Report
operations for the year ended
31 December 2006

elica
GROUP

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The Elica Group today

Established in the 1970s, the Elica Group is a world leader in the manufacture of range hoods for home use, and market leader in terms of volumes sold in the major European countries. The company is also a leader in Europe in the design, manufacturing and marketing of electric motors for range hoods and boilers for home use. With over 2,100 employees and an annual output of over 5 million units, the Elica Group has ten plants specializing by type of process and product; of these, eight are in Italy, one is in Poland and one in Mexico. Thanks to its thirty years of experience in the sector, attention to design and use of refined materials and advanced technologies, Elica has set itself apart and revolutionized the traditional image of kitchen range hoods for home use, changing them from basic accessories to unique design objects

Chairman's statement

Dear Shareholders,

After the three years between 2003 and 2005, marked by the industrial reorganization implemented in 2003, sustained sales growth in 2004 and the sales mix improvement in 2005, in 2006 our Company launched significant industrial start-up and acquisition campaigns.

The year just ended registered a substantial improvement in sales and once again saw the financial stability that has been the hallmark of our Company throughout its history, laying the groundwork for future growth. Against this highly dynamic backdrop, the start-up activities in Mexico and Poland, together with the integration of Turbo Air S.p.A., had a short-term impact on the results for the period.

The pace of sales growth was particularly high for all of the Company's core businesses. In fact, net revenue rose by 15.5%, boosted by both range hoods and motors.

In the range hood business revenue increased by 15.2%, thanks in particular to the very good results reported by decorative range hoods (up 18.7%) and the Elica Collection line, which rose from €5.5 million in 2005 to approximately €10.2 million in 2006. Revenues from sales of own brand products grew by 51%, further accelerating the positive trend of this business area in the past years. As to the electric motors business, which saw its revenue rise by 19.1%, the main input to volume growth came from home appliance motors. A positive input was provided also by motors for boilers.

In terms of geographical area, Europe was again the main market for the Group's products. All of our key countries posted significant growth, especially America, where total revenue rose by approximately 25%, with a significant acceleration in the last quarter (up 81.0%). Growth was significant also in the Rest of the World (up 46.7%). The commencement of operations in Mexico and the start of the manufacture of range hoods in the Polish plant, which was originally designed to manufacture only motors, are a good signal in view of the sales, logistics and economic opportunities linked to those areas. The acquisition of majority control of Ariafina is intended to provide further impetus to the development of products for the upper end of the Japanese market.

In terms of profitability, 2006 saw, on the one hand, an increase in EBITDA and, on the other, the effect of the costs related to the start-up of operations in Mexico and Poland and the integration of Turbo Air. As to growth in America, the start-up of operations at the end of 2006 and the contracts signed with customers are a solid stepping stone for the next two years. November witnessed the start of the manufacture of range hoods in Poland, with the twofold objective of bringing production closer to potential eastern and central European markets and reducing processing costs. The manufacture of range hoods is in addition to that of electric motors, which began at the end of 2005.

The acquisition of Turbo Air S.p.A. entailed the integration of this company' manufacturing and commercial operations into Elica's organization and the simultaneous disposal of non-core assets. Integration charges and slower-than-expected progress in the sales mix are the reasons for Turbo Air S.p.A.'s substandard operating performance. However, at the end of 2006, the main operational goals had all been achieved. Turbo Air is making strides, as its net debt improved significantly, falling from €23.4 million at the beginning of the year to 7.6 million at the end of 2006.

After excluding the impact of non-recurring items, net profit rose on the previous year. Considering start-up and restructuring costs, net profit for the year declined from €10.5 million in 2005 to €8.4 million in 2006.

In the year just ended, the strategic decisions adopted have laid the basis for profitable and highly satisfactory growth. The 2006-2008 operational plan outlines all the steps necessary for our Company to continue to play its traditional leading role.

Since its early days our Company has been able to meet challenging goals, thanks to the effort and motivation of all its people. Our values and our dedication will drive our future growth, providing benefits for both the Company and its shareholders.

Francesco Casoli

Chairman of the Board of Directors

Macroeconomic context

In 2006, the international economy grew at a fast pace. Growth was impressive in the first half but slowed down in the second. Geopolitical events, oil prices and the strengthening of the euro vis-à-vis the US dollar were the main uncertainties undermining economic expansion.
The economic slowdown that took place in the second half was triggered by the contraction of the US economy, due to the substantial reduction in residential property investments and to the trade deficit. This situation affected Europe and China, too. Yet, on an annual basis, growth in the euro area was significant (up 2.7% in 2006, as against 1.5% in 2005), with good growth prospects for 2007.
According to the main experts, Europe seems to have developed an independent ability to sustain a growth cycle, less affected by trends in the US economy. GDP in China should rise at the same rate as that posted in 2006 (approximately 10%), despite the slowdown determined by the restrictions introduced by tax and monetary authorities in interest rates, mandatory bank reserves and administrative requirements. In 2006, Italy resumed its significant growth (up 1.8% compared to a flat performance in 2005), though at a lower rate than that of the main European partners.

Currency markets

In 2006, the euro continued to rise against the dollar, mainly as a result of the slowdown of the US economy and the US trade deficit.
Compared to 2005, during 2006 (at average exchange rates published by the Italian Exchange Office) the euro rose, on average, by 0.9% against the US dollar and by 6.7% against the Japanese yen, whilst falling by 3.2% against the Polish zloty and remaining substantially unchanged compared with sterling. With respect to the dollar, until April the exchange rate fluctuated between an interval of USD1.18-1.24 to the euro, in May it settled above USD1.25 and has been above USD1.31 since November, representing an annual average of USD1.26 to the euro, slightly higher than the average of the previous year (USD1.24).
A comparison of exchange rates at 30 December 2006 and 29 December 2005 shows a rise of 11.6% in the value of the euro against the US dollar and of 13% against the Japanese yen, accompanied by a fall of 2% with respect to sterling and no movement against the Polish zloty.

	Average 2005	Average 2006	%	29 Dec 2005	30 Dec 2006	%
USD	1.244	1.255	0.9%	1.179	1.317	11.6%
GBP	0.683	0.681	-0.3%	0.685	0.671	-2.0%
JPY	136.849	146.015	6.7%	138.9	156.93	13.0%
ZTL	4.023	3.895	-3.2%	3.86	3.831	-0.8%

Inflation

With regard to inflation, a stronger euro and the reduction of energy prices toward the end of the year had positive repercussions on the consumer price index, which slowed its annual rate of increase to 2.1% (2.2% in 2005). Also with respect to the United States, which is still subject to a high cost-push inflation risk, the fall in energy prices dragged down import prices, which translated into a decline of the annual rate of inflation for 2006 to 3.2% (3.5% in 2005).

IAS/IFRS.

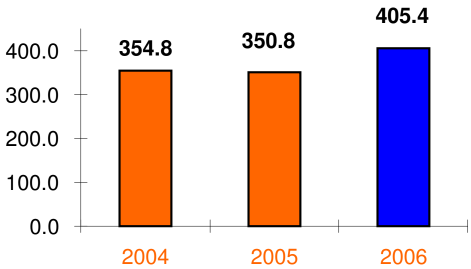
The consolidated financial conditions and operating results of Elica S.p.A. at and for the year ended 31 December 2006 have been prepared in accordance with IAS/IFRS issued by the International Accounting Standards Board and endorsed by the European Commission, as well as in accordance with the measures enacted to implement article 9 of Legislative Decree 38/2005.

The accounting policies utilized to prepare these consolidated financial statements are consistent with those utilized to prepare the consolidated financial statements at and for the period ended 31 December 2005. In the period just ended, no new accounting standards were adopted by the European Union and/or issued by the IAS/IASB that might have a material impact on these consolidated financial statements.

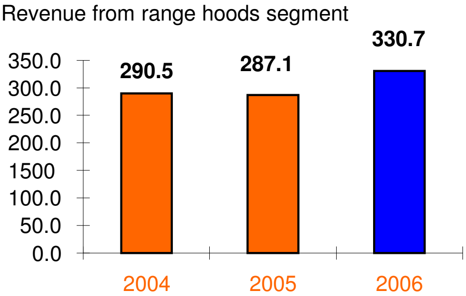
These consolidated financial statements are presented in thousands of euros and all the amounts are rounded to the nearest thousandth, unless otherwise specified.

Financial highlights

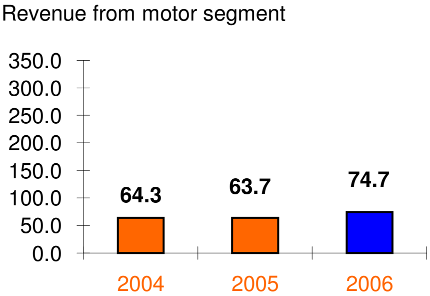
Consolidated revenue



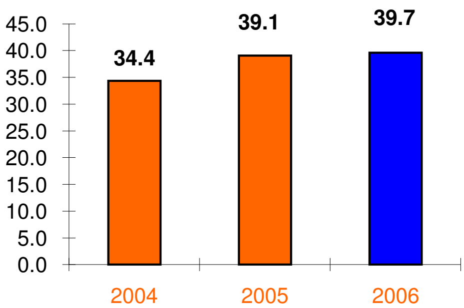
Revenue from range hoods segment



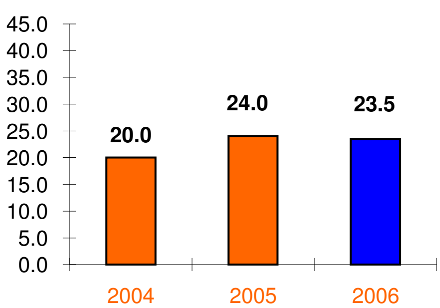
Revenue from motor segment



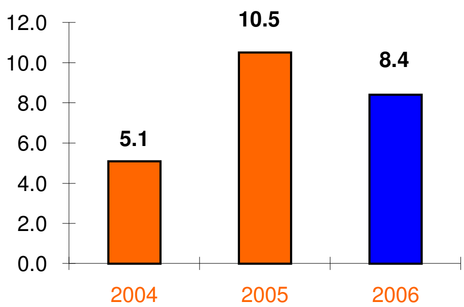
EBITDA



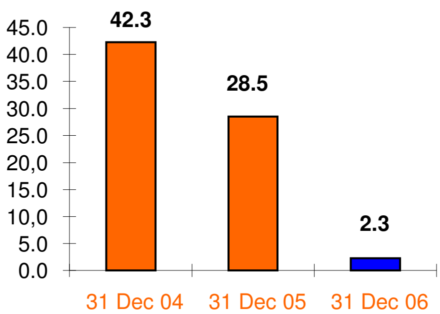
EBIT



Net profit



Net debt



Financial and operating review

(€000 except per share data)	**2005**	**2006**	**Increase/ (Decrease)**
Revenue	350,813	405,366	15.6%
EBITDA before non-recurring items	38,561	43,240	12.1%
EBITDA margin	11.0%	10.7%	-0.3%
EBIT before non-recurring items	23,477	27,189	15.8%
EBIT margin	6.7%	6.7%	0.0%
Non-recurring items (income and charges)	562	-3,435	-711.2%
as a % of revenue	0.2%	-0.8%	-1.0%
EBITDA	**39,123**	**39,805**	**1.7%**
EBITDA margin	11.2%	9.8%	-1.3%
EBIT	**24,039**	**23,754**	**-1.2%**
EBIT margin	6.9%	5.9%	-1.0%
Net interest expense	-2,686	-2,854	6.3%
as a % of revenue	-0.77%	-0.70%	0.06%
Foreign exchange gains/(losses)	737	-837	-213.6%
as a % of revenue	0.2%	-0.2%	-0.4%
Net profit from continuing operations	10,505	8,586	-18.3%
as a % of revenue	3.0%	2.1%	-0.9%
Net profit from discontinued operations	0	-167	
as a % of revenue	0.0%	0.0%	0.0%
Net profit	10,505	8,419	-19.9%
net profit margin	3.0%	2.1%	-0.9%
Net profit attributable to shareholders of the Parent Company	10,144	8,328	-17.9%
Basic earnings per share			
from continuing and discontinued operations (euro cents)	19.96	15.83	-20.7%
From discontinued operations (euro cents)	19.96	16.15	-19.1%
Diluted earnings per share			
from continuing and discontinued operations (euro cents)	19.96	15.83	-20.7%
From discontinued operations (euro cents)	19.96	16.15	-19.1%

EBIT reflects operating profit from continuing operations, as reported in the consolidated income statement. EBITDA is operating profit from continuing operations plus amortisation and depreciation

(€000)	31 Dec 2005	31 Dec 2006
Trade receivables	90,831	106,874
Inventories	40,466	48,899
Trade payables	(87,467)	(94,392)
Operating Working Capital	***43,830***	***61,381***
as a % of revenue	12.49%	15.14%
Net other receivables /payables	(9,034)	(9,339)
Net Working Capital	***34,796***	***52,492***
as a % of revenue	9.92%	12.94%
Net debt	(28,545)	(2,290)
Total equity	79,504	142,221
Gearing	**35.90%**	**1.61%**
Net debt	(28,545)	(2,290)
EBITDA before non-recurring items	38,561	43,240
Debt coverage	**0.74**	**0.05**

(€000)	31 Dec 2005	31 Dec 2006
Amounts due under finance leases and other borrowings	12,725	9,617
Bank borrowings and mortgages	18,465	7,614
Long-term debt	***31,190***	***17,231***
Amounts due under finance leases and other borrowings	3,524	3,109
Bank borrowings and mortgages	12,147	11,284
Short-term debt	***15,671***	***14,393***
Cash and cash equivalents	***18,316***	***29,334***
Net debt	**(28,545)**	**(2,290)**

Net debt is the algebraic sum of amounts due under finance leases and other borrowings (current and non-current) plus bank borowings and mortgages (current and non-current), less cash and cash equivalents, as reported in the balance sheet.

