 16 is the sum of the Net Financial Position and current and non-current lease liabilities arising from the application of IFRS 16, as per the Statement of Financial Position.

The Net Financial Position - Including the effects of IFRS 16 and derivatives is the sum of the Net Financial Position - Including the effects of IFRS 16 and derivatives, as per the Statement of Financial Position.

#### A.5.2.3.2. Application of IFRS 16 - Leases

The column “2019 same standards as 2018” (of the table in section A.5.2.1. “Elica Group operating performance”) presents the income statement indicators, as if the new standard IFRS 16 regarding the recognition of lease contracts had not been applied. A comparison is therefore provided with the previous year. The impacts of applying IFRS 16 concern Other operating expenses, allowances and amortisation and depreciation, in addition to financial expense. The column “Jan 1, 2019” presents the impact of the initial application of IFRS 16 - Leases on opening balances. For further information, reference should be made to note B.6.2.3.1.

The table below shows the reconciliation between operating lease commitments published in the 2018 financial statements and lease liabilities recognised in accordance with IFRS 16 as at January 1, 2019.

operating lease commitments as per financial statements at Dec 31, 2018	13,049
short-term leases (12 months or less)	(1,012)
leases of low-value assets (less than USD 5k (with a residual term of more than 12 months))	(19)
other	(147)
impact of discounting	(520)
impact of the right of use to land in Poland	440
lease liability as per IFRS 16 at Jan 1, 2019	11,791

#### A.5.2.3.3. Reconciliations

<i>Euro thousands</i>	<b>2019</b>	<b>2018</b>
<b>EBIT</b>	<b>17,052</b>	<b>8,539</b>
(Amortisation and depreciation)	25,415	20,202
<b>EBITDA</b>	<b>42,467</b>	<b>29,818</b>
(Allowance for the replacement of the CEO)	1,280	-
(Impairment of pre-sale trade receivable from Gutmann)	-	10,155
(Restructuring charges)	1,292	-
<b>Adjusted EBITDA</b>	<b>45,038</b>	<b>39,973</b>

<i>Euro thousands</i>	<b>2019</b>	<b>2018</b>
<b>EBIT</b>	<b>17,052</b>	<b>8,539</b>
(Impairment of Brands)	-	1,077
(Allowance for the replacement of the CEO)	1,280	-
(Impairment of pre-sale trade receivable from Gutmann)	-	10,155
(Restructuring charges)	1,292	-
<b>Adjusted EBIT</b>	<b>19,623</b>	<b>19,771</b>

<i>Euro thousands</i>	<b>2019</b>	<b>2018</b>
<b>Profit for the year</b>	<b>7,379</b>	<b>2,314</b>
(Impairment of Brands)	-	1,077
(Allowance for the replacement of the CEO)	1,280	-
(Impairment of pre-sale trade receivable from Gutmann)	-	10,155
(Restructuring charges)	1,292	-
(Impact valuation trade receivable from Gutmann)	-	(139)
(Income taxes on adjusted items)	(617)	(2,814)
<b>Adjusted profit for the year</b>	<b>9,333</b>	<b>10,593</b>
<b>(Profit attributable to non-controlling interests)</b>	<b>(4,316)</b>	<b>(3,275)</b>
(Adjustments to non-controlling interests)	-	-
<b>Adjusted profit attributable to owners of the Parent</b>	<b>5,017</b>	<b>7,318</b>

	<b>2019</b>	<b>2018</b>
Profit/(loss) attributable to owners of the Parent ( <i>in Euro thousands</i> )	3,063	(961)
Outstanding shares at year-end	63,322,800	62,047,302
<b>Earnings (loss) per share (Euro/cents)</b>	<b>4.84</b>	<b>(1.55)</b>

<i>Euro thousands</i>	<b>2019</b>	<b>2018</b>
Other assets	5,374	6,589
Tax assets	14,966	17,275
(Provision for risks and charges)	(6,487)	(9,318)
(Other liabilities)	(15,749)	(14,503)
(Tax liabilities)	(7,775)	(10,844)
<b>Other net assets/ liabilities</b>	<b>(9,671)</b>	<b>(10,801)</b>

## A.6. The Parent, Elica S.p.A: Financial position and performance

### A.6.1. Operating performance of Elica S.p.A.

<i>In Euro thousands</i>	<b>2019</b>	<b>2018</b>	<b>19 Vs 18%</b>	<b>2019 - same standards as 2018</b>
Revenue	353,705	359,074	-1.5%	353,705
<b>Adjusted EBITDA</b>	<b>14,203</b>	<b>13,876</b>	2.4%	<b>14,249</b>
% of revenue	4.02%	3.86%	4.0%	4.03%
<b>EBITDA</b>	<b>12,312</b>	<b>3,721</b>	230.9%	<b>10,696</b>
% of revenue	3.48%	1.04%	234.7%	3.02%
<b>EBIT</b>	<b>(2,195)</b>	<b>(9,059)</b>	-75.8%	<b>(2,150)</b>
% of revenue	-0.62%	-2.52%	-75.4%	-0.61%
Net interest expense	(1,886)	(989)	90.7%	(1,758)
% of revenue	-0.53%	-0.28%	90.4%	-0.50%
Dividends from subsidiaries	4,277	5,395	-20.7%	4,277
% of revenue	1.21%	1.50%	-19.4%	1.21%
Impairment of investments in subsidiaries and associates	(2,607)	(5,000)	-47.9%	(2,607)
% of revenue	-0.74%	-1.39%	-47.0%	-0.74%
Net exchange rate gains/losses	(219)	399	-154.9%	(219)
% of revenue	-0.06%	0.11%	-156.3%	-0.06%
Income/(loss) on disposal of subsidiaries	-	8,432	-100.0%	-
% of revenue	0.00%	2.35%	-100.0%	0.00%
<b>Profit/(loss) for the year</b>	<b>(1,457)</b>	<b>529</b>	-375.4%	<b>(1,326)</b>
% of revenue	-0.41%	0.15%	-374.55%	-0.37%

In 2019, revenue decreased by 1.5% on the previous year. The decline was influenced by revenue from third parties and was primarily driven by the decrease in OEM revenue, which nonetheless recovered in the second half of the year, and the sales of the motors business, which also recovered sharply, with gains in the fourth quarter (+17.5% on 2018). Own brand product sales – driven by the new products launched in 2018 and in particular by the very positive performance of the NicolaTesla range – increased constantly on 2018, offsetting most of the negative effects mentioned above.

Adjusted EBITDA of Euro 14.2 million rose 2.4% on Euro 13.9 million in 2018 owing to the own brand sales growth and the improved margin on the new products distributed in 2019.

The 2019 EBITDA of Euro 12.3 million was up considerably on the 2018 figure (Euro 3.7 million), which had been severely impacted by the extraordinary allowance of Euro 10.2 million following the start of preliminary voluntary insolvency proceedings by the German company Exklusiv Hauben Gutmann GmbH, a former subsidiary and from which Elica S.p.A. had a non-current trade receivable at December 31, 2018. In 2019 EBITDA was affected by the extraordinary charge of replacing of the previous Chief Executive Officer (Euro 1.3 million) and restructuring charges.

The net interest expense was Euro 1.9 million, up by approx. Euro 0.9 million on 2018, owing to both the decrease in financial income due to the release in 2018 of the discounting on the parent's receivable from Gutmann and the effect of the initial application of IFRS 16 on financial expense.

The parent's loss for 2019 was Euro 1.5 million, compared to a profit of Euro 0.5 million in 2018. This loss was influenced by the dividends collected from Group companies and lower impairment losses on equity investments required in 2019. The 2018 profit had benefited from the gain of Euro 8.4 million realised on the sale of 33% of the Indian subsidiary to Whirlpool of India Ltd in September 2018.

### A.6.2 Elica S.p.A. Financial Position and Performance

<i>In Euro thousands</i>	<b>Dec 31, 2019</b>	<b>Jan 1, 2019</b>	<b>Dec 31, 2018</b>
<b>Cash and cash equivalents</b>	<b>10,600</b>	<b>5,377</b>	<b>5,377</b>
Financial assets from subsidiaries	15,137	19,989	19,989
Financial liabilities to subsidiaries	(3,355)	(2,245)	(2,245)
Bank loans and borrowings	(17,938)	(27,950)	(27,950)
<b>Current net financial liabilities</b>	<b>(6,156)</b>	<b>(10,206)</b>	<b>(10,206)</b>
Bank loans and borrowings	(55,413)	(54,102)	(54,102)
<b>Non-current net financial liabilities</b>	<b>(55,413)</b>	<b>(54,102)</b>	<b>(54,102)</b>
<b>Net Financial Position</b>	<b>(50,968)</b>	<b>(58,931)</b>	<b>(58,931)</b>
Lease liabilities - IFRS 16 (current)	(1,625)	(1,497)	-
Lease liabilities - IFRS 16 (non-current)	(5,086)	(5,631)	-
<b>Net Financial Position - Including the effects of IFRS 16</b>	<b>(57,680)</b>	<b>(66,059)</b>	<b>(58,931)</b>
Derivative assets	651	840	840
Derivative liabilities (current)	(383)	(1,734)	(1,734)
Derivative liabilities (non-current)	(198)	(120)	(120)
<b>Net Financial Position - Including the effects of IFRS 16 and derivatives</b>	<b>(57,610)</b>	<b>(67,073)</b>	<b>(59,944)</b>
<i>In Euro thousands</i>	<b>Dec 31, 2019</b>	<b>Dec 31, 2018</b>	
Trade receivables	23,515	23,249	
Trade receivables - subsidiaries	25,617	31,467	
Inventories	34,543	37,098	
Trade payables	(69,761)	(68,540)	
Trade payables - subsidiaries	(18,290)	(20,247)	
<b>Managerial Working Capital</b>	<b>(4,377)</b>	<b>3,022</b>	
% of revenue	-1.24%	0.84%	
Other net assets/liabilities	(495)	108	
<b>Net Working Capital</b>	<b>(4,872)</b>	<b>3,130</b>	
% of revenue	-1.38%	0.87%	

Managerial working capital declined significantly on December 2018 (Euro -4.4 million from Euro 3 million), owing in particular to the decrease in trade receivables from subsidiaries.

The Net Financial Position at December 31, 2019, net of the IFRS 16 effect of Euro 6.7 million, was Euro 51 million, compared to Euro 58.9 million at December 31, 2018. The improvement was primarily due to the lower outlays for capital increases by subsidiaries by approx. Euro 5 million, lower capital expenditure by approx. Euro 1 million and the decrease in financial assets from subsidiaries.

### A.6.3. Definitions

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 income statement.

Adjusted EBITDA is EBITDA net of the relative adjustment items.

Adjusted EBIT is EBIT net of the relative adjustment items.

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

Dividends from subsidiaries account for the entirety of Income and charges from associates and subsidiaries, as per the Income Statement.

The adjusted profit is the profit for the period, as presented in the Income Statement, net of the relative adjustment items.

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

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

Net Working Capital is the amount of Managerial Working Capital and Other net assets/payables. Other net assets/payables 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 Consolidated Statement of Financial Position.

Net Financial Position (NFP) is the sum of Cash and Cash equivalents and Other financial assets less Current and Non-current bank loans and borrowings and lease liabilities and loans and borrowings to other lenders, as reported in the Statement of Financial Position. Lease liabilities showed a nil balance.

The Net Financial Position - Including the effects of IFRS 16 is the sum of the Net Financial Position and current and non-current lease liabilities resulting from the application of IFRS 16, as per the Statement of Financial Position.

The Net Financial Position - Including the effects of IFRS 16 and derivatives is the sum of the Net Financial Position - Including the effects of IFRS 16 and derivatives and liabilities, as per the Statement of Financial Position.

#### A.6.4. Application of IFRS 16 Leases

The column “2019 same standards as 2018” (of the table in section A.6.1. “Elica S.p.A. operating performance”) presents the income statement indicators, as if the new standard IFRS 16 regarding the recognition of lease contracts had not been applied. A comparison is therefore provided with the previous year. The impacts from the application of IFRS 16 concern Other operating expenses, allowances and amortisation and depreciation, in addition to financial expense. The column “Jan 1, 2019” of the table in the section “A.6.2 Elica S.p.A. Financial Position and Performance” presents the impact of the initial application of IFRS 16 - *Leases* on opening balances. For further details, see paragraph D.6.2.1.1.

#### A.6.5. Reconciliations

<i>In Euro thousands</i>	<b>Dec 31, 2019</b>	<b>Dec 31, 2018</b>
<b>EBIT</b>	<b>(2,195)</b>	<b>(9,059)</b>
(Amortisation and depreciation)	14,507	11,702
(Impairment of Brand - Goodwill)	-	1,077
<b>EBITDA</b>	<b>12,312</b>	<b>3,721</b>
(Impact of replacing the CEO)	1,280	-
(Impairment of pre-sale trade receivable from Gutmann)	-	6,755
(Accrual to the risk provision for settlement with Gutmann)	-	2,600
(Impairment of receivable from Manuel Fernandez for sale of Gutmann shares)	-	800
(Restructuring charges)	612	-
<b>Adjusted EBITDA</b>	<b>14,203</b>	<b>13,876</b>
<i>In Euro thousands</i>	<b>Dec 31, 2019</b>	<b>Dec 31, 2018</b>
Financial income	915	1,593
Financial expense	(2,800)	(2,582)
<b>Net interest expense</b>	<b>(1,886)</b>	<b>(989)</b>
<i>In Euro thousands</i>	<b>Dec 31, 2019</b>	<b>Dec 31, 2018</b>
Other assets - current portion	3,866	5,709
Tax assets - current portion	7,281	7,809
(Provisions for risks and charges) - current portion	(1,266)	(3,580)
(Other liabilities) - current portion	(7,360)	(6,610)
(Tax liabilities) - current portion	(3,016)	(3,220)
<b>Other net assets/ liabilities</b>	<b>(495)</b>	<b>108</b>

## A.7. Elica S.p.A. and financial markets

Source:



Borsa Italiana

The graph shows (in black) the performance of the Elica S.p.A. share price in 2019 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, 2019, the official share price was Euro 1.368. After an initial month of substantial stability, the share price began to trend upwards in February 2019, with a significant increase in volumes as well, reaching a maximum of Euro 2.465 on May 6, 2019 following the presentation of the results for the first quarter of 2019.

In June 2019 the shares entered a volatile phase, with peak trading volume reached on July 24, 2019, following the sale to Tamburi Investment Partners S.p.A. of treasury shares representing a 2.014% stake for the agreed price of Euro 2 per share. This transaction took place concurrently with the purchase by TIP of the entire holding of Whirlpool EMEA S.p.A in Elica of 7,958,203 shares - equal to 12.568% of the share capital - against consideration of Euro 2 per share.

Following the publication of the results for the first nine months of 2019, the shares then began a further growth trend, which culminated with the annual high of Euro 3.43 on November 28, 2019, after TIP exceeded the threshold of a 20% equity interest in Elica.

Numerous meetings with investors were held in 2019, such as the Star Conference organized by Borsa Italiana in Milan and London in the months of March and October respectively, and the Milan Lifestyle Conference in September. The number of investors met during the year 2019 totalled over 120, down slightly on 2018 due to the changes in the company's top management that took place during the year.

Elica Group closed 2019 with a market capitalization of approximately Euro 191.8 million (average market capitalization in December), more than doubling the value in the year.

The Share Capital consists of 63,322,800 ordinary voting shares. The ownership structure of Elica S.p.A. at December 31, 2019 is shown in the Corporate Governance and Shareholder Ownership Report, available on the company website <http://elica.com/corporation> (Corporate Governance section).

## A.8. Significant events in 2019

**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 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 the latter's receivers and its sole shareholder Manuel Fernandez Salgado, to whom the company was sold in August 2017. The agreement was approved on the same date by the creditors committee for the Gutmann insolvency and the Receiver for the insolvency proceedings and is binding for the parties. Considering the opportunity of establishing mutual positions with respect to the insolvency declaration of Exklusiv-Hauben Gutmann GmbH and to mitigate the main risks associated with the claims made and the lawsuits threatened against Elica S.p.A and Elica GmbH, the Board of Directors of Elica S.p.A. assessed the proposal as being in the Company's interests and delegated the Chief Executive Officer to reach a possible agreement. Within the overall framework of the agreement and to settle the mutual rights and claims, Elica S.p.A. recognised a payment of Euro 2.6 million to Gutmann, of which Euro 800 thousand to be paid within three weeks of the conclusion of the agreement, Euro 1.7 million through the transfer to Gutmann of part of Elica S.p.A.'s receivable from Manuel Fernandez Salgado, originating from the transfer of Gutmann shares, and another Euro 100 thousand, entirely offset against the amount to be paid by Gutmann for the retransfer of the "Gutmann" brands acquired by Elica S.p.A. in 2017. Manuel Fernandez Salgado shall owe Elica S.p.A. the residual amount of Euro 800 thousand due for the transfer of the Gutmann shares (the amount originally totaled Euro 2.5 million). Under the agreement, this obligation will be extinguished if Manuel Fernandez Salgado pays Elica S.p.A. Euro 200 thousand by February 28, 2020. To provide complete information, Elica S.p.A. also agreed to settle the guarantee granted in 2015 to the owner of the property leased by Gutmann, amounting to Euro 1.65 million and already provisioned in the company's accounts, and to settle the amounts regarding the trade payables to Gutmann GmbH that arose after the sale of the company and prior to its declaration of insolvency, related to ordinary business operations and amounting to approx. Euro 0.5 million, which Elica S.p.A. has currently frozen for reasons of prudence. Elica S.p.A. impaired the trade receivable held before the sale, stated at Euro 6.8 million in the 2018 financial statements. This transaction definitively concludes all disputes between the two companies, excluding further impacts on future accounts.

**On March 7, 2019**, the Board of Directors of Elica S.p.A. approved the 2018 consolidated results and the draft financial statements as at and for the year ended December 31, 2018, prepared in accordance with IFRS, in addition to the Directors' Report.

**On April 18, 2019**, the Shareholders' Meeting of Elica S.p.A. met in ordinary session and approved the following matters on the agenda:

- ❖ **Statutory financial statements as at and for the year ended December 31, 2018 of Elica S.p.A.:** Directors' Report; Board of Statutory Auditors' Report; Non-Financial Report, Independent Auditors' Report. The Shareholders' Meeting also acknowledged the consolidated results for 2018.
- ❖ **2019-2025 Phantom Stock & Voluntary Co-investment Plan:** The Shareholders' Meeting also approved the 2019-2025 Phantom stock option incentive plan (the "2019-2025 Phantom Stock & Voluntary Co-investment Plan") according to the terms and conditions of the Disclosure Document, and granted the Board of Directors of Elica S.p.A., with express power to sub-delegate, the broadest powers necessary for full and complete execution of the plan. The Illustrative Report of the Directors to the Shareholders' Meeting on the proposal to establish a long-term incentive plan called the 2019-2025 Phantom Stock & Voluntary Co-investment Plan, accompanied by the Disclosure Document drawn up as per Annex 3A, Schedule 7 of the Issuers Regulation, was published on March 18, 2019 and is available to the public at the registered office, in addition to the 1Info authorised storage mechanism at [www.1info.it](http://www.1info.it) and on the website <https://elica.com/corporation/en/investor-relations/shareholders-meeting>.

❖ **Remuneration Report:** In accordance with Article 123 ter, paragraph 6 of Legs. Decree No. 58/1998, the Shareholders' Meeting of Elica S.p.A., considering the content of the Remuneration Report filed on March 27, 2019 and made available to the public on the company website <https://elica.com/corporation/it/investor-relations/bilanci-e-relazioni> and on the authorised storage mechanism 1Info at [www.1info.it](http://www.1info.it) expressed its approval of the first section of the report. The results of the vote will be made available to the public in accordance with Article 125 *quater*, paragraph 2 of the same Decree.

❖ **Purchase and utilisation of treasury shares:** The Shareholders' Meeting also approved 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 27, 2018. The authorisation granted on April 18, 2019 concerns the purchase of ordinary company shares up to a maximum of 20% of the share capital, therefore 12,664,560 ordinary shares and runs for a period of 18 months from the date of the Shareholders' Meeting motion, while the authorisation to utilise such shares is without time limit.

**On May 7, 2019**, the Board of Directors of Elica S.p.A. approved the 2019 First Quarter results, prepared in accordance with IFRS. The Board of Directors of Elica S.p.A. approved at the same date the FY 2019 guidelines on which basis growth in revenue and the consolidation of margins were forecast.

**On July 8, 2019**, the Board of Directors appointed Mauro Sacchetto as the new Chief Executive Officer of Elica S.p.A.. The appointment, in accordance with the succession plan adopted by the company, concludes a selection process and is based on the proposal of the Appointments and Remuneration Committee, reflecting its opinion and follows approval by the Board of Statutory Auditors.

Having held the position of Chief Executive Officer since November 2016, Antonio Recinella and the company have mutually agreed that the conditions have arisen to begin a leadership transition process. The settlement agreement for Mr. Recinella's departure, in legal conclusion of the relationship, was approved on the same date by the Board of Directors of the company, with the favourable opinion of the Appointments and Remuneration Committee and the Control, Risks and Sustainability Committee (acting as the Related Parties Committee). The agreement stipulates the recognition of a total indemnity of Euro 1.280 million gross, to be paid by the end of July 2019, on condition of the agreement's confirmation in a protected setting. The agreement also maintains a number of benefits until December 31, 2019 at the latest; no subsequent benefits or rights have been provided for.

**On July 24, 2019**, Elica S.p.A. announced an agreement for the sale of 1,275,498 treasury shares, equal to 2.014% of the share capital, to TIP - Tamburi Investment Partners S.p.A., an independent and diversified investment/merchant bank listed on the STAR segment of the Italian Stock Exchange, at an agreed price of Euro 2 per share for a total amount of Euro 2,550,996. The agreed price is in line with the motions passed by the Shareholders' Meeting of April 18, 2019 concerning the disposal of treasury shares.

This transaction took place concurrently with the purchase by TIP of the entire holding of Whirlpool EMEA S.p.A in Elica of 7,958,203 shares - equal to 12.568% of the share capital - against the same consideration of Euro 2 per share paid by TIP to Elica.

Elica and Whirlpool shall maintain their commercial partnership as previously, in accordance with the long-term agreement signed on December 18, 2018.

Following the above transactions, on July 26, 2019 TIP came to hold 14.582% of the share capital of Elica S.p.A..

**On July 26, 2019** - in accordance with Article 122 of the Consolidated Finance Act ("CFA") and Article 129 of the Issuers' Regulation, on July 24, 2019, FAN S.r.l., with registered office in Rome, via Parigi No. 11 and TAMBURI INVESTMENT PARTNERS S.p.A., with registered office in Milan, via Pontaccio No. 10, signed an agreement concerning a portion of the ordinary share of Elica S.p.A., in addition to, *inter alia*, some provisions regarding the governance of Elica S.p.A. (the "Shareholder Agreements"). The key information regarding the Shareholder Agreements was today published as per Article 130 of the Issuers' Regulation on Elica S.p.A.'s website, [https://elica.com/corporation/en/corporategovernance/other\\_documents](https://elica.com/corporation/en/corporategovernance/other_documents) and on the website of the authorised storage mechanism "1INFO" at [www.1info.it](http://www.1info.it). In addition, the key details concerning the agreement between TAMBURI INVESTMENT PARTNERS S.p.A. and WHIRLPOOL EMEA S.p.A., regarding a lock-up commitment on acquired shares and a commitment not to sell the shares to certain Whirlpool Group competitors, has been made available.

**On July 30, 2019**, the Board of Directors of Elica S.p.A., the parent of a Group that is the leading manufacturer of cooker hoods, meeting in Milan approved the Half-Year Report at June 30, 2019, prepared in accordance with IFRS.

**On August 1, 2019**, the Half-Year Report of Elica S.p.A. was made available to the public, at the registered office, on the authorised storage mechanism 1INFO ([www.1info.it](http://www.1info.it)) and on the Elica S.p.A. website [https://elica.com/corporation/en/investor-relations/financial reporting](https://elica.com/corporation/en/investor-relations/financial-reporting).

**On August 1, 2019**, in line with Borsa Italiana Notice No. 8342 of May 6, 2013 and Article 6.P.2 of the Self-Governance Code, in addition to the motion passed by the Shareholders' Meeting of April 18, 2019, the Board of Directors of Elica S.p.A. on July 30, 2019 launched the 2019-2025 Phantom Stock & Voluntary Co-investment Plan, identifying the Beneficiaries of the 2019-2021 plan cycle and the relative Performance objectives, as defined in the prospectus published on March 18, 2019 and available on the website <http://corporation.elica.com>, Investor Relations/Shareholders' Meeting section, to which reference should be made for greater details, in addition to the 1info authorised storage mechanism.

**On September 26, 2019** The Board of Directors of Elica S.p.A., the parent of a Group that is the leading manufacturer of kitchen range hoods and aspiration stoves, co-opted Giovanni Tamburi as a Non-Executive Director. This appointment followed the resignation, for personal reasons, of the Non-Executive Director Gennaro Pieralisi. The co-option took place alongside the transaction, announced on July 24, 2019, through which Tamburi Investment Partners S.p.A. (of which Giovanni Tamburi is Chairman and Chief Executive Officer) acquired a minority holding in Elica S.p.A. with the purchase of the shares held by Whirlpool EMEA S.r.l. and the treasury shares of the company. Giovanni Tamburi shall remain in office until the next Shareholders' Meeting of the company. Giovanni Tamburi does not personally hold Elica S.p.A. shares. The curriculum vitae of the newly appointed Director shall be published today on the company website <https://elica.com/corporation/en/corporate-governance/other> documents.

**On September 30, 2019** The Board of Directors of Elica S.p.A., the parent of a Group that is the leading manufacturer of kitchen range hoods and aspiration stoves, met in Fabriano and appointed, with immediate effect, Giulio Coccia as Group Chief Financial Officer, replacing Alessandro Carloni. Giulio Coccia, satisfying the requirements established by applicable regulations and the By-Laws, was also appointed Corporate Financial Reporting Manager, with the Board of Statutory Auditors issuing a favourable opinion in this regard.

**On October 31, 2019**, the Board of Directors of Elica S.p.A. approved the results for the First Nine Months of 2019, prepared in accordance with IFRS.

**On November 28, 2019**, Tamburi Investment Partners S.p.A. announced that its holding in Elica S.p.A. had exceeded 20% of the share capital on November 26, 2019.

#### **A.9. Events after the reporting date and outlook**

##### **A.9.1. Events after December 31, 2019**

On **February 12, 2020** the Company took note of the resignation of Mr. Davide Croff from the position of independent director of Elica S.p.A. tendered on February 11, 2020 with immediate effect, due to "personal reasons that made it impossible to continue to carry out the activities associated with the office of director with the necessary diligence." The Appointments and Remuneration Committee and the Board of Directors will assess the possibility and advisability of co-opting a replacement for the outgoing director, in view of the approach of the date of the Shareholders' Meeting scheduled for April 28, 2020. Any Board of Directors' motions in this regard will be announced to the market. Mr. Davide Croff does not hold any Elica shares.

**On February 13, 2020**, the Board of Directors of Elica S.p.A. approved the additional periodic disclosure for the fourth quarter of 2019, prepared according to IFRS and reviewed the 2019 preliminary consolidated results.

### A.9.2. Outlook

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 expected results reflect the consensus.

The possible consequences on the business and the market of the coronavirus are being constantly monitored, and the repercussions on the Chinese and global economy merit further evaluation.

In the initial phase, no significant repercussions are expected for the business as the Chinese supply chain has reacted according to plan. Much will depend in the subsequent phase on the spread of the virus and government decisions, in addition to the impact of the virus on global home appliance demand.

Although it is difficult to make reliable predictions on impacts and durations of the Covid-19 emergency, the company has registered a growth trend in the initial two months of the year, with a low single digit growth against the same period of 2019, driven by the extension of own brand sales and Motors division growth from Q4 2019 into the new year. The company confirms, at the moment, regular operation of the Italian, Polish and Chinese production plant.

The Group reserves its right to update the 2020 Outlook and guidance, if the “Coronavirus (or Covid-19) crisis” has material impacts on the Group’s economic and financial indicators.

### A.10. The environment and personnel

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

### A.11. Research and development

Reference should be made to Note B.6.5.16 and 19 for further details on Group research and development.

Elica S.p.A. development activities are a central part of the company’s operations: resources have devoted substantial efforts to developing, producing and offering customers innovative products both in terms of design and the utilisation of materials and technological solutions.

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

Total research and development costs incurred amounted to Euro 7,075 thousand. For further details on the Parent’s activities, reference should be made to Note D.6.4.16 and 18.2.

### A.12. 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 and the parent are exposed. In the notes, 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 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 (annex 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.

## A.13. Company bodies

### Members of the Board of Directors as at the date of the meeting of the Board of Directors on March 12, 2020

#### Francesco Casoli Executive Chairman,

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

#### Mauro Sacchetto

**Chief Executive officer**, born in Vercelli on 09/01/1959, appointed by resolution of 08/07/2019.

#### 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.

### 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.

#### Control, Risks and Sustainability Committee

Cristina Finocchi Mahne (Chairman)

Elio Cosimo Catania

Federica De Medici

#### 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.

#### Giovanni Tamburi

**Non-executive director**, born in Rome on 21/04/1954, co-opted by the Board of Directors on 26/09/2019.

#### Leandro Tiranti

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

#### Serenella Spaccapaniccia

**Alternate Auditor**, born in Montesangiovio (AP) on 04/04/1965, appointed by resolution of 27/04/2018.

#### Appointments and Remuneration Committee

Elio Cosimo Catania (Chairman)

Barbara Poggiali

Federica De Medici

#### Independent Auditors

KPMG S.p.A.

#### Investor Relations Manager

Giulio Coccia - Group Controlling & Investor Relations Director

Francesca Cocco – Lerxi Consulting – Investor Relations

Tel: +39 (0)732 610 4205

E-mail: investor-relations@elica.com

#### 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

## A.14. Elica Group structure and consolidation scope

### Parent

- Elica<sup>4</sup> S.p.A. - Fabriano (Ancona, Italy) is the parent of the Group (in short Elica).

### Subsidiaries

- Elica Group Polska Sp.zo.o – Wroclaw – (Poland) (“Elica Group Polska”). This wholly-owned company has been operational since September 2005 in the production and sale of electric motors and from December 2006 in the production and sale of exhaust hoods for domestic use;
- Elicamex S.A. de C.V. – Queretaro (Mexico) (“Elicamex”). This company was incorporated at the beginning of 2006 (the parent owns 98% directly and 2% through Elica Group Polska). The Group intends to concentrate production for the American markets with this company in Mexico and reap the benefits of optimising operations and logistics;
- Leonardo Services S.A. de C.V. – Queretaro (Mexico) (“Leonardo”). This wholly-owned subsidiary was incorporated in January 2006 (the Parent owns 98% directly and 2% indirectly through Elica Group Polska Sp.zo.o.). Leonardo Services S.A. de C.V. manages the Mexican staff, providing services to ELICAMEX S.A. de C.V.;
- Ariafina CO., LTD – Sagamihara-Shi (Japan) (“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) (“Airforce”). This company operates in a special segment of the production and sale of hoods. Elica S.p.A. owns 60% of this company;
- Elica Inc – Chicago, Illinois (United States), offices in Issaquah, 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) (“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) (“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 first players in the Chinese hood market and the first 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) (“Elica Trading”), a Russian company held 100%, incorporated on June 28, 2011 and selling Elica Group products on the Russian market.
- Elica France S.A.S. - Paris (France) (“Elica France”), a wholly-owned French company incorporated in 2014 and selling Elica Group products on the French market.
- Elica GmbH – Munich (Germany), a German company wholly-owned by Elica S.p.A. and incorporated in 2017 and selling Elica Group products on the German market.

### Associates

- I.S.M. S.r.l. – Cerreto d’Esi (Ancona, Italy). The company, which is 49.385% owned by Elica S.p.A., operates in the real estate sector.

<sup>4</sup> The company also has a permanent establishment in Spain, and specifically in Avda, Generalitat de Catalunya Esc.9, bayos 1 08960 Sant Just Desvern – Barcelona.

### Changes in the consolidation scope

There were no changes in the consolidation scope compared to December 31, 2018, except for the definitive winding up and removal from the German Federal Bulletin of the company Airforce Germany Hochleistungs-Dunstabzugssysteme GmbH – Stuttgart (Germany) (“Airforce Germany”). The 95% holding was held by Airforce S.p.A..

#### A.14.1. Related party transactions

##### Compliance with Article 5, paragraph 8, Consob Regulation 17221 of 12.03.2010 regarding transactions with subsidiaries, associates and other related parties

In 2019, the parent carried out transactions with subsidiaries, and the parent and other group companies carried out transactions with associates and other related parties.

All transactions were conducted on an arm's length basis in the ordinary course of business.

There are no particular issues to highlight in accordance with Article 5, paragraph 8 of Consob Regulation 17221 of 12.03.2010<sup>5</sup>.

For information regarding associates and other related parties, in addition to the transactions discussed above, refer to note B.6.8. of the consolidated financial statements and note D.6.7 of the financial statements of the parent below.

In the subsequent note on related party transactions, disclosure is also provided as per Article 2497 *bis* of the Civil Code.

#### A.15. IFRS

The Consolidated Financial Statements of the Elica Group and the Separate Financial Statements of Elica S.p.A. as at and for the year ended December 31, 2019 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, 2018, with the exception of the application of the new IFRS 16 *Leases*, which generated the impacts described in the specific section (B.6.2.3.1 of the Consolidated Financial Statements and D.6.2.1.1. of the Separate Financial Statements) The Consolidated Financial Statements are presented in thousands of Euro and all the amounts are rounded to the nearest thousand, unless otherwise specified. The tables in the Separate Financial Statements are presented in Euro, while the notes are presented in Euro thousands with all amounts rounded to the nearest thousand, unless otherwise specified.

#### A.16. 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).

#### A.17. 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).

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<sup>5</sup> The article provides that: “Companies that have issued listed shares and that have Italy as their home Member State, pursuant to Article 154-*ter* of the Consolidated Act, shall provide information, in their interim report on operations and annual report on operations: a) on individual transactions of greater importance concluded during the reporting period; b) on any other individual transactions with related parties as defined under Article 2427, second subsection, of the Italian Civil Code, concluded in the reporting period, that have materially affected the financial position or results of the companies; c) any change in or development of transactions with related parties described in the most recent annual report that has had a material effect on the financial situation or operating results of the companies in the reporting period”.

**A.18. Consolidated non-financial disclosure**

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

**A.19. Compliance with Section II of the regulation implementing Legislative Decree no. 58 of February 24, 1998 concerning market regulations (“Market Regulations”)**

In accordance with article 15 of the Regulation implementing Legislative Decree no. 58 of February 24, 1998, as Elica S.p.A. has direct or indirect control over certain companies registered in countries outside of the European Union, the financial statements of such companies, prepared for the purposes of 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 16, fourth section, reference should be made to paragraph B.6.8 8. Disclosure pursuant to IAS 24 on management remuneration and related-party transactions.

**A.20. 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 12, 2020

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



**B. CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31  
DECEMBER 2019**

**Elica Group**

Name of the company preparing the financial statements or other means of identification: Elica S.p.A - <i>Share Capital: Euro 12,664,560 fully paid-in</i>
Explanation of the changes relating to the name of the entity preparing the financial statements or other means of identification with respect to the end of the previous year: n/a
Address of the entity: <i>Registered office in Via Ermanno Casoli, 2 – 60044 Fabriano (AN)</i>
Legal form of entity: Company by shares
Country of registration: Italy
Address of the entity's registered office: <i>Via Ermanno Casoli, 2 – 60044 Fabriano (AN)</i>
Principal place of business: <i>Via Ermanno Casoli, 2 – 60044 Fabriano (AN)</i>
Description of the nature of the business of the entity or its principal operations: see note B.6.1 below
Name of the Holding Company: Fan s.r.l.
Name of the Parent: Elica S.p.A.

## B.1. Consolidated Income Statement

<i>In Euro thousands</i>	<i>Note</i>	<b>2019</b>	<b>2018</b>
Revenue	B.6.5.1	479,986	472,387
Other operating income	B.6.5.2	3,110	2,991
Change in inventories finished/semi-finished products	B.6.5.4	(622)	184
Increase in internal work capitalised	B.6.5.3	3,528	3,687
Raw materials and consumables	B.6.5.4	(255,138)	(251,535)
Services	B.6.5.5	(84,717)	(83,333)
Personnel expense	B.6.5.6	(93,899)	(87,606)
Amortisation and depreciation	B.6.5.7	(25,415)	(20,202)
Other operating expenses and accruals	B.6.5.8	(8,489)	(26,957)
Restructuring charges	B.6.5.9	(1,292)	-
Impairment of Goodwill/Brands	B.6.5.36	-	(1,077)
<b>Operating profit</b>		<b>17,052</b>	<b>8,539</b>
Share of loss of associates	B.6.5.20	(617)	(6)
Financial income	B.6.5.10	387	968
Financial expense	B.6.5.11	(3,918)	(3,485)
Exchange rate gains/(losses)	B.6.5.12	(971)	(1,530)
<b>Profit before taxes</b>		<b>11,933</b>	<b>4,486</b>
Income taxes	B.6.5.13	(4,554)	(2,172)
<b>Profit from continuing operations</b>		<b>7,379</b>	<b>2,314</b>
<b>Profit from discontinued operations</b>		<b>-</b>	<b>-</b>
<b>Profit for the year</b>		<b>7,379</b>	<b>2,314</b>
of which:			
Attributable to non-controlling interests	B.6.5.14	4,316	3,275
Attributable to the owners of the Parent		3,063	(961)
<b>Basic earnings (loss) per share (Euro/cents)</b>	B.6.5.15	4.89	(1.55)
<b>Diluted earnings (loss) per share (Euro/cents)</b>		4.89	(1.55)

The Group has adopted IFRS 16 from January 1, 2019, using the amended retrospective application method. The comparative figures have not been recalculated according to this method. For further details, see note B.6.2.3.1.

**B.2. Statement of Comprehensive Income**

<i>In Euro thousands</i>	<i>Note</i>	<b>2019</b>	<b>2018</b>
<b>Profit for the year</b>		<b>7,379</b>	<b>2,314</b>
<b>Other comprehensive income/(expense) which will not be subsequently reclassified to profit or loss:</b>			
Actuarial gains/(losses) on defined benefit plans	B.6.5.26	(575)	409
Tax effect of Other income/(expense) which will not be subsequently reclassified to the profit/(loss)		(28)	-
<b>Total items which will not be subsequently reclassified to profit or loss, net of the tax effect</b>		<b>(603)</b>	<b>409</b>
<b>Other comprehensive income/(expense) which will be subsequently reclassified to profit or loss:</b>			
Exchange differences on the conversion of foreign financial statements	B.6.5.34.3	2,307	902
Net change in cash flow hedges	B.6.5.34.3	1,347	(1,541)
Tax effect of Other income/(expense) which will be subsequently reclassified to the profit or loss	B.6.5.34.3	(323)	440
<b>Total items which will be subsequently reclassified to profit or loss, net of the tax effect</b>		<b>3,330</b>	<b>(200)</b>
<b>Total other comprehensive income, net of the tax effect:</b>		<b>2,727</b>	<b>209</b>
<b>Comprehensive income</b>		<b>10,106</b>	<b>2,523</b>
of which:			
Attributable to non-controlling interests		4,248	3,420
Attributable to the owners of the parent		5,857	(896)

The Group has adopted IFRS 16 from January 1, 2019, using the amended retrospective application method. The comparative figures have not been recalculated according to this method. For further details, see note B.6.2.3.1.

### B.3. Statement of Financial Position

<i>In Euro thousands</i>	<i>Note</i>	<b>Dec 31, 2019</b>	<b>Dec 31, 2018</b>
Property, plant & equipment	B.6.5.17	101,399	102,854
Goodwill	B.6.5.18	39,340	39,273
Other intangible assets	B.6.5.19	28,276	27,146
Rights-of-use as per IFRS 16	B.6.2.3.1	12,679	-
Investments in associates	B.6.5.20	770	1,396
Other assets	B.6.5.21	393	352
Deferred tax assets	B.6.5.28	19,925	18,339
<b>Total non-current assets</b>		<b>202,783</b>	<b>189,360</b>
Trade receivables	B.6.5.22	55,022	51,192
Inventories	B.6.5.23	72,890	76,196
Other assets	B.6.5.24	5,374	6,589
Tax assets	B.6.5.25	14,966	17,275
Assets for derivative financial instruments	B.6.5.33.3	498	513
Cash and cash equivalents	B.6.5.33.1	35,613	35,612
<b>Current assets</b>		<b>184,363</b>	<b>187,377</b>
<b>Assets of discontinued operations</b>		-	-
<b>Total assets</b>		<b>387,146</b>	<b>376,736</b>
Liabilities for post-employment benefits	B.6.5.26	10,737	10,465
Provisions for risks and charges	B.6.5.27	12,377	10,647
Deferred tax liabilities	B.6.5.28	3,496	2,992
Finance leases and loans and borrowings from other lenders as per IFRS 16	B.6.2.3.1	8,233	-
Bank loans and borrowings	B.6.5.33.2	55,451	54,102
Other liabilities	B.6.5.29	-	64
Tax liabilities	B.6.5.29	-	53
Liabilities for derivative financial instruments	B.6.5.33.3	198	120
<b>Non-current liabilities</b>		<b>90,492</b>	<b>78,443</b>
Provisions for risks and charges	B.6.5.27	6,487	9,318
Finance leases and loans and borrowings from other lenders as per IFRS 16	B.6.2.3.1	3,525	-
Bank loans and borrowings	B.6.5.33.2	27,317	37,792
Trade payables	B.6.5.32	110,100	109,916
Other liabilities	B.6.5.30	15,749	14,503
Tax liabilities	B.6.5.31	7,775	10,844
Liabilities for derivative financial instruments	B.6.5.33.3	386	1,737
<b>Current liabilities</b>		<b>171,339</b>	<b>184,110</b>
<b>Liabilities directly related to discontinued operations</b>			
Share capital	B.6.5.34.1	12,665	12,665
Capital reserves	B.6.5.34.2	71,123	71,123
Hedging and translation reserve	B.6.5.34.3	(11,759)	(15,096)
Actuarial reserve	B.6.5.26	(3,345)	(2,802)
Treasury shares	B.6.5.34.4	-	(3,551)
Retained earnings	B.6.5.34.5	39,395	41,535
Profit/(loss) attributable to the owners of the Parent		3,063	(961)
<b>Equity attributable to the owners of the Parent</b>		<b>111,142</b>	<b>102,913</b>
Capital and reserves attributable to non-controlling interests	B.6.5.35	9,857	7,995
Profit attributable to non-controlling interests		4,316	3,275
<b>Equity of non-controlling interests</b>		<b>14,173</b>	<b>11,270</b>
<b>Total equity</b>		<b>125,315</b>	<b>114,183</b>
<b>Total liabilities and equity</b>		<b>387,146</b>	<b>376,736</b>

The Group has adopted IFRS 16 from January 1, 2019, using the amended retrospective application method. The comparative figures have not been recalculated according to this method. For further details, see note B.6.2.3.1.

**B.4. Statement of Cash Flows**

<i>In Euro thousands</i>	<b>2019</b>	<b>2018</b>
<b>Opening cash and cash equivalents</b>	<b>35,612</b>	<b>34,873</b>
<b>Operating activities</b>		
<b>Profit for the year</b>	<b>7,379</b>	<b>2,314</b>
Amortisation and depreciation	25,415	20,202
Impairment losses	-	1,077
Non-monetary (income)/charges	617	6
Trade working capital	(184)	10,825
Other working capital accounts	5,679	880
Income taxes paid	(4,809)	(6,169)
Change in provisions	1,724	4,161
Other changes	126	36
<b>Cash flow from operating activities</b>	<b>35,946</b>	<b>33,333</b>
<b>Investing activities</b>		
Investments		
- Intangible assets	(8,474)	(8,334)
- Property, plant and equipment	(12,772)	(19,459)
- Rights-of-use	(3,218)	-
<b>Cash flow used in investing activities</b>	<b>(24,463)</b>	<b>(27,794)</b>
<b>Financing activities</b>		
(Acquisition)/Sale of treasury shares and investments (mantaining of control)	2,540	9,731
Dividends	(1,479)	(1,356)
Increase (decrease) financial liabilities	(9,190)	(12,299)
Increase/(decrease) in lease liabilities - IFRS 16	(32)	-
Net changes in other financial assets/liabilities	(821)	354
Interest paid	(3,227)	(1,857)
<b>Cash flow used in financing activities</b>	<b>(12,209)</b>	<b>(5,428)</b>
Increase/(Decrease) in cash and cash equivalents	<b>(727)</b>	<b>111</b>
Net translation effect on cash and cash equivalents	728	628
<b>Closing cash and cash equivalents</b>	<b>35,613</b>	<b>35,612</b>

The Group has adopted IFRS 16 from January 1, 2019, using the amended retrospective application method. The comparative figures have not been recalculated according to this method. For further details, see note B.6.2.3.1.

## B.5. 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 owners of parent	Equity non-control. int.	Total
<b>December 31, 2017</b>	<b>12,665</b>	<b>71,123</b>	<b>(3,551)</b>	<b>37,049</b>	<b>(17,963)</b>	<b>166</b>	<b>99,489</b>	<b>5,005</b>	<b>104,494</b>
Fair value changes on cash flow hedges net of the tax effect					(1,101)		(1,101)		(1,101)
Actuarial gains/(losses) on post-employment benefits					395		395	14	409
Exchange rate gains/(losses) on translation of foreign subsidiaries' financial statements					771		771	131	902
<b>Total gains/(losses) recognised directly in equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>65</b>	<b>-</b>	<b>65</b>	<b>145</b>	<b>209</b>
Profit/(loss) for the year						(961)	(961)	3,275	2,314
<b>Total gains/(losses) recognised in other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>65</b>	<b>(961)</b>	<b>(896)</b>	<b>3,420</b>	<b>2,523</b>
Allocation of profit for the year				166		(166)		-	-
Other changes				4,320			4,320	4,201	8,520
Dividends				-			-	(1,356)	(1,356)
<b>December 31, 2018</b>	<b>12,665</b>	<b>71,123</b>	<b>(3,551)</b>	<b>41,535</b>	<b>(17,898)</b>	<b>(961)</b>	<b>102,912</b>	<b>11,270</b>	<b>114,182</b>
Fair value changes on cash flow hedges net of the tax effect					1,023		1,023		1,023
Actuarial gains/(losses) on post-employment benefits					(543)		(543)	(60)	(603)
Exchange rate gains/(losses) on translation of foreign subsidiaries' financial statements					2,314		2,314	(7)	2,307
<b>Total gains/(losses) recognised directly in equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,794</b>	<b>-</b>	<b>2,794</b>	<b>(67)</b>	<b>2,727</b>
Profit for the year						3,063	3,063	4,316	7,379
<b>Total gains/(losses) recognised in other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,794</b>	<b>3,063</b>	<b>5,857</b>	<b>4,249</b>	<b>10,106</b>
Allocation of (loss) for the year				(961)		961		-	-
Other changes			3,551	(1,179)			2,372	134	2,506
Dividends				-			-	(1,479)	(1,479)
<b>December 31, 2019</b>	<b>12,665</b>	<b>71,123</b>	<b>-</b>	<b>39,395</b>	<b>(15,104)</b>	<b>3,063</b>	<b>111,142</b>	<b>14,173</b>	<b>125,315</b>

The Group has adopted IFRS 16 from January 1, 2019, using the amended retrospective application method. The comparative figures have not been recalculated according to this method. For further details, see note B.6.2.3.1.

**B.6. Notes to the Consolidated Financial Statements as at and for the year ended December 31, 2019**

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- B.6.1. Group structure and activities
- B.6.2. Accounting policies and basis of consolidation
- B.6.3. Significant accounting estimates
- B.6.4. Composition and changes in the consolidation scope
- B.6.5. Notes to the Consolidated Financial Statements
- B.6.6. Guarantees, commitments and contingent liabilities
- B.6.7. Risk management
- B.6.8. Disclosure pursuant to IAS 24 on management compensation and related party transactions
- B.6.9. Government grants as per Article 1, paragraphs 125-129, of Law No. 124/2017
- B.6.10. Positions or transactions arising from atypical and/or unusual operations
- B.6.11. Subsequent events

### **B.6.1. Group structure and activities**

Elica S.p.A. is a company incorporated under Italian law based in Fabriano (Ancona, Italy). The main activities of the Company and its subsidiaries, as well as its registered office and other offices are illustrated in the Directors' Report at point A.14. 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, 2019 were approved by the Board of Directors on March 12, 2020 which authorised their publication.

### **B.6.2. 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, 2019 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 comparative data of December 31, 2018 and December 31, 2019, except as indicated below in the specific paragraph B.6.2.3 Accounting standards, amendments and interpretations applied from January 1, 2019.

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.

#### **B.6.2.1 Basis of consolidation**

The Consolidated Financial Statements as at and for the year ended December 31, 2019 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 to variable returns (positive or negative) and the ability to affect those returns through power over the entity.

The separate financial statements at December 31, 2019 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 accounting standards issued by the Italian Accounting Standards Setter ("OIC") 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 B.6.4 "Composition and changes in the consolidation scope" and B.6.8 "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.

#### 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, 2019, 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 Renminbi and the Russian Ruble respectively.

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

	2019 average	2018 average	%	Dec 31, 2019	Dec 31, 2018	%
USD	1.12	1.18	(5.1%)	1.12	1.15	(2.6%)
JPY	122.01	130.40	(6.4%)	121.94	125.85	(3.1%)
PLN	4.30	4.26	0.9%	4.26	4.30	(0.9%)
MXN	21.56	22.71	(5.1%)	21.22	22.49	(5.6%)
INR	78.84	80.73	(2.3%)	80.19	79.73	0.6%
CNY	7.74	7.81	(0.9%)	7.82	7.88	(0.8%)
RUB	72.46	74.04	(2.1%)	69.96	79.72	(12.2%)

Source: ECB data

#### Business Combinations

Business combinations are recognised according to 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;
- Assets and liabilities for employee benefits;
- 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 amounts transferred in the business combination, of the value of minority interests' net equity and the fair value of any holding previously held in the acquired company 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, of any minority interest and the fair value of any holding previously held in the acquired company, this excess is immediately recorded to the income statement as income deriving from the transaction concluded.

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 valuation method is chosen on the basis of 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.

#### **B.6.2.2 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%

Purchase cost is 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.

### 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 revenue 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 Units (CGUs). Cash Generating Unit 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 recognized at fair value, including directly related transaction costs.

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

Receivables are adjusted through an allowance for bad debts to reflect their realisable value. The allowance is calculated as the difference between the carrying amount of the receivable 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 value and market value less selling costs.

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

### **Cash and cash equivalents**

Cash and cash equivalents include cash balances, 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 lease liabilities, are recognised based on the amounts received, less transaction costs, and are subsequently measured at amortised cost using the effective interest rate method.

### Derivative instruments and hedge accounting

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

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

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

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

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

For the management of the risks related to exchange rates and interest rates, reference should be made to section B.6.7. “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. At December 31, 2019, no treasury shares were held in portfolio.

### Employee benefits

#### *Post-employment benefits*

Italian post-employment benefits are considered equivalent to a defined benefit plan. For defined benefit plans, the cost of the benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each year.

The Group recognises the plan deficit or surplus in the statement of financial position, the service cost and net financial expenses in profit or loss and actuarial gains or losses on the remeasurement of the assets and liabilities in other comprehensive income. In addition, any income from the plan assets included under net financial expenses must be calculated based on the discount rate of the liability.

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

### *Share-based payments*

Where the Group recognises additional benefits to senior management and key personnel through stock grant plans, in accordance with IFRS 2 – Share-based payments, these plans represent a form of remuneration to the beneficiaries. Therefore, the cost, which is the fair value of these instruments at the assignment date, is recognised in profit or loss over the period between the assignment date and maturity date, with a balancing entry directly in equity. Changes in the fair value after the assignment date do not have an effect on the initial value. At December 31, 2019 there are no such plans in place, there are only monetary phantom stock plans. The existing plans award beneficiaries a number of phantom stocks. When the vesting conditions are met, and upon the completion of the period specified in the continuing employment condition, the beneficiary receives a payment in cash equal to the value of the vested phantom stock accrued. This therefore represents a cash settled plan. The cost accrued during the year is thus taken to the income statement and the related provision is recognised. For further information, please consult the plan information documents on the company's website, (<https://elica.com/corporation/en/investor-relations/shareholders' meeting>).

### **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 end of the reporting date and are discounted to their present value when the effect is material. These estimates 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 & income**

The new IFRS 15 - Revenue 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) establishment of the transaction price; (iv) the allocation of the transaction price to the performance obligations identified on the basis of the standalone 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 standard, the amount that the entity recognises as revenue should reflect the consideration that it has the right to receive following the exchange of the assets transferred to the customer and/or services provided, to be recognised upon fulfilment of the contractual obligations. In addition, to recognise the revenue, the requirement of probable obtainment/receipt of the economic benefits linked to the income is emphasised; for a contract in progress, a requirement to recognise revenue taking account of any discounting effect from payments deferred over time is introduced.

The Group carried out an analysis to identify the separate performance obligations which indicated that it was not necessary to further breakdown revenue. The criteria applied by the Group are in line with those established by IFRS 15. Finally, no circumstances were identified whereby a Group company had the role of "agent".

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.

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

Exchange differences arising on such transactions or on the translation of monetary assets and liabilities are recorded in the Income Statement except for those arising on derivative financial instruments qualified as cash flow hedges and any inter-company assets or liabilities whose settlement has not been planned nor is plannable. These differences are recorded in 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 initial carrying amount of the loan (fair value plus direct costs attributable to obtaining the loan) and that received, and subsequently recorded in the income statement in accordance with the regulations for the recognition of public 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 tax 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 assets and liabilities.

Elica S.p.A. and the subsidiary Airforce S.p.A. have opted for tax consolidation in Italy. This means that the IRES (Corporation Tax) charge is calculated on a tax base representing the aggregate of the taxable income and tax losses of the individual companies. The contract is of three-year duration (2017, 2018 and 2019).

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

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

The income tax asset is recognised 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 tax consolidation, net of payments on account, taxes withheld by third parties and tax credits; tax assets are offset by the liabilities to the subsidiary companies by Elica for the residual asset attributable to the tax consolidation.

The liability for tax losses surrendered by a subsidiary is recorded under Liabilities 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.

### B.6.2.3 Accounting standards, amendments and interpretations applied from 1 January 2019

Except for that reported below, these consolidated financial statements were prepared according to the same accounting standards as those applied to the previous financial statements (i.e. for the preparation of the consolidated financial statements as at and for the year ended December 31, 2018), and the financial statement formats used are the same as those used to prepare the consolidated financial statements as at and for the year ended December 31, 2018.

#### B.6.2.3.1. IFRS 16 - Leases

The Group adopted this standard from January 1, 2019.

IFRS 16 introduces a single model for the recognition of leases in the financial statements of the lessee, according to which the Group, as lessee, recognises an asset representing the right to use the underlying asset and a liability which reflects the obligation to pay the lease charges. The recognition methods for the lessor are similar to those under the

previously applicable standard.

The Group applied IFRS 16 utilising the modified retrospective application method, on the basis of which any cumulative effect of initial application is recognised as an adjustment to the opening balance of retained earnings at January 1, 2019. Therefore, the 2018 figures were not restated, i.e. they were presented as per IAS 17 and the relative interpretations. The changes to the accounting standards are described below.

#### **Definition of a lease**

As per IFRS 16, the Group assesses whether the contract is a lease or contains a lease according to the new definition of leasing. The Group previously established at the commencement of the contract whether it was, or contained, a lease according to IFRIC 4 - Determining whether an agreement contains a lease.

At the initial application date of IFRS 16, the Group decided to adopt the practical expedient which exempts it from re-assessing which transactions contain leases. IFRS 16 was applied only to contracts which were previously identified as leases. The contracts which were not identified as leases applying IAS 17 and IFRIC 4 were not re-assessed in order to establish whether they constituted a lease. Therefore, the definition of leasing contained in IFRS 16 was applied only to contracts signed or amended on January 1, 2019 or subsequently.

At the commencement of the contract or at the re-assessment date of a contract which contains a leasing component, the Group assigns the consideration of the contract to each leasing and non-leasing component according to the relative standalone price.

#### **Accounting model for the lessee and impacts on the financial statements as at and for the year ended December 31, 2019 –**

The Group has many assets under lease, such as buildings, production machinery, cars and IT equipment. As lessee, the Group previously classified leases as operating or finance leases, assessing whether the lease substantially transferred all risks and benefits related to ownership. According to IFRS 16, the Group recognises in the statement of financial position the right-of-use assets and the lease liabilities for the majority of leases.

However, the Group decided not to recognise the right-of-use assets and the lease liabilities for low value assets (less than USD 5 thousand), including IT equipment. Therefore, the Group recognises payments due relating to prior contracts as costs on a straight-line basis over the term of the lease.

The carrying amounts of right-of-use assets, which constitute the account “Rights of use as per IFRS 16” are listed as follows:

#### **Rights-of-use as per IFRS 16**

<i>In Euro thousands</i>	<b>Buildings</b>	<b>Plant and machinery</b>	<b>Other assets</b>	<b>Total</b>
Balance at January 1, 2019	4,900	1,809	6,141	12,850
Increases	1,049	123	2,045	3,217
Depreciation in the year	1,212	490	1,686	3,388
Balance at December 31, 2019	4,737	1,442	6,500	12,679

In 2019 right-of-use assets decreased by Euro 171 thousand net.

The Group presents lease liabilities in the account “Lease liabilities and loans and borrowings to other lenders as per IFRS 16” in the condensed statement of financial position. As at the date of initial application, January 1, 2019, the asset and liabilities coincide. This account, both current and non-current, at January 1, 2019 and December 31, 2019, includes only the liabilities within this scope.

Details regarding the situation of lease liabilities are provided below.

#### **Lease liabilities and loans and borrowings to other lenders as per IFRS 16**

<i>In Euro thousands</i>	<b>Dec. 31, 2019</b>
<b>Analysis of maturities - undiscounted contractual cash flows</b>	
Within one year	3,762
Between one year and five years	7,772
Over five years	4,751
<b>Total undiscounted lease liabilities as at December 31, 2019</b>	<b>16,285</b>
<b>Lease liabilities included in the statement of financial position as at December 31, 2019</b>	<b>11,758</b>
Of which current	3,525
Of which non-current	8,233

The amounts included in **profit or loss for the year** are therefore presented.

<i>In Euro thousands</i>	<b>Dec. 31, 2019</b>
Interest expense on lease liabilities	265
Costs relating to variable lease liabilities not included in the measurement of lease liabilities	Not significant
Income from the sub-leasing of right-of-use assets	N/A
Costs relating to short-term leases of low-value assets	2,305

Finally, the impacts on the **statement of cash flows** are presented below

<i>In Euro thousands</i>	<b>Dec. 31, 2019</b>
Total cash outflows for leases	3,250

#### **Description of the Group's accounting policy –**

At the commencement date of leases, the Group recognises the right-of-use assets and the lease liabilities. Right-of-use assets are initially valued at cost, and subsequently at cost net of amortisation and cumulative impairments, while adjusted to reflect lease liability revaluations.

The Group assesses the lease liabilities at the present value of payments due for lease charges not settled at the commencement date, discounting them according to the implied lease interest rate. Where it is not possible to establish this rate easily, the Group utilises the marginal interest rate. It generally uses the marginal interest rate as the discount rate.

The lease liability is subsequently increased by the interest maturing on this liability and reduced for payments due on the lease and is revalued in the case of changes to future payments on leasing deriving from a change in the index or rate, in the case of a change to the amount which the Group expects to pay as guarantee on the residual value or where the Group changes its assessment on the exercise or otherwise of a purchase, renewal or termination option.

The Group estimated the lease duration of some contracts in which it acts as lessee and which have renewal options. The Group assessment upon the existence or otherwise of a reasonable certainty of exercising the option influences the estimate of the lease duration, significantly impacting the amount of the lease liabilities and the right-of-use assets recognised.

#### **Initial application –**

At the initial application date, the lease liabilities of leases classified as operating leases as per IAS 17 – which are all of the Group's leases – are calculated at the present value of the residual payments due for the lease payments, discounted at the Group's marginal interest rate at January 1, 2019. The right-of-use assets are measured at an amount equal to the lease liability, adjusted for any advances or cumulative payments due for the leases.

The Group utilised the following practical expedients to apply IFRS 16 to leases classified previously as operating leases as per IAS 17.

- It applied the exemption from recognising assets for right-of-use assets and lease liabilities for contracts with terms of less than 12 months;
- It excluded the initial direct costs from the valuation of the right-of-use assets at the initial application date;
- This is based on experience acquired in determining the duration of leases containing renewal or termination options.

The Group does not hold lease contracts which were previously considered finance leases.

#### **Effects of the Initial application –**

The Elica Group applied IFRS 16 Leases from January 1, 2019, retrospectively with the cumulative effect of initial application recognised at the date of initial application, according to point C5 (b) of IFRS 16. The comparative information was therefore not restated. On the basis of point C8 of the same standard, lease liabilities emerging from application of IFRS 16 at the initial application date of January 1, 2019 were therefore recognised.

<i>In Euro thousands</i>	
<b>operating lease commitments as per financial statements at Dec 31, 2018</b>	<b>13,049</b>
leases maturing within 12 months	(1,012)
impact of leases on assets worth less than USD 5k (with a residual duration of greater than 12 months)	(19)
Impact of future payments due to reclassification under IFRS 16 from property, plant and equipment of perpetual use of grounds EGP	1,078
other	(147)
impact of discounting	(1,160)
<b>lease liabilities as per IFRS 16 at Jan 1, 2019</b>	<b>11,790</b>

For the majority of contracts, the incremental debt rate is used as the discount rate.

### **Effects in the period -**

Following the initial application of IFRS 16 to leases classified previously as operating leases, the Group recognised right-of use assets and lease liabilities of Euro 11,351 thousand at January 1, 2019 and of Euro 11,265 thousand at December 31, 2019. It therefore reclassified the perpetual right of use to the land in Poland from property, plant and equipment, with an impact of Euro 1,585 thousand on the asset (and Euro 440 thousand on the liability).

In addition, in relation to leases recognised as per IFRS 16, the Group recognises depreciation and interest instead of operating lease costs. During the year ended December 31, 2019, the Group recognised depreciation and interest costs of Euro 3,388 thousand and Euro 265 thousand, respectively.

#### **B.6.2.3.2. IFRIC 23 - Uncertainties over income tax treatments**

IFRIC 23, which became applicable on January 1, 2019, without having significant effects for the Group, clarifies how to apply the requirements regarding the recognition and measurement of current and deferred tax assets and liabilities pursuant to IAS 12 where there are uncertainties regarding the tax treatment to be applied when preparing income tax returns, which might not be accepted by the tax authority. In this case, the entity should recognise and measure its current or deferred tax asset or liability applying the requirements as per IAS 12 on the basis of the assessable income (tax loss), the values for tax purposes, the unutilised tax losses, the unutilised tax assets and of the tax rates calculated applying this interpretation.

#### **B.6.2.4 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.

For all the newly issued standards, as well as the revision and amendments to existing standards, the Group is assessing impacts which are currently unforeseeable that will derive from their future application.

##### **B.6.2.4.1. Amendments to IAS 1 and IAS 8**

On October 31, 2018, the IASB published the document “Definition of Material (Amendments to IAS 1 and IAS 8)”, which introduced a change to make the definition of the term “relevant” contained in IAS 1 and IAS 8 more specific. The amendment also introduces the concept of “obscured information” alongside the concepts of “omitted” or “misstated” information previously included in the two amended Standards. The amendment clarifies that information is obscured if it is described in a way that results in an effect for the users of the financial statements similar to that which would have resulted if the information in question had been omitted or misstated. The amendments to IAS 1 and IAS 8 are effective from periods beginning on, or subsequent to, January 1, 2020.

##### **B.6.2.4.2. Amendments to IFRS 3**

On October 22, 2018, the IASB published the document “Definition of a Business (Amendments to IFRS 3)”, introducing amendments to IFRS 3 to better clarify the definition of a business. In particular, the amendment clarifies that the existence of an output is not strictly necessary to identify a business when there is however an integrated set of activities, processes and assets. However, in order to meet the definition of a business, an integrated set of activities, processes and assets must include, at minimum, an input and a substantial process that together contribute significantly to the capacity to create output. For this purpose, the IASB has replaced the term “capacity to create output” with “capacity to contribute to the creation of output” to clarify that a business may exist even without all the inputs and processes necessary to create an output. The amendment also introduced an optional test (“concentration test”) for an entity to determine whether a set of activities, processes and assets acquired is a business. To this end, the amendment adds numerous examples illustrating IFRS 3 to help understand the practical application of the new definition of a business in specific cases. The amendments apply to business combinations and acquisitions of activities after January 1, 2020, although early application is permitted.

### **B.6.3. 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 allowance for trade receivables impairment and the provision for inventory write-down, non-current assets, pension funds and other post-employment benefits, provisions for risks and charges and deferred tax assets.

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

#### B.6.4. Composition and changes to the consolidation scope

At December 31, 2019, 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 (Ancona- Italy)	EUR	12,664,560			
Elicamex S.a.d. C.V.	Queretaro (Mexico)	MXN	8,633,515	98%	2%	(b)
Elica Group Polska Sp.z o.o	Wroklaw (Poland)	ZTY	78,458,717	100%	0%	100%
Airforce S.p.A.	Fabriano (Ancona- 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)
Elica GmbH	Munich (Germany)	EUR	1,000,000	100%	0%	100%
Elica Inc.	Chicago, Illinois (United States)	USD	5,000	0%	100%	(a)
Elica PB India Private Ltd.	Pune (India)	INR	393,650,000	26%	0%	26%
Zhejiang Elica Putian Electric Co. Ltd	Shengzhou (China)	CNY	113,962,964	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%

(a) Held through Elicamex

(b) Held through EGP

In 2019 the company Airforce Germany<sup>6</sup>, which had already discontinued operations, was officially wound up.