The year just ended was characterised by the following:

- Significant revenue growth;
- A good performance in terms of EBIT, inclusive of start-up and restructuring costs;
- Further improvement of liquidity and financial strength;
- The Board of Directors' recommendation of a dividend of €2,532,912, equivalent to €0.04 per ordinary share

During 2006 the Group's consolidated revenue rose by 15.6% on the comparable period of 2005, increasing from €350.8 million in 2005 to €405.4 million in 2006. Turbo Air contributed to the growth, having been consolidated from 1 February 2006. Organic growth amounted to 4.1%. After excluding the impact of movements in the value of the euro against the US dollar, the Japanese yen and sterling, revenue is up by a further €0.65 million.

The increase in revenue was due to both the range hood business, whose revenue grew by 15.2%, and the electric motor business, whose revenue rose by over 17%. In the range hood segment, particularly positive were revenues from decorative range hoods (up 18.7%) and from the Elica Collection line, which rose from €5.5 million in 2005 to approximately €10.2 million in 2006. As to the electric motor business, the main input to volume growth came from home appliance motors. A positive input was provided also by motors for boilers

US revenues increased by 25% whilst revenues from Europe, the Group's main market, went up by 12.5%.

Operating profit before non-recurring items continued to increase, confirming the positive trend of recent years, driven by operating efficiencies, volume growth and a better sales mix.

During 2006, the Group incurred non-recurring charges (net of non-recurring income) of €3.4 million (around 0.9% of revenue).

Non-recurring charges included approximately €1.7 million in costs linked to the start-up of operations in the Americas; charges of €0.24 million related to the application of IFRS 3 in accounting for the business combination with Turbo Air; and over €1 million due to redundancies and restructuring, half of which attributable to the reorganization of Turbo Air. Lastly, costs totalling €0.4 million reflected the greater costs incurred to develop the sales of hoods under the Company's own brand.

EBITDA was up from €39.1 million at year end 2005 (a margin of 11.2%) to €39.8 million in 2006 (a margin of 9.8%). In contrast, EBIT was down from €24.0 million (a margin of 6.9%) to €23.7 million (a margin of 5.9%).
Net interest expense rose in absolute terms from €2.7 million in 2005 to €2.9 million in 2006, following the consolidation of Turbo Air. On a like-for-like basis, net interest expense was down over €0.5 million

The net foreign exchange gain of €0.7 million reported in 2005 compares with a net loss of €0.8 million in 2006. This was due mainly to the unfavourable performance of the euro against the US dollar and the Japanese yen

Net profit for the period, including non-recurring items, was down from the €10.5 million of 2005 to €8.4 million in 2006.

Basic earnings per share from continuing operations, which amounted to approximately 20.0 euro cents in 2005, was approximately 16.0 euro cents for 2006. After excluding the impact of non-recurring items, net profit for the year is in line with the comparable result in 2005.

Net working capital accounted for 9.9% of revenue at 31 December 2005, compared with 12.9% at 31 December 2006. This increase does not imply deteriorated liquidity conditions – which actually improved – but simply a decision by the Company to pay off payables outstanding with selected suppliers and benefit from available cash discounts. In this way, the Company was able to generate interest income for €0.2 million. After excluding the impact of this one-off transaction, net working capital represents less than 9% of net revenues.

The Group's financial stability continued to be high, as net debt was €2.3 million, compared to a net debt of €28.5 million at 31 December 2005. The improvement was achieved thanks to the use of proceeds from the IPO.

Reconciliation between the Parent Company's equity and consolidated equity

The following table contains a reconciliation between the equity and profit for the period of Elica S.p.A. and consolidated equity and net profit.

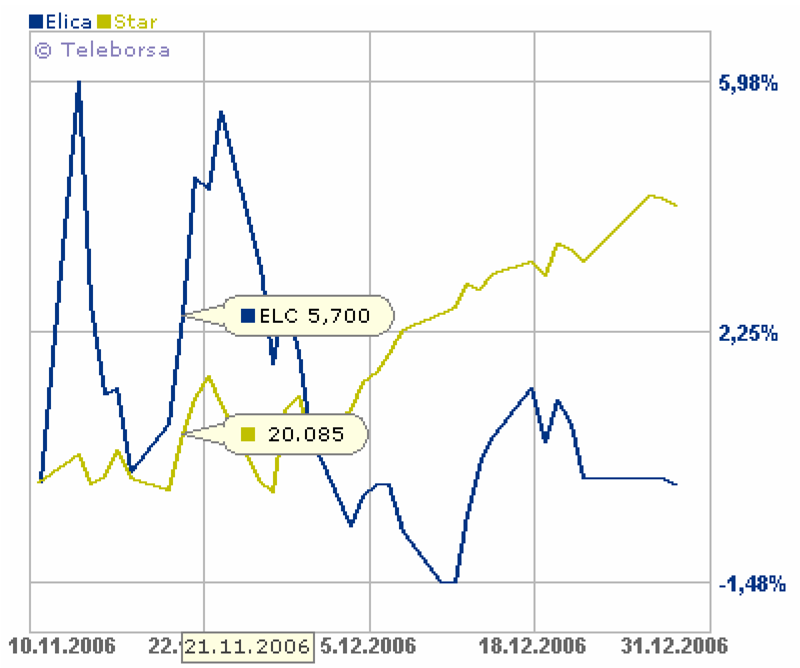
(€000). Situation at 31 December 2006	Net profit	Equity
Balance from Parent Company's separate financial statements	**9,957**	**142,671**
Elimination of effects of Intercompany transactions net of tax effect:		
Internal profit on intangible assets	28	(555)
Internal profits on sale of products	(17)	(2,190)
Tax effect	(17)	570
Dividends received from consolidated companies	(1,921)	
Non-current investments accounted for using the equity method	**810**	**(245)**
Carrying amount of consolidated investments		**(52,193)**
Equity and net profit for the period of subsidiaries consolidated on a line-by-line basis	**(268)**	**34,592**
Allocation of differences to assets of consolidated companies and related depreciation/amortisation and impairments:		
Property, plant and equipment	(153)	2,397
Goodwill arising from consolidation	0	17,174
Balances in consolidated financial statements	**8,419**	**142,221**
attributable to shareholders of the Parent Company	8,328	141,732
attributable to minority interest	91	489

Guidance for 2007

For next year, the Company intends to continue to improve its sales mix in its core European markets, through the constant development of high-end products, and to achieve significant progress toward the expansion of sales and manufacturing activities in the Americas and in eastern Europe.
Improved manufacturing efficiencies will be pursued through the relocation of lines to Mexico and Poland, as well as through improvements in the existing manufacturing facilities. Moreover, in the second half of 2007, the merger of four companies operating in the range hood business will take effect. This reorganisation is designed to integrate further business processes and to streamline the Group's structure via the implementation of a corporate organisation consistent with business operations. Consequently, a simplification of the equity holding structure and greater operating efficiency are expected, so as to curb operating costs.
In order to manage the cost of raw materials, in addition to developing high-end products, the Company intends to utilize new materials with the same technical and aesthetic contents as existing materials, but more cost-effective.

Elica and the financial markets

Elica's shares were placed on 10 November 2006 through an IPO at a price of €5.0 each. At the close of the first trading day, the share price was €5.562 and at the end of the last trading day for the year it closed at €5.560.



The share capital consists of 63,222,800 ordinary voting shares. At 31 December 2006, the investors listed below had a significant equity interest:

Significant investor	Number of shares held	Equity interest - %
FAN S.A.	33,440,545	52,8096
CALYPSO CAPITAL LIMITED	1,900,000	3,0005
PARVUS ASSET MANAGEMENT	1,800,000	2,8426
HENDERSON GLOBAL INVESTORS	1,450,000	2,2899

Shares held by directors, officers, statutory auditors and key executives

At 31 December 2006, the table below provides details of the shares of Elica S.p.A. held by members of the Board of Directors, Board of Statutory Auditors and key executives:

Name and surname	No. of shares held at 31 December 2005	No. of shares purchased	No. of shares sold	No. of shares held at 31 December 2006
Casoli Francesco	4,035,654	0	3,000,000	1,035,654
Pieralisi Gianna	2,107,200	0	1,000,000	1,107,200
Marchetti Massimo	508,230	0	250,000	258,230
Key executives	-	3,150	-	3,150

In addition, Massimo Marchetti holds a 10.31% equity interest in Fox IFS S.r.l.

Name and surname	Title
Casoli Francesco	Chairman of the Board of Directors of Elica S.p.A.
Pieralisi Gianna	Executive Director of Elica S.p.A..
Marchetti Massimo	CEO and General Manager of Elica S.p.A., resigned on 21 March 2007.

At 31 December 2006, Elica S.p.A. did not hold any treasury shares. Furthermore, no subsidiary owns shares in Elica S.p.A..

Significant events in 2006

During 2006, the significant activities described below were carried out, witnessing the Group's constant focus on growth: the acquisition of Turbo Air; the spin-off of part of the acquired unit to Immobiliare Camino S.r.l.; the purchase of the residual equity interest in Jet Air S.R.L.; the purchase of a majority stake in the Ariafina joint venture; incorporation of the companies that will operate in the Americas; the official opening of the Polish subsidiary, Fime Polska Sp.zo.o; and the admission to trading of Elica's ordinary shares on the *Mercato Telematico Azionario MTA* – STAR Segment, the screen-based market organized and managed by Borsa Italiana S.p.A..

Details of these events are provided below.

Acquisition of Turbo Air

Through the acquisition of Turbo Air the Group intends to expand in important international markets for the range hood sector, such as Russia and the Far East. In fact, Turbo Air has been a significant player in those markets for years. Another opportunity is provided by the manufacture of electric hood motors which, as a result of the integration with the industrial operations of Fime S.p.A., gives rise to significant economies of scale.

The Elica Group's management has outlined a plan to integrate Turbo, which can be summarized as follows:

1) Spin-off of property that does not fit the new productive organization.
2) Integration of Turbo Air's motor division into Fime S.p.A.'s manufacturing division.

3) Spin-off of the plastics division.
4) Transfer of property to Immobiliare Camino.

The following is a comment on the individual items.

Property spin-off

The merger of the range hood unit is based on the simplification of Turbo's supply chain, whose integration into the Elica Group is already at an advanced stage. This determined the progressive abandonment of plants previously occupied by Turbo's manufacturing operations. These plants were transferred to Immobiliare Camino S.R.L. in order to be sold. The transaction is described in greater detail under 4) below.

Motor division

In June the company's management devised a plan to reorganize the manufacture of electric motors, to benefit from significant economies of scale. Following the implementation of this plan, employees and equipment were transferred to Fime plants. Under the reorganization plans, redundancy charges amounted to €437 thousand.

Spin-off of the "plastics" division

Turbo Air S.p.A.'s plastics division was spun off in December 2006. The transaction was carried out for the following reasons: the plastics division is small in size; plastic moulding and mould manufacturing technology is not of strategic importance; specific expertise is required to run the plastics division profitably. The division was thus transferred to a specially established company and sold.

The table below shows the operating results of the plastics division:

(€000)	2006
Revenue	1,974
Other operating revenue	0
Change in inventories of finished goods and semi-finished products	50
Increase in self-constructed assets	14
Raw materials and consumables	(1,144)
Service expense	(316)
Staff costs	(589)
Amortisation and depreciation	(159)
Other operating expenses and provisions	(55)
Operating profit/(loss) from discontinued operations	**(225)**
Net profit/(loss) from discontinued operations	**(167)**

Property spin-off to Immobiliare Camino.

On 15 March 2006 Turbo Air S.p.A. spun off its property portfolio, consisting mainly of three plants, the relevant mortgages and other assets and liabilities to the newly-established Immobiliare Camino S.R.L. in exchange for a 40% equity interest. The remaining 60% of this company was held by third parties. The spin-off took place on the basis of technical appraisals. On 20 June 2006, a Special General Meeting of the shareholders of Camino Immobiliare S.R.L. then resolved on a share capital increase for consideration, amounting to €92,308, inclusive of a share premium, in order to transfer an equity interest of 32% to a group of banks that have claims outstanding on Immobiliare Camino S.R.L. Following the placement of the new shares, and related payment by the banks in November, the Elica Group's stake decreased to 20.8%.

The activities related to the acquisition of Turbo Air S.p.A. continue as planned. Following the creation of a mechanism to set the sale price on the basis of the results of the first half of 2006 (earn out), the Elica Group's management took over the operations of Turbo Air S.p.A. on 1 July 2006. The integration plan is at an advanced stage and integration is beginning to yield its initial results. Workers employed to manufacture motors and production lines were transferred to FIME S.p.A.'s manufacturing facilities. The sales organization of Turbo Air S.p.A. was integrated into Elica S.p.A.'s network so as to allow management to oversee the combined market, products and brand operations.