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 (Ancona)	EUR	10	49.39%	0%	49.39%

Reference should be made to section B.6.8 of these notes for data and information on associates.

<sup>6</sup>Airforce Germany Hochleistungs-dunstabzugssysteme GmbH

## B.6.5. Notes to the Consolidated Financial Statements

### Income Statement

#### B.6.5.1 Revenue

Details of the Group's revenue are as follows:

<i>In Euro thousands</i>	<b>2019</b>	<b>2018</b>	<b>Changes</b>
Revenue	479,986	472,387	7,599
<b>Revenue</b>	<b>479,986</b>	<b>472,387</b>	<b>7,599</b>

For an analysis of revenue, reference should be made to the paragraph A.5.2 "The Elica Group: Financial position and performance" in the Directors' Report.

Customers that individually generate more than 10% of total revenue accounted for 13.0% of revenue in 2019 (13.1% in 2018).

As per IFRS 8, with effect from the previous year the segment disclosure, in line with that utilised by management for the undertaking of operational decisions, consists of one single operating segment, corresponding to the Elica Group.

#### B.6.5.2 Other operating income

<i>(Euro thousands)</i>	<b>2019</b>	<b>2018</b>	<b>Changes</b>
Grants related to income	1,006	788	218
Ordinary gains	33	163	(130)
Claims and insurance settlement	1,097	281	816
Other revenue and income	974	1,759	(785)
<b>Other operating income</b>	<b>3,110</b>	<b>2,991</b>	<b>119</b>

The item increased by approx. Euro 0.1 million, the result of the increase in claims and insurance settlement, primarily by the Parent, for damage due to inclement weather. This increase is net of the decrease in Other revenue and income, mostly due to the reduction of expense recoveries and transport costs recovered.

#### B.6.5.3 Increase in internal work capitalised

The Increase in internal work capitalised, amounting to Euro 3,528 thousand (Euro 3,687 thousand in the previous year), includes Euro 314 thousand related to the Chinese subsidiary (Euro 350 thousand in 2018), Euro 733 thousand to the Mexican subsidiary (Euro 582 thousand in 2018) and Euro 2,481 thousand Elica S.p.A. (Euro 2,755 thousand in 2018). These increases relate to the capitalisation of costs for the design and development of new products and internal costs incurred for the construction of mouldings, industrial equipment and the introduction of new IT programmes. Internal works capitalised principally comprise labour costs.

#### B.6.5.4 Change in inventories finished/semi-finished products and raw materials and consumables

<i>In Euro thousands</i>	<b>2019</b>	<b>2018</b>	<b>Changes</b>
Purchase of raw materials	189,625	193,136	(3,511)
Transport of purchases	6,611	6,456	155
Purchases of consumables	2,211	2,946	(735)
Packaging	2,245	2,202	43
Purchases of workshop supplies	719	946	(227)
Purchases of semi-finished products	16,639	17,585	(946)
Purchase of finished goods	32,369	29,895	2,474
Other purchases	1,781	1,887	(106)
Change in inventory of raw materials, consumables, supplies and goods	2,938	(3,518)	6,456
<b>Raw materials and consumables</b>	<b>255,138</b>	<b>251,535</b>	<b>3,603</b>
<b>Changes in inventories of finished and semi-finished goods</b>	<b>622</b>	<b>(184)</b>	<b>806</b>
<b>Total consumables</b>	<b>255,760</b>	<b>251,351</b>	<b>4,409</b>

The two items, Changes in inventories of finished and semi-finished products and Raw materials and consumables may be considered together. The total of these items increased by Euro 4.4 million, while these costs as a percentage of revenue increased from 53.2% in 2018 to 53.3% in 2019.

In detail, the Raw materials and consumables account increased by approx. Euro 3.6 million, in particular due to the costs of purchasing finished goods and the change in inventories of raw materials, consumables and finished goods, net of the decrease in purchases of raw materials. Changes in inventories of finished and semi-finished goods increased by Euro 0.8 million.

#### B.6.5.5 Services

<i>In Euro thousands</i>	<b>2019</b>	<b>2018</b>	<b>Changes</b>
Outsourcing	25,653	26,691	(1,038)
Transport	10,721	10,020	701
Management of finished products	5,238	5,588	(350)
Consultancy	6,253	5,602	651
Other professional services	11,227	9,979	1,247
Maintenance	2,272	2,440	(168)
Utilities	4,408	4,215	193
Commissions	1,775	1,684	91
Travel	2,900	2,847	53
Advertising	4,994	5,876	(882)
Insurance	1,257	1,230	27
Directors' and Statutory Auditors' fees	3,611	2,029	1,582
Trade fairs and promotional events	3,430	4,054	(624)
Industrial services	675	681	(6)
Banking commissions and charges	304	396	(92)
<b>Services</b>	<b>84,717</b>	<b>83,333</b>	<b>1,384</b>

Service expenses increased overall by Euro 1.4 million, while remaining stable as a percentage of revenue at 17.6%. The increase was concentrated in particular in the items Other professional services and Directors' and statutory auditors' fees. This change is net of the decrease in Outsourcing expenses, Advertising and fairs and Promotional events, which fell in part because 2019 is not a Eurocucina year (the event is held every other year).

Other professional services concern: Euro 4.2 million for technical assistance, Euro 846 thousand for communication services, Euro 1.150 thousand for compliance with regulations and trademark support, Euro 710 thousand for company canteen, Euro 531 thousand for cleaning expenses, Euro 247 thousand for importation services and Euro 851 thousand for motor vehicle expenses.

#### B.6.5.6 Personnel expense

Personnel expense incurred by the Group in 2018 and 2019 was as follows:

<i>In Euro thousands</i>	<b>2019</b>	<b>2018</b>	<b>Changes</b>
Wages and salaries	65,331	62,203	3,128
Social security expenses	18,129	16,605	1,524
Post-employment benefits	3,106	3,014	92
Other costs	7,332	5,784	1,548
<b>Personnel expense</b>	<b>93,899</b>	<b>87,606</b>	<b>6,293</b>

The increase in this item was Euro 6.3 million. Personnel expense principally concerns Elica S.p.A. for Euro 57,182 thousand (Euro 53,293 thousand in 2018), Elica Group Polska for Euro 13,862 thousand (Euro 12,905 thousand in 2018), the Mexican subsidiary for Euro 9,228 thousand (Euro 10,950 thousand in 2018), Putian for Euro 2,560 thousand (Euro 3,156 thousand in 2018), Airforce for Euro 4,366 thousand (Euro 4,156 thousand in 2018), Elica India for Euro 2,466 thousand (Euro 1,774 thousand in 2018) and Elica GmbH for Euro 1,162 thousand (Euro 1,126 thousand in 2018). 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, 2019 and December 31, 2018. The decrease, concentrated in the Blue-collar workers category, refers mainly to the Mexican company.

Workforce	Dec 31, 2019	Dec 31, 2018	Changes
Executives	32	36	(4)
White-collar	1,232	1,134	98
Blue-collar	1,973	2,213	(240)
Others	433	440	(7)
<b>Total</b>	<b>3,670</b>	<b>3,823</b>	<b>(153)</b>

#### B.6.5.7 Amortisation and depreciation

The total amount of amortisation and depreciation increased on the previous year by Euro 5,213 thousand, rising from Euro 20,202 thousand in 2018 to Euro 25,415 thousand in 2019, due in particular to the initial application of IFRS 16, described in paragraph B.6.2.3.1., which entails an increase of Euro 3,388 thousand, in addition to the effects of the investments incurred by the Group in recent years.

For further details, reference should be made to the accounting policies and to points B.6.5.17 and B.6.5.19 of these notes.

#### B.6.5.8 Other operating expenses and accruals

These are detailed as follows:

In Euro thousands	2019	2018	Changes
Leases and rentals	1,250	2,482	(1,232)
Rental of vehicles and industrial equipment	464	2,697	(2,233)
Fees to use hardware, software and patents	592	938	(346)
Other taxes	1,224	1,269	(45)
Magazine and newspaper subscriptions	17	14	3
Sundry equipment	203	265	(62)
Catalogues and brochures	700	699	1
Losses on receivables and loss allowance	(288)	10,406	(10,694)
Provisions for risks and charges	2,852	6,275	(3,424)
Other prior year expenses and losses	1,476	1,912	(436)
<b>Other operating expenses and accruals</b>	<b>8,489</b>	<b>26,957</b>	<b>(18,468)</b>

The account decreased by Euro 18.5 million, primarily due to the impacts of two phenomena. On the one hand, the application of IFRS 16 entailed a reduction in costs of Euro 3.4 million, while on the other the figures from the previous year are to be regarded as exceptional. In 2018, in fact, the trade receivable from Gutmann was impaired by Euro 6.8 million, the receivable claimed from the acquirer of the shares of Gutmann was impaired by Euro 0.8 million to its market value, a provision for risks of Euro 1.65 million was recognised to cover the guarantee granted to third parties and a provision of Euro 2.6 million was set aside for the closing of the settlement agreement with Gutmann.

#### B.6.5.9 Restructuring charges

The Group recognised restructuring charges of Euro 1.3 million. This amount includes the impact of reorganising the management of the Mexican company, in addition to costs primarily deriving from the workforce restructuring plan for the Chinese subsidiary and the Parent. The restructuring provision still includes Euro 156 thousand of these costs to cover future departures in accordance with IAS 37. They principally concern personnel expense.

#### B.6.5.10. Financial income

Details of financial income are shown below:

In Euro thousands	2019	2018	Changes
Interest on bank deposits	324	225	99
Other financial income	63	743	(680)
<b>Financial income</b>	<b>387</b>	<b>968</b>	<b>(581)</b>

The decrease mainly relates to the item other financial income, which last year contained the release of the discounting of the Parent's asset from Gutmann for the sale of the ownership of this company, which was completely impaired in the 2019 financial statements (see paragraph B.6.5.36).

### B.6.5.11. Financial expense

	2019	2018	Changes
<i>In Euro thousands</i>			
Financial expense:			
on overdrafts and bank loans	2,015	2,088	(73)
on loans and borrowings from other lenders and IFRS 16	265	6	259
on post-employment benefits	303	220	83
Financial discounts	1,335	1,172	163
<b>Financial expense</b>	<b>3,918</b>	<b>3,485</b>	<b>432</b>

The increase in financial expense of Euro 432 thousand was due to the application of IFRS 16 for Euro 265 thousand and to the increase in discounts on sales for Euro 163 thousand.

### B.6.5.12. Exchange rate gains/(losses)

	2019	2018	Changes
<i>In Euro thousands</i>			
Exchange rate losses	(4,254)	(26,653)	22,399
Exchange rate gains	5,660	26,081	(20,421)
Charges on derivative instruments	(4,541)	(6,045)	1,504
Losses on derivative instruments	2,164	5,087	(2,923)
<b>Exchange rate gains/(losses)</b>	<b>(971)</b>	<b>(1,530)</b>	<b>559</b>

Net exchange rate gains, excluding transactions in derivative instruments, amounted to Euro 1,406 thousand, compared to losses of Euro 572 thousand in the previous year. Exchange rate gains and losses principally concern: Elica S.p.A. with a net gain of approx. Euro 1,101 thousand, Elicamex s.A. de C.V. with a net gain of Euro 241 thousand and Elica Trading LLC with a gain of Euro 39 thousand.

Net losses on derivative instruments were Euro 2,377 thousand in 2019 and Euro 959 thousand in 2018.

In paragraph B.6.7. Paragraph 7 Risk management of these notes reports information on derivatives.

### B.6.5.13. Income taxes

Income taxes in 2018 and 2019 are broken down as follows:

	2019	2018	Changes
<i>In Euro thousands</i>			
Current taxes	4,644	5,534	(891)
Deferred taxes	(90)	(3,362)	3,272
<b>Income taxes</b>	<b>4,554</b>	<b>2,172</b>	<b>2,382</b>

The tax charge of the year increased by Euro 2.4 million on 2018. The balance comprises current and deferred taxes. At December 31, 2019 the main subsidiaries had the following tax charges: Elica India of Euro 1.3 million, Elicamex of Euro 1.2 million and Ariafina of 1.8 million

For 2019, the Parent's theoretical tax rate (theoretical tax on pre-tax income) was 28.13%, similar to 2018, 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, 2019, 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 49.1% to 37.4%.

### Reconciliation between expected and effective tax rates

		<b>2019</b>			<b>2018</b>		
		24.00%	4.13%		24.00%	4.13%	
		Taxable profit	Income taxes	IRAP	Total	% IRES on tax base	% IRES on tax base
			<u>4,457</u>	<u>97</u>	<u>4,554</u>	<u>37.4%</u>	
	<b>PROFIT BEFORE TAXES</b>	<b>11,933</b>					<b>4,486</b>
+	Tax calculated using local tax rate		2,863			24.0%	1,077
+	Tax effect of (income)/expenses not considered for tax purposes	(4,715)	(1,132)			-9.5%	(7,433)
-	Tax effect on the different tax rates of the foreign subsidiaries	6,549	1,572			13.2%	27,629
-	Other differences	(638)	(152)			-1.3%	6,631
	<b>[B] Effective tax charge and tax rate net of substitute tax</b>	<b>13,129</b>	<b>3,151</b>			<b>26.4%</b>	<b>316</b>
-	Tax credit for Polish investments		792			6.6%	76
-	Effect of tax refund and other		514			4.3%	1,204
	<b>[C] Effective tax charge and tax rate</b>	<b>13,129</b>	<b>4,457</b>			<b>37.4%</b>	<b>648</b>
							<b>1,468</b>
							<b>2,204</b>
							<b>49.1%</b>

#### B.6.5.14. Profit/(loss) attributable to non-controlling interests

The profit attributable to non-controlling interests concerns the subsidiaries for which the Elica Group does not hold 100% of the share capital, despite having control. For further information, reference should be made to note B.6.5.35, on Equity attributable to non-controlling interests.

#### B.6.5.15. Basic earnings/(loss) per share – Diluted earnings/(loss) per share

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

	2019	2018
<b>From continuing and discontinued operations:</b>		
Profit/(loss) attributable to owners of the Parent (In Euro thousands)	3,063	(961)
Average number of ordinary shares net of treasury shares	62,606,424	62,047,302
<b>Basic earnings/(loss) per share</b>	<b>4.89</b>	<b>(1.55)</b>
Weighted average number of ordinary shares to calculate diluted earnings per share	62,606,424	62,047,302
<b>Diluted earnings/(loss) per share</b>	<b>4.89</b>	<b>(1.55)</b>
<b>From continuing operations</b>		
Profit/(loss) attributable to owners of the Parent (In Euro thousands)	3,063	(961)
Average number of ordinary shares net of treasury shares	62,606,424	62,047,302
<b>Basic earnings/(loss) per share</b>	<b>4.89</b>	<b>(1.55)</b>
Weighted average number of ordinary shares to calculate diluted earnings per share	62,606,424	62,047,302
<b>Diluted earnings/(loss) per share</b>	<b>4.89</b>	<b>(1.55)</b>

#### B.6.5.16. Other information on the Income Statement

The research and development costs charged in the Income Statement in 2019 and 2018 are summarised in the table below:

	2019	2018	Changes
<i>In Euro thousands</i>			
R&D costs expensed	5,866	5,501	365
Amortisation of capitalised R&D costs	3,018	2,624	394
<b>Total R&amp;D costs</b>	<b>8,884</b>	<b>8,125</b>	<b>759</b>
<b>R&amp;D costs capitalised during the year</b>	<b>2,776</b>	<b>2,713</b>	<b>63</b>

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

## Statement of Financial Position

### B.6.5.17. Property, plant and equipment

The table below shows details of the changes in property, plant and equipment in 2019 and 2018.

	Land & buildings	Plant & mach.	Industrial & commercial equipment	Other assets	Assets under construction and payments on account	Historic cost property, plant & equipment
<i>In Euro thousands</i>						
<b>Dec 31, 2017</b>	<b>69,752</b>	<b>95,999</b>	<b>113,809</b>	<b>14,165</b>	<b>1,070</b>	<b>294,795</b>
Increases	5,068	4,541	8,384	1,843	398	20,235
Disposals & other reclassifications	(143)	(2,274)	(3,690)	(282)	(350)	(6,739)
Other changes	(104)	257	(242)	(372)	(630)	(1,091)
<b>Dec 31, 2018</b>	<b>74,573</b>	<b>98,523</b>	<b>118,261</b>	<b>15,354</b>	<b>488</b>	<b>307,200</b>
Increases	816	4,623	5,080	1,751	1,695	13,965
Disposals & other reclassifications	(125)	(385)	(117)	(58)	(558)	(1,244)
Other changes	(285)	1,725	598	(5)	(761)	1,272
<b>Dec 31, 2019</b>	<b>74,978</b>	<b>104,486</b>	<b>123,822</b>	<b>17,042</b>	<b>865</b>	<b>321,192</b>
<i>In Euro thousands</i>						
	Land & buildings	Plant & mach.	Industrial & commercial equipment	Other assets	Assets under construction and payments on account	Accumulated Depreciation
<b>Dec 31, 2017</b>	<b>26,699</b>	<b>67,903</b>	<b>91,436</b>	<b>11,072</b>	-	<b>197,110</b>
Depreciation	2,048	4,166	6,588	1,164		13,966
Disposals & other reclassifications	(16)	(2,150)	(3,676)	(270)		(6,112)
Other changes	(183)	128	(135)	(428)		(618)
<b>Dec 31, 2018</b>	<b>28,548</b>	<b>70,047</b>	<b>94,213</b>	<b>11,538</b>	-	<b>204,346</b>
Depreciation	2,149	4,425	6,706	1,348		14,628
Disposals & other reclassifications	-	(376)	(90)	(51)		(517)
Other changes	62	672	703	(101)		1,336
<b>Dec 31, 2019</b>	<b>30,759</b>	<b>74,768</b>	<b>101,531</b>	<b>12,734</b>		<b>219,793</b>
	Land & buildings	Plant & mach.	Industrial & commercial equipment	Other assets	Assets under construction and payments on account	Net property, plant and equipment
<i>In Euro thousands</i>						
<b>Dec 31, 2017</b>	<b>43,053</b>	<b>28,096</b>	<b>22,373</b>	<b>3,093</b>	<b>1,070</b>	<b>97,686</b>
Increases	5,068	4,541	8,384	1,843	398	20,235
Depreciation	(2,048)	(4,166)	(6,588)	(1,164)	-	(13,966)
Disposals & other reclassifications	(126)	(124)	(14)	(12)	(350)	(626)
Other changes	78	129	(107)	56	(630)	(473)
<b>Dec 31, 2018</b>	<b>46,025</b>	<b>28,475</b>	<b>24,048</b>	<b>3,817</b>	<b>488</b>	<b>102,854</b>
Increases	816	4,623	5,080	1,751	1,695	13,965
Depreciation	(2,149)	(4,425)	(6,706)	(1,348)	-	(14,628)
Disposals & other reclassifications	(125)	(9)	(27)	(7)	(558)	(727)
Other changes	(347)	1,053	(105)	96	(761)	(64)
<b>Dec 31, 2019</b>	<b>44,220</b>	<b>29,717</b>	<b>22,290</b>	<b>4,309</b>	<b>864</b>	<b>101,399</b>

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.

The row Other changes includes net exchange rate gains of Euro 1.4 million, in addition to the reclassification from land to rights of use as per IFRS 16 of the land perpetual use rights of Euro 1,060 thousand held by the Polish company.

The item includes any assets acquired in the past under agreements then classified finance leases.

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.

### B.6.5.18. Goodwill

In 2018 the Elica Group had already established a global model, with a single cash generating unit, the Elica Group, which reflects the current Group situation and complies with IFRS (IAS 36).

<i>In Euro thousands</i>	Dec 31, 2019	Dec 31, 2018	Changes
Goodwill allocated to subsidiaries	39,340	39,273	67
<b>Goodwill</b>	<b>39,340</b>	<b>39,273</b>	<b>67</b>

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. The change in goodwill is 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 February 13, 2020, 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 principal assumptions utilised by the Company for the estimate of the future cash flows for the impairment test were as follows:

	2019
Weighted average cost of capital (WACC)	7.74%
Growth rate terminal value	2.17%
CAGR revenue period 2020-2024	5.70%

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 2.1% was used, a market premium risk of 5.96% and a beta-unlevered factor of 0.86.

#### **Assumptions utilised in estimating cash flows**

The discounted cash flow model is based on the cash flows calculated on the basis of the best estimates made by the directors, for the sole purposes of the impairment test, for a period of five years, the first of which coincides with the 2020 budget. The main assumptions utilised in the determination of the cash flows were as follows:

- average EBITDA on revenue equal to 11.26%;
- average EBIT on revenue equal to 6.87%;
- average Capex on revenue equal to 4.01%;
- level of Free Operating Cash flow After Taxes on revenue equal to 4.25%.

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 3.03 times its carrying amount (Euro 522 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%/-2%). None of the changes considered resulted in a CGU recoverable amount equal to or below the respective carrying amounts. In particular, upon changes in the growth rate coverage would fluctuate between 3.18 and 2.90, upon changes in the WACC coverage would fluctuate between 3.51 and 2.64 and upon changes in the cost of consumption of raw materials it would fluctuate between 3.69 and 2.37.

### B.6.5.19. Other intangible assets

The table below shows details of changes in other intangible assets in 2019 and 2018.

	Development costs	Industrial patents and intellectual property rights	Concessions, licenses, trademarks & similar rights	Other intangible assets	Assets under development and payments on account	Net intangible assets
<i>In Euro thousands</i>						
<b>Dec 31, 2017</b>	<b>8,260</b>	<b>11,994</b>	<b>1,923</b>	<b>1,675</b>	<b>2,210</b>	<b>26,062</b>
Increases	2,713	4,146	129	298	1,072	8,358
Other changes and reclassifications	521	1,174	6	6	(1,669)	38
Amortisation and impairment losses	(2,624)	(2,810)	(1,438)	(440)	-	(7,312)
<b>Dec 31, 2018</b>	<b>8,870</b>	<b>14,504</b>	<b>620</b>	<b>1,538</b>	<b>1,613</b>	<b>27,146</b>
Increases	2,776	3,404	272	361	1,639	8,452
Other changes and reclassifications	669	355	(100)	123	(970)	77
Amortisation	(3,018)	(3,494)	(341)	(546)	-	(7,399)
<b>Dec 31, 2019</b>	<b>9,297</b>	<b>14,769</b>	<b>451</b>	<b>1,477</b>	<b>2,282</b>	<b>28,276</b>

At December 31, 2019, intangible assets amounted to Euro 28,276 thousand, an increase of Euro 1,130 thousand on the previous year.

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

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

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

Other intangible assets mainly relate to technologies developed.

Assets under development and payments on account of Euro 2,282 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 classified as development costs amount to Euro 1,582 thousand.

Other changes and reclassifications include the transfer of the Gutmann brand to the company of the same name for Euro 100 thousand on the basis of the agreements described in paragraph B.6.5.36. and an exchange rate gain of Euro 150 thousand.

The criteria applied to amortise intangible assets is considered appropriate to reflect the residual useful life of the assets.

The capitalisation of development costs and intangible assets under development 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 and intangible assets under development is greater than the corresponding carrying amount, and therefore it is not necessary to recognise an impairment loss.

### B.6.5.20. Investments in associates

The table below shows changes in investments in associates:

	Dec 31, 2018	(Impairment losses)	Dec 31, 2019
<i>In Euro thousands</i>			
Investments in associates	1,396	(626)	770
<b>Investments in associates</b>	<b>1,396</b>	<b>(626)</b>	<b>770</b>

The balance of the Impairment losses column, a negative Euro 626 thousand, refers to the non-core equity investment in the real estate company ISM, an associate of the Group. An analysis was conducted to determine the value of the equity investment, examining the fair value of the assets held by the associate, which resulted in the impairment of the company's net equity. The balance of the Impairment losses column represents most of the income statement account Share of profit/(loss) of associates, equal to a negative Euro 617 thousand.

The table below shows the carrying values at the end of the previous year and as at December 31, 2019.

In Euro thousands	Purchase cost	Pro-quota	Balance at	Purchase cost	Pro-quota	Balance at
		post-acquis. gain/loss (exclud. dividends)	Dec 31, 2019		post-acquis. gain/loss (exclud. dividends)	Dec 31, 2018
I.S.M. S.r.l.	1,899	(1,129)	770	1,899	(503)	1,396
<b>Total</b>	<b>1,899</b>	<b>(1,129)</b>	<b>770</b>	<b>1,899</b>	<b>(503)</b>	<b>1,396</b>

#### B.6.5.21. Other assets (non-current)

The breakdown is as follows:

In Euro thousands	Dec 31, 2019	Dec 31, 2018	Changes
From employees	43	9	34
Other receivables	298	291	7
Other assets	52	52	0
<b>Other assets (non-current)</b>	<b>393</b>	<b>352</b>	<b>41</b>

The account was not subject to significant variations. The item Other assets regards unqualified non-controlling interests 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. Accordingly, the carrying amount, unchanged on the previous year, is the cost of the equity investments concerned.

Management believes that this amount approximates fair value.

#### B.6.5.22. Trade receivables

In Euro thousands	Dec 31, 2019	Dec 31, 2018	Changes
Trade receivables	55,022	51,192	3,830
<b>Trade receivables</b>	<b>55,022</b>	<b>51,192</b>	<b>3,830</b>

Trade receivables increased Euro 3,830 thousand. This change is in line with the increase in revenue recognised in 2019.

In order to reduce its credit risk, the Group implements a Group Credit Policy which governs the management of credit.

The "Credit Risk" represent the exposure 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.

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

The maximum theoretical credit risk exposure for the Group at December 31, 2019 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, 2019, trade receivables of Euro 55.0 million (Euro 51.2 million at December 31, 2018) included approx. Euro 7.5 million (Euro 7 million at December 31, 2018) of overdue receivables. 2.3% of receivables (2.3% at December 31, 2018) were overdue by more than 60 days.

The amount of trade receivables recognised in the statement of financial position is net of the allowance for impairment.

The allowance is accrued either on a specific basis or generally to cover overall risks, in accordance with the Group's Credit Policy.

Receivables are recognised net of the allowance for impairment, amounting to Euro 4,497 thousand (Euro 13,865 thousand in 2018, a year that included the entire trade receivable from Gutmann, for the details of which refer to the Directors' report, paragraph A.8. "Significant events in 2019" and paragraph B.6.5.36 "Settlement agreement reached with Gutmann"), accrued in accordance with the Group Credit Policy, in addition to the impairment illustrated above. The existing provision is considered adequate to adjust the receivables to their realisable value.

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

#### B.6.5.23. Inventories

<i>In Euro thousands</i>	<b>Dec 31, 2019</b>	<b>Dec 31, 2018</b>	<b>Changes</b>
Raw materials, ancillary and consumables	28,487	31,183	(2,696)
Provision for the write-down of raw materials	(3,457)	(3,071)	(386)
<b>Total</b>	<b>25,030</b>	<b>28,112</b>	<b>(3,082)</b>
Work-in-progress and semi-finished goods	15,348	15,679	(331)
Provision for the write-down of semi-finished products	(827)	(1,043)	216
<b>Total</b>	<b>14,521</b>	<b>14,636</b>	<b>(115)</b>
Finished products and goods for resale	36,301	37,104	(803)
Provision for the write-down of finished products	(2,962)	(3,657)	695
<b>Total</b>	<b>33,339</b>	<b>33,447</b>	<b>(108)</b>
<b>Inventories</b>	<b>72,890</b>	<b>76,196</b>	<b>(3,306)</b>

The closing inventories decreased by Euro 3,306 thousand.

Inventories are stated net of the provision for inventory write-down of approximately Euro 7,246 thousand (Euro 7,770 thousand in 2018), 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. The provision for inventory write-down is calculated based on assumptions made by Management and amounts to 9.0% of inventories (9.3% in 2018).

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.

#### B.6.5.24. Other assets (current)

This item is broken down as follows:

<i>In Euro thousands</i>	<b>Dec 31, 19</b>	<b>Dec 31, 18</b>	<b>Changes</b>
Other assets	3,694	4,781	(1,087)
Prepayments and accrued income	1,680	1,808	(128)
<b>Other assets (current)</b>	<b>5,374</b>	<b>6,589</b>	<b>(1,215)</b>

Prepayments and accrued income include advanced insurance premiums, maintenance fees and rental charges. 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, the Smartfan project and photovoltaic plant grants. The account Other assets also includes the position of Euro 650 thousand claimed from the insurance broker by Elica S.p.A. following a loss event caused at an Italian plant by inclement weather. Last year, this item included the reclassification of third-party assets, which for Euro 1.7 million, were transferred to Gutmann, following the transaction described in paragraph B.6.5.36 and in the Directors' report in paragraph A8 Significant events in 2019. The latter two phenomena explain most of the change.

Management believes that this amount approximates fair value.

### B.6.5.25. Tax assets

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

<i>In Euro thousands</i>	<b>Dec 31, 19</b>	<b>Dec 31, 18</b>	<b>Changes</b>
VAT	12,720	8,691	4,029
Other tax assets	2,246	8,584	(6,338)
<b>Tax assets (current)</b>	<b>14,966</b>	<b>17,275</b>	<b>(2,309)</b>

The change in the VAT asset relates to trade transaction dynamics and refers principally to the Parent for Euro 1.2 million (from Euro 5.4 to 6.7 million) and to Elicamex for Euro 2.3 million (from Euro 3.2 to 5.5 million). The account Other assets from tax authorities includes the tax assets of foreign companies (with a decrease in the case of Elicamex of Euro 4.4 million) and of the Parent, for which foreign tax assets declined by Euro 749 thousand and other tax assets by approx. Euro 1 million.

Management believes that this amount approximates fair value.

### B.6.5.26. Liabilities for post-employment benefits

The Elica Group reports obligations of Euro 10,737 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, 2019 by the service company Managers &Partners – Actuarial Services S.P.A.

The amounts recognised in profit or loss were as follows:

<i>In Euro thousands</i>	<b>Dec 31, 2019</b>	<b>Dec 31, 2018</b>	<b>Changes</b>
Current service cost	3,106	3,014	92
Financial expense	122	220	(98)
	<b>3,228</b>	<b>3,234</b>	<b>(6)</b>

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

<i>(Euro thousands)</i>	<b>Dec 31, 2019</b>	<b>Dec 31, 2018</b>	<b>Changes</b>
<b>Opening balance</b>	10,465	10,903	(438)
Current service cost	3,106	3,014	92
Actuarial gains and losses	575	(409)	984
	<b>14,147</b>	<b>13,508</b>	<b>639</b>
Financial expense	122	220	(98)
Pension fund	(2,900)	(2,711)	(189)
Benefits provided	(632)	(551)	(81)
	<b>(3,410)</b>	<b>(3,042)</b>	<b>(368)</b>
<b>Liabilities for post-employment benefits</b>	<b>10,737</b>	<b>10,465</b>	<b>271</b>

The interest component of the defined employee benefit plan cost is shown under financial expenses, with a resulting increase of Euro 122 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 575 thousand, comprise the actuarial gains (losses) of the defined benefit plans reported in the Consolidated Statement of Comprehensive Income. The specific reserve set up amounts, net of the tax effect, to a negative Euro 3.4 million for the Group and Euro 194 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, 2019	Dec 31, 2018
Discount rate to determine the obligation	0.77%	1.57%
Expected salary growth rate	2.00%	2.00%
Rate of inflation	1.20%	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% (1.27%), the obligation would amount to Euro 9,963 thousand, while if the discount rate decreased 0.5% (0.27%), the obligation would amount to Euro 11,074 thousand.

The number of employees is detailed in paragraph B.6.5.6 "Personnel expense".

### B.6.5.27. Provisions for risks and charges

The composition and movements of the provisions are as follows:

In Euro thousands	Dec 31, 2018	Provisions	Utilisations/Releases	Other changes	Dec 31, 2019
Agents' termination benefits	574	100	(42)	-	632
Product warranties	2,572	2,137	(2,312)	27	2,423
Legal risks	10,275	1,603	(4,889)	-	6,989
Long Term Incentive Plan	1,068	2,207	-	-	3,275
Personnel	3,007	2,707	(3,007)	-	2,708
Restructuring	179	156	(179)	-	156
Other	2,291	1,760	(1,362)	(8)	2,681
<b>Provisions for risks and charges</b>	<b>19,965</b>	<b>10,670</b>	<b>(11,791)</b>	<b>19</b>	<b>18,864</b>
of which					
Non-current	10,647				12,377
Current	9,318				6,487
<b>Provisions for risks and charges</b>	<b>19,965</b>				<b>18,864</b>

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

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

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.

As was the case at December 2018, the provision includes, among others, the estimate made by the Board of Directors with regards to the risk upon outstanding cases.

With regards to the case between Esperança Real S/A, Madson Eletrometalurgica Ltda and Elica S.p.A, Elica discloses that in January 2019 the Court of Appeal heard the Company's appeal and cancelled the order to pay the direct pecuniary damage and the indirect damages as set out in the first level judgment. Any amount eventually due should be decided by a fresh judgment and requires the extensive demonstration of proof, which began in August 2019. Despite this judgment, exclusively for reasons of prudence, the company shall maintain the previously accrued amount of Euro 4 million.