In keeping with the plan to reorganize the Company's industrial operations, in December 2006 the Marischio property was deconsolidated. The property was sold to a leasing company, which in turn provided it to

Immobiliare Camino S.r.l. under a finance lease agreement. Immobiliare Camino gave the property to Turbo Air S.p.A. under an operating lease agreement. These transactions took place on an arm's length basis, based on appraisals conducted by independent experts, and are part of the plan to integrate Turbo Air into Elica.

During 2006, Turbo Air S.p.A., which was consolidated as of 1 February 2006, posted the following separate results (as accounted for in accordance with IAS/IFRS):

(€000)	**2006**
Revenue	43,406
EBITDA	82
EBIT	(1,054)
Net profit/(loss)	(2,058)
Net debt	(7,569)

Purchase of the residual 40% of Jet Air S.r.l.

On 28 February 2006 the Group purchased the remaining 40% of Jet Air, a company already included in the basis of consolidation, for €2.8 million, inclusive of transaction costs of €6 thousand. The purchase price was determined on the basis of an internal estimate. The main decisions adopted in the application of the accounting standards necessary to account for the acquisition gave rise to the effects detailed in the notes.

Purchase of majority stake in the Ariafina joint venture.

On 28 May 2006, the Parent Company, Elica S.p.A., completed the purchase of 1% of Ariafina Co. Ltd.. Since it already owned 50% of this company, Elica is now the majority shareholder. Ariafina Co. Ltd - Sagamihara-Shi (Japan) is a joint venture established in September 2002 with Tokyo-based Fuji Industrial, the leader in Japan with 70% of the range hood market. By acquiring a controlling interest, the Group intends to provide further impetus to the development of the important Japanese market, where high-quality products are sold.

Incorporation of the companies to operate in the Americas.

At the beginning of 2006 two new companies were incorporated in Mexico: ElicaMex S.A.d.C.V. and Leonardo Services S.A.d.C.V., both located in Queretaro. ElicaMex S.A. de C.V. and Leonardo Service S.A. de C.V. will manufacture the products designed for the Americas and manage local distribution and logistics. Expected benefits include higher revenues, widespread and prompt service to overseas customers, lower distribution costs, shorter delivery times and higher flexibility of the individual manufacturing batches.

Purchase of a minority stake in Inox Market Mexico.

In September a company was incorporated in Mexico, called Inox Market Mexico S.A. de .C.V., which is designed to engage in steel trading throughout the Americas. The Group acquired 30% of this company through Elicamex S.A. de C.V.. Following this acquisition, the Group intends to achieve significant purchasing economies in one of the most significant cost items in the production of range hoods.

Official opening of Group Polka Sp.zo.o

On 18 October 2006 an event was held to celebrate the official opening of Fime Polska Sp.zo.o (now Elica Group Polka Sp.Zo.o). During the ceremony, which saw the participation of officials from local authorities and members of the press, the guidelines of the strategic plan were announced. In January 2007, the company changed its name to Elica Group Polska Sp.zo.o, to underscore that it now manufactures electric motors as well as kitchen range hoods for home use. The Polish company has two objectives: (i) to raise its motor sales in the same areas of Eastern Europe where the largest manufacturers of home appliances are building their plants; (ii) to increase penetration in the market for range hoods in Eastern Europe, thus enhancing the role of Poland as a strategic location.

Admission to trading on *Mercato Telematico Azionario MTA* – STAR Segment

On 12 April 2006 the special Meeting of Shareholders approved the application for admission to trading of the Company's ordinary shares on the Mercato Telematico Azionario MTA – STAR Segment, the screen-based market organized and managed by Borsa Italiana S.p.A.. Moreover, the Meeting approved a 5-for-1 share split. Following this split, share capital consisted of 50,822,800 ordinary shares with a par value of €0.20 each. The Special General Meeting of shareholders also approved the amendment to the General Meeting Rules, the corporate governance rules, and the rules of conduct related to the Internal Dealing Code, the rules on intercompany and other related-party transactions.

On 10 November 2006 Elica S.p.A.'s shares were admitted to trading on the Mercato Telematico Azionario MTA – STAR Segment, the screen-based market organized and managed by Borsa Italiana S.p.A.. The shares were offered for sale at €5.0 each. Out of 12,500,000 new shares issued, 10,000,000 were placed on the market through an IPO. Following the issue of these new shares, Elica S.p.A. has 63,322,800 shares outstanding.

Financial risk management

The Group's operations are exposed to different types of financial risks, or risks associated to changes in exchange rates, interest rates commodity prices, cash flow. In order to mitigate the impact of these changes on company profits, the Group uses derivative instruments to hedge its risks. The Group does not engage in derivative trading.

Foreign exchange risk.

The Group's functional currency is the euro. However, the Group's companies trade also in dollars (USD), British pounds (GBP), Japanese yen (JPY), Polish zloty (PLN), and Mexican pesos (MXN). The Group's revenues exceed its costs in all these currencies, except the Mexican peso. Therefore, changes in the exchange rates between the euro and these currencies affect the Group's results as described below:

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

Foreign exchange risk is hedged through forward exchange rates and options, so as to protect its expected revenue.

Interest rate risk

The Group's debt carries mainly a floating rate of interest. Based on economic considerations, the use of IFRSs for hedging purposes is usually limited to a marginal part of debt.

Liquidity risk

The Elica Group manages its liquidity risk through available lines of credit which are adequate in terms of amount and flexibility.

Credit risk

The amount of trade receivables reported in the balance sheet is net of the allowance for doubtful accounts. The allowance is made on the basis of past experience and on the basis of specific considerations on the individual customers.

Governance bodies

Members of the board of directors:

Francesco Casoli
Executive Chairman,
born in Senigallia (AN) on 05/06/1961, appointed a director by resolution dated 12/04/2006.

Andrea Sasso
Chief Executive Officer, born in Rome on 24/08/1965, appointed by resolution dated 21/03/2007.

Gianna Pieralisi
Executive Director, born in Monsano (AN) on 12/12/1934, appointed a director by resolution dated 12/04/2006.

Geroli Alberto
Director, born in Milan (MI) on 04/01/1942, director appointed by resolution dated 12/04/2006

Gennaro Pieralisi
Director, born in Monsano (AN) on 14/02/1938, appointed a director by resolution dated 12/04/2006.

Stefano Romiti
Independent Director and Lead Independent Director, born in Rome (RM) on 17/11/1957, appointed a director by resolution dated 12/04/2006.

Enrico Palandri
Independent Director, born in Milan (MI) on 02/10/1962, appointed a director by resolution dated 12/04/2006.

Members of the Board of Statutory Auditors

Giovanni Frezzotti
Chairman,
born in Jesi (AN) on 22/02/1944, appointed by resolution dated 12/04/2006.

Stefano Marasca
Statutory Auditor, born in Osimo (AN) on 09/08/1960, appointed by resolution dated 12/04/2006.

Corrado Mariotti
Statutory Auditor, born in Numana (AN) on 29/02/1944, appointed by resolution dated 12/04/2006.

Guido Cesarini
Alternate Auditor, born in Bolzano (BZ) on 19/08/1972, appointed by resolution dated 12/04/2006.

Gonberto Casali
Alternate Auditor, born in Jesi (AN) on 14/01/1954, appointed by resolution dated 12/04/2006.

Internal Control Committee
Stefano Romiti
Gennaro Pieralisi
Enrico Palandri

Remuneration Committee
Stefano Romiti
Gennaro Pieralisi
Enrico Palandri

Independent Auditors
Deloitte & Touche S.p.A.

Registered Office and Company Data
Elica S.p.A.
Registered Office: Via Dante, 288 – 60044 Fabriano (AN)
Share Capital: €12,664,560.00
Tax Code and Companies' Register Number: 00096570429
Entered in REA in Ancona no. 63006 – VAT Number 00096570429

Investor relations
e-mail: investor-relator@elica.com
Telephone: +39 0732 610326

Elica Group's structure and basis of consolidation

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

Parent Company

- Elica S.p.A, - Fabriano (AN) is the parent of a Group of companies engaging in the design, manufacturing and sale of kitchen range hoods for domestic use as well as electric motors and power systems for home heating equipment, kitchen range hoods and home appliances.

Subsidiaries

- FIME S.p.A. – Castelfidardo, Ancona (Italy). This company operates in the sector of electric motors, mainly for home appliances (range hoods, ovens, refrigerators), home heating and ventilation (fan coils) systems as well as transformers for electro-mechanic and electronic equipment. It operates mainly in European markets, where it holds significant and growing market shares, despite the presence of bigger competitors. This subsidiary is implementing significant plans to launch new products. This is also involving cooperation with important US multinationals, confirming the company's high-level expertise.

- FIME POLSKA Sp z o.o. (now Elica Group Polska Sp z o.o.) – Wroclaw – Poland. This company has been operational since September 2005 in the sector of electric motors and from December 2006 in the production of exhaust range hoods for domestic use. The company's motor and hood manufacturing plant was built during 2006.

- FOX Design S.p.A.– Campodarsego, Padua (Italy). Acquired at the end of 2001, FOX is the main operator in the "hood" sector outside the district of Fabriano and has a significant market share in distribution. FOX's industrial organization is different from Elica's, given that its focus is on marketing, R&D, design and the management of a supply chain characterized by substantial outsourcing of the mechanical and assembly functions.

- FOX I.F.S. S.r.l. – Bergamo (Italy) This company was established at the end of 2001. Elica owns 69.44% of this subsidiary, indirectly, through Fox Group S.p.A.. It engages in industrial vacuum systems, linked to air treatment.

- JET AIR S.r.l. – Cerreto d'Esi, Ancona (Italy). This company operates in the hood sector and has benefited from Group synergies that have accelerated the upgrading of its product range. It operates mainly in overseas markets, with special emphasis on China and Eastern European countries.

- Turbo Air S.p.A. – Fabriano, Ancona (Italy). This company operates in the hood sector in the district of Fabriano. Following this acquisition in February 2006, Elica intends to strengthen its competitive position in Italy and gain market share in Eastern European countries (especially Russia where Turbo Air is widely distributed) and the Middle and Far East, as well as to achieve significant economies of scale.

- ElicaMex S.A.d.C.V. – Queretaro (Mexico). This wholly-owned subsidiary was incorporated at the beginning of 2006 (Elica S.p.A. owns 98% directly and 2% through Fox Design S.p.A.). Investment in the industrial facility has already been completed and the company is now equipping itself with the necessary plant and machinery. The aim is to concentrate the production of products for American markets in Mexico and manage distribution and logistics locally. Expected benefits include higher revenues, widespread and prompt service to customers located in the continent, lower distribution costs, shorter delivery times and greater flexibility of the individual manufacturing batches.

- Leonardo Services S.A.d.C.V. – Queretaro (Mexico). This wholly-owned subsidiary was incorporated in January 2006 (the Parent Company owns 98% directly and 2% through Fox Design S.p.A.). Leonardo

Services manages all Mexican employees, providing services to Elicamex S.V. de C.V.

- Ariafina Co. Ltd – Sagamihara-Shi (Japan) is a joint venture established in September 2002 with Tokyo-based Fuji Industrial, leader in Japan with over 70% of the range hood market. Following the purchase of a further 1%, since 31 May 2006 Elica S.p.A. has held a controlling 51% interest in the JV. Elica S.p.A. intends to provide further impetus to the development of the important Japanese market, where high-quality products are sold.

Associates

- Roal Electronics S.p.A. – Castelfidardo, Ancona (Italy). This company manufactures power supply equipment for the world's main HW manufacturers, including IBM, and has a highly sophisticated R&D department. The company is also integrated into the hood and motor business by providing electronic control systems for the equipment. Elica S.p.A. holds a 21.276% equity interest.

- I.S.M. S.r.l. – Cerreto d'Esi, Ancona (Italy). The company manufactures semi-finished products for the hood production cycle and its operations are integrated into the assembly lines of Elica S.p.A.'s plants. Elica S.p.A. has a 49.385% equity interest.

- Project S.r.l. – Castelbellino, Ancona (Italy). This company was established in March 2003 and the Parent Company holds a 30% equity interest. Project S.r.l. engages in the design and drawing of models and, in general, in all aspects of industrial design relating to home appliances.

- Air Force S.p.A. – Fabriano (AN). This company operates in a special segment of the hood sector. At 31 December 2005 Elica S.p.A. held 45% of this company, before acquiring a further 15% from the parent company Fintrack S.p.A. on 23 January 2006. Following this acquisition, Elica S.p.A. holds a majority interest. Air Force owns 95% of Technovent G.m.b.h., a company that sells hoods in Germany through so-called "kitchen studios". In 2005, Technovent G.m.b.h.'s business was sold and, in the future, this company will act as an agent for the German market, thereby discontinuing its direct sales activities.

- Immobiliare Camino S.r.l. – Fabriano (AN). This company is 20.8% held by Turbo Air S.p.A. and manages this company's property portfolio. Basically, it leases the properties in the portfolio to Turbo Air in exchange for market-based rentals.

Intercompany and other related-party transactions

During the period under review, transactions were entered into with subsidiaries, associates and other related parties. All transactions were conducted on an arm's length basis in the ordinary course of business.
The tables below show key data for the subsidiaries and the amount of the transactions entered into with them as of and for the period ended 31 December 2006.