In addition, in 2019 it also utilised, *inter alia*, Euro 1.65 million for the guarantee issued, which based on the agreement as per Note B.6.5.36 Elica agreed to pay, to the company owner of the building leased by Gutmann and of Euro 2.6 million against the settlement with Gutmann.

The amount, Euro 156 thousand, still carried in the restructuring provision, is intended to cover future redundancies in accordance with IAS 37, in order to complete the Parent's downsizing plan, designed to reduce and optimise the Company's organisational structure. 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 2019 in this regard.

The Long-Term Incentive Plan provision concerns the accrued liability at December 31, 2019 for the 2016-2022 Phantom Stock and Voluntary Co-investment Plan and the 2019-2025 Phantom Stock and Voluntary Co-investment Plan. The provision refers to the second and third cycle of the first Plan, which was approved by the Board of Directors of Elica S.p.A. respectively on June 26, 2017 and February 12, 2018, and the first cycle of the second Plan, which was approved by the Board of Directors of Elica S.p.A. on July 30, 2019. For further details, reference should be made to the Remuneration Report.

The column Other changes relates to exchange rate gains/losses for Euro 19 thousand.

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

#### B.6.5.28. Deferred tax assets – Deferred tax liabilities

At December 31, 2019, details of deferred tax assets and liabilities, determined on the basis of the asset-liabilities method, were as follows:

In Euro thousands	Dec 31, 2019	Dec 31, 2018	Changes
Deferred tax assets	19,925	18,339	1,586
Deferred tax liabilities	(3,496)	(2,992)	(504)
<b>Total</b>	<b>16,429</b>	<b>15,347</b>	<b>1,082</b>

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

In Euro thousands	Dec 31, 2018			Dec 31, 2019		
	Assets	Liabilities	Other changes/Equity	(Costs)/Revenue	Assets	Liabilities
Amortisation, depreciation and provisions	9,083	(271)	72	(3,374)	5,819	(309)
Losses carried forward	4,074	-	900	3,516	8,490	-
Inventory write-down	1,283	-	1	(67)	1,217	-
Exchange rate differences	405	(113)	(374)	202	220	(101)
Restructuring charges	50	-	-	(6)	44	-
Allocation of acquisition price	-	(2,438)	-	97	-	(2,341)
Other accruals (e.g. personnel expense, LTI, employee bonuses and post-employment benefits and R&D)	1,419	-	1	599	2,019	-
Goodwill	143	(3)	-	(52)	91	(3)
Other	1,882	(167)	39	(472)	2,025	(742)
	<b>18,339</b>	<b>(2,992)</b>	<b>640</b>	<b>443</b>	<b>19,925</b>	<b>(3,496)</b>

The column Other changes/Equity include 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 323 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 793 thousand concerning the investments in Poland.

The Chinese and German subsidiaries have accrued tax losses over the years, although the Group has not recognised the deferred tax assets of Euro 3.7 million on them for reasons of prudence.

#### B.6.5.29. Other liabilities and tax liabilities (non-current)

These liabilities were carried by Elica S.p.A. and decreased principally following the payment of a portion of the amounts that were deferred following the earthquake in 1997 and 2016.

**B.6.5.30. Other liabilities (current)**

<i>In Euro thousands</i>	Dec 31, 2019	Dec 31, 2018	Changes
Due to social security institutions	3,037	2,784	253
Other	4,157	3,728	429
Due to personnel for renumeration	5,640	5,793	(153)
Accrued liabilities and deferred income	2,105	1,548	557
Customer advances	501	549	(48)
Directors and statutory auditors	308	100	208
<b>Other liabilities (current)</b>	<b>15,749</b>	<b>14,503</b>	<b>1,246</b>

This item shows a net increase of Euro 1,246 thousand. This increase may be broken down, *inter alia*, into Accrued liabilities and deferred income of Euro 557 thousand, Other liabilities of Euro 429 thousand and Liabilities to directors and statutory auditors of Euro 208 thousand.

**B.6.5.31. Tax liabilities (current)**

<i>In Euro thousands</i>	Dec 31, 2019	Dec 31, 2018	Changes
Other tax liabilities	4,073	2,880	1,193
IRPEF withholdings	2,291	2,323	(32)
Income tax liabilities for the year	1,411	5,641	(4,230)
<b>Tax liabilities (current)</b>	<b>7,775</b>	<b>10,844</b>	<b>(3,069)</b>

Overall, this item is down Euro 3.1 million. The decrease refers to income tax liabilities for the year, principally concerning the overseas subsidiaries, in particular Arafina and Elicamex, which account for the largest part of the decrease. The caption Other taxes primarily includes VAT liabilities. Management believes that this amount approximates fair value.

**B.6.5.32. Trade payables**

<i>In Euro thousands</i>	Dec 31, 2019	Dec 31, 2018	Changes
Trade payables	110,100	109,916	184
<b>Total</b>	<b>110,100</b>	<b>109,916</b>	<b>184</b>

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.

**B.6.5.33. Net financial position, default risk and covenants**

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

<i>In Euro thousands</i>	Dec 31, 2019	Jan 1, 2019	Dec 31, 2018
Cash and cash equivalents	35,613	35,612	35,612
Bank loans and borrowings (current)	(27,317)	(37,792)	(37,792)
Bank loans and borrowings (non-current)	(55,451)	(54,102)	(54,102)
<b>Net Financial Position</b>	<b>(47,155)</b>	<b>(56,282)</b>	<b>(56,282)</b>
Lease liabilities as per IFRS 16 (current)	(3,525)	(2,961)	-
Lease liabilities as per IFRS 16 (non-current)	(8,233)	(8,829)	-
<b>Net Financial Position - Including the effects of IFRS 16</b>	<b>(58,913)</b>	<b>(68,073)</b>	<b>(56,282)</b>
Assets for derivatives	498	513	513
Liabilities for derivatives (current)	(386)	(1,737)	(1,737)
Liabilities for derivatives (non-current)	(198)	(120)	(120)
<b>Net Financial Position - Including the effects of IFRS 16 derivatives</b>	<b>(58,999)</b>	<b>(69,416)</b>	<b>(57,626)</b>

For comments on the change in net financial position, see paragraph A.5.2.2 of the Directors' report, "Elica Group Equity and Financial Performance".

**B.6.5.33.1 Cash and cash equivalents**

	Dec 31, 2019	Dec 31, 2018	Changes
<i>In Euro thousands</i>			
Bank and postal deposits	35,591	35,587	4
Cash in hand and similar	21	25	(3)
<b>Cash and cash equivalents</b>	<b>35,613</b>	<b>35,612</b>	<b>1</b>

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.

**B.6.5.33.2 Bank loans and borrowings**

(Euro thousands)	Dec 31, 2019	Dec 31, 2018	Changes
Bank loans and borrowings	82,768	91,894	(9,126)
<b>Total</b>	<b>82,768</b>	<b>91,894</b>	<b>(9,126)</b>
Bank loans and borrowings have the following repayment schedules:			
On demand or within one year	27,317	37,792	(10,475)
Within two years	17,187	17,933	(746)
Within three years	17,699	16,717	982
Within four years	14,903	12,726	2,177
Within five years	5,522	6,549	(1,027)
After 5 years	140	177	(37)
<b>Total</b>	<b>82,768</b>	<b>91,894</b>	<b>(9,126)</b>
Less amounts to be repaid within one year	27,317	37,792	(10,475)
<b>Due after one year</b>	<b>55,451</b>	<b>54,102</b>	<b>1,349</b>

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

In particular the structure of the covenants on some of the non-current loans is such that non-compliance does not immediately trigger default, but a first non-compliance does result in an increase in the cost of the loan.

At December 31, 2019 these covenants were complied with, both in relation to the increase in the cost of the loan and default on the loan. The Group expects that it will continue to comply with the covenants in 2020.

Most of the borrowings indicated above carry a floating rate of interest. In 2019 the Group negotiated a new non-current loan and entered into a related IRS contract on this loan to hedge the variable interest rate.

For further information on how liquidity risk is monitored and on interest rate hedges, reference should be made to paragraph B.6.7., "Risk management" of these notes.

**B.6.5.33.3 Derivative financial instruments**

	Dec 31, 2019		Dec 31, 2018	
	Assets	Liabilities	Assets	Liabilities
<i>In Euro thousands</i>				
FX derivatives	189	211	513	415
Interest rate derivatives	-	373	-	366
Commodities derivatives	309	-	-	1,076
<b>Derivative financial instruments</b>	<b>498</b>	<b>584</b>	<b>513</b>	<b>1,857</b>
of which				
Non-current	-	198	-	120
Current	498	386	513	1,737
<b>Derivative financial instruments</b>	<b>498</b>	<b>584</b>	<b>513</b>	<b>1,857</b>

The Group uses derivative financial instruments to hedge the market risks to which it is exposed: foreign currency risk, interest rate risk and commodities price risk.

The table below reports the following information on derivative instruments at December 31, 2018 and December 31, 2019:

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

In Euro thousands	Dec 31, 2018		Notional Value		Carrying amount	
			Maturity within 1 year	Maturity after 1 year		
<b>Interest rate risk</b>						
Cash flow hedges as per IFRS		17,624		46,342		(366)
Fair value hedges as per IFRS		-		-		-
Not considered hedges as per IFRS		-		-		-
<b>Total derivatives on interest rates</b>		<b>17,624</b>		<b>46,342</b>		<b>(366)</b>
<b>Foreign currency risk</b>						
Cash flow hedges as per IFRS	sales	purchases		sales	purchases	
52,765	30,759		-	-		(43)
Fair value hedges as per IFRS						
Not considered hedges as per IFRS	795	6,586		-	-	141
<b>Total fx derivatives</b>	<b>53,560</b>	<b>37,345</b>		-	-	<b>(98)</b>
<b>Commodity risk</b>						
Cash flow hedges as per IFRS	sales	purchases		sales	purchases	
		15,761				1,076
Fair value hedges as per IFRS						
Not considered hedges as per IFRS						
<b>Total derivatives on commodities</b>		<b>15,761</b>				<b>1,076</b>
Dec 31, 2019		Notional Value		Carrying amount		
In Euro thousands		Maturity within 1 year	Maturity after 1 year			
<b>Interest rate risk</b>						
Cash flow hedges as per IFRS		15,844		44,362		(373)
Fair value hedges as per IFRS						
Not considered hedges as per IFRS						
<b>Total derivatives on interest rates</b>		<b>15,844</b>				<b>(373)</b>
<b>Foreign currency risk</b>						
Cash flow hedges as per IFRS	sales	purchases		sales	purchases	
34,595	12,353		-	-		(9)
Fair value hedges as per IFRS						
Not considered hedges as per IFRS	-	3,784		-	-	(10)
<b>Total fx derivatives</b>	<b>34,595</b>	<b>16,137</b>		-	-	<b>(19)</b>
<b>Commodity risk</b>						
Cash flow hedges as per IFRS	sales	purchases		sales	purchases	
		11,246				309
Fair value hedges as per IFRS						
Not considered hedges as per IFRS						
<b>Total derivatives on commodities</b>		<b>11,246</b>				<b>309</b>

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 belong to this category;
- Level 2: determination of fair value based on other inputs than the listed prices included in “Level 1” but which are directly or indirectly observable. In particular, 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, where in accordance with IFRS, the Group utilises, where available, prices listed on active markets as the best estimate of the fair value of derivative instruments.

All the derivative instruments in place at December 31, 2018 and December 31, 2019 belong to level 2 of the fair value hierarchy, except for commodities which belong to level 1.

#### B.6.5.34. Equity attributable to 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.

##### B.6.5.34.1. Share capital

The share capital at December 31, 2019 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.

**B.6.5.34.2. Capital reserves**

The capital reserves amount to Euro 71,123 thousand and relate entirely 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.

**B.6.5.34.3. Hedging and translation reserve**

These reserves show a negative balance of Euro 11,759 thousand (negative balance of Euro 15,096 thousand also at December 31, 2018) 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 2,314 thousand, including the fair value changes of cash flow hedges, net of the positive tax effect of Euro 1,023 thousand. In particular, the portion concerning the fair value change is a positive Euro 1,347 thousand, while the tax impact is a negative Euro 323 thousand.

The change in the translation reserve was a positive Euro 2,314 thousand for the Group and a negative Euro 7 thousand for non-controlling interests, therefore netting a positive Euro 2,307 thousand.

In Euro thousands	Dec 31, 2018	Reserve adjustment	Dec 31, 2019
Hedge reserve	(999)	(1,023)	24
Translation reserve	(14,097)	(2,314)	(11,783)
<b>Hedge and translation reserve</b>	<b>(15,096)</b>	<b>(3,337)</b>	<b>(11,759)</b>

**B.6.5.34.4. Treasury shares**

On July 24, 2019, Elica S.p.A. announced an agreement for the sale of 1,275,498 treasury shares, equal to 2.014% of the share capital, to TIP - Tamburi Investment Partners S.p.A., an independent and diversified investment/merchant bank listed on the STAR segment of the Italian Stock Exchange, at an agreed price of Euro 2 per share for a total amount of Euro 2,550,996. The agreed price is in line with the motions passed by the Shareholders' Meeting of April 18, 2019 concerning the disposal of treasury shares.

This transaction took place concurrently with the purchase by TIP of the entire holding of Whirlpool EMEA S.p.A in Elica of 7,958,203 shares - equal to 12.568% of the share capital - against the same consideration of Euro 2 per share paid by TIP to Elica.

Following the above transactions, on July 26, 2019 TIP came to hold 14.582% of the share capital of Elica S.p.A..

This transaction resulted in the cancellation of the reserve on the debit side for Euro 3,551 thousand and other changes in retained earnings for the difference with the proceeds recovered from the sale for approximately Euro 1 million.

**B.6.5.34.5. Retained earnings**

These decreased from Euro 41,535 thousand in 2018 to Euro 39,395 thousand in 2019. The decrease of Euro 2,140 thousand includes Euro 961 thousand due to the allocation of the loss in 2018 and Euro 1,179 thousand due to Other Changes. As indicated in the previous paragraph, approximately Euro 1 million of is due to the difference between the historical purchase value of the treasury shares and the proceeds collected at the time of their sale.

**B.6.5.35. Equity of non-controlling interests**

Equity attributable to non-controlling interests amounts to Euro 14.2 million and increased Euro 3 million mainly due to:

- an increase of Euro 4,316 thousand for the allocation of the 2019 profit attributable to non-controlling interests;
- a decrease of Euro 7 thousand concerning the non-controlling interest in the translation effect arising from the 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 1,479 thousand for the distribution of dividends by Ariaefina and Airforce.

For more details, see the Statement of changes in equity.

The composition of the non-controlling interests by company is shown below:

	Country	Non-controlling interests	Profit/(loss) attr. NCI	Profit/(loss) attr. NCI	Equity attr. NCI	Equity attr. NCI
<i>In Euro thousands</i>		<i>Dec 31, 2019</i>	<i>Dec 31, 2019</i>	<i>Dec 31, 2018</i>	<i>Dec 31, 2019</i>	<i>Dec 31, 2018</i>
Airforce S.p.A.	Italy	40%	73	154	1,444	1,543
Ariafina Co.Ltd	Japan	49%	1,695	1,478	4,264	3,851
Airforce Germany Hochleistungs-dunstabzugssysteme GmbH	Germany	n/a	-	-	-	2
Elica PB India Private Ltd. (*)	India	75%	2,553	1,690	8,429	5,831
Zhejiang Elica Putian Electric Co. Ltd (*)	China	1%	(5)	(47)	36	42
<b>Consolidated total</b>			<b>4,316</b>	<b>3,275</b>	<b>14,173</b>	<b>11,270</b>

(\*) The profit/(loss) attributable to non-controlling interests includes the amount accrued up to the acquisition and from the Group's sale of investments in both 2018 and 2019.

Information on subsidiaries with significant non-controlling interests is presented below:

Reporting package figures <i>In Euro thousands</i>	Airforce S.p.A.		Ariafina Co.Ltd		Elica PB India Private Ltd.	
	<i>Dec 31, 2019</i>	<i>Dec 31, 2018</i>	<i>Dec 31, 2019</i>	<i>Dec 31, 2018</i>	<i>Dec 31, 2019</i>	<i>Dec 31, 2018</i>
Current assets	9,840	10,552	9,189	9,635	18,290	15,580
Non-current assets	1,531	1,649	3,438	1,677	2,758	2,013
Current liabilities	6,259	7,120	3,925	3,452	7,465	7,569
Non-current liabilities	1,563	1,288	-	-	2,269	2,197
Equity attributable to owners of the parent	2,105	2,250	4,438	4,008	2,885	1,996
Equity attributable to non-controlling interests	1,444	1,543	4,264	3,851	8,429	5,831
Revenue	25,191	24,668	26,854	23,190	35,314	29,113
Operating profit	342	694	5,205	4,553	4,807	4,082
Profit for the year	190	390	3,458	3,016	3,427	2,917
Dividends paid to third parties	(125)	(60)	(1,354)	(1,296)	-	-
Change in net financial debt	(204)	470	1,033	796	2,498	2,392

#### B.6.5.36. Settlement agreement reached with Gutmann

On February 27, 2019, Elica S.p.A. announced that it had defined, with its subsidiary Elica GmbH, a settlement agreement with the company Exklusiv-Hauben Gutmann GmbH ("Gutmann") in insolvency, with the latter's receivers and its sole shareholder Manuel Fernandez Salgado, to whom the company was sold in August 2017. The agreement was approved on the same date by the creditors committee for the Gutmann insolvency and the Receiver for the insolvency proceedings and is binding for the parties. Considering the opportunity of establishing mutual positions with respect to the insolvency declaration of Exklusiv-Hauben Gutmann GmbH and to mitigate the main risks associated with the claims made and the lawsuits threatened against Elica S.p.A and Elica GmbH, the Board of Directors of Elica S.p.A. assessed the proposal as being in the Company's interests and delegated the Chief Executive Officer to reach a possible agreement. Elica GmbH, in turn, agreed with the proposal.

Within the overall framework of the agreement and to settle the mutual rights and claims, Elica S.p.A. recognised a payment of Euro 2.6 million to Gutmann, of which Euro 800 thousand to be paid within three weeks of the conclusion of the agreement, Euro 1.7 million through the transfer to Gutmann of Elica S.p.A.'s receivable from Manuel Fernandez Salgado, originating from the transfer of Gutmann shares, and another Euro 100 thousand, entirely offset against the amount to be paid by Gutmann for the retransfer of the "Gutmann" brands acquired by Elica S.p.A. in 2017 (Gutmann brands were impaired to their fair value of Euro 100 thousand in the 2018 financial statements, recognising impairment of Euro 1,077 thousand).

Manuel Fernandez Salgado shall owe Elica S.p.A. the residual amount of Euro 800 thousand (entirely impaired in the 2018 financial statements) due for the transfer of the Gutmann shares. This obligation may be extinguished if Manuel Fernandez Salgado pays Elica S.p.A. Euro 200 thousand by February 28, 2020 in full settlement and cancellation of his debt.

To provide complete information, Elica S.p.A. also agreed to settle the guarantee granted in 2015 to the owner of the property leased by Gutmann, amounting to Euro 1.65 million and already provisioned in the company's accounts, and to settle the amounts regarding the trade payables to Gutmann GmbH that arose after the sale of the company and prior to its declaration of insolvency, related to ordinary business operations and amounting to approx. Euro 0.5 million,

which Elica S.p.A. has currently frozen for reasons of prudence. Elica S.p.A. impaired the trade receivable held before the sale, stated at Euro 6.8 million in the 2018 financial statements.

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

The agreement described herein confirms the approach previously taken by the company, which in 2018 impaired the trade receivable claimed by Elica S.p.A. by a total of Euro 6.8 million.

#### **B.6.5.37. Reconciliation between Parent Company and Consolidated net equity and net profit**

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, 2019 and December 31, 2018**

<i>In Euro thousands</i>	<b>Dec 31, 2019</b>		<b>Dec 31, 2018</b>	
	<b>Profit/(loss)</b>	<b>Equity</b>	<b>Profit/(loss)</b>	<b>Equity</b>
<b>Parent's separate financial statements</b>	<b>(1,457)</b>	<b>87,303</b>	<b>529</b>	<b>85,492</b>
<b>Elimination of the effect of intercompany transactions net of tax effect:</b>				
Unrealised gains on non-current assets	133	(490)	205	(620)
Unrealised gains on sale of goods	40	(194)	(170)	(234)
Tax effect	(51)	164	(9)	205
Dividends received from consolidated companies	(4,277)	(4,277)	(5,395)	(5,395)
Other	(203)	(56)	(373)	29
<b>Share of profit/(loss) from investments</b>	<b>(10)</b>	<b>(10)</b>	<b>(6)</b>	<b>18</b>
<b>Carrying amount of consolidated companies</b>	<b>2,000</b>	<b>(60,402)</b>	<b>5,000</b>	<b>(59,400)</b>
<b>Equity and profit of the subsidiaries consolidated on a line-by-line basis</b>	<b>11,444</b>	<b>84,695</b>	<b>9,713</b>	<b>75,341</b>
<b>Impact of disposal of fully consolidated subsidiary</b>	-	-	(6,944)	-
<b>Allocation of differences to assets of consolidated companies and related amortisation/depreciation and impairment losses</b>				
Intangible assets and property, plant and equipment	(240)	5,386	(238)	5,585
Goodwill arising on consolidation		13,198	-	13,160
<b>Consolidated financial statements</b>	<b>7,379</b>	<b>125,315</b>	<b>2,314</b>	<b>114,183</b>
Attributable to the owners of the parent	3,063	111,142	(961)	102,913
Attributable to non-controlling interests	4,316	14,173	3,275	11,270

#### **B.6.5.38. Significant non-recurring events and transactions**

There was nothing to report in 2019, except as described in paragraph B.6.5.36, related to settled agreements with Gutmann and, between the others in the paragraph B.6.5.34.4 about the change of ownership, with the TIP's introduction.

#### **B.6.6. Guarantees, commitments and contingent liabilities**

##### **B.6.6.1. 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 financial statements at December 31, 2019 to cover legal risks and charges amounts to Euro 6,989 thousand.

With regards to the case between Esperança Real S/A, Madson Eletrometalurgica Ltda and Elica S.p.A, the company discloses that in January 2019 the Court of Appeal heard the company's appeal and cancelled the order to pay the direct pecuniary damage and the indirect damages as set out in the first level judgment. Any amount eventually due should be decided by a fresh judgment and requires the extensive demonstration of proof, which began in August 2019. Despite this judgment, exclusively for reasons of prudence, the company shall maintain the previously accrued amount of Euro 4 million in the financial statements.

In 2019 the Parent was subject to an audit by the Italian Agency of Revenue, Marche Regional Department, Tax Audits Office, for the tax years 2014, 2015 and 2016. It received an auditors' report on October 14, 2019. The assessment process has yet to proceed further for the other two subsequent relevant findings. The other findings have either been closed by the Company or are immaterial in amount.

There was found to have been an alleged violation of the transfer pricing rules set out in Art. 110, paragraph 7, of Presidential Decree No. 917 of December 22, 1986 (the Tax Consolidation Act) in respect of the transfer prices applied by the Company to transactions with the Mexican related company Elicamex S.A. de C.V., the value of which the Office adjusted, proposing that additional IRES (company income tax) and IRAP (regional production tax) basis of calculation be levied on Euro 1,014,887 in 2015 and on Euro 1,012,783 in 2016. The Company has tax losses that can be used to offset the financial risk for IRES purposes.

It was therefore determined that the Company had unduly benefited from the research and development tax credit due to allegedly failing meet the requirements established by the tax relief rules for qualifying for the credit in question and that Elica was therefore ineligible for the related tax relief measures for the costs of research and development activities it had carried out in 2015 and 2016. The Company reported a credit of Euro 838,814.20 for 2015 and a credit of Euro 1,075,877.82 for 2016.

As counselled by its legal advisors, Elica believes that the arguments laid out in the auditors' report in support of the findings discussed in this paragraph are not compelling and that there are considerable defensive arguments against this reconstruction. The Company sought counsel from its legal advisors in support of the view that the risk that tax liabilities may flow for the Company from potential disputes that might arise from the assessment action by the revenue authorities in connection with the findings presented in the auditors' report discussed above is possible but not probable.

#### **B.6.6.2. Guarantees and commitments**

Commitments with suppliers for PPE purchases at December 31, 2019 amount to approx. Euro 1,338 thousand, principally relating to investments in the productive capacity. There are also commitments for operational expenses of Euro 2.7 million, relating in particular to long-term contracts, such as the use of networks and data platforms. Group commitments for the purchase of raw materials and goods amount to Euro 1.2 million, in addition to those listed in the Commodity risk paragraph.

In accordance with Article 122 of the CFA and Article 129 of the Issuers' Regulation, on July 24, 2019, FAN S.r.l., with registered office in Rome, via Parigi No. 11 and TAMBURI INVESTMENT PARTNERS S.p.A., with registered office in Milan, via Pontaccio No. 10, signed an agreement concerning a portion of the ordinary share of Elica S.p.A., in addition to, inter alia, some provisions regarding the governance of Elica S.p.A. (the "Shareholder Agreements"). The key information regarding the Shareholder Agreements was published as per Article 130 of the Issuers' Regulation on Elica S.p.A.'s website, [https://elica.com/corporation/en/corporategovernance/other\\_documents](https://elica.com/corporation/en/corporategovernance/other_documents) and on the authorised storage mechanism "1INFO", at www.1info.it.

This did not impact control over Elica which, as per Article 93 of the CFA, is held by Mr. Francesco Casoli.

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 3 million and a coverage limit of Euro 400 thousand with Banco Santander for Elica's permanent establishment in Spain.

As at December 31, 2019 there was also an outstanding corporate guarantee with a residual value of Euro 0.14 million.

## B.6.7. Risk management policy

### B.6.7.1 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 the company's results, the Elica Group has implemented a financial risk monitoring system through a "Financial Risk Policy" approved by the Board of Directors of the Parent Company. 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).

### B.6.7.2. 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.

#### B.6.7.2.1. Currency risk

The Group's operating currency is the Euro. However, the Group companies trade also in American Dollars (USD), British Pounds (GBP), Japanese Yen (JPY), Polish Zloty (PLN), Mexican Pesos (MXN), Swiss Francs (CHF), Russian Roubles (RUB), Chinese Yuan (CNY) and the Indian Rupee (INR). In all of these currencies, except for the Swiss Franc, the Polish Zloty, the Chinese Renminbi, 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, 2019 are shown below:

In Euro thousands Currency	Dec 31, 2019		Dec 31, 2018	
	Assets	Liabilities	Assets	Liabilities
CHF	-	(41)	-	(37)
CNY	2,295	(249)	2,451	(30)
GBP	193	(12)	335	(11)
JPY	479	(3,305)	365	(1,608)
PLN	14,304	(13,128)	19,683	(15,905)
RUB	5,514	269	3,853	(7)
USD	32,766	(31,312)	44,243	(34,012)
MXN	(13)	55	(49)	52
INR	1,940	(174)	2,410	(132)
<b>Foreign currency transactions</b>	<b>57,478</b>	<b>(47,897)</b>	<b>73,291</b>	<b>(51,690)</b>

For the purposes of the sensitivity analysis on the exchange rate, the potential changes in the Euro/CHF, Euro/CNY, Euro/GBP, Euro/YEN, Euro/PLN, Euro/RUB, Euro/USD, Euro/MXN, USD/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 Currency	Dec 31, 2019		Dec 31, 2018	
	Depreciation of foreign currencies 5%	Appreciation of foreign currencies 5%	Depreciation of foreign currencies	Appreciation of foreign currencies 5%
		5%		5%
CHF	2	(2)	2	(2)
CNY	(97)	108	(115)	127
GBP	(9)	10	(15)	17
JPY	135	(149)	59	(65)
PLN	(56)	62	(180)	199
RUB	(250)	276	(184)	203
USD	(69)	77	(487)	538
MXN	(2)	2	(1)	1
INR	(84)	93	(108)	120
<b>Total</b>	<b>(430)</b>	<b>477</b>	<b>(1,029)</b>	<b>1,138</b>

The hedging operations at December 31, 2019 with financial counterparties have a total negative fair value of approx. Euro 19 thousand (a positive value of Euro 98 thousand in 2018).

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

Currency	Dec 31, 2019		Dec 31, 2018	
	Notional thousands (foreign currency)	Fair Value thousands of Euro	Notional thousands (foreign currency)	Fair Value thousands of Euro
<b>USD</b>				
Forward	7,900	(69)	11,800	(186)
Options	6,600	106	5,800	(73)
<b>PLN</b>				
Forward	33,000	(12)	34,000	21
Options				
<b>JPY</b>				
Forward	530,000	(15)	160,000	51
Options	-	-	100,000	(15)
<b>RUB</b>				
Forward	150,000	(29)	225,000	144
Options	-	-	121,000	(1)
<b>MXN</b>				
Options	-	-	114,000	157
		<b>(19)</b>		<b>98</b>

The notional exposure in USD aggregates operations respectively in USD/EUR and in USD/MXN; the net notional of the latter amount to USD 7.1 thousand.

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

In the stress testing we have stressed not only the spot to spot exchange rate, but also the monetary curve rates at December 31, 2019 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 2019 and the first weeks of January 2020 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 11%.

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

The following table shows the sensitivity in the statement of comprehensive income to the changes in the exchange rates and the rate curves indicated, with all other variables unchanged, of the fair value of the transactions in derivatives at December 31, 2019 (compared with December 31, 2018):

In Euro thousands	Dec 31, 2019			
	USD Notional 14,500 USD/000	PLN Notional 33,000 PLN/000	JPY Notional 530,000 JPY/000	RUB Notional 150,000 RUB/000
Depreciation of foreign currency	485	417	(292)	408
Euro exchange rate depreciation	20	(22)	(10)	44
Exchange rate depreciation	(8)	(22)	(10)	87
<b>Sensitivity to depreciation</b>	<b>497</b>	<b>373</b>	<b>(312)</b>	<b>539</b>
Foreign exchange rate appreciation	(392)	(517)	322	(796)
Euro exchange rate appreciation	(41)	22	10	(44)
Exchange rate appreciation	32	22	10	(73)
<b>Sensitivity to appreciation</b>	<b>(401)</b>	<b>(473)</b>	<b>342</b>	<b>(913)</b>

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
<b>Sensitivity to depreciation</b>	<b>553</b>	<b>446</b>	<b>(15)</b>	<b>231</b>	<b>(485)</b>
Foreign exchange rate appreciation	(3)	1	(9)	24	(1)
Euro exchange rate appreciation	12	1	(7)	(47)	(5)
Exchange rate appreciation	(960)	(505)	36	(317)	612
<b>Sensitivity to appreciation</b>	<b>(951)</b>	<b>(503)</b>	<b>20</b>	<b>(340)</b>	<b>606</b>

#### B.6.7.2.2. 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 of the previous year 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, 2019 are reported below:

<i>In Euro thousands</i>	<b>Dec 31, 2019</b>		<b>Dec 31, 2018</b>	
<b>Copper hedges</b>	<b>Notional</b>	<b>Fair value</b>	<b>Notional</b>	<b>Fair value</b>
Forward	11,264	309	15,761	(1,076)
<b>Commodity derivatives assets/(liabilities)</b>		<b>309</b>		<b>(1,076)</b>

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, 2019 of Euro 562 thousand.

Similarly, a reduction of 5% results in a decrease in the fair value of forward contracts of Euro 562 thousand.

#### **B.6.7.2.3. 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 118 thousand, while an increase of 25 bps in the same interest rate curve converts into higher interest expense of Euro 118 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:

<i>In Euro thousands</i>	<b>Dec 31, 2019</b>		<b>Dec 31, 2018</b>	
	<b>Notional</b>	<b>Fair value</b>	<b>Notional</b>	<b>Fair value</b>
Interest Rate Swap	60,206	(373)	63,966	(366)
CAP	-	-	-	-
<b>Interest derivatives assets/(liabilities)</b>		<b>(373)</b>		<b>(366)</b>

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 95 thousand decrease/increase in the fair value of the IRS at December 31, 2019.

#### **B.6.7.3. 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.

For more details, see paragraph B.6.5.22 "Trade receivables" of these notes.

#### **B.6.7.4. 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, 2019	within one year	1 - 5 years	after five years
<i>In Euro thousands</i>				
Lease liabilities and loans and borrowings to other lenders as per IFRS 16	3,525	7,362	871	
Bank loans and borrowings	27,317	55,311	140	
Trade payables and other liabilities	125,849	-	-	
<b>Commitment by due date</b>	<b>156,691</b>		<b>62,673</b>	<b>1,011</b>

	Dec 31, 2018	within one year	1 - 5 years	after five years
<i>In Euro thousands</i>				
Lease liabilities and loans and borrowings to other lenders	-	-	-	-
Bank loans and borrowings	37,792	53,925	177	
Trade payables and other liabilities	124,409	64	10	
<b>Commitment by due date</b>	<b>162,201</b>		<b>53,989</b>	<b>187</b>

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 position, reference should be made to note B.6.5.33 of the notes.

#### B.6.7.5. Classification of the Financial instruments

<i>In Euro thousands</i>	Dec 31, 2019	Dec 31, 2018
Derivative financial instruments	498	513
Trade receivables	55,022	51,192
Cash and cash equivalents	35,613	35,612
<b>Current assets</b>	<b>91,133</b>	<b>87,317</b>
Lease liabilities and loans and borrowings as per IFRS 16	-	-
Bank loans and borrowings	55,451	54,102
Derivative financial instruments	198	120
<b>Non-current liabilities</b>	<b>63,882</b>	<b>54,222</b>
Trade payables	110,100	109,916
Lease liabilities and loans and borrowings as per IFRS 16	3,525	-
Bank loans and borrowings	27,317	37,792
Derivative financial instruments	386	1,737
<b>Current liabilities</b>	<b>141,328</b>	<b>149,445</b>

The Group believes that the carrying amounts approximate fair value. In relation to the valuation methods for the individual accounts, reference should be made to paragraph B.6.2.2. "Accounting policies" of these Notes.

#### B.6.8. Disclosure pursuant to IAS 24 on management compensation and related party transactions

##### B.6.8.1. Management and coordination

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

The company is not subject to management and co-ordination pursuant to Art. 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 programmed 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.

With effect from July 2019, Tamburi Investments Partners ("TIP") acquired a minority interest in the Company. As at December 31, 2019, this interest amounted to 20.150% of Elica's capital.

The Company however continues to carry out its operations through a totally autonomous and independent decision-making process; it has independent decision-making capacity with customers and suppliers and independently manages its treasury in accordance with the business purpose.

#### **B.6.8.2. Remuneration of Directors, Statutory Auditors and Senior Executives**

The remuneration of the above-mentioned persons totalled Euro 5,121 thousand. This amount does not include the accrual to the Long-term incentive provision, for information on which see the paragraph B.6.5.27 "Provisions for risks and charges".

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

### B.6.8.3 Share-based payments

There were none in 2019.

#### **B.6.8.4 Information on subsidiaries**

The tables below show key financial figures for the year ended December 31, 2019.

#### B.6.8.4.1. Subsidiaries – 2019 Highlights

## Reporting package figures

Reporting package figures In Euro thousands	Assets	Liabilities	Equity	Revenue	Profit/(loss)
Elicamex S.a.d. C.V.	57,837	30,083	27,754	69,279	2,973
Elica Group Polska Sp.z o.o	55,659	29,409	26,250	107,089	3,022
Airforce S.p.A.	11,371	7,823	3,549	25,191	190
Ariafina CO., LTD	12,627	3,925	8,701	26,854	3,458
Leonardo S.A.de C.V.	1,681	1,261	420	11,793	282
Elica Inc.	385	79	305	1,071	31
Elica PB India Private Ltd.	21,048	9,733	11,315	35,314	3,427
Zhejiang Elica Putian Electric Co. Ltd	18,263	19,245	(982)	13,168	(1,859)
Elica Trading LLC	7,725	6,739	986	13,574	(437)
Elica France S.A.S.	4,993	4,036	957	15,266	256
Elica GmbH	3,401	2,667	734	7,597	(760)

Elica provided loans to 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.

#### **B.6.8.5. Information on the associate**

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

#### **B.6.8.5.1. Associate – key data at December 31, 2019**

<i>In Euro thousands</i>	<b>Registered Office</b>	<b>% held</b>	<b>Quota capital</b>	<b>Equity</b>	<b>Profit for the year</b>
I.S.M. S.r.l.	Cerreto d'Esi (Ancona-Italy)	49.39%	10	1,509	44

<i>In Euro thousands</i>	<b>I.S.M. s.r.l.</b>	<b>Dec 31, 2019</b>	<b>Dec 31, 2018</b>
Current assets		141	95
Non-current assets		1,379	1,393
Current liabilities		3	15
Non-current liabilities		8	8
Equity		1,509	1,465
Revenue		144	143
Operating profit		39	49
Profit for the year		44	43
Dividends paid to third parties		-	-
Change in net financial position		29	(95)

This company operates in the real estate sector and is non-core for the Group.

#### B.6.8.5.2. Trading with associates

There were no transactions with the associate in 2019.

#### B.6.8.6. Transactions with other related parties

In 2019, 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.

	Assets	Liabilities/ IFRS 16 Liabilities	Revenue	Costs
<i>In Euro thousands</i>				
Fastnet S.p.A.	-	-	-	28
La Ceramica	-	1	-	20
Ermanno Casoli Foundation	-	-	-	114
Other physical persons	-	106	1	55
Indian shareholders (*)	-	15	-	1,032
	-	<b>122</b>	<b>1</b>	<b>1,249</b>

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

With the other related parties, the Elica Group only carries out transactions exclusively of a trading nature. There are no transactions with Fintrack S.p.A., FAN S.r.l. or the associated company I.S.M. (see paragraph B.6.8.5.2.).

The statement of comprehensive income and statement of financial position balances arise from trading transactions conducted to purchase goods and services and use fixed assets on an arm's length basis. The balances with the Indian shareholders refer to salaries, incentives and expense reimbursements.

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

#### B.6.9. 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	Assets at Jan 1, 2019	Vested in 2019	Collec ted 2019	Assets at Dec 31, 2019	Description
<b>Airforce S.p.A.</b>					
Fondimpresa	14	7	(14)	7	Staff training grant from Fondimpresa
<b>Elica S.p.A</b>					
Photovoltaic Grant (**)	360	462	(248)	575	Grant on photovoltaic plant installed on the roof of the Castlefidardo & Cerreto D'esi industrial buildings issued FSE
2015 Industry RESPIRE project	138	105	(118)	138	Research and Development grant from Ministry for Economic
H@H Project	19			6	Development
SEAL project	47			307	Research grant from European Union
SHELL Project	307			47	Research and Development grant from Ministry for
Project SM	173			307	University and Scientific Research
SMARTFAN project	104			47	Research and Development grant from Ministry for
Fondimpresa	(131)	126	(141)	104	University and Scientific Research
Fondirigenti	-	146		(146)	Research grant from European Union
2018 advertising bonus	15	20	(15)	146	Staff training grant from Fondimpresa
	-	26	(26)	20	Trainning executives grant from Fondimpresa
				-	Contribution paid pursuant to Law No. 172/2017, as amended.
<b>Total Grants</b>	<b>1,047</b>	<b>892</b>	<b>(562)</b>	<b>1,377</b>	

(\*\*) Includes advances received

**B.6.10. Positions or transactions arising from atypical and/or unusual operations**

In 2019, there were no such transactions to be reported.

**B.6.11. Subsequent events**

On **February 12, 2020** the Company took note of the resignation of Mr. Davide Croff from the position of independent director of Elica S.p.A. tendered on February 11, 2020 with immediate effect, due to “personal reasons that made it impossible to continue to carry out the activities associated with the office of director with the necessary diligence.” The Appointments and Remuneration Committee and the Board of Directors will assess the possibility and advisability of co-opting a replacement for the outgoing director, in view of the approach of the date of the Shareholders’ Meeting scheduled for April 28, 2020. Any Board of Directors’ motions in this regard will be announced to the market. Mr. Davide Croff does not hold any Elica shares.

On **February 13, 2020**, the Board of Directors of Elica S.p.A. approved the additional periodic disclosure for the fourth quarter of 2019, prepared according to IFRS and reviewed the 2019 preliminary consolidated results.

Fabriano, March 12, 2020

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

### C.1. 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 2019 for audit and other services provided by the independent auditors and entities in the same network.

Type of service <i>In Euro thousands</i>	Service provider	Company	Fees
Audit	Kpmg S.p.A.	Elica S.p.A.	192
Audit	Kpmg S.p.A.	Air Force S.p.A.	15
Audit	KPMG Cardenas Dosal, S.C.	Elicamex S.A. de C.V.	28
Audit	KPMG Polska (*)	Elica Group Polska S.p.z.o.o.	33
Audit	KPMG China	Zhejiang Elica Putian Electric Co. Ltd	26
Audit	B S R & Co. LLP (Kpmg network)	Elica PB India Private Ltd.	9
Audit	KPMG Japan	Ariafina CO., LTD	10
Other services	Kpmg S.p.A.	Elica S.p.A.	44
Other services	KPMG China	Zhejiang Elica Putian Electric Co. Ltd	1
<b>KPMG network fees</b>			<b>358</b>

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

**C.2. Attestation on the Consolidated Financial Statements as per Article 81-ter of Consob Regulation no. 11971 of May 14, 1999 and subsequent amendments and integrations**

I, the undersigned Mauro Sacchetto, as Chief Executive Officer, and Giulio Coccia, Corporate financial reporting manager of Elica S.p.A., affirm, and in consideration of Article 154-bis, paragraphs 3 and 4, of Legislative Decree No. 58 of February 24, 1998:

- the adequacy, considering the business characteristics and
- the effective application,

of the administrative and accounting procedures for the preparation of the consolidated financial statements in 2019.

We also attest that:

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

Fabriano, March 12, 2020

The Chief Executive Officer  
Mauro Sacchetto

Corporate Financial  
Reporting Manager  
Giulio Coccia

**C.3 List of investments in non-listed companies, including foreign companies, of over 10% at the reporting date**

<i>In Euro thousands</i>	<b>Registered Office</b>	<b>% total</b>	<b>of which</b>	<b>of which</b>	<b>held by</b>	<b>“Direct” investment</b>	<b>“Indirect” investment</b>	<b>consolidation method</b>
			<b>% direct</b>	<b>% indirect</b>	<b>(*)</b>			
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.	-	376	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'Esì (AN) - (Italy)	49%	49%	n/a	n/a	770	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	3,540	n/a	line-by-line

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

## C.4. Independent auditors' report on the consolidated Financial Statements



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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 2019, 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 2019 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.

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

Ancona Aosta Bari Bergamo	Società per azioni
Bologna Bolzano Brescia	Capitale sociale
Catania Como Firenze Genova	Euro 10.345.200,00 i.v.
Lecce Milano Napoli Novara	Registro Imprese Milano e
Padova Palermo Parma Perugia	Codice Fiscale N. 00709600159
Pescara Roma Torino Treviso	R.E.A. Milano N. 512867
Trieste Varese Verona	Partita IVA 00709600159
	VAT number IT00709600159
	Sede legale: Via Vittor Pisani, 25
	20124 Milano MI ITALIA



**ELICA Group**  
Independent auditors' report  
31 December 2019

### **Recoverability of goodwill**

*Notes to the consolidated financial statements: note B.6.2.2 – Accounting policies: Goodwill, Impairment testing; note B.6.5.18 – Goodwill.*

<b>Key audit matter</b>	<b>Audit procedures addressing the key audit matter</b>
<p>The consolidated financial statements at 31 December 2019 include goodwill of €39.3 million.</p> <p>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.</p> <p>The directors have forecast the operating cash flows on the basis of the 2020-2024 forecasts (the "2020-2024 forecasts") and the revenue's estimated long-term growth rates and profitability.</p> <p>For the above reasons, we believe that the recoverability of goodwill is a key audit matter.</p>	<p>Our audit procedures, which also involved our own specialists, included:</p> <ul style="list-style-type: none"> <li>— understanding and analysing the process used to prepare the 2020-2024 forecasts;</li> <li>— 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;</li> <li>— analysing the valuation models adopted by the parent for reasonableness and consistency with professional practice;</li> <li>— 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;</li> <li>— assessing the appropriateness of the disclosures provided in the notes about goodwill and the related impairment test.</li> </ul>

### **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.



**ELICA Group**  
*Independent auditors' report*  
 31 December 2019

***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.



**ELICA Group**  
Independent auditors' report  
31 December 2019

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 May 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 2019 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 2019 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 2019 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.



**ELICA Group**  
Independent auditors' report  
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***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 non-financial statement separately.

Ancona, 18 March 2020

KPMG S.p.A.

(signed on the original)

Gianluca Geminiani  
Director of Audit



**D. SEPARATE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER  
2019**

**ELICA S.p.A.**

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

### D.1. Income statement

<i>In Euro</i>	<i>Note</i>	<b>2019</b>	<b>2018</b>
Revenue - third parties	D.6.4.1	280,032,159	283,774,169
Revenue – subsidiaries	D.6.4.1	73,673,276	75,299,733
Other operating income	D.6.4.2	2,690,556	1,955,678
Change in inventories finished/semi-finished products	D.6.4.3	(784,746)	1,137,148
Increase in internal work capitalised	D.6.4.4	2,481,510	2,755,276
Raw materials and consumables - third parties	D.6.4.5	(120,622,269)	(121,452,318)
Raw materials and consumables - subsidiaries	D.6.4.5	(107,207,573)	(111,882,282)
Services - third parties	D.6.4.6	(53,004,170)	(52,379,843)
Services – subsidiaries	D.6.4.6	(2,794,264)	(2,502,243)
Personnel expense	D.6.4.7	(57,181,852)	(53,293,011)
Amortisation and depreciation	D.6.4.8	(14,506,890)	(11,702,390)
Other operating expenses and accruals	D.6.4.9	(4,359,180)	(19,691,332)
Restructuring charges	D.6.4.10	(611,589)	-
Impairment of Goodwill/Brands	D.6.4.33	-	(1,077,122)
<b>Operating loss</b>		<b>(2,195,032)</b>	<b>(9,058,537)</b>
Share of profit from associates and subsidiaries	D.6.7.3.5	4,277,100	5,394,607
Impairment losses on subsidiaries and associates	D.6.4.11	(2,606,926)	(5,000,000)
Financial income	D.6.4.12	914,581	1,593,305
Financial expense	D.6.4.13	(2,800,225)	(2,582,317)
Exchange rate gains/(losses)	D.6.4.14	(219,059)	399,368
Income/(loss) on disposal of subsidiaries		-	8,431,773
<b>Loss before taxes</b>		<b>(2,629,561)</b>	<b>(821,800)</b>
Income taxes	D.6.4.15	1,172,916	1,350,996
<b>Profit/(loss) from continuing operations</b>		<b>(1,456,645)</b>	<b>529,197</b>
<b>Profit/(loss) from discontinued operations</b>		-	-
<b>Profit/(loss) for the year</b>		<b>(1,456,645)</b>	<b>529,197</b>

The Company has adopted IFRS 16 from January 1, 2019, using the amended retrospective application method. The comparative figures have not been recalculated according to this method. For further details, see note D.6.2.1.1.

## D.2. Statement of Comprehensive Income

<i>In Euro</i>	<i>Note</i>	<b>2019</b>	<b>2018</b>
<b>Profit/(loss) for the year</b>		<b>(1,456,645)</b>	<b>529,197</b>
<b>Other comprehensive income/(expense) which will not be subsequently reclassified to profit or loss for the year:</b>			
Actuarial gains/(losses) on defined benefit plans	D.6.4.31.5	(453,230)	373,838
Tax effect of Other income/(expense) which will not be subsequently reclassified to the profit/(loss)		-	-
<b>Total items which will not be subsequently reclassified to profit or loss, net of the tax effect</b>		<b>(453,230)</b>	<b>373,838</b>
<b>Other comprehensive income/(expense) which will be subsequently reclassified to profit or loss:</b>			
Net change in cash flow hedges	D.6.4.31.3	1,553,308	(2,039,402)
Tax effect of Other income/(expense) which will be subsequently reclassified to the profit or loss	D.6.4.31.3	(372,796)	559,383
<b>Total items which will be subsequently reclassified to profit or loss, net of the tax effect</b>		<b>1,180,512</b>	<b>(1,480,019)</b>
<b>Total other comprehensive income/(expense), net of the tax effect:</b>		<b>727,282</b>	<b>(1,106,180)</b>
<b>Comprehensive expense</b>		<b>(729,364)</b>	<b>(576,984)</b>

The Company has adopted IFRS 16 from January 1, 2019, using the amended retrospective application method. The comparative figures have not been recalculated according to this method. For further details, see note D.6.2.1.1.

### D.3.Statement of Financial Position

<i>In Euro</i>	<i>Note</i>	<b>Dec 31, 2019</b>	<b>Dec 31, 2018</b>
Property, plant & equipment	D.6.4.17	45,438,511	46,767,658
Goodwill	D.6.4.18.1	23,342,460	23,342,460
Other intangible assets	D.6.4.18.2	22,071,186	21,087,387
Rights-of-use as per IFRS 16	D.6.2.1.1	6,662,136	-
Investments in subsidiaries	D.6.4.19.1	59,832,133	58,857,133
Investments in associates	D.6.4.19.2	770,000	1,376,926
Other assets	D.6.4.20	70,989	67,903
Deferred tax assets	D.6.4.21	15,848,934	13,709,496
Assets for derivative financial instruments	D.6.4.32.3	-	-
<b>Total non-current assets</b>		<b>174,036,349</b>	<b>165,208,964</b>
Trade receivables	D.6.4.22	23,514,833	23,248,513
Trade receivables – subsidiaries	D.6.7.3.2	25,616,581	31,467,126
Financial assets – subsidiaries	D.6.7.3.4	15,137,413	19,989,114
Inventories	D.6.4.23	34,543,052	37,098,012
Other assets	D.6.4.24	3,866,233	5,708,598
Tax assets	D.6.4.25	7,281,449	7,809,254
Assets for derivative financial instruments	D.6.4.32.3	651,373	839,977
Cash and cash equivalents	D.6.4.32.1	10,600,470	5,376,756
<b>Current assets</b>		<b>121,211,404</b>	<b>131,537,349</b>
<b>Assets of discontinued operations</b>			
<b>Total assets</b>		<b>295,247,752</b>	<b>296,746,312</b>
Liabilities for post-employment benefits	D.6.4.26	9,087,916	9,071,030
Provisions for risks and charges	D.6.4.27	14,511,992	13,145,273
Deferred tax liabilities	D.6.4.21	652,103	581,707
Lease liabilities under IFRS 16	D.6.2.1.1	5,085,730	-
Bank loans and borrowings	D.6.4.32.2	55,412,931	54,101,561
Other liabilities	D.6.4.29	1,988	50,854
Tax liabilities	D.6.4.28.1	-	53,429
Liabilities for Derivative financial instruments	D.6.4.32.3	197,741	119,802
<b>Non-current liabilities</b>		<b>84,950,400</b>	<b>77,123,655</b>
Provisions for risks and charges	D.6.4.27	1,266,211	3,580,000
Lease liabilities under IFRS 16	D.6.2.1.1	1,624,503	-
Bank loans and borrowings	D.6.4.32.2	17,937,593	27,949,957
Trade payables	D.6.4.30	69,760,607	68,544,734
Trade payables – subsidiaries	D.6.7.3.3	18,290,450	20,246,971
Financial liabilities – subsidiaries	D.6.7.3.4	3,354,981	2,244,720
Other liabilities	D.6.4.29.1	7,360,456	6,609,784
Tax liabilities	D.6.4.28.2	3,016,265	3,219,991
Liabilities for derivative financial instruments	D.6.4.32.3	383,497	1,734,169
<b>Current liabilities</b>		<b>122,994,563</b>	<b>134,130,325</b>
<b>Liabilities directly related to discontinued operations</b>			
Share capital	D.6.4.31.1	12,664,560	12,664,560
Capital reserves	D.6.4.31.2	71,123,335	71,123,335
Hedging reserve	D.6.4.31.3	31,893	(1,148,619)
Actuarial reserve	D.6.4.31.5	(3,054,530)	(2,601,300)
Treasury shares	D.6.4.31.4	-	(3,550,986)
Retained earnings	D.6.4.31.6	7,994,174	8,476,145
Profit/(loss) for the year		(1,456,645)	529,197
<b>Equity</b>	<b>D.6.4.31</b>	<b>87,302,788</b>	<b>85,492,334</b>
<b>Total liabilities and equity</b>		<b>295,247,752</b>	<b>296,746,312</b>

The Company has adopted IFRS 16 from January 1, 2019, using the amended retrospective application method. The comparative figures have not been recalculated according to this method. For further details, see note D.6.2.1.1.

**D.4.Statement of Cash Flows**

<i>In Euro</i>	<b>2019</b>	<b>2018</b>
<b>Opening cash and cash equivalents</b>	<b>5,376,756</b>	<b>8,337,425</b>
<b>Operating activities</b>		
Profit/(loss) for the year	(1,456,645)	529,197
Amortisation and depreciation	14,506,890	11,702,390
Impairment losses	-	1,077,122
Non-monetary (income)/charges	(738,387)	1,576,091
(Income)/loss on disposal	-	(8,431,373)
Trade working capital	7,398,592	12,663,054
Other working capital accounts	(1,407,264)	225,394
Income taxes (paid)/collected	(199,550)	-
Change in provisions	1,963,895	372,070
<b>Cash flow from operating activities</b>	<b>20,067,530</b>	<b>19,713,944</b>
<b>Investing activities</b>		
Investments		
- Intangible assets	(7,107,700)	(7,085,105)
- Property, plant and equipment	(5,492,963)	(6,619,312)
- Rights-of-use	(1,194,685)	-
- Financial assets	1,302,100	(2,614,394)
<b>Cash flow used in investing activities</b>	<b>(12,493,248)</b>	<b>(16,318,811)</b>
<b>Financing activities</b>		
Sale of treasury shares/investments - maintaining control	2,540,000	9,730,159
Increase/(decrease) in financial liabilities	(2,739,032)	(14,269,885)
Increase/(decrease) liabilities under IFRS 16	(418,099)	-
Net changes in other financial assets/liabilities	44,431	(298,766)
Interest paid	(1,777,869)	(1,517,311)
<b>Cash flow used in financing activities</b>	<b>(2,350,568)</b>	<b>(6,355,803)</b>
Increase/(Decrease) in cash and cash equivalents	<b>5,223,714</b>	<b>(2,960,669)</b>
<b>Closing cash and cash equivalents</b>	<b>10,600,470</b>	<b>5,376,756</b>

The Company has adopted IFRS 16 from January 1, 2019, using the amended retrospective application method. The comparative figures have not been recalculated according to this method. For further details, see note D.6.2.1.1.

**D.5.Statement of changes in equity**

	Share capital	Share premium reserve	Treasury shares	Retained earnings	Hedging reserve/Actuarial reserve	Profit/(loss) for the year	Total Equity
<i>In Euro thousands</i>							
<b>December 31, 2017</b>	<b>12,665</b>	<b>71,123</b>	<b>(3,551)</b>	<b>30,588</b>	<b>(2,644)</b>	<b>(22,112)</b>	<b>86,069</b>
Fair value changes on cash flow hedges net of the tax effect					(1,480)		(1,480)
Actuarial gains on post-employment benefits					374		374
<b>Total losses recognised directly in equity</b>					<b>(1,106)</b>		<b>(1,106)</b>
Profit for the year						529	529
<b>Total gains/(losses) recognised in comprehensive profit or loss</b>					<b>(1,106)</b>	<b>529</b>	<b>577</b>
Allocation of loss for the year					(22,112)		22,112
Other changes							-
Dividends							-
<b>December 31, 2018</b>	<b>12,665</b>	<b>71,123</b>	<b>(3,551)</b>	<b>8,476</b>	<b>(3,750)</b>	<b>529</b>	<b>85,492</b>
Fair value changes on cash flow hedges net of the tax effect					1,180		1,180
Actuarial losses on post-employment benefits					(453)		(453)
<b>Total gains recognised directly in equity</b>					<b>727</b>		<b>727</b>
Loss for the year						(1,457)	(1,457)
<b>Total gains/(losses) recognised in comprehensive profit or loss</b>					<b>727</b>	<b>(1,457)</b>	<b>(730)</b>
Allocation of profit for the year					529		(529)
Other changes				3,551	(1,011)		2,540
Dividends							-
<b>December 31, 2019</b>	<b>12,665</b>	<b>71,123</b>	<b>-</b>	<b>7,994</b>	<b>(3,023)</b>	<b>(1,457)</b>	<b>87,303</b>

The Company has adopted IFRS 16 from January 1, 2019, using the amended retrospective application method. The comparative figures have not been recalculated according to this method. For further details, see note D.6.2.1.1.

**D.6. Notes to the Separate Financial Statements as at and for the year ended December 31, 2019**

- D.6.1. Accounting policies
- D.6.2. Accounting standards, amendments and interpretations in force as from January 1, 2019 and not yet applicable by the Company
- D.6.3. Significant accounting estimates
- D.6.4. Notes to the Separate Financial Statements
- D.6.5. Guarantees, commitments and contingent liabilities
- D.6.6. Risk management
- D.6.7. Disclosure on Management renumeration and related-party transactions
- D.6.8. Government grants as per Article 1, paragraphs 125-129, of Law No. 124/2017
- D.6.9. Positions or transactions arising from atypical and/or unusual operations
- D.6.10. Subsequent events
- D.6.11. Proposal for the approval of the Financial Statements and coverage of the loss for the year as approved by the Board of Directors on March 12, 2020

## D.6.1. Accounting policies

### D.6.1.1 – General information

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

The company is listed on the STAR segment on the Italian Stock Exchange.

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

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

The Company also prepares the Consolidated Financial Statements of the Group which it heads.

### D.6.1.2 Basis of preparation

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

The Separate Financial Statements as at and for the year ended December 31, 2019 are compared with the previous year and consist of the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of changes in Equity and the Notes thereto. The financial statements and related notes comply with the minimum disclosure requirements of IFRS, as supplemented, where applicable, by the provisions of the law and CONSOB regulations.

The Company did not make any changes in the accounting policies applied between the comparative dates of December 31, 2018 and December 31, 2019, except as indicated below in the specific paragraph D.6.2.1.1

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.

### D.6.1.3 Financial Schedules

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

- The **Income Statement** is prepared in accordance with the nature of the item and shows intermediary results relating to the operating profit/(loss) and the profit/(loss) before taxes in order to allow a better assessment of the operating performance.  
The operating profit is the difference between net revenue and operating expenses (this latter including non-monetary items relating to amortisation/depreciation and impairment of current and non-current assets, net of any reversals), including any gains/losses on the sale of non-current assets.
- The **Statement of Comprehensive Income** reports, beginning with the profit/(loss) for the year, the effect of other comprehensive income recognised directly in equity (other comprehensive income).
- The **Statement of Financial Position** is presented with separation of current and non-current assets and liabilities. It is expected to be realised/settled or sold or utilised within the company's normal operating cycle; it is held for trading; it is expected to be realised/settled within 12 months from the end of the reporting period. Where none of these conditions apply, the assets/liabilities are classified as non-current.
- The **Statement of Cash Flows** is prepared using the indirect method in which the operating profit/(loss) is adjusted by non-monetary items. It is based on the classification of cash flows generated respectively from operating activities, investing activities and financing activities, in line with IAS 7. Specifically, operating activities are activities that generate revenue and are not investing or financing activities. Investing activities relate to the purchase and sale of non-current assets and other investments, while financing activities are those resulting in a change to the sources of financing, therefore in the size and composition of the share capital, share premium reserves and Group loans. Unrealised exchange rate gains and losses are not considered cash flows. However, the effect of such exchange rate gains and losses on cash and cash equivalents is included to reconcile the change in the opening and closing balances of cash and cash equivalents. It is, however, presented separately.
- **Statement of Changes in Equity** outlines the changes to the Equity items, including the allocation of the result, the recognition of actuarial gains/losses, the impact of the valuation of hedging instruments and the recording of the profit/loss, in addition to the additional phenomenon which according to IFRS should be recognised to this item.

#### D.6.1.4 Accounting policies

The main accounting policies adopted in the preparation of the Separate Financial Statements are described below.

##### Property, plant and equipment

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

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

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

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

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

##### Goodwill

Goodwill arising on the acquisition of a subsidiary or other business combinations represents the excess of the acquisition cost over the 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 company. These estimates are impacted both by the complexity of the assumptions underlying the projected revenue and future margins and by the strategic industrial choices of the Directors.

## Other intangible assets

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

The useful life of an intangible asset may be considered definite or indefinite. Intangible assets with definite useful lives are amortised monthly for the duration of their useful lives. According to management and experts, the company's most important software has a useful life of seven years. The useful life is tested annually for impairment and any changes are made on a prospective basis.

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

## Impairment testing

At each reporting date, the company assesses whether events or circumstances exist that raise doubts as to the recoverability of the carrying amount of property, plant and equipment and intangible assets with definite useful lives. If there are any indications of impairment, the company estimates the recoverable amount of the assets to determine any impairment loss.

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

For goodwill, the recoverable amount is determined by the Directors through the calculation of the value in use of the Cash Generating Units (CGU's). Cash Generating Unit 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.

## Investments in subsidiaries and associates

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

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

At the end of each reporting period, the Company evaluates whether there are any indications of impairment in the cost of the investment. When it is determined that a potential loss exists, the Directors make valuations on the recoverable amount of those investments in order to identify the potential amount of the loss.

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

## Inventories

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

The purchase cost of raw, ancillary, supplies and goods for resale is determined using the weighted average cost method.

The production cost of finished products, work in progress and semi-finished products is determined considering the cost of the materials used plus direct operating expenses and overheads.

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

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

### Trade receivables and loans and other financial assets

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

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

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

### Non-current assets held-for-sale

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

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

### Cash and cash equivalents

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

### Financial liabilities and Equity instruments

Financial liabilities and equity instruments issued are classified in accordance with the underlying contractual agreements and in accordance with the respective definitions of liabilities and Equity instruments.

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

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

### Trade payables and other financial liabilities

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

### Bank loans and borrowings and loans and borrowings from other lenders

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

### Derivative instruments and hedge accounting

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

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

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

- for derivatives that hedge scheduled transactions (i.e. cash flow hedges), changes in the fair value of derivative instruments are allocated to equity for the portion considered effective while the portion considered ineffective is recognised in profit or loss;
- for derivatives that hedge assets and liabilities recorded in the statement of financial position (i.e. fair value hedges), differences in fair value are recognised in full in profit or loss. Moreover, the value of the hedged item (assets/liabilities) is adjusted for the change in the risk hedged, again in profit or loss;

- for derivatives classified as hedges of a net investment in a foreign operation, the effective portion of profits or losses on the financial instruments are recorded under equity. The cumulative gains or losses are reversed from the equity and taken to profit or loss on the sale of the foreign operation.

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

Concerning the management of the risks related to the exchange rates and interest rates and the value of commodities, reference should be made to section D.6.6. "Risk management policy" of the 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.

On the basis of IAS 19 – Employee benefits, the Company presents in the balance sheet the deficit or surplus of the relevant provision, with recognition to the income statement of the labour cost components and net financial expense and the recognition of the gains or losses which derive from the recalculation of the assets and liabilities under Other Comprehensive Income. In addition, any income from the plan assets included under net financial expenses must be calculated based on the discount rate of the liability.

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

#### *Share-based payments*

Where the Company recognises additional benefits to senior management and key personnel through stock grant plans, in accordance with IFRS 2 – Share-based payments, these plans represent a form of remuneration to the beneficiaries. Therefore the cost, which is the fair value of these instruments at the assignment date, is recognised in profit or loss over the period between the assignment date and maturity date, with a balancing entry directly in equity. Changes in the fair value after the assignment date do not have an effect on the initial value. At December 31, 2019 there are no such plans in place, there are only monetary based on phantom stock plans. The existing plans award beneficiaries a number of phantom stocks. When the vesting conditions are met, and upon the completion of the period specified in the continuing employment condition, the beneficiary receives a payment in cash equal to the value of the phantom stock accrued. This therefore represents a cash settled plan. The cost accrued during the year is thus taken to the income statement and the related provision is recognised. For further information, please consult the plan information documents on the company's website, (<https://elica.com/corporation/en/investor-relations/shareholders-meeting>).

### Provisions for risks and charges

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

### Revenue & income

The new IFRS 15 - Revenue 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) establishment of the transaction price; (iv) the allocation of the transaction price to the performance obligations identified on the basis of the standalone 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 assets transferred to the customer and/or services provided, to be recognised upon fulfilment of the contractual obligations. In addition, to recognise the revenue, the requirement of probable obtainment/receipt of the economic benefits linked to the income is emphasised; for a contract in progress, a requirement to recognise revenue taking account of any discounting effect from payments deferred over time is introduced.

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.

### **Foreign currency transactions**

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

Exchange differences arising on such transactions or on the translation of monetary assets and liabilities are recorded in the Income Statement except for those arising on derivative financial instruments qualified as cash flow hedges. These differences are recorded in Equity if unrealised, otherwise they are recorded in the Income Statement.

### **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 recorded in the income statement over the period in which the related costs are recorded, with a reduction in the generating account.

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 initial carrying amount of the loan (fair value plus direct costs attributable to obtaining the loan) and that received, and subsequently recorded in the income statement in accordance with the regulations for the recording of public grants.

### **Income taxes**

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

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

Elica S.p.A. and the subsidiary Airforce S.p.A. have opted for tax consolidation in Italy. This means that the IRES (Corporation Tax) charge is calculated on a tax base representing the aggregate of the taxable income and tax losses of the individual companies. The contract is of three-year duration (2017, 2018 and 2019).

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

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

The income tax asset is shown under Tax Assets, determined as the difference between the income taxes 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 tax consolidation, net of payments on account, taxes withheld by third parties and tax credits; tax assets are offset by the liabilities to the subsidiary companies from Elica for the residual asset attributable to the tax consolidation.

The liability for any tax losses surrendered by a subsidiary is recorded under Liabilities to subsidiaries.