Subsidiaries - highlights:

(€000)	**Assets**	**Liabilities**	**Equity**	**Value of production**	**Profit/(loss) for the period**
Subsidiaries					
Turbo Air S.p.A.	39,035	39,130	(95)	44,105	(1,796)
Fox IFS S.r.l.	829	818	11	1023	(3)
Jet Air S.r.l.	7,633	5,336	2,297	14,171	859
Fime S.p.A.	63,603	55,149	8,454	96,379	240
Fox Design S.p.A.	24,093	19,214	4,879	54,283	1,484
Ariafina Co Ltd	1,941	949	992	4,315	206
Fime Polska S.p.z.oo	9,277	7,313	1,964	6,423	(520)
ElicaMex S.A.d.C.V.	15,759	6,288	9,471	3,306	(2,108)
Leonardo Services S.A.d.C.V.	115	104	11	571	8

Elica also has financial relations with Group companies as a result of loans made to them as part of a general plan to centralise cash management activities. These loans bear interest at market rates. Details are summarised in the following table:

(€000)	**31.12.2005**	**31.12.2006**
Financial receivables due from subsidiaries		
Fime S.p.A.	2,061	19,986
Fox Design S.p.A.	475	3,850
Turbo Air S.p.A	-	10,365
Fime Polska S.p.zoo.	-	2,005
Financial receivables due from associates		
Air Force.S.p.A.	51	-
Projet S.r.l.	30	-

Disclosure on associates and joint ventures

The table below shows the operating and financial amounts arisen from transactions with associated companies for 2006. No separate indication of these positions was given in the financial statements, given the limited amounts involved.
Transactions with consolidated companies have been eliminated from the consolidated financial statements. As a result they cannot be shown in these notes.

	Payables	Receivables	Costs	Revenues
Air Force S.p.A.	363	891	878	2,787
I.S.M. S.r.L.	2,909	275	13,977	68
Projet S.r.L.	96	-	221	-
Roal Electronics S.p.A.	1,964	463	3,903	959
Immobiliare Camino S.r.l.	-	-	410	-
Total	**5,332**	**1,629**	**19,389**	**3,814**

Details of the main transactions are as follows:

I.S.M. S.r.l.
The costs incurred with ISM S.r.l. included €13,935 thousand related to outsourcing services (shown in the income statement under "Service expense").
Roal Electronics S.p.A.
Roal Electronics S.p.A. provides electronic components to the Group, mainly for the range business unit. In fact, raw material purchases amounted to €3,611 thousand, out of total purchases of €3,903 thousand. The balance was due to services, especially outsourced manufacturing activities. Revenues of €959 thousand related mainly to sales of transformers and electrical parts by the subsidiary, Fime S.p.A..
Immobiliare Camino S.r.l.
Transactions with Immobiliare Camino S.r.l. related to rental agreements covering industrial facilities with the subsidiary, Turbo Air S.p.AZ.. The total amount of annual rentals was agreed on the basis of an appraisal by an independent consultant on the basis of market prices.
Air Force S.p.A.
Sales to Air Force S.p.A. are related to electric motors supplied by Fime, totalling €1.5 million, and to sales of finished products by the companies in the range sector for the remaining amount. Purchases are related to products purchased by the Group for resale.
Projet S.r.l.
Purchases from Projet S.r.l. are related mainly to technical services, that is industrial design activities for home appliances and their external parts.

The table below summarises key operating and financial data for associates and joint ventures, as derived from the companies' financial statements in accordance with Italian GAAP, and local GAAP for foreign companies.

Associates and joint ventures*:* Summary data at 31 December 2006

(€000)	**Registered office**	**% held**	**Share capital**	**Equity**	**Profit/(loss) for the period**
Air force S.p.A.	Fabriano (AN)	45 (*)	103	747	601
I.S.M. S.r.l.	Cerreto d'Esi (AN)	49.385	10	1,532	415
Projet S.r.l.	Castelbellino (AN)	30	20	13	-
Roal Electronics S.p.A.	Castelfidardo (AN)	21.276	16,606	14,312	(2,294)
Immobiliare Camino S.r.l.	Fabriano (AN)	20.8	192	625	136
Inox M. M. Sa.d.C.V.	Queretaro (Mexico)	30	4	4	0

(*)In January 2007 the Group acquired an additional 15% equity interest in Air Force S.p.A.. As a result, this became a subsidiary (with a 60% equity interest).

Associates and joint ventures*:* Summary data at 31 December 2005

(€000)	**Registered office**	**% held**	**Share capital**	**Equity**	**Profit/(loss) for the period**
Air force S.p.A.	Fabriano (AN)	45	103	146	(123)
Ariafina Co Ltd (*)	Sagamihara-shi (Japan)	50	84	707	543
I.S.M. S.r.l.	Cerreto d'Esi (AN)	49.385	10	1,117	(311)
Projet S.r.l.	Castelbellino (AN)	30	20	13	3
Roal Electronics S.p.A.	Castelfidardo (AN)	21.276	16,920	6,938	(2,331)

(*) In May 2006, the majority of this joint venture was acquired. As a result, Ariafina was consolidated for the first time.

Events aftr 31 December 2006 and outlook

Plans in Poland and America are proceeding as scheduled.

On 22 January 2007 the Board of Directors approved the merger of Jet Air S.r.l., Turbo Air S.p.A. and Fox Design S.p.A. with and into Elica S.p.A.. The merger plan was also approved by the boards of the three subsidiaries on the same date. This transaction aims to take integration of the Group's business processes and its restructuring a step further, creating an organisation in keeping with management of the business. This is expected to simplify the structure of the Group and achieve greater operating efficiency, with a view to cutting operating costs.
The transaction will be consummated on the basis of the financial positions and operating results at 30 September 2006 of both the absorbing and the absorbed companies. The transaction will also be completed without the issue of new shares and without, therefore, involving an increase in the absorbing company's share capital. The merger is to be completed within the current year.

As part of its expansion strategy, on 23 January 2006 Elica S.p.A. acquired 15% of Air Force S.p.A. from Fintrack S.p.A., the company that controls Elica via Fan S.A.. Air Force produces and sells decorative hoods for the mid- and up-market segments, based on innovative designs and the use of advanced technology. Elica paid for the transaction, costing €0.3 million, from liquidity. The net asset value was determined by using the average of the value determined with the method of the Internal Rate of Return, set at 12%, and the value resulting from the application of a multiple of 3 to EBITDA, both with reference to the financial conditions and operating results at 31 December 2006.
As a result of this further acquisition, Elica now owns 60% of Air Force S.p.A., thus reinforcing its commercial presence in central and northern Europe and among furniture retailers operating at the higher end of the market, which shows excellent growth potential. For 2006 Air Force S.p.A. reported revenue of €16.6 million (up 18.4% on 2005) and net profit of €0.7 million (compared with a net loss of €0.1 million in 2005).

On 21 March 2007, the Board of Directors accepted the resignations submitted by Director and Chief Executive Officer Massimo Marchetti and appointed, simultaneously, Andrea Sasso to take up his posts. This change took place against a backdrop of management continuity and in view of a strengthening of the Elica Group's strategic plan, which aims to develop the Group's sales capabilities in order to better respond to the needs of the target market.

No such events took place after 31 December 2006 as to warrant a change in the Group's operating results and financial conditions or to require additional information. The Company's operations, plans, sales and investment activities are proceeding as expected.

Fabriano, Italy
29 March 2007

On behalf of the Board of Directors
Francesco Casoli
Chairman

ELICA GROUP

Registered office: Via Dante, 288 – 60044 Fabriano (AN) - Share Capital: €12,664,560.00 fully paid-in

Consolidated Financial Statements at and for the year ended 31 December 2006

Consolidated income statement

(€000 except per share data)	Note	2005	2006
Continuing operations			
Revenue	5.01	350,813	405,366
Other operating income	5.02	3,656	3,895
Change in inventories of finished goods and semi-finished products	5.03	(1,612)	401
Increase in self-constructed assets	5.04	860	1,578
Raw and consumable materials	5.05	(171,184)	(202,804)
Service expense	5.06	(78,427)	(89,674)
Staff costs	5.07	(58,903)	(70,896)
Amortisation and depreciation	5.08	(15,084)	(16,051)
Other operating expenses and provisions	5.09	(6,080)	(7,624)
Restructuring charges	5.10	-	(437)
Operating profit		**24,039**	**23,754**
Share of profit/(loss) of associates	5.11	265	809
Impairment of available-for-sale financial assets	5.12	(607)	(195)
Finance income	5.13	397	675
Finance costs	5.14	(3,083)	(3,529)
Foreign exchange gains/(losses)	5.15	737	(837)
Other non-operating income	5.16	-	12
Pre-tax profit		**21,748**	**20,689**
Taxation	5.17	(11,243)	(12,103)
Net profit from continuing operations		**10,505**	**8,586**
Discontinued operations			
Net profit from discontinued operations	5.18	**-**	(167)
Net profit for the period		**10,505**	**8,419**
Attributable to:			
Minority interest	5.19	361	91
Shareholders of the Parent Company		**10,144**	**8,328**
Basic earnings per share	5.20		
From continuing and discontinued operations (€cents)		19.96	15.83
From continuing operations (€cents)		19.96	16.15
Diluted earnings per share	5.20		
From continuing and discontinued operations (Euro/cents)		19.96	15.83
From continuing operations (Euro/cents)		19.96	16.15

Consolidated balance sheet

€000)

Assets	**Note**	**31 December 2005**	**31 December 2006**
Property, plant and equipment	5.22	62,573	79,007
Goodwill	5.23	26,809	29,382
Other intangible assets	5.24	3,033	3,751
Investments in associates and joint ventures	5.25	3,641	5,916
Other financial assets	5.26	1,748	180
Other receivables	5.27	1,307	1,456
Tax assets	5.28	46	41
Deferred tax assets	5.38	3,325	6,305
Available-for-sale financial assets	5.29	94	251
Non current assets		**102,576**	**126,289**
Trade receivables and loans	5.30	90,831	106,874
Inventories	5.31	40,466	48,899
Other receivables	5.32	1,446	5,784
Tax assets	5.33	5,403	6,201
Derivative financial instruments	5.34	2	96
Cash and cash equivalents	5.35	18,316	29,334
Current assets		**156,464**	**197,188**
Total assets		**259,040**	**323,477**

Consolidated balance sheet

(€000)

Liabilities and equity	**Note**	**31 December 2005**	**31 December 2006**
Liabilities for post-retirement benefits	5.36	10,679	13,228
Provisions	5.37	1,769	2,155
Deferred tax liabilities	5.38	8,995	10,357
Amounts due under finance leases and other borrowings	5.39	12,725	9,617
Bank borrowings and mortgages	5.40	18,465	7,614
Other payables	5.41	4,034	4,025
Tax liabilities	5.42	4,070	4,045
Derivative financial instruments	5.34	136	10
Non current liabilities		**60,873**	**51,051**
Provisions	5.37	504	836
Amounts due under finance leases and other borrowings	5.39	3,524	3,109
Bank borrowings and mortgages	5.40	12,147	11,284
Trade payables	5.43	87,467	94,392
Other payables	5.41	10,633	16,022
Tax liabilities	5.42	4,185	4,483
Derivative financial instruments	5.34	203	79
Current liabilities		**118,663**	**130,205**
Share capital		10,165	12,665
Capital reserves		14,811	71,123
Hedging and currency translation reserve		(104)	(200)
Revenue reserves		43,686	49,816
Profit for the period attributable to shareholders of the Parent Company		10,144	8,328
Equity attributable to shareholders of the Parent Company	5.44	**78,702**	**141,732**
Share capital and reserves attributable to minority interest		441	398
Profit for the period attributable to minority interest		361	91
Equity attributable to minority interest		**802**	**489**
Consolidated equity		**79,504**	**142,221**
Total liabilities and equity		**259,040**	**323,477**

Consolidated cash flow statement

(€000)	Note	2005	2006
OPERATING ACTIVITIES	5.47		
Net profit for the period		**10,505**	**8,419**
Adjustments for non-cash items:			
Amortisation		1,680	1,952
Depreciation		13,404	14,258
Termination benefits accruing for period		1,967	2,685
Termination benefits paid during period		(1,702)	(3,923)
Finance costs on termination indemnities		483	651
Current and deferred taxation for the period		11,243	12,103
Other finance costs		2,600	2,878
Foreign exchange gains/(losses)		(265)	152
Increase / (Decrease) in provisions for doubtful debts		365	391
Increase / (Decrease) in provisions		74	648
Measurement of investments		342	(614)
Gain on spin-off of property division	5.46	-	(12)
Negative goodwill	5.46	-	(2)
Cash flow from operating activities before changes in working capital		**40,696**	**39,586**
(Increase)/decrease in receivables		(3,019)	(7,238)
Inventories		6,383	(2,119)
Increase/(decrease) in payables		(5,858)	(17,288)
		(2,494)	**(26,644)**
Cash generated from operating activities		**38,202**	**12,941**
Income taxes paid		(10,928)	(10,342)
Interest paid		(2,249)	(2,571)
Net cash flow from operating activities		**25,025**	**29**
INVESTING ACTIVITIES			
Proceeds on disposal of components of property, plant and equipment		1,001	8,456
Purchases of components of property, plant and equipment		(9,372)	(17,937)
Net increase in intangible assets		(1,604)	(2,164)
Net change in investments and available-for-sale assets		(524)	(251)
Acquisition of Turbo business	5.46	-	(553)
Acquisition of remaining 40% interest in Jet Air S.r.l.	5.46	-	(2,806)
Acquisition of equity interest in Ariafina Co. Ltd.	5.46	-	715
Net cash used in investing activities		**(10,499)**	**(14,540)**
FINANCING ACTIVITIES			
Borrowings/(repayments)			(20,976)
Increase / (Decrease) in financial liabilities		(8,267)	(9,452)
Increase in share capital and share premium reserve/new share issue	5.44	-	62,463
Cost of new share issue (inclusive of tax effect)	5.44	-	(3,897)
Distribution of dividends	5.44	(508)	(2,541)
Capital contributions from minority interest	5.44	(297)	-
			-
		(9,072)	25,597
Net increase/(decrease) in cash and cash equivalents		**5,454**	**11,086**
Cash and cash equivalents at the beginning of the period		**12,842**	**18,316**
Effect of exchange rate fluctuations		20	(68)
Cash and cash equivalents at the end of the period		**18,316**	**29,334**