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

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

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

Deferred taxation is calculated based on the tax rate expected to be in force when the assets are realised or the liabilities extinguished. Deferred tax is charged or credited directly to the Income Statement, except when it relates to items charged or credited directly to Equity, in which case the deferred tax is also recognised in Equity. Deferred tax assets and liabilities are offset when there is a direct right to compensate the tax assets and liabilities and when they refer to income taxes due to the same fiscal authority and the Company intends to pay the amount on a net basis.

## **D.6.2. Accounting standards, amendments and interpretations in force as from January 1, 2019 and not yet applicable by the Company**

### **D.6.2.1 Accounting standards, amendments and interpretations applied from 1 January 2019**

The financial statements utilised are the same as those used for the preparation of the financial statements at December 31, 2018, except where indicated below.

#### **D.6.2.1.1. IFRS 16 - Leases**

The Group adopted this standard from January 1, 2019.

IFRS 16 introduces a single model for the recognition of leases in the financial statements of the lessee, according to which the Company, as lessee, recognises an asset representing the right to use the underlying asset and a liability which reflects the obligation to pay the lease payments. Recognition methods for the lessor are similar to those under the previously applicable standard.

The Company applied IFRS 16 utilising the modified retrospective application method, on the basis of which any cumulative effect of initial application is recognised as an adjustment to the opening balance of retained earnings at January 1, 2019. Therefore, the 2018 figures were not restated, i.e. they were presented as per IAS 17 and the relative interpretations. The changes to the accounting standards are described below.

#### **Definition of a lease**

As per IFRS 16, the Company assesses whether the contract is a lease or contains a lease according to the new definition of leasing. The Company previously established at the commencement of the contract whether it was, or contained, a lease according to IFRIC 4 - Determining whether an agreement contains a lease.

At the initial application date of IFRS 16, the Company decided to adopt the practical expedient which exempts it from re-examining which transactions contain leases. IFRS 16 was applied only to contracts which were previously identified as leases. The contracts which were not identified as leases applying IAS 17 and IFRIC 4 were not re-assessed in order to establish whether they constituted a lease. Therefore, the definition of a lease contained in IFRS 16 was applied only to contracts signed or amended on January 1, 2019 or subsequently.

At the commencement of the contract or at the re-assessment date of a contract which contains a leasing component, the Company assigns the consideration of the contract to each lease and non-lease component according to the relative standalone price.

#### **Accounting model for the lessee and impacts on the financial statements as at and for the year ended December 31, 2019 –**

The Company has many assets under lease, such as buildings, production machinery, cars and IT equipment. As lessee, the Company previously classified leases as operating or finance leases, based on its assessment of whether the lease substantially transferred all the risks and rewards of ownership. According to IFRS 16, the Company recognises in the statement of financial position the right-of-use assets and the lease liabilities for the majority of leases.

However, the Company decided not to recognise the right-of-use assets and the lease liabilities for low value assets (worth less than USD 5 thousand), including IT equipment. Therefore, the Company recognises payments due for prior contracts as costs on a straight-line basis over the term of the lease.

The carrying amounts of right-of-use assets, which constitute the account “Rights-of-use as per IFRS 16” are indicated below:

## Right-of-use as per IFRS 16

In Euro thousands	Buildings	Plant and machinery	Other assets	Total
Balance at January 1, 2019	348	1,809	4,971	7,128
Increases	119	123	953	1,195
Depreciation in the year	147	490	1,024	1,661
Balance at December 31, 2019	320	1,442	4,900	6,662

The Company presents lease liabilities in the account “Lease liabilities and loans and borrowings to other lenders as per IFRS 16” in the condensed statement of financial position. As at the date of initial application, January 1, 2019, the asset and liabilities coincide. This account, both current and non-current, at January 1, 2019 and December 31, 2019, includes only the liabilities within this scope.

Details regarding the situation of lease liabilities are provided below.

### Lease liabilities and loans and borrowings to other lenders as per IFRS 16

In Euro thousands	December 31, 2019
<b>Analysis of maturities - undiscounted contractual cash flows</b>	
Within one year	1,721
Between one year and five years	4,837
Over five years	397
<b>Total undiscounted lease liabilities as at December 31, 2019</b>	<b>6,955</b>
<b>Lease liabilities included in the statement of financial position as at December 31, 2019</b>	
Of which current	1,625
Of which non-current	5,086

The amounts included in **profit or loss for the year** are therefore presented.

In Euro thousands	December 31, 2019
Interest expense on lease liabilities	127
Costs relating to variable lease payments not included in the measurement of lease liabilities	Not significant
Income from the sub-leasing of right-of-use assets	N/A
Costs relating to short-term leases and for low-value assets	1,136

Finally, the impacts on the **statement of cash flows** are presented below

In Euro thousands	December 31, 2019
Total cash outflows for leases	1,613

### Description of the Company's accounting policy -

At the commencement date of leases, the Company recognises the right-of-use assets and the lease liabilities. Right-of-use assets are initially measured at cost and subsequently recognised at cost net of accumulated depreciation and impairment losses, and adjusted to reflect lease liability revaluations.

The Company assesses the lease liabilities at the present value of lease payments not settled at the commencement date, discounting them at the implicit interest rate. Where it is not possible to establish this rate easily, the Company utilises the marginal interest rate. It generally uses the marginal interest rate as the discount rate.

The lease liability is subsequently increased by the interest maturing on this liability, reduced by lease payments and is revalued in the case of changes to future lease payments deriving from a change in the index or rate, in the case of a change to the amount which the Company expects to pay as guarantee on the residual value or where the Company changes its assessment on the exercise or otherwise of a purchase, renewal or termination option.

The Company estimated the term of some leases in which it acts as lessee and which have renewal options. The Company's assessment of whether it will, with reasonable certainty, exercise the purchase option influences the estimate of the term of the lease, significantly impacting the amount of the lease liabilities and the right-of-use assets recognised.

### Initial application –

At the initial application date, the lease liabilities of leases classified as operating leases as per IAS 17 – which are all of the Company's leases – are calculated at the present value of the residual payments due for the lease payments, discounted at the Company's marginal interest rate at January 1, 2019. The right-of-use assets are

measured at an amount equal to the lease liability, adjusted for any advances or cumulative payments due for the leases.

The Company utilised the following practical expedients to apply IFRS 16 to leases classified previously as operating leases as per IAS 17.

- It applied the exemption from recognising assets for right-of-use and lease liabilities for contracts with terms of less than 12 months;
- It excluded the initial direct costs from the measurement of the right-of-use assets at the initial application date;
- This is based on experience acquired in determining the term of leases containing renewal or termination options.

The Company does not hold leases which were previously considered finance leases.

#### **Effects of the Initial application -**

Elica S.p.A. applied IFRS 16 - Leases from January 1, 2019, retrospectively with the cumulative effect of initial application recognised at the date of initial application, according to point C5 (b) of IFRS 16. The comparative information was therefore not restated. On the basis of point C8 of the same standard, lease liabilities emerging from application of IFRS 16 at the initial application date of January 1, 2019 were therefore recognised.

<i>In Euro thousands</i>	
<b>operating lease commitments as per financial statements at Dec 31, 2018</b>	<b>7,842</b>
maturity within 12 months	(580)
impact of leases for assets worth less than USD 5k (with a residual term of more than 12 months)	(86)
other	309
impact of discounting	(357)
<b>lease liability as per IFRS 16 at Jan 1, 2019</b>	<b>7,128</b>

For the majority of contracts, the incremental debt rate is used as the discount rate.

#### **Effects in the period -**

Following the initial application of IFRS 16 to leases classified previously as operating leases, the Company recognised right-of-use assets and lease liabilities of Euro 7,128 thousand at January 1, 2019 and of Euro 6,662 thousand at December 31, 2019.

In addition, in relation to leases recognised as per IFRS 16, the Company recognises depreciation and interest instead of operating lease costs. During the year 2019, the Company recognised depreciation and interest costs respectively of Euro 1,661 thousand and Euro 127 thousand.

#### **D.6.2.1.2. IFRIC 23 - Uncertainties over income tax treatments**

IFRIC 23, which became applicable on January 1, 2019, without having significant effects for the Company, clarifies how to apply the requirements regarding the recognition and measurement of current and deferred tax assets and liabilities pursuant to IAS 12-Income Taxes where there are uncertainties regarding the tax treatment to be applied when preparing income tax returns, which might not be accepted by the tax authority. In this case, the entity should recognise and measure its current or deferred tax asset or liability applying the requirements as per IAS 12 on the basis of the assessable income (tax loss), the values for tax purposes, the unutilised tax losses, the unutilised tax receivables and of the tax rates calculated applying this interpretation.

#### **D.6.2.2 Accounting standards, amendments and interpretations not yet applied and applicable**

As required by IAS 8 - Accounting standards, changes in accounting estimates and errors - the 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.

For all the newly issued standards, as well as the revision and amendments to existing standards, the Company is assessing impacts which are currently unforeseeable that will derive from their future application.

#### **D.6.2.2.1. Amendments to IAS 1 and IAS 8**

On October 31, 2018, the IASB published the document "Definition of Material (Amendments to IAS 1 and IAS 8)", which introduced a change to make the definition of the term "relevant" contained in IAS 1 and IAS 8 more specific. The amendment also introduces the concept of "obscured information" alongside the concepts of "omitted" or "misstated" information previously included in the two amended Standards. The amendment clarifies that information is obscured if it is described in a way that results in an effect for the users of the financial statements similar to that which would have resulted if the information in question had been omitted or misstated. The amendments to IAS 1 and IAS 8 are effective from periods beginning on, or subsequent to, January 1, 2020.

#### **D.6.2.2.2. Amendments to IFRS 3**

On October 22, 2018, the IASB published the document “Definition of a Business (Amendments to IFRS 3)”, introducing amendments to IFRS 3 to better clarify the definition of a business. In particular, the amendment clarifies that the existence of an output is not strictly necessary to identify a business when there is however an integrated set of activities, processes and assets. However, in order to meet the definition of a business, an integrated set of activities, processes and assets must include, at minimum, an input and a substantial process that together contribute significantly to the capacity to create output. For this purpose, the IASB has replaced the term “capacity to create output” with “capacity to contribute to the creation of output” to clarify that a business may exist even without all the inputs and processes necessary to create an output. The amendment also introduced an optional test (“concentration test”) for an entity to determine whether a set of activities, processes and assets acquired is a business. To this end, the amendment adds numerous examples illustrating IFRS 3 to help understand the practical application of the new definition of a business in specific cases. The amendments apply to business combinations and acquisitions of activities after January 1, 2020, although early application is permitted.

#### **D.6.3. Significant accounting estimates**

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

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

The items principally affected by such uncertainty are: goodwill, the allowance for trade receivables impairment and the provision for inventory write-down, non-current assets (tangible and intangible), 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.

## D.6.4. Notes to the Separate Financial Statements

### Income statement

#### D.6.4.1 Revenue

An analysis of revenue by product sales and services follows:

	2019	2018	Changes
<i>In Euro thousands</i>			
Revenue from product sales	345,920	350,008	(4,088)
Service revenue	7,785	9,066	(1,281)
<b>Revenue</b>	<b>353,705</b>	<b>359,074</b>	<b>(5,369)</b>

Revenue decreased by approx. 1.5% on the previous year, but remains 79% from third parties and 21% from Group companies.

For information on revenue, reference should be made to paragraph A.6. "The Parent, Elica S.p.A.: financial results and operating performance", in the Directors' Report.

A breakdown of revenue from third parties and from subsidiaries is shown below.

	2019	2018	Changes
<i>In Euro thousands</i>			
Third parties	280,032	283,774	(3,742)
Subsidiaries	73,673	75,300	(1,627)
<b>Revenue</b>	<b>353,705</b>	<b>359,074</b>	<b>(5,369)</b>

Revenue from subsidiaries amount to Euro 73,673 thousand; these amounts principally refer to the sale of components and finished products to the subsidiary AirForce for Euro 1,479 thousand (Euro 1,640 thousand in 2018), to the subsidiary Ariafina for Euro 405 thousand (Euro 351 thousand in 2018), to the subsidiary Elica Group Polska for Euro 34,937 thousand (Euro 38,093 thousand in 2018), to the subsidiary Elicamex for Euro 12,186 thousand (Euro 14,972 thousand in 2018), to the subsidiary Elica India for Euro 615 thousand (Euro 1,250 thousand in 2018), to the Chinese subsidiary Putian for Euro 788 thousand (Euro 615 thousand in 2018), to the Russian subsidiary Elica Trading for Euro 7,671 thousand (Euro 6,186 thousand in 2018), to Elica France for Euro 10,454 thousand (Euro 7,874 thousand in 2018) and to the subsidiary Elica GmbH for Euro 5,137 thousand (Euro 4,317 thousand in 2018). All transactions are regulated at prices in line with market conditions applied to third parties.

Finally, we present revenue by geographic area.

Breakdown of revenue from sales and services by geographic area and from third party and subsidiaries:

	2019	2018	Changes
<i>In Euro thousands</i>			
Europe + CIS (Russia)	328,721	322,338	6,383
Other countries	14,307	15,745	(1,438)
America	10,677	20,990	(10,313)
<b>Revenue</b>	<b>353,705</b>	<b>359,074</b>	<b>(5,369)</b>

Non-group customers, which comprise more than 10% of total revenue, generated 18.5% of revenue in 2019 compared to 20.4% in 2018.

#### D.6.4.2 Other operating income

	2019	2018	Changes
<i>In Euro thousands</i>			
Grants related to income	878	607	271
Ordinary gains	32	117	(85)
Claims and insurance settlement	1,099	213	886
Expense recoveries	397	421	(24)
Other revenue and income	285	598	(313)
<b>Other operating income</b>	<b>2,691</b>	<b>1,956</b>	<b>735</b>

The item increased by approx. Euro 0.7 million mainly relating to claims and insurance settlement for damage due to inclement weather. This increase is net of the decrease in Other revenue and income, mostly due to the reduction in expense recoveries and transport costs recovered.

This account presents the majority of the public grants issued to the company. Reference should be made to Note D.6.8 for information on the public grants presented according to Article 1, paragraph 125, No. 124 of Law of August 4, 2017.

#### **D.6.4.3 Change in inventories finished/ semi-finished products**

Changes in inventories of finished and semi-finished goods were positive at December 31, 2018 for Euro 1,137 thousand and negative at December 31, 2019 for Euro 785 thousand due to the decrease in inventories of finished and semi-finished goods.

#### **D.6.4.4 Increase in internal work capitalised**

The account amounted to Euro 2,482 thousand (Euro 2,755 thousand in the previous year) and mainly relates to the capitalisation of charges regarding the design and development of new products and costs sustained internally for the construction of mouldings, industrial equipment and the implementation of new IT programmes. Capitalised costs principally relate to personnel.

#### **D.6.4.5 Raw materials and consumables**

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

	2019	2018	Changes
<i>In Euro thousands</i>			
Purchases of consumables	897	896	1
Purchases of workshop supplies	444	586	(142)
Purchase of raw materials	104,276	104,115	161
Change in raw materials, consumables and goods for resale	1,770	72	1,698
Finished and semi-finished products	118,844	125,993	(7,149)
Packaging	562	578	(17)
Other purchases	180	190	(10)
Shipping expenses on purchases	858	906	(48)
<b>Raw materials and consumables</b>	<b>227,830</b>	<b>233,335</b>	<b>(5,505)</b>

The balance is broken down as follows:

	2019	2018	Changes
<i>In Euro thousands</i>			
Third parties	120,622	121,452	(830)
Subsidiaries	107,208	111,882	(4,674)
<b>Raw materials and consumables</b>	<b>227,830</b>	<b>233,335</b>	<b>(5,505)</b>

Raw materials and consumables decreased by Euro 5.5 million compared to 2018. These costs remained almost constant as a percentage on sales, particularly when considering the balance including changes in finished and semi-finished product inventories (64.8% vs. 64.6%).

Those from subsidiaries amounted to Euro 107,208 thousand (Euro 111,882 thousand in 2018). The most significant item relates to the purchases of finished products and goods from the subsidiary Elica Group Polska for Euro 101,887 thousand (Euro 106,389 thousand in 2018).

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

#### D.6.4.6 Services

	2019	2018	Changes
<i>In Euro thousands</i>			
Outsourcing	20,967	21,474	(507)
Transport	4,147	4,262	(115)
Maintenance	1,442	1,456	(14)
Warehouse management of finished products	4,942	5,143	(201)
Consultancy	4,286	4,071	215
Utilities	2,388	2,287	101
Commissions	825	801	24
Travel	1,418	1,415	3
Advertising	2,377	2,703	(326)
Insurance	651	691	(40)
Directors' and Statutory Auditors' fees	2,484	1,113	1,371
Trade fairs and promotional events	3,360	3,949	(589)
Industrial services	331	386	(55)
Banking commissions and charges	232	277	(45)
Other services	5,946	4,853	1,093
<b>Services</b>	<b>55,798</b>	<b>54,882</b>	<b>917</b>

Service expenses increased by approx. Euro 1 million on the previous year. This increase is concentrated in the two items Directors' and Statutory Auditors fees, deriving from the increase in the cost of the Long-Term Incentive Plan, and Other services. On the other hand, there were significant decreases in outsourcing costs of Euro 0.5 million, advertising costs of Euro 0.3 million and trade fairs and promotional events of Euro 0.6 million, as in 2019 Elica did not take part in Eurocucina, an event held every two years.

Other Services in 2019 include communication services of Euro 579 thousand (Euro 547 thousand in 2018), technical assistance costs of Euro 1,870 thousand (Euro 1,735 thousand in 2018), canteen costs of Euro 379 thousand (Euro 347 thousand in 2018), cleaning costs of Euro 277 thousand (Euro 292 thousand in 2018), vehicle expenses of Euro 681 thousand (Euro 430 thousand in 2018), training courses of Euro 263 thousand (Euro 72 thousand in 2018), medical visits of Euro 75 thousand (Euro 79 thousand in 2018) and personnel recruitment costs of Euro 287 thousand (Euro 150 thousand in 2018).

The balance is comprised of:

	2019	2018	Changes
<i>In Euro thousands</i>			
Third parties	53,004	52,379	625
Subsidiaries	2,794	2,502	292
<b>Services</b>	<b>55,798</b>	<b>54,882</b>	<b>917</b>

#### D.6.4.7 Personnel expense

Personnel expense incurred in 2019 and 2018 was as follows:

	2019	2018	Changes
<i>In Euro thousands</i>			
Wages and salaries	39,118	38,130	988
Social security charges	12,310	11,197	1,113
Post-employment benefits	2,823	2,745	78
Other costs	2,931	1,221	1,710
<b>Personnel expense</b>	<b>57,182</b>	<b>53,293</b>	<b>3,889</b>

Overall personnel expense increased by Euro 3,889 thousand due to two factors. The first is the loss of social security contributions obtained by the company in the previous year. Secondly, other costs include an increase of approx. Euro 1 million accrual for the Long-Term Incentive Plan for employee beneficiaries. Personnel expense also includes the accrual for employee bonuses.

The table below shows the number of employees at December 31, 2019 and December 31, 2018:

	Dec. 31, 2019	Dec. 31, 2018	Changes
<i>In Euro thousands</i>			
Executives	28	31	(3)
White-collar	396	386	10
Blue-collar	715	741	(26)
	<b>1,139</b>	<b>1,158</b>	<b>(19)</b>

#### D.6.4.8 Amortisation and depreciation

Amortisation and depreciation amount to Euro 14,507 thousand, an increase on Euro 11,702 thousand in 2018. Euro 1,661 thousand of the increase derives from the application of the new IFRS 16 - Leases as illustrated in paragraph D.6.2.1.1; the remainder concerns the significant investments undertaken in recent years. For the changes in the year of amortisation and depreciation, reference should be made to the paragraph on fixed assets, D.6.4.17 and D.6.4.18.2.

#### D.6.4.9 Other operating expenses and accruals

These are detailed as follows:

	2019	2018	Changes
<i>In Euro thousands</i>			
Leases and rentals	95	269	(174)
Rental of vehicles and industrial equipment	600	2,072	(1,472)
Fees to use hardware, software and patents	441	825	(384)
Other taxes	388	515	(127)
Magazine and newspaper subscriptions	15	12	3
Sundry equipment	104	169	(65)
Catalogues and brochures	499	594	(95)
Losses on receivables and loss allowance &	1,537	14,807	
Provisions for risks and charges			(13,270)
Other prior year expenses and losses	480	430	50
<b>Other operating expenses and accruals</b>	<b>4,359</b>	<b>19,691</b>	<b>(15,334)</b>

Overall, this account decreased by Euro 15.3 million. The main decreases concern, on the one hand, the costs for Leases and rentals following the initial application of IFRS 16, and on the other hand, the Losses and loss allowance and Provisions for risks and charges, the value of which in 2018 included the impairment loss recognised on the trade receivable of Euro 6.8 million from Gutmann, the impairment loss of Euro 0.8 million recognised on the receivable from the buyer of the Grumann shares to align with its the market value. The account also included a provision for risks of Euro 1.65 million to cover the guarantee issued to third parties and of Euro 2.6 million for the settlement with Gutmann. For further details, reference should be made to paragraph D.6.4.33.

#### D.6.4.10 Restructuring charges

The restructuring charges mainly refer to the Company's redundancy plan to create a leaner and more optimized organization. The restructuring provision still includes Euro 156 thousand of these costs to cover future departures in accordance with IAS 37. They principally concern personnel expense.

#### D.6.4.11 Impairment losses on subsidiaries and associates

	2019	2018	Changes
<i>In Euro thousands</i>			
<b>Impairment losses on subsidiaries and associates</b>	<b>(2,607)</b>	<b>(5,000)</b>	<b>2,393</b>
<b>Impairment losses on subsidiaries and associates</b>	<b>(2,607)</b>	<b>(5,000)</b>	<b>2,393</b>

Impairment losses on investments in subsidiaries concerns the company Putian, for Euro 2 million and follows an impairment test, details of which are provided under the Investments paragraph D.6.4.19 of these Notes. The balance of the impairment losses refers to the non-core equity investment in the real estate company ISM, an associate of the Company, for Euro 607 thousand.

**D.6.4.12 Financial income**

Details of financial income are shown below:

	2019	2018	Changes
<i>In Euro thousands</i>			
Interest income from subsidiaries	870	837	33
Bank interest income	16	15	1
Other financial income	29	742	(713)
<b>Financial income</b>	<b>915</b>	<b>1,593</b>	<b>(679)</b>

Financial income includes Interest from subsidiaries, given the Group's decision to consolidate bank debt with the company in order to benefit from more favourable market costs.

The decrease in financial income is mainly due to the release of the discounting of the Company's receivable from Gutmann in 2018, which was derecognised from the financial statements in 2019 following the signing of the agreement described in paragraph D.6.4.33 and in the directors' report, in paragraph A.8 Significant events in 2019

**D.6.4.13 Financial expense**

	2019	2018	Changes
<i>In Euro thousands</i>			
<i>Financial expense:</i>			
Interest expense to subsidiaries	166	133	33
on overdrafts and bank loans	2,400	2,253	147
other charges	127	-	127
on post-employment benefits	108	196	(88)
<b>Financial expense</b>	<b>2,800</b>	<b>2,582</b>	<b>218</b>

The account increased Euro 218 thousand. Other expenses include the financial effect of the application of IFRS 16. The remainder of the increase refers to financial expense on overdrafts and bank loans, which also includes discounts for Euro 1,223 thousand, an increase of Euro 179 thousand on 2018.

**D.6.4.14 Exchange rate gains/(losses)**

	2019	2018	Changes
<i>In Euro thousands</i>			
Exchange rate losses	(1,425)	(3,502)	2,077
Exchange rate gains	2,527	3,888	(1,361)
Net gains/(losses) on derivative instruments	(1,321)	13	(1,334)
<b>Exchange rate gains/(losses)</b>	<b>(219)</b>	<b>399</b>	<b>(618)</b>

Net exchange gains in the year amounted to Euro 1,102 thousand, compared to exchange gains of Euro 386 thousand in 2018.

The account Losses on derivatives amounted to Euro 1,321 thousand in 2019 compared to a gain of Euro 13 thousand in 2018 and relates principally to losses on currency derivatives, which in accordance with the accounting standards may not be treated as hedges, although this is their purpose. For this reason, they were recognised at their fair value and recognised in the income statement.

Because the net balance of exchange rate gains and losses is a gain, but the company recognised a loss for the year, it was not considered necessary to reconstitute the Exchange rate gains reserve as per No. 8 *bis* of paragraph 1, Article 2426 of the Civil Code.

**D.6.4.15 Income taxes**

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

	2019	2018	Changes
<i>In Euro thousands</i>			
Current taxes	(373)	(1,702)	1,329
Deferred taxes	1,546	3,053	(1,507)
<b>Income taxes</b>	<b>1,173</b>	<b>1,351</b>	<b>(178)</b>

Current income taxes include the amounts relating to: non-recoverable foreign taxes of Euro 238 thousand, taxes relating to disputes of Euro 276 thousand and income from the tax consolidation of Euro 140 thousand. The company has a tax loss and has not accrued any IRES and IRAP taxes.

The decrease in deferred taxes is mainly due to the use of deferred tax assets, relating to the use of provisions accrued in the previous year, as described in paragraph D.6.4.33.

“Income taxes” in fact includes the positive impact calculated by the company for the Patent Box, a tax subsidy granted by the Italian State - with prior agreement - for income deriving from the use of intangible assets (trademarks and patents). The agreement with the tax authorities was signed on December 19, 2017. The tax benefit for the year 2019 is estimated according to the available information, and amounts to approx. Euro 0.7 million.

The company took part in the National Tax Consolidation, as per Article 117 and subsequent of the Income Tax Law, with the subsidiary Air Force S.p.A. for the years 2017, 2018 and 2019.

Under the tax consolidation agreements, if a tax loss, a ROL excess (EBITDA), an interest charge excess or an excess in the ACE (Economic Growth Support) deduction above assessable income is transferred to the tax consolidation (fiscal unit), the Company will recognise remuneration equal to the tax benefit gained by the Group (IRES rate 24%); this amount is recognised as “Consolidation income” in the income statement.

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

The change in the effective tax rate is due to non-recurring events, both last year and in the present year.

### Tax Rate Reconciliation

IRES rate IRAP rate	2019				2018				24.00% 4.13% % IRES on tax base
	Assessable	IRES	IRAP	Total	Assessable	IRES	IRAP	Total	
<b>Income taxes</b>									
- Current		(140)		(140)				932	122
- Prior year taxes / foreign taxes		514		514				648	648
- Deferred – cost (income)		(1,607)	61	(1,546)				(2,862)	(191)
<b>[A] TOTAL INCOME TAXES</b>	<b>(1,234)</b>	<b>61</b>	<b>(1,173)</b>	<b>46.91%</b>	<b>(1,282)</b>	<b>(70)</b>	<b>(1,351)</b>	<b>155.93%</b>	
<b>LOSS BEFORE TAXES</b>	<b>(2,630)</b>				<b>(822)</b>				
Tax calculated using local tax rate									24.00%
Tax effect of exempt income	(8,432)	631		24%				(197)	442.77%
		(2,024)		76.95%				(3,639)	
Tax effect of non-deductible expenses	4,417	1,060		-40.3%				7,625	-222.67%
Other differences	(638)	(153)		5.8%				316	-9.25%
<b>[B] Effective tax charge and tax rate net of substitute tax</b>	<b>(7,283)</b>	<b>(1,748)</b>	<b>66.46%</b>		<b>(8,038)</b>	<b>(1,930)</b>			<b>234.85%</b>
Effect of tax reimbursement / Foreign taxes		514		-19.53%				648	-78.85%
<b>[C] Effective tax charge and tax rate</b>	<b>(1,234)</b>		<b>46.94%</b>		<b>(1,282)</b>				<b>156.00%</b>

### D.6.4.16 Other information on Income Statement

The research and development costs capitalised and expensed in 2019 are summarised in the table below:

	2019	2018	Changes
<i>In Euro thousands</i>			
R&D costs expensed	4,395	4,773	(378)
Amortisation of capitalised R&D costs	2,680	2,382	298
<b>Total R&amp;D costs</b>	<b>7,075</b>	<b>7,155</b>	<b>(80)</b>
<b>R&amp;D costs capitalised during the year</b>	<b>2,096</b>	<b>2,131</b>	<b>(35)</b>

## Statement of financial position

### D.6.4.17 Property, plant and equipment

The table below shows details of the changes in property, plant and equipment in 2018 and 2019.

	Land & buildings	Plant & mach.	Industrial & commercial equipment	Other assets	Assets under construction and payments on account	Historical cost
<i>In Euro thousands</i>						
<b>Dec 31, 2017</b>	<b>37,024</b>	<b>68,187</b>	<b>83,427</b>	<b>7,107</b>	<b>267</b>	<b>196,012</b>
Increases	475	1,277	4,252	587	155	6,746
Disposals & other reclassifications	9	(1,424)	(3,590)	(231)	(157)	(5,393)
<b>Dec 31, 2018</b>	<b>37,508</b>	<b>68,040</b>	<b>84,089</b>	<b>7,463</b>	<b>265</b>	<b>197,365</b>
Increases	539	1,831	2,696	333	224	5,623
Disposals & other reclassifications		(287)	(51)	(2)	(252)	(591)
<b>Dec 31, 2019</b>	<b>38,047</b>	<b>69,584</b>	<b>86,734</b>	<b>7,794</b>	<b>237</b>	<b>202,397</b>
	Land & buildings	Plant & mach.	Industrial & commercial equipment	Other assets	Assets under construction and payments on account	Accumulated Depreciation
<i>In Euro thousands</i>						
<b>Dec 31, 2017</b>	<b>17,755</b>	<b>52,324</b>	<b>72,770</b>	<b>6,358</b>	<b>-</b>	<b>149,208</b>
Depreciation	967	2,269	3,222	196		6,654
Disposals & other reclassifications	(16)	(1,476)	(3,543)	(231)		(5,266)
<b>Dec 31, 2018</b>	<b>18,706</b>	<b>53,118</b>	<b>72,450</b>	<b>6,324</b>	<b>-</b>	<b>150,598</b>
Depreciation	989	2,333	3,207	293		6,822
Disposals & other reclassifications		(376)	(83)	(2)		(460)
<b>Dec 31, 2019</b>	<b>19,695</b>	<b>55,074</b>	<b>75,575</b>	<b>6,615</b>	<b>-</b>	<b>156,958</b>
	Land & buildings	Plant & mach.	Industrial & commercial equipment	Other assets	Assets under construction and payments on account	Net property, plant and equipment
<i>In Euro thousands</i>						
<b>Dec 31, 2017</b>	<b>19,269</b>	<b>15,863</b>	<b>10,657</b>	<b>748</b>	<b>267</b>	<b>46,803</b>
Increases	475	1,277	4,252	587	155	6,746
Depreciation	(967)	(2,269)	(3,222)	(196)	-	(6,654)
Disposals & other reclassifications	25	52	(47)	-	(157)	(127)
<b>Dec 31, 2018</b>	<b>18,802</b>	<b>14,922</b>	<b>11,640</b>	<b>1,139</b>	<b>265</b>	<b>46,768</b>
Increases	539	1,831	2,696	333	224	5,623
Depreciation	(989)	(2,333)	(3,207)	(293)	-	(6,822)
Disposals & other reclassifications	-	89	32	-	(251)	(131)
<b>Dec 31, 2019</b>	<b>18,353</b>	<b>14,510</b>	<b>11,159</b>	<b>1,180</b>	<b>238</b>	<b>45,439</b>

Investments in the year concerned the acquisition of presses and a winding head and the purchase of moulds and equipment required for the launch of new products, in addition to the modernisation of the offices.

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

The financial statements include assets acquired under finance lease agreements which by the end of 2010 had all been redeemed.

### D.6.4.18 Goodwill and other intangible assets

#### D.6.4.18.1. Goodwill

The changes in the year were as follows:

<i>In Euro thousands</i>	<b>Dec 31, 2018</b>	<b>Acquisitions/ (Impairment losses)</b>	<b>Dec 31, 2019</b>
Goodwill	23,342	-	23,342
<b>Goodwill</b>	<b>23,342</b>	<b>-</b>	<b>23,342</b>

Goodwill totalling Euro 23.3 million is allocated to the Elica Group Cash Generating Unit (CGU) at Group consolidated level. The account did not change in 2019.

Already in 2018 it was considered necessary to establish a new global model, with a single Cash Generating Unit, the Elica Group, which reflects the Group's current situation and complies with IFRS (IAS 36). For impairment testing on goodwill in the separate financial statements of Elica S.p.A., the combined cash flows (net of internal transactions) of the companies belonging to the Elica Group CGU were used. This is due to the fact that the Group's organisational structure prevents the separation of cash flows generated by the companies of the CGU. As Elica S.p.A. is the Parent and, in many cases, the supplier of the products sold by the other group companies, Management decided to use the Group's impairment tests to verify the recoverability of the Company's goodwill.

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, calculated with the discounted cash flow method.

The impairment test was approved by the Board of Directors on February 13, 2020, 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 based on the best estimates of the directors, for the sole purposes of the impairment test.

#### ***Discounted cash flow assumptions***

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

	<b>2019</b>
Weighted average cost of capital (WACC)	7.74%
Growth rate terminal value	2.17%
CAGR revenue period 2020-2024	5.70%

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 2.1% was used, a market premium risk of 5.96% and a beta-unlevered factor of 0.86.

#### ***Assumptions utilised in estimating cash flows***

The discounted cash flow model is based on the cash flows calculated on the basis of the best estimates made by the directors, for the sole purposes of the impairment test, for a period of five years, the first of which coincides with the 2020 budget. The main assumptions utilised in the determination of the cash flows were as follows:

- average EBITDA on revenue equal to 11.26%;
- average EBIT on revenue equal to 6.87%;
- average Capex on revenue equal to 4.01%;
- level of Free Operating Cash Flow After Taxes on revenue equal to 4.25%.

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 3.03 times its carrying amount (Euro 522 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%/-2%). None of the changes considered resulted in a CGU recoverable amount equal to or below the respective carrying amounts. In particular, upon changes in the growth rate coverage would fluctuate between 3.18 and 2.90, upon changes in the WACC coverage would fluctuate between 3.51 and 2.64 and upon changes in the cost of consumption of raw materials it would fluctuate between 3.69 and 2.37.

#### D.6.4.18.2. Other intangible assets

The table below shows details of changes in other intangible assets in 2019 and 2018.

	Development costs	Industrial patents and intellectual property rights	Concessions, licenses, trademarks & similar rights	Other intangible assets	Assets under construction and payments on account	Net intangible assets
<i>In Euro thousands</i>						
<b>Dec 31, 2017</b>	<b>7,469</b>	<b>7,590</b>	<b>1,913</b>	<b>1,288</b>	<b>1,867</b>	<b>20,127</b>
Increases	2,131	3,655	129	228	1,219	7,362
Other changes and reclassifications	470	896	-	-	(1,643)	(277)
Amortisation and impairment losses	(2,382)	(1,965)	(1,435)	(342)	-	(6,125)
<b>Dec 31, 2018</b>	<b>7,688</b>	<b>10,176</b>	<b>607</b>	<b>1,174</b>	<b>1,443</b>	<b>21,087</b>
Increases	2,096	2,927	272	301	1,531	7,127
Other changes and reclassifications	587	293	(100)	0	(895)	(115)
Amortisation and impairment losses	(2,680)	(2,555)	(337)	(345)	(105)	(6,022)
<b>Dec 31, 2019</b>	<b>7,691</b>	<b>10,842</b>	<b>442</b>	<b>1,130</b>	<b>1,965</b>	<b>22,071</b>

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

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

Concessions, licenses, trademarks and similar rights refers to the registration of trademarks by the company. The other changes, for Euro 100 thousand, refer to the retransfer to Gutmann of the related trademarks, as described in paragraph D.6.4.33.

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

The Intangible assets under development and advances of Euro 1,965 thousand refer principally to the design and development of new products and software application programmes. Assets under development which presumably will be recorded under development costs amount to Euro 1,582 thousand.

The capitalisation of development costs and intangible assets under development 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 and intangible assets under development is greater than the corresponding carrying amount, and therefore it is not necessary to recognise an impairment loss.

#### D.6.4.19 Investments

##### D.6.4.19.1 Investments in subsidiaries

	Dec 31, 2018	Acquisitions & Sub.	Impairment	Increases	Disposals	Dec 31, 2019
<i>In Euro thousands</i>						
Investments in subsidiaries	58,857	-	(2,000)	2,975		59,832
<b>Investments in subsidiaries</b>	<b>58,857</b>		<b>(2,000)</b>	<b>2,975</b>		<b>59,832</b>

The details of investments in subsidiaries are shown below:

	Dec 31, 2018	Acquisitions & Sub.	Impairment	Increases	Disposals	Dec 31, 2019
<i>In Euro thousands</i>						
Elica Trading LLC	3,880					3,880
Elica Group Polska S.p.zoo	22,276					22,276
Elicamex S.a. de C.V.	9,387					9,387
Leonardo Services S.a. de C.V.	77					77
Ariafina Co.Ltd	49					49
Airforce S.p.A.	1,212					1,212
Elica India P.B.	2,651					2,651
Zhejiang Elica Putian Electric Co. Ltd	15,735		(2,000)	2,000		15,735
Elica France S.A.S.	1,024					1,024
Elica GmbH	2,565			975		3,540
<b>Investments in subsidiaries</b>	<b>58,857</b>	<b>-</b>	<b>(2,000)</b>	<b>2,975</b>	<b>-</b>	<b>59,832</b>

Investment report the following changes in the year.

Elica S.p.A. paid into the share capital of Elica GmbH for Euro 975 thousand, and into Putian for Euro 2 million. The table below summarises the key figures derived from the subsidiary companies 2019 financial statements, including their equity. This amount is therefore compared with the carrying amount of the investment.

			Profit/(loss) for the year	
<i>In Euro thousands</i>	% held	Value at Dec 31, 2019		<b>Equity</b>
Elicamex S.a.d. C.V.	98.00%	9,387	2,973	27,754
Elica Group Polska Sp.z o.o	100.00%	22,276	3,022	26,250
Airforce S.p.A.	60.00%	1,212	190	3,549
Ariafina Co.Ltd	51.00%	49	3,458	8,701
Leonardo Services S.a. de C.V.	98.00%	77	282	420
Elica GmbH	100.00%	3,540	(760)	734
Elica PB India Private Ltd.	25.50%	2,651	3,427	11,315
Zhejiang Elica Putian Electric Co. Ltd	99.17%	15,735	(1,859)	(982)
Elica Trading LLC	100.00%	3,880	(437)	986
Elica France S.A.S.	100.00%	1,024	256	957

It is considered that the only investment with indicators of impairment is the Chinese company; the companies Elica GmbH, Elica Trading LLC and Elica France S.A.S. report growing future outlooks. The recoverable value of the investments demonstrating indicators of impairment, in Elica Putian, were verified through calculating the respective values in use, represented by the present value of the expected revenue streams for the years of operations of the company subject to the impairment test and deriving from its disposal at termination of the useful life, calculated as per the “Discounted cash flow” method.

The impairment test was approved by the Board of Directors on February 13, 2020, 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 principal assumptions utilised by the company for the estimate of the future cash flows for the impairment test of the investments were as follows:

2019	Weighted average cost of capital (WACC)	Growth rate terminal value	CAGR revenue period 2020-2024
Zhejiang Elica Putian Electric Co. Ltd	8.5%	5.0%	23.9%
<b>Investments in subsidiaries with indicators of impairment</b>			

The principal assumptions utilised by the company in the previous year for the test on this subsidiary were as follows:

2018	Weighted average cost of capital (WACC)	Growth rate terminal value	CAGR revenue period 2019-2023
Zhejiang Elica Putian Electric Co. Ltd	8.2%	5.30%	13.5%
<b>Investments in subsidiaries with indicators of impairment</b>			

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

#### **Assumptions utilised in the estimate of the cash flows**

The discounted cash flow model is based on the 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 EBITDA on revenue equal to 11.1%;
- level of Free Operating Cash Flow After Taxes on revenue equal to 1.35%.

The assumptions utilised in the estimates are based on historical and forecast data of the companies held and are in line with information available from independent sector and market analysts in which the Company operates. These estimates are subject to changes, even significant, deriving from uncertainties which continue to 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 tests resulted in the recognition to the Income Statement of the company of an impairment of Euro 2 million for the investment in the company Putian.

#### **Sensitivity analysis**

We undertook a sensitivity analysis on the test concerning the investment in Putian, according to the following assumptions and with the following results: changing the growth rate (+/- 0.5%) the coverage would range between 0.72 and 1.11 and, modifying the WACC (+0.8%/-0.9%) the coverage would range between 0.59 to 1.36. Finally, considering an increase in raw material consumption costs of between 0.5% and 2%, the coverage would range between 0.74 and 0.3, while considering a decrease in the cost of raw material consumable cost of between 0.5% and 2%, the coverage would range between 1.03 and 1.48.

#### **D.6.4.19.2 Investments in associates**

During the year, the non-core investment in the associate, which carries out real estate activities, was impaired.

In Euro thousands	Registered Office	% held	Carrying amount at Dec 31, 2019	Profit/(loss)	Equity	Pro-quota Equity at Dec. 31, 2019
<b>As per local GAAP</b>						
I.S.M. Srl	Cerreto d'Esi (Ancona- Italy)	49%	770	44	1,509	730

At December 31, 2019, the Company considered that the value of the investment in I.S.M. S.r.l. was recoverable through the real estate activity undertaken by the company and its real estate values. An analysis was conducted to determine the value of the equity investment, examining the fair value of the assets held by the associate, which resulted in its alignment to the company's equity value.

#### **D.6.4.20 Other assets (non-current)**

The breakdown is as follows:

	Dec 31, 2019	Dec 31, 2018	Changes
<i>In Euro thousands</i>			
From employees	11	7	4
Other	11	12	(1)
<b>Other assets (non-current)</b>	<b>22</b>	<b>19</b>	<b>3</b>
<b>Other</b>	<b>49</b>	<b>49</b>	<b>-</b>
<b>Other assets</b>	<b>71</b>	<b>68</b>	<b>3</b>

Other non-current assets include guarantee deposits, while amounts due from employees relates to the INPS accrued at the time of the 1997 earthquake. This account includes amounts due after more than 5 years of Euro 11 thousand.

The item Other regards unqualified non-controlling interests held by Elica S.p.A. in other companies. There were no changes compared to the previous year. The investments are held in unlisted companies whose shares are not traded on a regulated market. Therefore, as there were no purchases or sales of these shares in the last year, their fair value cannot be determined in a reliable manner.

The above investments are recorded at cost in accordance with article 10 of Law 72/1983 and no revaluations have been made pursuant to specific laws.

Management believes that this amount approximates fair value.

#### D.6.4.21 Deferred tax assets and liabilities

	Dec 31, 2019	Dec 31, 2018	Changes
<i>In Euro thousands</i>			
Deferred tax assets	15,849	13,709	2,140
Deferred tax liabilities	(652)	(582)	(70)
	<b>15,197</b>	<b>13,128</b>	<b>2,070</b>

Deferred tax assets principally relate to non-deductible accruals and the tax loss. Deferred tax liabilities principally include the liabilities for merger adjustments.

The following table details deferred tax assets and liabilities:

<i>In Euro thousands</i>	Dec 31, 2018		Effect on profit or loss Costs (Revenue)	Dec 31, 2019	
	Assets	Liabilities		Assets	Liabilities
Amortisation and depreciation	1,388	(1)	-	303	(58)
Accruals	6,114	-	-	3,563	(833)
Inventory write-down	856	-	-	177	(382)
Exchange rate differences	41	-	-	-	(89)
Restructuring charges	50	-	-	50	(44)
Merger adjustments	-	(578)	-	-	(31)
Goodwill	143	(3)	-	52	-
IRS measurement	363	-	(174)	-	-
Post-employment benefits	281	-	-	-	281
Tax loss	3,363	-	896	45	(3,781)
Employee bonuses	1,109	-	-	819	(1,339)
	<b>13,709</b>	<b>(582)</b>	<b>723</b>	<b>5,010</b>	<b>(6,557)</b>
				<b>15,849</b>	<b>(652)</b>

Company management decides whether to recognise deferred tax assets by critically assessing the assumptions for their future recovery based on future projections.

#### D.6.4.22 Trade receivables – third parties

The account consists of:

	Dec 31, 2019	Dec 31, 2018	Changes
<i>In Euro thousands</i>			
Receivables within one year	23,042	22,542	500
Receivables beyond one year	473	706	(233)
<b>Trade receivables – third parties</b>	<b>23,515</b>	<b>23,248</b>	<b>267</b>

Net trade receivables increased by Euro 267 thousand. During 2019 strong collection activities continued further, which made it possible to reduce the DSO (Days Sales Outstanding) of Elica S.p.A..

Elica S.p.A. implements a Group Credit Policy which governs the management of credit in order to reduce the risk.

In particular, it is Company policy to transfer credit risk of receivables to third parties and, therefore, various instruments are utilised among which first and second level insurance policies with leading international insurance companies.

The maximum theoretical credit risk exposure for the Company at December 31, 2019 is based on the carrying amount of recognised receivables, net of the specific insurance coverage, non-recourse factored receivables and letters of credit, in addition to the nominal value of the guarantees given to third parties.

At the end of December 2019, almost all loans are covered by insurance or other guarantees.

At December 31, 2019, trade receivables from non-Group customers of Euro 23.5 million (Euro 23 million at December 31, 2018), included approx. Euro 1.8 million (roughly Euro 1.3 million at December 31, 2018) concerning overdue receivables, of which Euro 0.05 million over 30 days.

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

The allowance for impairment changed as follows in 2019:

	Dec 31, 2019	Dec 31, 2018	Changes
<i>In Euro thousands</i>			
Opening balance	12,257	3,851	8,406
Allowance	-	9,162	(9,162)
Utilisation/Releases	(8,255)	(756)	(7,499)
<b>Total</b>	<b>4,002</b>	<b>12,257</b>	<b>(8,255)</b>

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

#### D.6.4.23 Inventories

The value of inventories reports a decrease of approx. Euro 2.6 million.

	Dec 31, 2019	Dec 31, 2018	Changes
<i>In Euro thousands</i>			
Raw materials, ancillary and consumables	13,098	13,691	(593)
Provision for the write-down of raw materials	(2,333)	(1,155)	(1,178)
<b>Total</b>	<b>10,766</b>	<b>12,536</b>	<b>(1,770)</b>
Work-in-progress and semi-finished goods	8,317	8,853	(536)
Provision for the write-down of work in progress	(549)	(712)	163
<b>Total</b>	<b>7,767</b>	<b>8,141</b>	<b>(374)</b>
Finished products and goods for resale	17,550	18,126	(576)
Provision for the write-down of finished products	(1,540)	(1,705)	165
<b>Total</b>	<b>16,010</b>	<b>16,421</b>	<b>(411)</b>
<b>Inventories</b>	<b>34,543</b>	<b>37,098</b>	<b>(2,555)</b>

Inventories are stated net of the provision for inventory write-down which amounts to Euro 4.4 million at December 31, 2019 and Euro 3.6 million at December 31, 2018, in order to account for the effect of scraps, obsolete and slow-moving items. The calculation of the provision for the write-down of raw materials, semi-finished and finished products is based on assumptions made by Management. The provision for inventory write-down was equal to 11.3% of the value of inventories (8.8% in 2018).

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

#### D.6.4.24 Other assets (current)

This item is broken down as follows:

	Dec 31, 2019	Dec 31, 2018	Changes
<i>In Euro thousands</i>			
Customs reimbursements	6	30	(24)
Guarantee Deposits	268	233	35
Advances to suppliers	399	427	(28)
Other	2,342	3,803	(1,461)
Insurance prepayments	34	10	24
Maintenance prepayments	3	25	(22)
Advertising prepayments	1	4	(3)
Rental prepayments	26	203	(177)
Other prepayments and accrued income	788	974	(186)
<b>Other assets (current)</b>	<b>3,866</b>	<b>5,709</b>	<b>(1,843)</b>

The account decreased by Euro 1,843 thousand, particularly relating to Other. Other mainly refers to government grants for investment obtained by the Company, such as Industry 2015, the SM project, the Shell project, the Seal project, the Smartfan project and photovoltaic plant grants. Other also includes Euro 650 thousand claimed from the insurance broker by Elica S.p.A. following a loss event caused at an Italian plant by inclement weather.

Last year, this item included the reclassification of third-party assets, which for Euro 1.7 million, were transferred to Gutmann, following the transaction described in paragraph D.6.4.33 and in the Directors' report in paragraph A8 Significant events in 2019. The latter two phenomena explain most of the change. Management believes that this amount approximates fair value.

The account includes assets due after more than five years of Euro 10 thousand.

#### D.6.4.25 Tax assets (current)

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

	Dec 31, 2019	Dec 31, 2018	Changes
<i>In Euro thousands</i>			
IRES	35	-	35
VAT	6,575	5,344	1,231
Foreign tax assets	292	1,041	(749)
Other tax assets	380	1,425	(1,045)
<b>Tax assets (current)</b>	<b>7,281</b>	<b>7,809</b>	<b>(529)</b>

Other tax assets include receivables for taxes paid abroad to be recovered. The changes concern also the increase in the VAT receivable related to trade transactions.

Management believes that this amount approximates fair value.

#### D.6.4.26 Liabilities for post-employment benefits

The amount provisioned in the accounts of Euro 9,088 thousand is the present value of pension liabilities matured by employees at year-end.

The most recent calculation of the present value of this item was performed at December 31, 2019 by actuaries from the company Managers & Partners - Actuarial Services S.p.A.. The amounts recognised in the Income Statement were as follows:

	2019	2018	Changes
<i>In Euro thousands</i>			
Current service cost	2,823	2,745	78
Financial expense	108	196	(88)
	<b>2,931</b>	<b>2,941</b>	<b>(10)</b>

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

	Dec 31, 2019	Dec 31, 2018	Changes
<i>In Euro thousands</i>			
<b>Opening balance</b>	<b>9,071</b>	<b>9,713</b>	<b>(642)</b>
Current service cost	2,823	2,745	78
Actuarial gains and losses	453	(374)	827
	<b>3,276</b>	<b>2,371</b>	<b>905</b>
Financial expense	108	196	(88)
Pension fund	(2,828)	(2,735)	(93)
Benefits provided	(539)	(474)	(65)
	<b>(3,259)</b>	<b>(3,013)</b>	<b>(246)</b>
<b>Liabilities for post-employment benefits</b>	<b>9,088</b>	<b>9,071</b>	<b>17</b>

The interest component of the defined employee benefit plan cost is shown under financial charges, with a resulting increase of Euro 108 in this item for the reporting period. The current service cost and the effect of the curtailment and settlement were recorded under personnel expense. Actuarial gains and losses, amounting to Euro 453 thousand, comprise the actuarial gains (losses) of the defined benefit plans reported in the Statement of Comprehensive Income.

#### Assumptions adopted for the calculation:

	Dec 31, 2019	Dec 31, 2018
Discount rate to determine the obligation	0.77%	1.57%
Rate of inflation	1.20%	1.50%

The discount rates utilised by the Company were selected based on the yield curves of high-quality fixed income securities, as in previous years.

This financial variable is considered the most significant and therefore chosen for a sensitivity analysis. The objective of a sensitivity analysis is to show how the result of the valuation changes in response to changes in an assumption adopted for the calculation, with all other assumptions unchanged

Therefore, if the discount rate increased 0.5% (1.27%), the obligation would amount to Euro 8,625 thousand, while if the discount rate decreased 0.5% (0.27%), the obligation would amount to Euro 9,600 thousand.

### Number of employees

The average number of employees in 2019 was 1,149 (1,175 in 2018), with the final number at December 31, 2019 of 1,139, as outlined in Note D.6.4.7

### D.6.4.27 Provision for risks and charges

The composition and movements of the provisions are as follows:

<i>In Euro thousands</i>	<b>Dec 31, 2018</b>	<b>Provisions</b>	<b>Utilisations/Reclass.</b>	<b>Dec 31, 2019</b>
Agents' termination benefits	564	100	(41)	623
Product warranties	980	1,177	(891)	1,266
Product disposal	829	447	(200)	1,076
Legal risks	10,275	1,603	(4,889)	6,989
Long Term Incentive Plan	1,068	2,207	-	3,275
Restructuring	179	156	(179)	156
Personnel	2,829	2,393	(2,829)	2,393
<b>Provisions for risks and charges</b>	<b>16,725</b>	<b>8,083</b>	<b>(9,029)</b>	<b>15,778</b>
of which				
Non-current	13,145			14,512
Current	3,580			1,266
<b>Provisions for risks and charges</b>	<b>16,725</b>			<b>15,778</b>

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

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

The provision 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.

As was the case at December 2018, the provision includes, among others, the estimate made by the Board of Directors with regards to the risk upon outstanding cases.

With regards to the case between Esperança Real S/A, Madson Eletrometalurgica Ltda and Elica S.p.A, Elica discloses that in January 2019 the Court of Appeal heard the company's appeal and cancelled the order to pay the direct pecuniary damage and the indirect damages as set out in the first level judgment. Any amount eventually due should be decided by a fresh judgment and requires the extensive demonstration of proof, which began in August 2019. Despite this judgment, exclusively for reasons of prudence, the company shall maintain the previously accrued amount of Euro 4 million in the financial statements.

In addition, in 2019 it also incurred, *inter alia*, utilisations of Euro 1.65 million against the guarantee issued, which based on the agreement as per Note D.6.4.33 Elica agreed to pay, to the company owner of the building leased by Gutmann and of Euro 2.6 million against the settlement with Gutmann.

The amount, Euro 156 thousand, still carried in the personnel redundancy provision, is intended to cover future departures in accordance with IAS 37, in order to complete the Company's downsizing plan, designed to reduce and optimise the Company's organisational structure. 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 2019 in this regard.

The Long-Term Incentive Plan provision concerns the accrued liability at December 31, 2019 for the 2016-2022 Phantom Stock and Voluntary Co-investment Plan and the 2019-2025 Phantom Stock and Voluntary Co-investment Plan. The provision refers to the second and third cycle of the first Plan, which was approved by the Board of Directors of Elica S.p.A. respectively on June 26, 2017 and February 12, 2018, and the first cycle of the second Plan, which was approved by the Board of Directors of Elica S.p.A. on July 30, 2019. For further details, reference should be made to the Remuneration Report.

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

#### D.6.4.28 Current and non-current tax liabilities

##### D.6.4.28.1 Tax liabilities (non-current)

The changes in non-current Tax liabilities relate to the monthly payments of the earthquake suspension payables following the earthquake in 1997 and 2016.

##### D.6.4.28.2 Tax liabilities (current)

	Dec 31, 2019	Dec 31, 2018	Changes
<i>In Euro thousands</i>			
IRES	-	180	(180)
IRAP	-	122	(122)
VAT	1,092	1,084	8
Other tax liabilities	5	6	(1)
IRPEF withholding	1,919	1,829	90
<b>Tax liabilities (current)</b>	<b>3,016</b>	<b>3,220</b>	<b>(205)</b>

The decrease in the current tax liabilities account relates to IRES and IRAP. Management believes that this amount approximates fair value.

##### D.6.4.29 Other liabilities (current and non-current)

The changes in Other non-current liabilities relate to the monthly payments of the earthquake suspension liabilities following the earthquake in 1997 and 2016.

##### D.6.4.29.1 Other liabilities (current)

	Dec 31, 2019	Dec 31, 2018	Changes
<i>In Euro thousands</i>			
Due to social security institutions	2,480	2,248	232
Other	221	76	145
Due to personnel renumeration	3,533	3,560	(27)
Due to customers	4	4	(0)
Accrued charges and deferred income	510	410	100
Directors and Statutory Auditors	308	100	208
Advances from customers	306	211	95
<b>Other liabilities (current)</b>	<b>7,360</b>	<b>6,610</b>	<b>751</b>

The account increased by Euro 751 thousand. Amounts owed to social security institutions (Euro 232 thousand), directors and statutory auditors (Euro 208 thousand) and customer advances (Euro 95 thousand) contributed to this increase, with no particular significant increase.

The account includes liabilities beyond 5 years for Euro 10 thousand.

#### D.6.4.30 Trade payables - to third parties

	Dec 31, 2019	Dec 31, 2018	Changes
<i>In Euro thousands</i>			
Trade payables to third parties	69,761	68,545	1,216
<b>Trade payables to third parties</b>	<b>69,761</b>	<b>68,545</b>	<b>1,216</b>

These 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.

#### D.6.4.31. Equity

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

##### D.6.4.31.1 Share capital

The share capital at December 31, 2019 amounts to Euro 12,664 thousand, consisting of 63,322,800 ordinary shares with a par value of Euro 0.20 each, fully subscribed and paid-in.

##### D.6.4.31.2 Capital reserves

The capital reserves amount to Euro 71,123 thousand and relate to the Share Premium Reserve.

#### D.6.4.31.3 Hedging reserve

	Dec 31, 2018	Changes in the hedging reserve	Other changes	Dec 31, 2019
<i>In Euro thousands</i>				
Hedging reserve	(1,149)	1,180	-	32

The hedging reserve was positive for Euro 32 thousand which represents the positive fair value of hedging derivatives (cash flow hedges) net of the tax effect, equal to Euro 373 thousand. The balance of the hedging reserve was a negative Euro 1,149 thousand at December 31, 2019).

#### D.6.4.31.4 Treasury shares

On July 24, 2019, Elica S.p.A. announced an agreement for the sale of 1,275,498 treasury shares, equal to 2.014% of the share capital, to TIP - Tamburi Investment Partners S.p.A., an independent and diversified investment/merchant bank listed on the STAR segment of the Italian Stock Exchange, at an agreed price of Euro 2 per share for a total amount of Euro 2,550,996. The agreed price is in line with the motions passed by the Shareholders' Meeting of April 18, 2019 concerning the disposal of treasury shares.

This transaction took place concurrently with the purchase by TIP of the entire holding of Whirlpool EMEA S.p.A in Elica of 7,958,203 shares - equal to 12.568% of the share capital - against the same consideration of Euro 2 per share paid by TIP to Elica.

Following the above transactions, on July 26, 2019 TIP came to hold 14.582% of the share capital of Elica S.p.A..

This transaction resulted in the cancellation of the reserve on the debit side for Euro 3,551 thousand and other movements in retained earnings for the difference with the proceeds recovered from the sale for approximately Euro 1 million.

#### D.6.4.31.5 Actuarial reserve

	Dec 31, 2018	IAS 19 actuarial effect	Dec 31, 2019
<i>In Euro thousands</i>			
Actuarial reserve	(2,601)	(453)	(3,054)

#### D.6.4.31.6 Retained earnings

<i>In Euro thousands</i>	Dec 31, 2019	Dec 31, 2018	Changes
Legal Reserve	2,533	2,533	-
IFRS transition reserve	1,675	1,675	-
Extraordinary Reserve	3,786	4,268	(482)
<b>Retained earnings</b>	<b>7,994</b>	<b>8,476</b>	<b>(482)</b>

The decrease in the Extraordinary Reserve of Euro 482 thousand is due to the allocation to this account of the Company's profit for 2018 (Euro 529 thousand) and to the decrease due to the impact of the sale of treasury shares, as described in paragraph D.6.4.31.4.

#### D.6.4.31.7 Information on distributable reserves

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

Description origin	Amount	Poss. of utilisation	Quota available	Util. in past 3 years to cover losses	Util. in past 3 years for other reasons
<i>In Euro</i>					
<b>I Share capital</b>	<b>12,664,560</b>	=		-	-
<b>II Share premium reserve</b>	<b>71,123,336</b>	<b>A,B,C</b>	<b>71,123,336</b>	-	-
IV Legal reserve	2,532,912	B		-	-
VII Other reserves:					
Extra reserve	3,786,166	A,B,C	3,786,166	28,652,873	
IFRS transition reserve	1,675,096	A,B,C	1,675,096		
<b>Retained earnings</b>	<b>7,994,174</b>				
<b>Treasury shares</b>	<b>-</b>			-	
<b>Hedging/Actuarial reserves</b>	<b>(3,022,637)</b>				
Non-distributable amount	-		7,759,879		
Residual distributable amount	-		68,824,720		
A - to increase share capital					
B - coverage of losses					
C: for distribution to shareholders					

The non-distributable quota, equal to Euro 7,760 thousand, for Euro 7,690 thousand refers to the residual amount to be amortised of development expenses as per Article 2426 paragraph 5 of the Civil Code and for Euro 69 thousand to the gains deriving from the measurement of derivative instruments and currency differences in profit or loss as per Article 2426 paragraph 11 of the Civil Code.

#### D.6.4.32 Net financial position

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

<i>In Euro thousands</i>	<b>Dec 31, 2019</b>	<b>Jan 1, 19</b>	<b>Dec 31, 2018</b>
<b>Cash and cash equivalents</b>	<b>10,600</b>	<b>5,377</b>	<b>5,377</b>
Financial assets - subsidiaries	15,137	19,989	19,989
Financial liabilities - subsidiaries	(3,355)	(2,245)	(2,245)
Bank loans and borrowings	(17,938)	(27,950)	(27,950)
<b>Current loans and borrowings</b>	<b>(6,156)</b>	<b>(10,206)</b>	<b>(10,206)</b>
Bank loans and borrowings	(55,413)	(54,102)	(54,102)
<b>Non-current loans and borrowings</b>	<b>(55,413)</b>	<b>(54,102)</b>	<b>(54,102)</b>
<b>Net Financial Position</b>	<b>(50,968)</b>	<b>(58,931)</b>	<b>(58,931)</b>
Lease liabilities IFRS 16 (current)	(1,625)	(1,497)	-
Lease liabilities IFRS 16 (non-current)	(5,086)	(5,631)	-
<b>Net Financial Position - Including the effects of IFRS 16</b>	<b>(57,680)</b>	<b>(66,059)</b>	<b>(58,931)</b>
Assets for derivatives	651	840	840
Liabilities for derivatives (current)	(383)	(1,734)	(1,734)
Liabilities for derivatives (non-current)	(198)	(120)	(120)
<b>Net Financial Position - Including the effects of IFRS 16 and derivatives</b>	<b>(57,610)</b>	<b>(67,073)</b>	<b>(59,944)</b>

At December 31, 2019, the net financial position including the IFRS 16 impact and the effect of derivative instruments was a debt position of Euro 57,610 thousand, improving Euro 2.3 million on the previous year. This change includes, on the one hand, the emergence of the financial debt relating to the application of IFRS 16 and, on the other, the improvement in the Net financial Position of Euro 8.0 million. For further comments, reference should be made to the Directors' Report A.6.2 "Elica S.p.A. Financial Position and Performance".

#### D.6.4.32.1 Cash and cash equivalents

	<b>Dec 31, 2019</b>	<b>Dec 31, 2018</b>	<b>Changes</b>
<i>In Euro thousands</i>			
Bank and postal deposits	10,590	5,368	5,222
Cash in hand and similar	11	9	2
<b>Cash and cash equivalents</b>	<b>10,600</b>	<b>5,377</b>	<b>5,223</b>

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

#### D.6.4.32.2 Bank loans and borrowings

	Dec 31, 2019	Dec 31, 2018	Changes
<i>In Euro thousands</i>			
Bank loans and borrowings	73,351	82,052	(8,701)
<b>Total</b>	<b>73,351</b>	<b>82,052</b>	<b>(8,701)</b>
Bank borrowings have the following repayment schedules:			
On demand or within one year	17,938	27,950	(10,012)
Within two years	17,172	17,933	(761)
Within three years	17,689	16,717	972
Within four years	14,893	12,726	2,167
Within five years	5,519	6,549	(1,030)
After 5 years	140	177	(37)
<b>Total</b>	<b>73,351</b>	<b>82,052</b>	<b>(8,701)</b>
Less amounts to be repaid within one year	17,938	27,950	(10,012)
<b>Due after one year</b>	<b>55,413</b>	<b>54,102</b>	<b>1,311</b>

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

In particular, the covenants on some of the loans is such that non-compliance does not immediately trigger default, but a first non-compliance does result in an increase in the cost of the loan.

At December 31, 2019 Elica S.p.A. was in compliance with these covenants, both in relation to the increase in the cost of the loan and default on the loan. The Company expects that it will continue to comply with the covenants in 2020.

All bank loans and borrowings are denominated in Euro.

The majority of borrowings indicated above carry a floating rate of interest. In 2019 the Company negotiated a new non-current loan and subscribed a related IRS contract on this loan to hedge the variable interest rate.

For further information on interest rate hedges, reference should be made to paragraph D.6.6, Risk management of these notes.

#### D.6.4.32.3 Derivative financial instruments

	Dec 31, 2019			
	Assets	Liabilities	Assets	Liabilities
<i>In Euro thousands</i>				
FX derivatives	342	208	840	415
Interest rate derivatives	-	373	-	366
Commodities derivatives	309	-	-	1,073
<b>Derivative financial instruments</b>	<b>651</b>	<b>581</b>	<b>840</b>	<b>1,854</b>
of which				
Non-current	-	198	-	120
Current	651	383	840	1,734
<b>Derivative financial instruments</b>	<b>651</b>	<b>581</b>	<b>840</b>	<b>1,854</b>

The Company uses derivative financial instruments to hedge the market risks to which it is exposed: foreign currency risk, interest rate risk and commodities price risk.