Statement of changes in consolidated equity *(€000)*	**Share Capital**	**Share premium reserve**	**Revenue reserves**	**Hedging and currency translation reserve**	**Net profit for the period**	**Total equity attributable to shareholders of the Parent Company**	**Total minority interest**	**Total**
Balance 31 December 2004 (restated under IAS/IFRS)	**10,165**	**14,811**	**39,075**	**(66)**	**5,112**	**69,097**	**707**	**69,804**
Change in fair value of cash flow hedges net of tax effect				44		**44**		**44**
Foreign exchange differences arising from translation of foreign subsidiaries' financial statements				(55)		**(55)**		**(55)**
Total gains/(losses) recognised in equity during the period				(11)		(11)		(11)
Transfer of cash flow hedges to income statement net of tax effect				(27)		**(27)**		**(27)**
Net profit for the period					10,144	**10,144**	361	**10,505**
Total gains/(losses) recognised in the income statement				(27)	10,144	**10,117**	361	**10,478**
Allocation of net profit for the period			4,603		(4,603)	**-**		**-**
Other changes			8			**8**	(66)	**(58)**
Dividends					(509)	**(509)**	(200)	**(709)**
Balance at 31 December 2005	**10,165**	**14,811**	**43,686**	**(104)**	**10,144**	**78,702**	**802**	**79,504**
Change in fair value of cash flow hedges net of tax effect				16		**16**		**16**
Foreign exchange differences arising from translation of foreign subsidiaries' financial statements				(128)		**(128)**		**(128)**
Total gains/(losses) recognised in equity during the period				(112)		**(112)**		**(112)**
Transfer of cash flow hedges to income statement net of tax effect				16		**16**		**16**
Net profit for the period					8,328	**8,328**	91	**8,419**
Total gains/(losses) recognised in the income statement				**16**		**8,344**	**91**	**8,435**
New share issue /increase in share capital	2,500	59,962				**62,462**		**62,462**
Cost of new share issue (note 5.44)		(5,840)				**(5,840)**		**(5,840)**
Tax effect on cost of new share issue (note 5.44)		2,190				**2,190**		**2,190**
Allocation of net profit for the period (note 5.44)			10,144		(10,144)	**-**		**-**
Other changes			(1,473)			**(1,473)**	(404)	**(1,877)**
Dividends			(2,541)			**(2,541)**		**(2,541)**
Balance at 31 December 2006	12,665	71,123	49,816	(200)	8,328	**141,732**	489	**142,221**

Table of contents – Notes to the consolidated financial statements at and for the year ended 31 December 2006

1. Group structure and activities

Elica S.p.A. is a company incorporated under Italian law based in Fabriano (AN - Italy). Details of the main activities of the Company and its subsidiaries as well as its registered office and secondary offices are provided in the Directors' Report on Operations under "Group structure and basis of consolidation"

Elica and all of the consolidated companies use the €as their functional currency and for reporting purposes, except for Polish subsidiary Fime Polska Sp.z.o.o which prepares its financial statements in Polish Zloty, Mexican subsidiaries ElicaMex S.A.d.C.V. and Leonardo Services S.A.d.C.V. which use the Mexican Peso and Ariafina Co Ltd. which uses the Japanese Yen.

In a meeting held today the Board of Directors approved the consolidated financial statements at and for the year ended 31 December 2006 and authorized its publication.

2. Accounting standards and basis of consolidation

The Group is required to prepare its financial statements in accordance with IFRS, as it is listed on the Star segment of Mercato Telematico Azionario. The Elica Group had opted to prepare its financial statements in accordance with IFRS as early as last year, in keeping with Legislative Decree no. 38/2005.

The consolidated financial statements consist of consolidated balance sheet, consolidated income statement, consolidated cash flow statement, consolidated statement of changes in equity, and these notes.

The financial statements and related notes comply with the minimum contents required by IAS/IFRS, as supplemented, where applicable, by the provisions enacted by law and by the CONSOB.

The Group did not make any changes in the accounting standards applied to the comparative data at 31 December 2005 and 31 December 2006. Furthermore, neither the International Accounting Standards Board (IASB) nor the International Financial Reporting Interpretation Committee (IFRIC) have revised or issued standards or interpretations due to take effect on 1 January 2007 that have had a material effect on the consolidated financial statements.

The consolidated financial statements have been prepared on the basis of the historical cost principle, except for several financial instruments that are stated at fair value. Transactions have been recorded in accordance with the prudence principle, on an accruals basis and in keeping with the going concern assumption, as well as taking into account the economic purpose of the assets and liabilities considered.

Basis of consolidation

The consolidated financial statements at and for the year ended 31 December 2006 include the financial statements of the Company and the companies it controls directly or indirectly (the subsidiaries). Control is exercised when the company has the power to set the financial and operating policies of an enterprise in order to benefit from its activity.

The separate financial statements of Elica S.p.A. have been prepared in accordance with IAS/IFRS, as required by Legislative Decree no 38/2005 and related Consob regulations. The financial statements of the Italian subsidiaries and associates were prepared in accordance with the provisions of Legislative Decree no. 127/91 as supplemented, where necessary, by accounting standards issued by the Italian Accounting Profession (*Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri*) and, where these are lacking, by the accounting standards issued by the IASB as well as by the contents of the documents prepared by the Italian Accounting Standards Setter.
All the Group companies have produced the data and information needed to prepare the consolidated financial statements in accordance with IFRS.
Concerning the basis of consolidation and associates, reference should be made to sections "4 Composition and changes in the basis of consolidation" and "7 Disclosure pursuant to IAS 24 on management compensation and related-party transactions".

The income statements of the subsidiaries acquired or sold during the year have been consolidated at the effective acquisition date until the effective date of disposal.

All significant intercompany transactions and related balances, income and expenses have been eliminated on consolidation.

Gains and losses arising on intercompany sales of components of property, plant and equipment are eliminated, if they are considered material.

The minority interest in the net assets of consolidated subsidiaries are identified separately from the equity attributable to shareholders of the Parent Company ("Minority interest"). Equity attributable to minority interest includes the amount attributable to the minority interest at the original date of acquisition (see below) and changes in equity after that date.
Losses attributable to minority interest in excess of the minority interest in the subsidiary's equity are allocated to equity attributable to the shareholders of the Parent Company, except to the extent that the minority shareholders are subject to a binding obligation and are capable of making additional investments to cover the losses.

Consolidation of foreign companies and translation into €of foreign-denominated items
The assets and liabilities of consolidated foreign companies denominated in currencies other than the €are translated into €using the exchange rates prevailing at the balance sheet date. Revenues and charges are translated into €using the average exchange rate for the period. Any resulting translation differences are recognised in the currency translation reserve until the investment is sold.

At 31 December 2006, the only consolidated foreign companies that use a currency other than the €are Fime Polska (ElicaGroup Polska from January 2007), ElicaMex, Leonardo Services and Ariafina. They utilise the Polish zloty, the Mexican Peso and the Japanese yen, respectively, as their reporting currency.

At 31 December 2006, the exchange rates used for translation purposes are set out below:

Foreign currency	Exchange rate at 31 December 2006	Average exchange rate in 2006
Polish Zloty (Zty vs. Euro)	3.83	3.90
Mexican Peso (Mxn vs. Euro)	14.294	13.694
Japanese Yen (Jpy vs. Euro)	156.93	138.90

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The acquisition cost is measured at the aggregate of the fair values – at the transaction date – of the assets given, liabilities incurred or assumed and the financial instruments issued by the Group in exchange for control of the company acquired, plus any costs directly attributable to the business combination.

The acquired entity's assets, liabilities and identifiable contingent liabilities that meet the conditions for recognition under IFRS 3 are recorded at their fair value at the date of acquisition except for non-current assets (or disposal groups), which are classified as held for sale in accordance with IFRS 5 and recorded and valued at fair value less costs to sell.

Other intangible assets arising after an acquisition are recorded separately from goodwill if their current value can be determined on a reliable basis.

Goodwill arising on an acquisition is recorded as an asset and initially measured at cost. This results from the excess of the cost of the acquisition over the Group's interest in the fair value of assets, liabilities and identifiable contingent liabilities recorded. If, after reassessment, the Group's interest in the fair value of the acquired entity's assets, liabilities and identifiable contingent liabilities exceeds the acquisition cost, the excess is recognised immediately in the income statement.

With effect from 1 January 2004, the minority interest in the acquired entity are initially measured at their interest in the fair value of assets, liabilities and contingent liabilities recorded.

Investments in associates and joint ventures

An associate is a company over which the Group has significant influence but which it does not control or jointly 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 intended as contractually shared control over a business. It exists only when the strategic financial and operating decisions of the business require the unanimous approval of all of the parties that share control.

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

Under this method, investments in associates and joint ventures are recorded in the balance sheet at cost, as adjusted for changes after the acquisition of the net assets of the associates, less any impairment in the value of the individual investments. Losses of the associates and joint ventures in excess of the Group interest in them are not recorded unless the Group has undertaken to cover them. Any excess of the acquisition cost over the Group's interest in the fair value of assets, liabilities and identifiable contingent liabilities at the acquisition date, is recognised as goodwill. Goodwill is included in the book value of the investment and is subjected to a regular impairment test. Any excess of the Group's interest of the fair value of the assets, liabilities and identifiable contingent liabilities of the associate over the cost of acquisition is recorded in the income statement for 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 interest in the associate or joint venture, except where the unrealized losses constitute evidence of a reduction in the value of the asset transferred.

Accounting standards and critical accounting policies

The most significant accounting standards and critical accounting policies adopted to prepare the consolidated financial statements are outlined below.

Property, plant and equipment

Property, plant and equipment are recorded at purchase or production cost, including all directly attributable incidental charges. The cost of some assets has been adjusted under specific revaluation legislation prior to January 1, 2004 which is considered to reflect the fair value of the asset at the date of the revaluation ("deemed cost" in terms of IFRS 1).

Depreciation is calculated on a straight-line basis on the cost of the assets based on their estimated useful lives applying the following rates:

land	-
buildings	3 %
lightweight buildings	10 %
plant and machinery	10 % - 15.5 %
industrial and commercial equipment	10 % - 25 %
office furniture and equipment	12 %
electronic office equipment	20 %
commercial vehicles	20 %
automobiles	25 %

Assets held under finance lease agreements are recorded as property, plant and equipment and depreciated, on the same basis as owned tangible assets, on a straight-line basis over their estimated useful lives.
Purchase cost is also adjusted for capital grants already allocated to the Group companies. These grants are recognised in the income statement by gradually reducing the depreciation charged over the useful life of the assets to which they relate.

Maintenance, repair, expansion, modernisation and replacement costs that do not lead to a significant, measurable increase in the production capacity and useful life of the asset are charged to the income statement for the year in which they are incurred.

Goodwill

Goodwill arising on the acquisition of a subsidiary or upon some other business combination represents the excess of the acquisition cost over the Group's interest in the fair value of the assets, liabilities and identifiable contingent liabilities of the subsidiary at the acquisition date. Goodwill is recorded as an asset and reviewed for impairment annually to ensure that its value has not diminished. Any impairment loss is recorded immediately in the income statement and is not reversed in a subsequent period.

On disposal of a subsidiary, any remaining goodwill balance attributable to the subsidiary is included in determining the gain or loss on the disposal.

Goodwill arising on acquisitions prior to January 1, 2004 is carried at the amount recognised under Italian GAAP at such date after having tested it for impairment at that date.

Other intangible assets

Internally generated intangible assets and development costs

Research costs are charged to the income statement in the period in which they are incurred.
Internally generated intangible assets resulting from the development of Group products are recognised only if the following conditions are met:

- the asset is identifiable;
- it is likely that it will generate future economic benefits; and
- the cost of developing the asset can be reliably measured.

These intangible assets are amortised on a straight line basis over their useful lives.

When internally generated assets cannot be recorded in the balance sheet, the related development costs are charged to the income statement in the period in which they are incurred.

Trademarks and patents

Trademarks and patents are initially measured at purchase cost and amortised on a straight line basis over their useful lives.

Impairment

At each balance sheet date, the Group reviews for the existence of events or circumstances that raise doubts as to the recoverability of the value of property, plant and equipment and intangible assets with a defined useful life. If there are any indications that there has been an impairment of value, the Group estimates the recoverable value of the property, plant and equipment and intangible assets so as to determine the extent of the impairment loss (if any). Intangible assets with an indefinite useful life – in particular goodwill – are reviewed for impairment annually or more frequently if there are indications of a possible impairment.
In these situations, the recoverable value of these assets is estimated so as to determine the amount of the impairment required.

In accordance with the accounting standards, the impairment test is performed in respect of each individual asset, where possible, or in respect of groups of assets (cash generating units -

CGU). Cash generating units are identified depending on the organizational and business structure of the Group as units that generate cash on an autonomous basis as a result of the continuous use of the assets they include.

The recoverable amount is the greater of fair value less costs to sell and value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current interest rates and the specific risks relating to the asset.

If the recoverable amount of an asset (or a CGU) is considered lower than its carrying amount, it is reduced to its recoverable value. An impairment is recognised in the income statement immediately unless the relevant asset consists of land or buildings carried at a revalued amount; in this case, the impairment loss is charged to a revaluation reserve.

When the reasons of the impairment no longer exist, the carrying amount of the asset (or CGU) – except for goodwill – is increased to the revised estimate of its recoverable value. The new value cannot exceed the net carrying amount that would have been determined if it had never been written down due to impairment.
The reversal of an impairment loss is recorded immediately in the income statement unless the asset is stated at a revalued amount, in which case the reversal is credited to the revaluation reserve.

Inventories

Inventories are recorded at the lower of purchase or production cost and net realizable 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 goods, work in progress and semi-finished goods is determined considering the cost of the materials used plus direct operating costs and overheads.

Net realizable 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 utilization or sale.

Financial assets and liabilities

Financial assets and liabilities are recorded in the balance sheet at the settlement date.

Trade receivables and loans

Trade receivables and loans are recorded at nominal value which normally represents their fair value. In the event of a significant difference between nominal value and fair value, the receivables are recorded at fair value and subsequently valued at amortised cost using the effective interest rate method.
The receivables balance is adjusted by means of a specific allowance for bad debt so as to take account of the receivables' collection risk. The allowances are measured as the difference

between the carrying amount of the receivables and the present value of expected cash flow discounted at the effective rate of interest calculated at initial recognition.

Non-current assets held for sale

Non current assets (and disposal groups) classified as held for sale are recognised 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 via a disposal transaction instead of through their use in company operations. This condition is met only when the disposal is highly likely, the assets (or group of assets) are available for immediate sale on an “as is” basis and, consequently, management is committed to a sale, which should take place within 12 months of classification as held for sale.

Other financial assets

Financial assets other than trade receivables, loans and cash and cash equivalents are initially recorded at fair value, including charges directly related to the transaction.

At subsequent balance sheet dates, the financial assets are valued depending on their characteristics as follows:

- Financial assets the Group intends to hold, and is capable of holding, until maturity (“held to maturity” financial assets) are recorded at amortised cost using the effective interest method net of writedowns to reflect any impairment.

- Financial assets classified as held for trading are valued at fair value at the end of each period and gains and losses resulting from changes in fair value are recorded in the income statement for the period.

- Available-for-sale financial assets are valued at fair value at the end of each period and gains and losses arising from changes in fair value are charged directly to net equity until they are sold or suffer an impairment of value. At that point, the total gains or losses previously recognize inequity are recorded in the income statement for the period. Assets available for sale that consist of equity instruments are valued at cost where there is no available market price and their fair value cannot be reliably estimated.

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 changes in value.

Financial liabilities and equity instruments

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

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

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

Trade payables

Trade payables are recorded at nominal value which generally represents their fair value. In the event of significant differences between nominal value and fair value, trade payables are recorded in the balance sheet at fair value and subsequently measured at amortised cost using the effective interest rate method.

Bank and other borrowings

Bank borrowings – comprising of medium/long-term loans and bank overdrafts – and other borrowings, including the liabilities deriving from finance leases, are recorded in the balance sheet based on the amounts received, less transaction costs, and subsequently recognised at amortised cost using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative instruments and accounting for hedging transactions

The Group's activities are exposed to financial risks regarding fluctuations in exchange rates and interest rates. The Group uses derivative instruments to hedge these risks.

Exchange risk management is regulated by a risk policy approved by the Board of Directors with a view to protecting the value expected by the business but without any speculative or trading objectives.

The exchange risk method applied involves the systematic hedging of foreign exchange risks arising for the individual Group companies. Once the budgeted exchange rate – or the target exchange rate – has been identified for each currency other than the euro, the Group determines the cash flows to be hedged (the difference between opening receivables and payables plus the difference between revenues and costs for the period). A decision is then taken on the amount of the budgeted foreign currency to hedge and, based on exchange rate conditions, macroeconomic and technical factors, the Group decides on what hedges to arrange, the maturity dates and which of the instruments authorised by the risk policy to use.

The Group does not systematically hedge its interest rate risk.

Derivative financial instruments are initially measured at fair value on the contract date and, subsequently, reported at fair value.

Where applicable, the Elica Group adopts the hedge accounting method which requires derivatives to be recorded in the balance sheet at fair value. Changes in the fair value of derivative instruments (mark to market) are accounted for differently depending on the hedge characteristics at the valuation date:

- For derivatives that hedge scheduled transactions (i.e. cash flow hedges), changes in the fair value of derivative instruments are allocated to equity insofar as they are considered effective while the ineffective part is recognised in the income statement.

- For derivatives that hedge receivables and payables recorded in the balance sheet (i.e. fair value hedges), differences in fair value are recorded in full in the income statement. Moreover, the value of the receivables/payables hedged is adjusted for the change in the risk hedged, again in the income statement.

The hedge accounting method is discontinued when the hedging instrument reaches maturity, is sold, terminates or is exercised or no longer qualifies for hedge accounting. At this point, in case of cash flow hedges, gains or losses accumulated by the hedging instrument and recorded directly under equity are retained there until the forecasted transaction occurs. If the hedged transaction is not expected to occur, accumulated gains and losses recorded under equity are released to the income statement for the period.

Changes in the fair value of derivative instruments that cannot be classed as hedges are recorded in the income statement for the period in which they arise.

Embedded derivatives included in other financial instruments or in other contracts are treated like separate derivatives when their risks and characteristics are not strictly related to the contracts hosting them and these host contracts are not stated at fair value with related gains and losses recorded in the income statement.

Post-retirement benefits

Italian post-retirement benefits are considered equivalent to a defined benefit scheme. For defined benefit schemes, 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. Actuarial gains and losses that exceed 10% of the present value of the benefits defined by the Group are amortised over the estimated average remaining working life of the employees taking part in the scheme.

Post-retirement benefits recognised in the balance sheet represent the present value of liabilities under defined benefit plans as adjusted for unrecorded actuarial gains and losses.

Finally, the Group records the interest on employee benefit plans under finance costs.

Provisions

Provisions are recorded when the Group has a current obligation that is the result of a past event and it is probable that the Group will be required to fulfil the obligation.

Provisions are made based on Directors best estimate of the cost of fulfilling the obligation at the balance sheet date and are discounted to present value when the effect is significant.

Revenue recognition

Revenues from the sale of goods are recognised when the goods are delivered and the Company has transferred the significant risks and benefits of ownership of the goods to the buyer.

Interest income is recorded on an accruals basis based on the amount financed and the effective interest rate applicable: this represents the rate at which the expected future cash flow along the life of the financial asset is discounted to equate them with the carrying amount of the asset.

Dividends are recorded when the right of the shareholders to receive them is established.

Leases and lease agreements

Lease agreements are classified as finance leases when the terms of the contract transfer all of the risks and benefits of ownership to the lessee. All other lease agreements are considered as operating leases.

Assets held under finance leases are recorded as assets of the Group at the lower of their fair value at the date of signature of the lease contract and the present value of the minimum payments due under the lease contract. The corresponding liability towards the lessor is recorded in the balance sheet as a finance lease obligation. Finance lease payments are split into capital and interest elements in order to maintain a constant rate of interest on the outstanding payable. The finance costs are recorded directly in the income statement for the year.

Operating lease costs are recorded over the term of the operating lease agreement. Benefits received or receivable as an incentive for entering into operating lease agreements are also recorded on a prorated basis over the duration of the operating lease agreement.

Foreign currency translation

When the financial statements of individual Group companies are prepared, transactions in foreign companies 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 prevailing on the date of the transaction or otherwise at the date on which the fair value of the underlying assets/liabilities is determined. Foreign currency assets and liabilities are translated at the balance sheet date using the exchange rate in force at the period end. Non-monetary assets and liabilities valued at historical cost in foreign currency are translated using the exchange rate in force 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 related to property, plant and equipment (purchase, extension, construction) are deducted from the cost of the assets to which they relate. Depreciation is charged to the income statement on the net cost (cost less grants) of the asset. If a grant is awarded in a period after the start of the depreciation period of the asset, the portion of the grant relating to the prior periods is recorded in the income statement as other income.

Taxation

Income taxes for the period represents the sum of current and deferred taxation.

For each consolidated company, current taxation is based on taxable income for the period as determined under applicable tax law. Current tax liabilities were calculated using the rates of taxation applicable at the balance sheet date.

Since 2005, the Company and its subsidiaries Fime S.p.A., Jet Air S.r.l., Ola S.r.l., Fox Design S.p.A. and Fox I.F.S. S.r.l. have opted for a consolidated tax regime in Italy. This means that the IRES (Corporation Tax) charge is calculated on a tax base representing the algebraic sum of the taxable income and tax losses of the individual companies.

Transactions plus reciprocal responsibilities and obligations between the Parent Company and the aforementioned subsidiaries are defined by a consolidation agreement prepared with each consolidated company.

With regard to responsibility, the agreement provides that the Parent Company 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 tax liability is shown under Tax payables net of payments on account, taxes withheld by third parties and tax credits. Tax payables also includes the current IRES charge as determined on an estimate of the taxable income and tax losses of the subsidiaries taking part in the consolidated tax regime, net of payments on account, taxes withheld by third parties and tax credits of these subsidiaries. Tax liabilities are offset by the amounts due from subsidiaries to the Parent Company for the current tax on income transferred by such subsidiaries under the consolidated tax regime.

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

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

Deferred tax assets and liabilities also arise on timing differences between the taxable income reported by subsidiaries and that utilised for consolidation purposes and are accounted according to the liability method. Deferred tax assets and liabilities also arise as a result of consolidation adjustments made to the accounts of the Group companies.

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 and liabilities are also recorded on temporary differences relating to investments in associates and joint ventures except in cases where the Group can control the reversal of these timing differences and it is probable that they will not reverse in the foreseeable future.

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 of not less than the amount of the differences. The carrying amount of deferred tax assets is reviewed at every period end 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 against one another when there is a legal enforceable right to do so and when they relate to taxes levied by the same tax authority and the Group intends to settle tax assets and liabilities on a net basis.

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 during the period in question. Treasury shares are excluded from the calculation. Diluted earnings per share equals earnings per share adjusted to assume conversion of all dilutive potential shares, i.e. all financial instruments potentially convertible into ordinary shares with a dilutive effect on earnings.

Accounting standards applied from 1 January 2006

In December 2004 the IFRIC issued interpretation IFRIC 4 – Determining whether an arrangement contains a lease – in order to provide guidance on the classification of a contract that does not have the legal form of a lease in accordance with IAS 17 – Leases. In particular, the interpretation specifies that an arrangement contains a lease if its fulfilment depends on a specific asset and such arrangement conveys the right to control the use of the underlying asset.
The Group applied the interpretation at 1 January 2006 without any material impact.
In April 2005, the IASB issued an amendment to IAS 39 – Financial instruments: recognition and measurement. Such amendment allows for the recognition of a highly probable intercompany transaction as a cash flow hedge against a foreign exchange risk, in the event that the transaction is carried out in a currency other than the functional currency of the company carrying out the transaction. Thus, the consolidated balance sheet is exposed to an exchange rate risk. Moreover, the amendment specifies that if the hedging of an expected

intercompany transaction complies with hedge accounting requirement, any gain or loss recognised directly in equity, in accordance with IAS 39, must be reclassified to the income statement in the period when the foreign exchange risk of the hedged transaction produces its effects on the consolidated income statement.
In June 2005 the IASB issued an amendment to IAS 39 Financial instruments: recognition and measurement. Such amendment limits the use of options to designate any financial asset or liability at fair value directly in the income statement (so-called fair value option). This amendment of the standard allows the use of this option to the financial instruments that meet the following conditions:

- designation at fair value in the income statement eliminates or significantly reduces a measurement or recognition inconsistency ("accounting mismatch");
- a group of financial assets, financial liabilities or both must be managed, and their performance is evaluated by management, on a fair value basis in accordance with a documented risk management or investment strategy; or
- the financial instruments must contain one or more embedded derivatives, subject to certain conditions.

The Group applied these amendments to IAS 39 starting 1 January 2006. The adoption of these amendments did not have any effect on equity and on net profit for the period.
In August 2005, the IASB issued another amendment to IAS 39 and IFRS 4, on the accounting treatment of financial guarantee contracts. Based on this amendment, liabilities arising from financial guarantee contracts must be recognised in the balance sheet of the issuer s as follows:

- initially at fair value;
- subsequently, it must be measured at the greater of (i) the best estimate of the cost required to fulfil the obligation at the balance sheet date, determined in accordance with IAS 37 and (ii) the amount initially recognised less cumulative amortization recognised in accordance with IAS 18 - Revenue. The application of this amendment did not produce any impact on the accounts.