The table below reports the following information on derivative instruments at December 31, 2018 and December 31, 2019:

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

In Euro thousands	Dec 31, 2018		Notional Value		Carrying amount
	Maturity within 1 year	Maturity after 1 year			
<b>Interest rate risk</b>					
Cash flow hedge as per IFRS	17,624	46,342			(366)
Fair value hedge as per IFRS	-	-			-
Not considered hedges as per IFRS	-	-			-
<b>Total derivatives on interest rates</b>	<b>17,624</b>	<b>46,342</b>			<b>(366)</b>
<b>Foreign currency risk</b>					
Cash flow hedge as per IFRS	34,425	3,336	sales	purchases	284
Fair value hedge as per IFRS			-	-	
Not considered hedges as per IFRS	795	6,586	-	-	141
<b>Total derivatives on foreign exchange</b>	<b>35,220</b>	<b>9,922</b>			<b>425</b>
<b>Commodity risk</b>					
Cash flow hedge as per IFRS		15,761	sales	purchases	(1,073)
Fair value hedge as per IFRS			-	-	
Not considered hedges as per IFRS					
<b>Total derivatives on commodities</b>		<b>15,761</b>			<b>(1,073)</b>

In Euro thousands	Dec. 31, 2019		Notional Value		Carrying amount
	Maturity within 1 year	Maturity after 1 year			
<b>Interest rate risk</b>					
Cash flow hedge as per IFRS	11,844	44,362			(373)
Fair value hedge as per IFRS	-	-			-
Not considered hedges as per IFRS	-	-			-
<b>Total derivatives on interest rates</b>	<b>11,844</b>	<b>44,362</b>			<b>(373)</b>
<b>Foreign currency risk</b>					
Cash flow hedge as per IFRS	31,924	3,362	sales	purchases	144
Fair value hedge as per IFRS			-	-	
Not considered hedges as per IFRS		3,784	-	-	(10)
<b>Total derivatives on currency risks</b>	<b>31,924</b>	<b>7,146</b>			<b>134</b>
<b>Commodity risk</b>					
Cash flow hedge as per IFRS		11,246	sales	purchases	309
Fair value hedge as per IFRS			-	-	
Not considered hedges as per IFRS					
<b>Total derivatives on commodities</b>		<b>11,246</b>			<b>309</b>

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, 2019 belong to level 2 of the fair value hierarchy, except for commodities which belong to level 1.

For further information, refer to paragraph D.6.6 “Information on risk management”.

#### D.6.4.33 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. agreed to pay Gutmann Euro 2.6 million, of which Euro 800 thousand 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, in addition to a further Euro 100 thousand, entirely offset against that to be paid by Gutmann for the retransfer of the "Gutmann" brands acquired by Elica S.p.A. in 2017 (Gutmann brands written down to their fair value of Euro 100 thousand in the 2018 financial statements, recording impairment of Euro 1,077 thousand).

Manuel Fernandez Salgado remains liable to pay Elica S.p.A. the residual amount of Euro 800 thousand (written off in the 2018 financial statements), due for the transfer of the Gutmann shares. This obligation will be settled by paying Elica S.p.A. the amount of Euro 200 thousand by February 28, 2020, in 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.

The agreement described herein confirms the approach previously taken by the company, which in 2018 wrote down the trade receivable claimed by Elica S.p.A. by a total of Euro 6.8 million.

#### **D.6.4.34 Significant non-recurring events and transactions**

There was nothing to report in 2019, except as described in paragraph D.6.4.33, related to settled agreements with Gutmann and, between the others in the paragraph D.6.4.31.4 about the change of shareholders, with the TIP's introduction.

### **D.6.5. Guarantees, commitments and contingent liabilities**

#### **D.6.5.1. 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 financial statements at December 31, 2019 to cover legal risks and charges amounts to Euro 6,989 thousand.

With regards to the case between Esperança Real S/A, Madson Eletrometalurgica Ltda and Elica S.p.A, the company discloses that in January 2019 the Court of Appeal heard the company's appeal and cancelled the order to pay the direct pecuniary damage and the indirect damages as set out in the first level judgment. Any amount eventually due should be decided by a fresh judgment and requires the extensive demonstration of proof, which began in August 2019. Despite this judgment, exclusively for reasons of prudence, the company shall maintain the previously accrued amount of Euro 4 million in the financial statements.

In 2019 the Company was subject to an audit by the Italian Agency of Revenue, Marche Regional Department, Tax Audits Office, for the tax years 2014, 2015 and 2016. It received an auditors' report on October 14, 2019. The assessment process has yet to proceed further for the other two subsequent relevant findings. The other findings have either been closed by the Company or are immaterial in amount.

There was found to have been an alleged violation of the transfer pricing rules set out in Art. 110, paragraph 7, of Presidential Decree No. 917 of December 22, 1986 (the Tax Consolidation Act) in respect of the transfer

prices applied by the Company to transactions with the Mexican sister company Elicamex S.A. de C.V., the value of which the Office adjusted, proposing that additional IRES (company income tax) and IRAP (regional production tax) be levied on the basis of Euro 1,014,887 in 2015 and on Euro 1,012,783 in 2016. The Company has tax losses that can be used to offset the financial risk for IRES purposes.

It was therefore determined that the Company had unduly benefited from the research and development tax credit due to allegedly failing to meet the requirements established by the tax relief rules for qualifying for the credit in question and that Elica was therefore ineligible for the related tax relief measures for the costs of research and development activities it had carried out in 2015 and 2016. The Company reported a credit of Euro 838,814.20 for 2015 and a credit of Euro 1,075,877.82 for 2016.

As counselled by its legal advisors, Elica believes that the arguments laid out in the auditors' report in support of the findings discussed in this paragraph are not compelling and that there are considerable defensive arguments against this reconstruction. The Company sought counsel from its legal advisors in support of the view that the risk that tax liabilities may flow for the Company from potential disputes that might arise from the assessment action by the revenue authorities in connection with the findings presented in the auditors' report discussed above is possible but not probable.

#### **D.6.5.2. Guarantees and commitments**

In accordance with Article 122 of the CFA and Article 129 of the Issuers' Regulation, on July 24, 2019, FAN S.r.l., with registered office in Rome, via Parigi No. 11 and TAMBURI INVESTMENT PARTNERS S.p.A., with registered office in Milan, via Pontaccio No. 10, signed an agreement concerning a portion of the ordinary share of Elica S.p.A., in addition to, *inter alia*, some provisions regarding the governance of Elica S.p.A. (the "Shareholder Agreements").

The key information regarding the Shareholder Agreements was published as per Article 130 of the Issuers' Regulation on Elica S.p.A.'s website, [https://elica.com/corporation/en/corporategovernance/other\\_documents](https://elica.com/corporation/en/corporategovernance/other_documents) and on the website of the authorised storage mechanism "1INFO" at [www.1info.it..](http://www.1info.it..)

This did not impact control over Elica which, as per Article 93 of the CFA, is held by Mr. Francesco Casoli.

Elica S.p.A. has provided guarantees 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 3 million and a coverage limit of Euro 400 thousand with Banco Santander for Elica's permanent establishment in Spain. As at December 31, 2019 there was also an outstanding corporate guarantee with a residual value of Euro 0.14 million.

Commitments with suppliers for fixed asset purchases at December 31, 2019 amount to approx. Euro 1,060 thousand, principally relating to investments in the productive capacity. There are also commitments for operational expenses of Euro 2.7 million, relating in particular to long-term contracts, such as the use of networks and data platforms.

The company at December 31, 2019 has commitments in place for the purchase of raw materials, as described in paragraph D6.6.2.2 Commodity Risk.

#### **D.6.6. Risk management**

##### **D.6.6.1 Introduction**

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

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

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

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

- prudent management of the risk with a view to protecting the expected value of the business;

- use of “natural hedges” in order to minimise the net exposure on the financial risks described above;
- undertake hedging transactions within the limits approved by management and only for actual, clearly identified exposures.

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

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

#### D.6.6.2 Market risk

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

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

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

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

##### D.6.6.2.1 Currency risk

The Company's operating currency is the Euro. However, the Company trades also in American Dollars (USD), British Pounds (GBP), Japanese Yen (JPY), Swiss Francs (CHF), Russian Roubles (RUB) Polish Zloty (PLN), Indian Rupees (INR), Chinese Yuan (CNY) and Mexican Pesos (MXN). For the currencies in which the company has higher revenue than costs, changes in the exchange rates between the Euro and these currencies impact the Company results as follows:

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

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

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

The most significant statement of financial position balances in foreign currency at December 31, 2019 are shown below:

In Euro thousands Currency	Dec 31, 2019		Dec 31, 2018	
	Assets	Liabilities	Assets	Liabilities
CHF	-	(41)	-	(37)
CNY	2,474	(294)	2,570	(86)
GBP	193	(12)	334	(11)
JPY	479	(3,305)	365	(1,608)
PLN	14,412	(16,416)	19,709	(18,560)
RUB	5,516	(270)	3,855	(6)
USD	16,328	(4,454)	25,981	(4,602)
INR	1,940	(176)	2,410	(135)
<b>Foreign currency transactions</b>	<b>41,342</b>	<b>(24,968)</b>	<b>55,224</b>	<b>(25,045)</b>

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

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

Currency	In Euro thousands		Dec 31, 2019		Dec 31, 2018	
	Appreciation of foreign currencies 5%	Depreciation of foreign currencies 5%	Appreciation of foreign currencies 5%	Depreciation of foreign currencies 5%		
CHF	(2)	2	(2)	2		
CNY	115	(104)	131	(118)		
GBP	10	(9)	17	(15)		
JPY	(149)	135	(65)	59		
PLN	(105)	95	60	(55)		
RUB	276	(250)	203	(183)		
USD	625	(565)	1,125	(1,018)		
INR	93	(84)	120	(108)		
<b>Foreign currency transactions</b>	<b>863</b>	<b>(780)</b>	<b>1,589</b>	<b>(1,436)</b>		

Elica's hedges in place at December 31, 2019 with financial counterparties have a total positive fair value of Euro 133 thousand (positive for Euro 425 thousand at December 31, 2018).

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

Currency	Dec 31, 2019		Dec 31, 2018	
	Notional (in foreign currency/000)	Fair Value In thousands of Euro	Notional (in foreign currency/000)	Fair Value In thousands of Euro
<b>USD</b>				
Forward	15,000	83	22,000	141
Options	6,600	106	5,800	(73)
<b>PLN</b>				
Forward	33,000	(12)	34,000	21
Options	-	-	-	-
<b>JPY</b>				
Forward	530,000	(15)	160,000	51
Options	-	-	100,000	(15)
<b>RUB</b>				
Forward	150,000	(29)	225,000	144
Options	-	-	121,000	(1)
<b>MXN</b>				
Options	-	-	114,000	157
<b>FX derivative assets/(liabilities)</b>		<b>133</b>		<b>425</b>

For the purposes of the sensitivity analysis on the exchange rate, the potential movements on the EUR/USD, EUR/PLN, EUR/RUB and EUR/JPY and the rate curves of the Euro exchange rates 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, 2019 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 2019 and the first weeks of January 2020 was considered.

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

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

The following table shows the sensitivity to the movements in the exchange rates and the rate curves indicated, maintaining all other variables unchanged, of the Fair Value of the operations in derivatives instruments at December 31, 2019 (compared with December 31, 2018):

In Euro thousands	Dec 31, 2019			
	USD Notional	PLN Notional	JPY Notional	RUB Notional
	21,600	33,000	530,000	150,000
	USD/000	PLN/000	JPY/000	RUB/000
Depreciation of foreign currency	1,408	417	(292)	408
Euro exchange rate depreciation	145	(22)	(10)	44
Exchange rate depreciation	(133)	(22)	(10)	87

<i>Sensitivity to Depreciation</i>	<b>1,420</b>	<b>373</b>	<b>(312)</b>	<b>539</b>
Appreciation of foreign currency	(906)	(517)	322	(796)
Euro exchange rate appreciation	(145)	22	10	(44)
Exchange rate appreciation	157	22	10	(73)
<i>Sensitivity to Appreciation</i>	<b>(894)</b>	<b>(473)</b>	<b>342</b>	<b>(913)</b>
<b>Dec 31, 2018</b>				
<i>In Euro thousands</i>	<b>USD Notional</b>	<b>PLN Notional</b>	<b>JPY Notional</b>	<b>RUB Notional</b>
	<b>28,000</b>	<b>34,000</b>	<b>340,000</b>	<b>346,000</b>
	<b>USD/000</b>	<b>PLN/000</b>	<b>JPY/000</b>	<b>RUB/000</b>
				<b>MXN Notional</b>
				<b>114,000</b>
				<b>MXN/000</b>
Depreciation of foreign currency	1,563	448	(31)	190
Euro exchange rate depreciation	2	(1)	9	(32)
Exchange rate depreciation	(11)	(1)	7	73
<i>Sensitivity to Depreciation</i>	<b>1,554</b>	<b>446</b>	<b>(15)</b>	<b>231</b>
				<b>(485)</b>
Appreciation of foreign currency	(1,762)	(505)	36	(317)
Euro exchange rate appreciation	(2)	1	(9)	24
Exchange rate appreciation	11	1	(7)	(47)
<i>Sensitivity to Appreciation</i>	<b>(1,753)</b>	<b>(503)</b>	<b>20</b>	<b>(340)</b>
				<b>606</b>

#### D.6.6.2.2 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, 2019 and December 31, 2018 are reported below:

<i>Copper hedges</i> <i>In Euro thousands</i>	<b>Dec 31, 2019</b>		<b>Dec 31, 2018</b>	
	<b>Notional</b>	<b>Fair value</b>	<b>Notional</b>	<b>Fair value</b>
Forward	11,264	309	15,761	(1,073)
<b>Commodity derivative assets/(liabilities)</b>	<b>11,264</b>	<b>309</b>	<b>15,761</b>	<b>(1,073)</b>

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, 2019 of Euro 562 thousand.

Similarly, a reduction of 5% results in a decrease in the fair value of forward contracts of Euro 562 thousand.

The Net change in the cash flow hedge reserve account is impacted by this issue, increasing Euro 1,382 thousand, on a total increase of Euro 1,180 thousand.

#### D.6.6.2.3 Interest rate risk

The management of interest rate risk by Elica S.p.A. 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 company's debt mainly bears a floating rate of interest.

Relating to the Company debt, from the sensitivity analysis a decrease of 25 bps in the interest rate curve in the short-term incurs lower financial expense of Euro 127 thousand, while an increase of 25 bps in the same interest rate curve converts into higher financial expense of Euro 127 thousand.

The Company hedges the interest rate risk through the utilisation of four Interest Rate Swaps and through CAP options against specific medium-long term loans at a variable rate.

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

Instrument <i>In Euro thousands</i>	Dec 31, 2019		Dec 31, 2018	
	Notional	Fair value	Notional	Fair value
Interest Rate Swaps	60,206	(373)	63,966	(366)
<b>Interest rate derivative assets/(liabilities)</b>	<b>60,206</b>	<b>(373)</b>	<b>63,966</b>	<b>(366)</b>

The interest rate risk is also measured through sensitivity analyses, in accordance with IFRS 7. The changes in the interest rate curve utilised for the sensitivity analysis were based on the volatility of the market rates. The analysis shows that a decrease in the interest rate curve of +/-25 bps converts into a decrease/increase in the Fair Value of the Interest Rate Swap at December 31, 2019 of Euro 95 thousand.

#### D.6.6.3 Credit risk

The credit risks represent the exposure of Elica S.p.A. 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.

For more details, see paragraph D.6.4.22 of these notes.

#### D.6.6.4 Liquidity risk

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

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

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

<i>In Euro thousands</i>	Dec 31, 2019		
	Within 1 year	1 - 5 years	After 5 years
Bank loans and borrowings	17,938	55,273	140
Lease liabilities under IFRS 16	1,625	4,693	393
Trade payables and other liabilities	95,402	2	10
<b>Total</b>	<b>114,965</b>	<b>59,968</b>	<b>543</b>

<i>In Euro thousands</i>	Dec 31, 2018		
	Within 1 year	1 - 5 years	After 5 years
Bank loans and borrowings	27,950	53,925	177
Trade payables and other liabilities	95,391	51	10
<b>Total</b>	<b>123,341</b>	<b>53,976</b>	<b>187</b>

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 Company 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 position, reference should be made to note D.6.4.32 of the notes.

**D.6.6.5 Classification of the Financial instruments**

<i>In Euro thousands</i>	<b>Dec 31, 2019</b>	<b>Dec 31, 2018</b>
Trade receivables and financial assets	64,269	74,705
Assets for derivative financial instruments	651	840
Cash and cash equivalents	10,600	5,377
<b>Current assets</b>	<b>75,521</b>	<b>80,922</b>
Bank loans and borrowings	55,413	54,102
Lease liabilities under IFRS 16	5,086	-
Liabilities for derivative financial instruments	198	120
<b>Non-current liabilities</b>	<b>60,696</b>	<b>54,222</b>
Trade payables and financial liabilities	91,406	91,036
Bank loans and borrowings	17,938	27,950
Lease liabilities under IFRS 16	1,625	-
Liabilities for derivative financial instruments	383	1,734
<b>Current liabilities</b>	<b>111,352</b>	<b>120,720</b>

The Company believes that the carrying amounts of the accounts approximate their fair value. Reference should be made to paragraph D.6.1. "Accounting policies" of these Notes for information on the measurement of the individual accounts.

## D.6.7. Disclosure on Management renumeration and related-party transactions

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

### D.6.7.1 Remuneration of Directors, Statutory Auditors and Senior Executives

The remuneration of the above-mentioned persons in total amounted to Euro 5,114 thousand. This amount does not include the accrual to the Long-Term Incentive provision, as per Note D.6.4.27 “Provision for risk and charges”. The details are reported in the Remuneration Report. This report is available on the Company website <https://elica.com/corporation> (Investor Relations section).

### D.6.7.2 Management and coordination activity

Elica S.p.A. is indirectly controlled by the Casoli Family through Fintrack S.p.A. of Fabriano (AN - Italy). The company is not subject to management and co-ordination pursuant to Art. 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 programmed of the company, which is governed by a Board of Directors responsible for operating control.

The Board of Directors has also appointed an independent CEO for ordinary operational management. With effect from July 2019, Tamburi Investments Partners (“TIP”) acquired a minority interest in the Company. As at December 31, 2019, this interest amounted to 20.150% of Elica's capital.

The Company however continues to carry out its operations through a totally autonomous and independent decision-making process; it has independent decision-making capacity with customers and suppliers and independently manages its treasury in accordance with the business purpose.

### D.6.7.3 Transactions with subsidiaries

During the year, transactions with subsidiaries took place. All transactions were conducted on an arm's length basis in the ordinary course of business. With regards to transfer prices - applied to transactions between Elica S.p.A. and Elica Group Polska and Elicamex - specific Ruling agreements were signed with the National Tax Authorities.

The tables below show key figures for subsidiaries and the amount of transactions performed with them as at and for the year ended December 31, 2019.

#### D.6.7.3.1. Subsidiaries – 2019 Highlights

Reporting package figures

In Euro thousands	Assets	Liabilities	Equity	Revenue	Profit/(loss)
Elicamex S.a.d. C.V.	57,837	30,083	27,754	69,279	2,973
Elica Group Polska Sp.z o.o.	55,659	29,409	26,250	107,089	3,022
Airforce S.p.A.	11,371	7,823	3,549	25,191	190
Ariafina CO., LTD	12,627	3,925	8,701	26,854	3,458
Leonardo S.A.de C.V.	1,681	1,261	420	11,793	282
Elica Inc.	385	79	305	1,071	31
Elica PB India Private Ltd.	21,048	9,733	11,315	35,314	3,427
Zhejiang Elica Putian Electric Co. Ltd	18,263	19,245	(982)	13,168	(1,859)
Elica Trading LLC	7,725	6,739	986	13,574	(437)
Elica France S.A.S.	4,993	4,036	957	15,266	256
Elica GmbH	3,401	2,667	734	7,597	(760)

### D.6.7.3.2 Trade receivables from subsidiaries

Trade receivables from subsidiaries are broken down as follows:

	Dec 31, 2019	Dec 31, 2018	Changes
<i>In Euro thousands</i>			
Elica Trading LLC	5,313	3,035	2,278
Air Force S. p. A.	439	468	(29)
Elica Group Polska S.p.z.oo	6,102	8,533	(2,431)
Elicamex S.A. de C.V.	8,132	11,208	(3,076)
Ariafina Co Ltd	403	360	43
Elica PB India Private Ltd.	381	842	(461)
Elica France S.A.S.	1,830	2,151	(321)
Zhejiang Elica Putian Electric Co. Ltd	1,687	1,871	(184)
Leonardo S.A. de C.V.	5	-	5
Elica GmbH	1,324	2,999	(1,675)
<b>Trade receivables from subsidiaries</b>	<b>25,617</b>	<b>31,467</b>	<b>(5,850)</b>

### D.6.7.3.3 Trade payables to subsidiaries

Payables to subsidiaries are detailed below.

	Dec 31, 2019	Dec 31, 2018	Changes
<i>In Euro thousands</i>			
Elica Trading LLC	270	6	264
Elica Group Polska S.p.z.oo	16,328	18,520	(2,192)
Air Force S.p.A.	123	218	(95)
Elicamex S.A.	10	358	(348)
Ariafina Co Ltd	20	19	1
Leonardo S.A.	-	7	(7)
Zhejiang Elica Putian Electric Co. Ltd	1,359	936	423
Elica PB India Private Ltd.	176	135	41
Elica France S.A.S.	1	-	1
Elica GmbH	3	48	(45)
<b>Payables to subsidiaries</b>	<b>18,290</b>	<b>20,247</b>	<b>(1,956)</b>

### D.6.7.3.4 Financial assets and liabilities with subsidiaries

	Dec 31, 2019	Dec 31, 2018	Changes
<i>In Euro thousands</i>			
<i>Financial assets from subsidiaries</i>			
Zhejiang Elica Putian Electric Co. Ltd	3,851	3,843	8
Elica PB India Private Ltd.	1,559	1,568	(9)
Elica France S.A.S.	81	433	(352)
Elicamex S.A.	9,239	7,741	1,497
Elica Group Polska S.p.z.oo	156	6,404	(6,248)
Elica GmbH	252	-	252
	<b>15,137</b>	<b>19,989</b>	<b>(4,852)</b>
<i>Financial liabilities to subsidiaries</i>			
Elicamex S.A.	75	656	(581)
Ariafina Co.Ltd	3,280	1,589	1,691
	<b>3,355</b>	<b>2,245</b>	<b>1,110</b>

Elica also carries out transactions with Group companies as part of a general plan to centralise treasury management activities. These loans are interest bearing and at market rates. The changes show the synergies created in order to optimise cash management.

**D.6.7.3.5 Balances with subsidiaries**

Subsidiaries	Revenue, Other Revenue and Financial Income	Costs and Financial Expense
<i>In Euro thousands</i>		
<i>subsidiaries</i>		
Elicamex S.a.d. C.V.	12,585	45
Ariafina Co.Ltd	406	62
Elica Group Polska S.p.z.oo	35,203	104,113
Air Force S.p.A.	1,480	373
Zhejiang Elica Putian Electric Co. Ltd	973	5,061
Elica PB India Private Ltd.	701	176
Elica Trading LLC	7,691	340
Elica France S.A.S.	10,489	15
Elica GmbH	5,151	10
Leonardo	5	-

	Dec 31, 2019	Dec 31, 2018	Changes
<i>In Euro thousands</i>			
<i>Dividends received from subsidiaries</i>			
Ariafina Co.Ltd	1,410	1,349	61
Elica Group Polska S.p.z.oo	2,680	3,955	(1,275)
Air Force S.p.A.	187	90	97
	<b>4,277</b>	<b>5,395</b>	<b>(1,118)</b>

**D.6.7.4 Transactions with other related parties**

In 2019, 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 Financial Statements, given the immaterial amounts involved, in accordance with Consob resolution no. 15519 of July 27, 2006.

	Receivables	Liabilities/ IFRS16 Liabilities	Revenue	Costs
<i>In Euro thousands</i>				
Fastnet S.p.A.	-	-	-	24
La Ceramica	-	-	-	15
Ermanno Casoli Foundation	-	-	-	114
Other physical persons	-	89	1	38
	-	<b>89</b>	<b>1</b>	<b>191</b>

With the other related parties Elica only carries out transactions exclusively of a trading nature. There are no transactions with Fintrack S.p.A., FAN S.r.l. or the associated company I.S.M..

The statement of comprehensive income and statement of financial position balances arise from trading transactions conducted to purchase goods and services and use fixed assets 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).

#### **D.6.8. 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:

<i>Euro thousands</i>	<b>Asset at Jan 1, 19</b>	<b>Vested in 2019</b>	<b>Collected 2019</b>	<b>Asset at Dec 31, 2019</b>	<b>Description</b>
Photovoltaic Grant (**)	361	462	(248)	575	Grant on photovoltaic plant installed on the roof of the Castlefidardo and Cerreto D'esi industrial buildings issued by FSE
2015 Industry	138			138	Research and Development grant from Ministry for Economic Development
RESPIRE project	19	105	(118)	6	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	(131)	126	(141)	(146)	Research grant from European Union
Fondimpresa	-	146		146	Staff training grant from Fondimpresa
Fondirigenti	15	20	(15)	20	Training executives grant from Fondimpresa
2018 advertising bonus	-	26	(26)	-	Contribution paid pursuant to Law No. 172/2017, as amended.
<b>Total Grants</b>	<b>1,033</b>	<b>885</b>	<b>(548)</b>	<b>1,370</b>	

(\*\*) Includes advances received

#### **D.6.9. Positions or transactions arising from atypical and/or unusual operations**

In 2019, there were no such transactions to be reported.

#### **D.6.10. Subsequent events**

On **February 12, 2020** the Company took note of the resignation of Mr. Davide Croff from the position of independent director of Elica S.p.A. tendered on February 11, 2020 with immediate effect, due to "personal reasons that made it impossible to continue to carry out the activities associated with the office of director with the necessary diligence." The Appointments and Remuneration Committee and the Board of Directors will assess the possibility and advisability of co-opting a replacement for the outgoing director, in view of the approach of the date of the Shareholders' Meeting scheduled for April 28, 2020. Any Board of Directors' motions in this regard will be announced to the market. Mr. Davide Croff does not hold any Elica shares.

On **February 13, 2020**, the Board of Directors of Elica S.p.A. approved the additional periodic disclosure for the fourth quarter of 2019, prepared according to IFRS and reviewed the 2019 preliminary consolidated results.

**D.6.11. Proposal for the approval of the financial statements and coverage of the loss for the year as approved by the Board of Directors on March 12, 2020**

Dear Shareholders,

In relation to the motion at Point 4.1 on the Agenda of the Meeting the Ordinary Shareholders of Elica S.p.A. :

4.1. Approval of the Financial Statements as at and for the year ended December 31, 2019; Directors' Report; Board of Statutory Auditors' Report; Non-Financial Report, Independent Auditors' Report. Presentation of the Consolidated Financial Statements as at and for the year ended December 31, 2019;

We inform you that the financial statements as at and for the year ended December 31, 2019, which we present for your approval, show a loss of Euro 1,456,645 and equity of Euro 87,302,788.

More generally, we propose approving the financial statements as at and for the year ended December 31, 2019, as a whole with respect to the individual accounts, and the Directors' Report and we propose acknowledging the Board of Statutory Auditors' Report and the Independent Auditors' Report, in addition to the Consolidated Financial Statements as at and for the year ended December 31, 2019.

In relation to the motion at Point 4.2 on the Agenda:

4.2. Resolutions on the loss for the year.

We propose covering the loss for the year by using "Retained Earnings".

We thank you for your assistance.

Fabriano, March 12, 2020

The Board of Directors  
THE EXECUTIVE CHAIRMAN

Francesco Casoli

### **E.1. Disclosure pursuant to Article 149 of the Consob Issuers' Regulation**

The following table, prepared pursuant to Article 149-*duodecies* of the Consob Issuers Regulations, shows the payments made in 2019 for audit and other services provided by the independent auditors and entities in the same network.

Type of service	Service provider	Company	Fees <i>In Euro thousands</i>
Audit	Kpmg. S.p.A.	Elica S.p.A.	192
Other Services	Kpmg. S.p.A.	Elica S.p.A.	44
<b>KPMG network fees</b>			<b>236</b>

**E.2. Attestation on the Separate Financial Statements as per Article 81-ter of Consob Regulation no. 11971 of May 14, 1999 and subsequent amendments and integrations**

I, the undersigned Mauro Sacchetto, as Chief Executive Officer, and Giulio Coccia, Corporate financial reporting manager of Elica S.p.A., affirm, and in consideration of Article 154-bis, paragraphs 3 and 4, of Legislative Decree No. 58 of February 24, 1998:

- the adequacy, considering the business characteristics and
- the effective application,

of the administrative and accounting procedures for the preparation of the consolidated financial statements in 2019.

We also attest that:

- the Financial Statements:
  - a) corresponds to the underlying accounting documents and records;
  - b) were prepared in accordance with the IFRS endorsed by the European Union and with Article 9 of Legislative Decree no. 38/2005;
  - c) provide a true and correct representation of the balance sheet, financial situation and result for the year of the issuer.
- The Directors' Report includes a reliable analysis on the performance and operating result as well as the situation of the issuer together with a description of the principal risks and uncertainties to which the issuer is exposed.

Fabriano, March 12, 2020

The Chief Executive Officer  
Mauro Sacchetto

Corporate Financial Reporting Manager  
Giulio Coccia

### E.3. Independent auditors' report on the Separate Financial Statements



KPMG S.p.A.  
 Revisione e organizzazione contabile  
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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 separate financial statements

##### **Opinion**

We have audited the separate financial statements of ELICA S.p.A. (the "company"), which comprise the statement of financial position as at 31 December 2019, 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 separate financial statements give a true and fair view of the financial position of ELICA S.p.A. as at 31 December 2019 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05.

##### **Basis for opinion**

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

##### **Key audit matters**

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

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

Società per azioni  
 Capitale sociale  
 Euro 10.345.200,00 i.v.  
 Registro Imprese Milano e  
 Codice Fiscale N. 00709600159  
 R.E.A. Milano N. 512867  
 Partita IVA 00709600159  
 VAT number IT00709600159  
 Sede legale: Via Vittor Pisani, 25  
 20124 Milano MI ITALIA



**ELICA S.p.A.**  
Independent auditors' report  
31 December 2019

### **Recoverability of goodwill**

*Notes to the separate financial statements: note D.6.1.4 – Accounting policies: Goodwill, Impairment testing; note D.6.4.18.1 – Goodwill*

<b>Key audit matter</b>	<b>Audit procedures addressing the key audit matter</b>
<p>The separate financial statements at 31 December 2019 include goodwill of €23.3 million.</p> <p>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.</p> <p>The directors have forecast the operating cash flows on the basis of the 2020-2024 forecasts (the "2020-2024 forecasts") and the revenue's estimated long-term growth rates and profitability.</p> <p>For the above reasons, we believe that the recoverability of goodwill is a key audit matter.</p>	<p>Our audit procedures, which also involved our own specialists, included:</p> <ul style="list-style-type: none"> <li>— understanding and analysing the process used to prepare the 2020-2024 forecasts;</li> <li>— analysing the reasonableness of the key assumptions used by the directors to determine the recoverable amount of goodwill. Our analyses included comparing the key assumptions used to the company's historical data and external information, where available;</li> <li>— analysing the valuation models adopted by the company for reasonableness and consistency with professional practice;</li> <li>— 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;</li> <li>— assessing the appropriateness of the disclosures provided in the notes about goodwill and the related impairment test.</li> </ul>

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

*Notes to the separate financial statements: note D.6.1.4 – Accounting policies: Investments in subsidiaries; note D.6.4.19.1 – Investments in subsidiaries.*

<b>Key audit matter</b>	<b>Audit procedures addressing the key audit matter</b>
<p>The separate financial statements at 31 December 2019 include the investment in the subsidiary Zhejiang Elica Putian Electric Co. Ltd ("Elica China") of €15.7 million.</p> <p>The directors have determined the recoverable amount of the investment in Elica China by calculating its value in use. This method, by its very nature, requires a high level of judgement about the forecast operating cash flows during the calculation period, as well as the discount and growth rates of those cash flows.</p>	<p>Our audit procedures, which also involved our own specialists, included:</p> <ul style="list-style-type: none"> <li>— understanding and analysing the process used to prepare the 2020-2024 forecasts;</li> <li>— analysing the reasonableness of the key assumptions used by the directors to determine the recoverable amount of the investment in Elica China. Our analyses included comparing the key assumptions used to the company's historical data and external information, where available;</li> </ul>



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The directors have forecast the operating cash flows on the basis of the 2020-2024 forecasts (the "2020-2024 forecasts") and the revenue's estimated long-term growth rates and profitability.

For the above reasons, we believe that the recoverability of the investment in Elica China is a key audit matter.

- analysing the valuation models adopted by the company for reasonableness and consistency with professional practice;
- checking the sensitivity analyses disclosed in the notes with reference to the key assumptions used for impairment testing, including raw material cost, the weighted average cost of capital and the long-term growth rate;
- assessing the appropriateness of the disclosures provided in the notes about the investment in Elica China and the related impairment test.

***Responsibilities of the company's directors and board of statutory auditors ("Collegio Sindacale") for the separate financial statements***

The directors are responsible for the preparation of separate financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

***Auditors' responsibilities for the audit of the separate financial statements***

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

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

- identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as



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fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

On 29 April 2015, the company'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 company in conducting the statutory audit.

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



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## 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 company's directors are responsible for the preparation of the a directors' report and a report on corporate governance and ownership structure at 31 December 2019 and for the consistency of such reports with the related separate financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the company's separate financial statements at 31 December 2019 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 company's separate financial statements at 31 December 2019 and have been prepared in compliance with the applicable law.

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

Ancona, 18 March 2020

KPMG S.p.A.

(signed on the original)

Gianluca Geminiani  
Director of Audit

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