New financial reporting standards

In August 2005, the IASB issued IFRS 7 – Financial instruments: disclosures – and an amendment complementary to IAS 1 - Presentation of financial statements; capital disclosures. IFRS 7 contains an updated version of the required disclosures provided for originally by IAS 32 – Financial instruments: disclosure and presentation, requiring disclosures designed to enhance the understanding of the significance of financial instruments to an entity's financial position, performance, and cash flows. IFRS require a separate description of the objectives, policies and procedures implemented by management for the different types of risk (market and credit liquidity) to which the entity is exposed, inclusive of a sensitivity analysis for every type of market risk (foreign exchange, interest rate, equity, commodity) as well as disclosure of concentration and highest, lowest and average exposure to the various types of risk during the reporting period, if the exposure at year end is not sufficiently meaningful.

The amendment to IAS 1 introduces further disclosure obligations concerning management's objectives, policies and processes for managing capital, specifying, in the presence of capital requirements set by third parties, the nature and management procedures and any consequences of non-compliance. IFRS 7 and the amendment to IAS 1 will take effect on 1 January 2007, with the obligation to provide comparative information for 2006. The Group is evaluating the impacts deriving from the application of this standard, in view of the application starting with the financial statements for the period ended 31 December 2007.

On 3 March 2006, IFRIC issued IFRIC interpretation 9 – Reassessment of embedded derivatives, to specify that an entity must assess whether any embedded derivatives contained in the contract are required to be separated from the host contract, and accounted for as a derivative when the entity first becomes a party to the contract.
Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. This interpretation will be applicable at 1 January 2007. The Group does not think that the adoption of this interpretation will entail the recognition of significant effects.

On 30 November 2006, the IASB issued IFRS 8 – Operating segments, which will be applicable at 1 January 2009, to replace IAS 14 – Segment Reporting. The new standard requires an entity to base segment reporting on the elements that management uses to make its operating decisions, as well as to identify the operating segments on the basis of internal reporting, which is constantly reviewed by management in order to allocate resources to the various segments and to analyze performance. At 31 December 2006, the Group is considering the effects deriving from the adoption of this standard, but it does not see any significant difference with respect to current reporting requirements.

3. Critical judgements and estimates

A) Critical judgements

During 2006 the Parent Company acquired the remaining 40% of Jet Air S.r.l., a company which it already controlled with a 60% interest. Considering that the treatment of the acquisition of an additional interest in a subsidiary does not fall under IFRS 3, and that the 60% acquisition was not accounted for retrospectively at the IFRS transition date (January 1, 2004), it was necessary for the Group's management to decide how to record this acquisition.

For these purposes, the Parent Company's management took account of the following aspects:

a) when majority control was acquired, the buildings of Jet Air were revalued and reported in the Group consolidated financial statements within the limits of the 60% interest held, without recognizing any gain attributable to minority interest, in accordance with Italian GAAP;
b) also, when majority control was acquired, no excess cost was allocated to "Goodwill" as any such excess cost was sufficient to cover the building revaluation;
c) after the acquisition of the controlling interest, Jet Air became increasingly integrated in the range hood manufacturing activities of the Parent Company and it was integrated into the Parent Company manufacturing units for the CGU analysis required by IFRS.

Therefore, the difference between the acquisition cost of the 40% interest and the book value of the minority interest acquired with this transaction was allocated to the building owned by Jet Air, up to the appraisal value issued by an expert appraisal at the date of acquisition of majority control and taking account of the underlying tax effect. The remaining amount was recorded as an adjustment to equity reserves in accordance with the "economic entity" theory which considers the Group as a whole and treats transactions between shareholders as "equity transactions".

For further information, reference should be made to note 5.46 B- Acquisition of remaining 40% of Jet Air S.r.l.

B) Critical estimates

In order to prepare the consolidated financial statements in accordance with IFRS, the Group's management had to make accounting estimates and assumptions with an effect on the assets and liabilities and disclosures, in general. The actual results might well differ from these estimates. The estimates and assumptions are revised periodically and the effects of any change are promptly reflected in the financial statements.
Fundamental assumptions regarding future events and other causes of uncertainty in making accounting estimates at the reporting date, which may lead to significant adjustments to the carrying amount of assets and liabilities within a year, mainly relate to the possible impairment of goodwill.

In order to determine whether there are impairment indicators, it is necessary to estimate the value of the cash generating unit to which goodwill is allocated. To determine the CGU's value in use, the Company must estimate the cash flows that it expects from such unit and set an appropriate discount rate.

At 31 December 2006, the book value of goodwill was €29,382 thousand. This was after capitalizing €3,199 thousand resulting from the acquisition of Turbo Air S.p.A. as described in notes 5.23 and 5.46.

Goodwill impairment

Goodwill was subjected to an annual impairment test at December 31, 2006. The test did not reveal any impairment.

4. Composition of and changes in the basis of consolidation

At 31 December 2006, the basis of consolidation includes the companies controlled by the Parent Company, Elica S.p.A.. Control exists where the Parent Company has the power to govern, directly or indirectly, the financial or management policies of a company or legal entity in such a way to obtain benefits from the activities of the company.

The following table contains a list of the companies consolidated on a line by line basis and controlled directly or indirectly by the Parent Company.

Consolidated companies at 31 December 2006

Name	Registered office	Currency	Share Capital	% interest held directly	% interest held indirectly	Total % interest held
Elica S.p.A.	Fabriano (AN)	EUR	12,664,560			
Jet Air S.r.l.	Cerreto D'Esi (AN)	EUR	235,505	100	-	100
Turbo Air S.p.A. (a)	Fabriano (AN)	EUR	1,500,000	100	-	100
Fime S.p.A.	Castelfidardo (AN)	EUR	2,990,000	99.991	-	99.991
Fox I.F.S. S.r.l.	Bergamo (BG)	EUR	72,000	-	70 (b)	70
Fox Design S.p.A.	Cadoneghe (PD)	EUR	2,500,000	98	2 (c)	100
Fime Polska S.p.zoo	Wroklaw (Poland)	PLN	10,000,000	5	94.991 (d)	99.991
ElicaMex S.a.d.C.V.	Queretaro (Mexico)	MXP	16,352,381	98	2 (b)	100
Leonardo Services S.a.d.C.V.	Queretaro (Mexico)	MXP	50,000	98	2 (b)	100
Ariafina Co. Ltd	Sagamihara-shi (Japan)	JPY	10,000,000	51	-	51

(a) The name of Officina Lavorazione Acciai S.r.l. was changed to Turbo Air S.p.A. on 30 January 2006
(b) Investments held through Fox Design S.p.A.
(c) Equity interest held through Jet Air S.r.l.
(d) Equity interest held through Fime S.p.A.

Concerning data and information on subsidiaries and associates, reference should be made to section "7 – Disclosure pursuant to IAS 24 on management compensation and related-party transactions".

On 30 January 2006 subsidiary O.L.A. S.r.l. was converted into a joint stock company (*Società per Azioni* – S.p.A.) and changed its name to Turbo Air S.p.A. With effect from 1 February 2006, it acquired the range hood and related activities manufacturing and sale division (hereafter "the Turbo business") from Rhein S.p.A. (ex Turbo Air S.p.A.). Rhein S.p.A. and its shareholders are not related parties to the Elica Group.
The business was acquired together with strong commercial positions in Italy and abroad – especially in Russia, Germany, Spain as well as distribution capabilities in Asia.

ElicaMex S.A.d.C.V. and Leonardo Services S.A.d.C.V. were both incorporated in January 2006. These companies are both 100% owned, with a 98% interest directly held by the Parent Company, Elica S.p.A., and the remaining 2% indirectly held through Fox Design S.p.A. (also 100% owned by the Parent Company).
The objective of these newly created Mexican companies is to concentrate the manufacture of products intended for American markets and to manage distribution and logistics on a local basis. This will ensure a swifter, more thorough service for customers in the Americas while, at the same time, benefiting from lower distribution costs, shorter delivery periods and greater

flexibility in relation to individual production batches. At 31 December 2006, the Group invested over €8.6 million and plans to invest additional €12.4 million in this project over the next three years.

Significant transactions that were completed by the Group in 2006 included the spin-off by Turbo Air S.p.A., which transferred its property portfolio, consisting mainly of three plants, the relevant mortgages and other assets and liabilities to the newly-established Immobiliare Camino S.R.L. in exchange for a 40% equity interest. The remaining 60% of this company was held by third parties, unrelated to the Elica Group.

In November 2006, a Special General Meeting of the shareholders of Camino Immobiliare S.R.L. then resolved on a capital increase for consideration, amounting to approximately €92 thousand, inclusive of a premium of approximately €142 thousand, in order to transfer a 32% equity interest to a group of banks that have claims outstanding on Immobiliare Camino S.R.L.. Following the placement of the new units, the Elica Group's stake has decreased to 20.8%.

Again in connection with investments, as indicated, the Parent Company, Elica S.p.A. acquired on 28 February 2006 the remaining 40% equity interest it did not own in Jet Air S.r.l., for €2,806 thousand.
On 28 May 2006, the Parent Company, Elica S.p.A., completed the purchase of 1% of Ariafina Co. Ltd., thus becoming its majority shareholder due to the 50% it already owned in this company. The balance sheet of Ariafina has been fully consolidated while the income statement has been consolidated at the date of acquisition of the controlling majority.
Additional details on the Turbo Air S.p.A., Immobiliare Camino S.r.l., Jet Air S.r.l. and Ariafina transactions are available in note 5.46.
In September 2006 a company was incorporated in Mexico, called Inox Market Mexico S.A. de .C.V.. The Group acquired 30% of this company through Elicamex. This company is designed to manufacture and sell stainless steel, and industrial steel in general, in Mexico and in the United States. At 31 December 2006, this company was not yet operational.

With regard to associates, which are all accounted for using the equity method, note should be taken of the first-time consolidation of Immobiliare Camino S.r.l. and Inox Market Mexico (which is not yet operational) compared to 31 December 2005.

5. Notes to the consolidated income statement, balance sheet and cash flow statement

CONSOLIDATED INCOME STATEMENT

During the year the company sold its plastic moulding division, Turbo Air S.p.A..
The impact of the individual cost and revenue items was eliminated from the consolidated income statement for the period ended 31 December 2006 and the revenues and costs so eliminated were grouped in a single item, in accordance with IFRS 5. Therefore, the following notes to the income statement do not take into account the impact of the above division. Reference to note 5.18 should be made for further details.

5.1 Revenue

Details of the Group's revenue are as follows:

(€000)	2005	2006	Increase/ (Decrease)
Revenues from product sales	350,035	404,831	54,796
Service revenues	778	535	(243)
Total	**350,813**	**405,366**	**54,553**

5.1.1 Information by business and geographical segment

The primary form of segment reporting is by business sector in which the Group operates. The breakdown by segment is as follows:

- "Own brands": production and sale of range hoods and accessories under own brands;
- "Third-party brands": production and sale of range hoods, accessories and other components for domestic appliances under Third-party brands;
- "Motors": production and sale of electric motors;
- "Other activities": production and sale of electrical transformers and other products.

Segment revenues are determined in accordance with the classification of the products sold in a business sector instead of another. Segment results are determined by taking into account all the costs that can be allocated directly to sales in a specific segment. Costs not allocated to the segments include all costs not directly attributable to the area, including manufacturing, sales, general, administrative costs, as well as financial income and charges and taxes.
Inter-segment revenues include revenues between Group segment that are consolidated on a line by line basis in relation to sales made to other segments.
Assets, liabilities and investments are allocated directly on the basis of their classification in a specific sector.
During the year the Turbo Air plastics division was sold. This had been acquired in 2006 (as part of the acquisition of the larger Turbo division purchased in February 2006). The result of the plastics division is shown separately in the following tables. For further details, reference should be made to note 5.18.
The following tables contain segment information by business segment as defined above:

Segment information – Primary segment at 31 December 2005 and 31 December 2006
Results of operations *(€000)*

Income statement	Own brands		Third-party brands		Electric motors		Other activities		Eliminations		Consolidated	
	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
Segment revenue:												
External customers	45,000	68,087	242,109	262,618	56,336	67,089	7,369	7,571	-	-	350,813	405,366
Inter-segment	-	-	538	694	20,880	31,581	-	56	(21,419)	(32,330)	-	-
Total revenue from continuing operations	**45,000**	**68,087**	**242,647**	**263,312**	**77,216**	**98,670**	**7,369**	**7,627**	**(21,419)**	**(32,330)**	**350,813**	**405,366**
Segment results from continuing operations:	**8,678**	**14,005**	**41,610**	**45,210**	**11,576**	**10,535**	**1,226**	**872**			**63,089**	**70,622**
Overheads not allocated to continuing operations											**(39,050)**	**(46,868)**
Operating profit from continuing operations											**24,039**	**23,754**
Share of profit/(loss) of associates											265	809
Impairment of available- for-sale financial assets											(607)	(195)
Finance income											397	675
Finance costs											(3,083)	(3,529)
Foreign exchange gains/(losses)											737	(837)
Other non-operating income												12
Pre-tax profit											**21,748**	**20,689**
Taxation											(11,243)	(12,103)
Profit from continuing operations											10,505	8,586
Profit from discontinued operations											-	(167)
Net profit for the period											**10,505**	**8,419**

Segment information – Primary segment at 31 December 2005 and 31 December 2006

Balance sheet data *(€000)*

Balance sheet	Own brands		Third-party brands		Electric motors		Other activities		Eliminations		Consolidated	
	31 Dec 2005	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005	31 Dec 2006
Assets:												
Segment assets	21,625	31,642	108,236	129,876	67,633	77,338	4,174	3,992	(7,551)	(10,424)	194,118	232,425
Investments in associates and joint ventures											3,641	5,916
Unallocated assets											61,281	85,137
Total consolidated assets											**259,040**	**323,477**
Liabilities:												
Segment liabilities	(12,609)	(18,936)	(67,876)	(76,295)	(22,425)	(20,885)	(2,396)	(1,927)	7,551	46,630	(97,755)	(71,414)
Unallocated liabilities											(81,781)	(109,842)
Equity											(79,504)	(142,221)
Total consolidated liabilities and equity											**(259,040)**	**(323,477)**

Other information *(€000)*

Other information	Own brands		Third-party brands		Electric Motors		Other activities		Eliminations		Consolidated	
	31 Dec 2005	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005	31 Dec 2006
Amortisation and depreciation from continuing operations	1,398	1,575	6,678	7,412	4,221	4,115	335	714	2,451	2,235	**15,084**	**16,051**
Total											**15,084**	**15,684**

Segment information – Secondary segment at 31 December 2005 and 31 December 2006

Operating and financial data and other information *(€000)*

The Group's assets are located in Italy, Mexico, Japan and Poland.

The table below provides an analysis of sales by geographic area, regardless of the origins of the goods and services.

Revenues by geographical area from continuing operations	Europe + CIS	Other countries	America	Consolidated
31 December 2005	299,389	20,613	30,812	**350,813**
31 December 2006	336,681	30,247	38,438	**405,366**

The following table contains details of the Group assets based on their geographical location.

Total assets	Europe + CIS	Other countries	America	Consolidated
31 December 2005	259,040	-	-	**259,040**
31 December 2006	303,551	1,940	17,986	**323,477**

The operating profit for 2006 amounted to €23.7 million, down €0.3 million on the comparable amount in 2005.

The total profit of the segment, which increased in absolute terms and as a percentage of total revenue, was driven by the results of the range hood segment.

The profit of the own brand hoods segment increased by around €5.3 million in absolute terms. Meanwhile, the profit margin rose from 19.3% in 2005 to 20.6% in 2006. The improvement was largely due to a better sales mix. In fact, the sales performance of the decorative and Elica Collection ranges, aimed at the top end of the market, was especially good. The profit of the third-party brands range hood segment rose by around €3.6 million in absolute terms, compared to 2005, and was unchanged in margin terms.

The profit of the motor segment dropped in absolute terms by €1 million, from €11.6 million in 2005 to €10.6 million in 2006. This was due to higher commodity prices, compared to last year, especially copper.

The segment "other activities", which represents a marginal area for the Group, rose by approximately 3%, though segment profits fell by around 29%, owing mainly to higher commodity prices, especially copper, which is utilised to manufacture electric motors.

5.2 Other operating income

(€000)	2005	2006	Increase/(Decrease)
Rental income	112	240	128
Operating grants	249	13	(236)
Ordinary gains on disposal	443	313	(130)
Claims and insurance payouts	1,689	1,485	(204)
Expenses recovered	454	712	258
Business rental income	187	10	(177)
Other revenues and income	523	1,122	599
Total	**3,656**	**3,895**	**239**

The last two years have been affected to a significant extent by claims and insurance payouts associated with adverse weather conditions. In particular, in 2005 this item included a payment of €1,598 thousand for the loss suffered in the plants of Mergo, Serra San Quirico, as well as a payout of €776 thousand for indirect damage suffered in the form of the loss of income as a result of the suspension of production and commercial activities. Payments received in 2006 related mainly to the losses suffered by inventories due to the floods in August and September that hit the plants in Fabriano, Cerreto and Castelfidardo.

The decrease in business rental income was due to the termination of a business rental agreement by subsidiary Fox Design S.p.A.
Other revenues and income included mainly shipping costs recoveries of €387 thousand, reversal of excess allocations to provisions for risks and charges of €157 thousand, refund of duties and foreign taxes of €127 thousand, as well as €148 thousand in proceeds from the disposal of equipment.

The Turbo business accounted for an increase of €999 thousand in other operating income (mainly insurance payouts of €513 thousand and expenses recovered of €174 thousand, grants totalling €116 thousand and refund of duties and foreign taxes, amounting to €51 thousand).

Lastly, other revenues and income includes €2 thousand relating to negative goodwill arising from consolidation of the subsidiary, Ariafina Co Ltd.. For further information, reference should be made to Note 5.46_D- Acquisition of majority interest in Ariafina Co Ltd.

5.3 Change in inventories of finished goods and semi-finished products

This item rose by €2,013 thousand, compared to 2005. This increase was due to the higher inventory levels necessary to meet growing business requirements and is net of €238 thousand related to the acquisition of the Turbo division. In fact, as the assets and liabilities acquired were recognised at fair value, the opening inventories of finished and semi-finished goods were re-evaluated in accordance with IFRS 3.

5.4 Increase in self-constructed assets

This item amounted to €1,578 thousand (€860 thousand in the previous year). It mainly relates to the capitalization of charges regarding the design and development of new products and the in-house construction of mouldings and equipment.

5.5 Raw and consumable materials

(€000)	2005	2006	Increase/ (Decrease)
Purchase of consumable materials	2,009	2,063	54
Purchase of supplies	231	368	137
Purchases of raw materials	145,086	181,206	36,120
Change in inventories of raw materials, consumables and goods for resale	4,761	(2,524)	(7,285)
Purchases of finished products	6,686	6,703	17
Packaging	11,245	12,929	1,684
Other purchases	729	990	261
Shipping expenses on purchases	437	1,069	632
Total	**171,184**	**202,804**	**31,620**

Raw materials used increased by more than €31.6 million in absolute terms in 2006, compared to 2005. This item represented 50.07% of net output 2006 (49.02% in the first half of 2005).

The increase was due, in part, to the acquisition of the Turbo business on 1 February 2006. Purchases made as from the date of acquisition amounted to around €23.6 million and related, mainly, to the following: raw materials €21.7 million, consumables and workshop materials €0.5 million, finished goods and packaging €1.1 million, other purchases and shipping €0.3 million. Opening inventory of raw materials, consumables and goods for resale bought with the Turbo division amounted to €3,167.

The item “Consumable materials” comprises non recurring costs of €111 thousand, in relation to purchases of consumable materials for the laboratory and prototypes, including €63 thousand relating to the start-up in Mexico and €48 thousand incurred to build up sales of own brand products

The consolidation of Ariafina Co Ltd led to a €3.9 million increase in raw materials consumed in 2006, due mainly to the purchase of semi-finished products and components.

5.6 Service expense

(€000)	2005	2006	Increase/(Decrease)
Outsourcing expenses	43,355	45,542	2,187
Shipping	7,716	9,091	1,375
Finished goods inventories / logistics costs	3,760	4,395	635
Consulting	3,690	5,193	1,503
Maintenance	3,624	4,061	437
Utilities	2,741	3,832	1,091
Sales commissions	2,471	3,381	910
Travel expenses	1,663	2,427	764
Advertising	1,247	1,645	398
Insurance	1,075	1,293	218
Compensation of Board of Directors and Board of statutory auditors	894	1,271	377
Trade fairs and promotional events	857	1,302	445
Industrial services	876	661	(215)
Banking fees and expenses	285	333	48
Other services	4,173	5,247	1,074
Total	**78,427**	**89,674**	**11,247**

The cost of services increased by around 14.3% in 2006. The effect of the acquisition of the Turbo business accounted for more than 10 percentage points of the increase (in absolute terms the effect was €8,028 thousand, mainly outsourcing costs, shipping and other services).

Cost of services represented 22.1% of revenue (22.3% in 2005). In 2006, this item included non recurring costs relating to the launch of the manufacturing and commercial venture in Mexico (€910 thousand) - mainly the cost of consulting and promotional and marketing activities – plus €316 thousand of charges relating to marketing, trade fairs and other promotional events undertaken to sustain growth of the strategic business area regarding the sale of own brand products.

Other services amounted to €5,247 thousand (€1,074 thousand at 31 December 2005), including: temporary employment services for €0.8 million, canteen services for €0.7 million, telephone expenses for €0.9 million, technical assistance/warranties for €0.5 million, vehicle expenses for €0.7 thousand, cleaning expenses for €0.5 thousand.

5.7 Staff costs

Staff costs incurred by the Group in 2005 and 2006 were as follows:

(€000)	2005	2006	Increase/(Decrease)
Wages and salaries	41,482	49,398	7,916
Social security and other contributions	13,960	16,273	2,313
Termination benefits	1,967	2,685	718
Other costs	1,494	2,540	1,046
Total	**58,903**	**70,896**	**11,993**

This item amounted to €70,896 thousand and increased by approximately 20.2%. The increase was instead 3.1%, if the 2006 figures are adjusted for the effect of the acquisition of the Turbo business, or €10,025 thousand. The remaining increase was mainly due to renewal of the national collective labour agreement for the metalworkers sector.
It is noteworthy that this item includes non recurring charges incurred by the Group for staff redundancy incentives (€644 thousand in 2006 and €213 thousand in 2005 included under "Other costs") and personnel expenses relating to the start-up of the Mexican manufacturing facility (€454 thousand).
Other costs includes the cost of temporary employees.

Lastly, attention is called to the strengthening of the management, middle-management and administration to handle the increased organisational complexity of the Company and the Group.
The table below shows Group staff at 31 December 2005 and 31 December 2006:

Headcount	31 Dec 2005	31 Dec 2006	Increase/(Decrease)
Managers	23	30	7
White collar	352	415	63
Blue collar	1,401	1,623	222
Others	38	45	7
Total	**1,814**	**2,113**	**299**

The figures for 2006 include 236 employees acquired with the Turbo business, 126 employees relating to Fime Polska and 68 people employed in the Mexican plant.

5.8 Amortisation and depreciation

Amortisation and depreciation charges increased from €15,084 thousand in 2005 to €16,051 thousand in 2006.
Details of changes in amortisation and depreciation are provided in the respective noets to non-current assets. The acquisition of the Turbo business resulted in an additional amortisation and depreciation charge of €1,136 thousand, while the consolidation of Ariafina and the new Mexican activities increased the charges by €191 thousand.

5.9 Other operating expenses and provisions

Details of this item were as follows:

(€000)	2005	2006	Increase/(Decrease)
Leasing and rental	1,786	2,599	813
Rental of vehicles and industrial equipment	1,236	1,427	191
Expenses for hardware, software and patent	222	192	(30)
Taxes other than income taxes	279	544	265
Magazine and newspaper subscriptions	44	40	(4)
(€000)	2005	2006	Increase/(Decrease)
Other extraordinary expenses and losses on disposals	172	100	(72)
Tools	281	372	91

Catalogues and brochures	69	372	303
Other losses	397	304	(93)
Uncollected receivables and allowance for bad debts	656	391	(265)
Provisions for risks and charges	463	335	(128)
Other minor charges	290	588	298
Claims, damages and penalties	185	360	175
Total	**6,080**	**7,624**	**1,544**

The acquisition of the Turbo business resulted in an increase of other operating expenses totalling €1,392 thousand. These included €504 thousand of rental and lease expense, and €159 thousand for car, hardware and software rentals. The remainder regarded other minor charges

5.10 Restructuring charges

Restructuring charges include costs relating to the restructuring programme for industrial activities pertaining to the motor division of the Turbo business. A transfer and integration plan was agreed with subsidiary, Fime S.p.A., which will result in significant economies of scale. The costs mainly regard the redundancy of around 29 workers.

5.11 Share of profit/(loss) of associates

(€000)	2005	2006	Increase/(Decrease)
Share of profit/(loss) of associates	**265**	**809**	**544**

The amounts recorded under this heading relate to the equity method of accounting for investments in associates. The table below shows a breakdown of this item:

(€000)	2005	2006	Increase/(Decrease)
Airforce S.p.A.	(51)	310	361
Ariafina	311	96	(215)
Ism S.r.l.	(229)	241	470
Roal Electronics S.p.A.	234	136	(98)
Immobiliare Camino S.r.l.	-	26	26
Total	**265**	**809**	**544**

As already mentioned, Immobiliare Camino S.r.l. was set up by the subsidiary, Turbo Air S.p.A., with the spin off of its property division.
The balance of €96 thousand relating to Ariafina Co Ltd. represents the portion of the company's profit prior to the acquisition of majority control on 28 May 2006.
Additional details on the Turbo/Camino transaction and the acquisition of the majority interest in Ariafina Co Ltd are available in note 5.46.

5.12 Impairment of available-for-sale financial assets

In 2006, the investment in Aerdorica S.p.A. was written down by €195 thousand (€607 thousand in 2005) to take account of the impairment of the value of this investee company.

5.13 Finance income

Details of this item are as follows:

(€000)	2005	2006	Increase/(Decrease)
Income from other non current financial assets	89	30	(59)
Interest income from associates	7	18	11
Interest income on tax credits	52	3	(49)
Bank interest income	230	380	150
Interest income from customers	-	2	2
Discounts on purchases	1	206	205
Other finance income	17	35	18
Total	**397**	**675**	**279**

Financial income increased by €279 thousand, due mainly to interest income from banks and discounts taken during the year. This income was related mainly to early payments to suppliers at the end of November, as this was considered an effective use of part of the proceeds of the IPO.

Income from other non current financial assets includes interest income from the valuation of the convertible bond issued by associate Roal Electronics S.p.A. in accordance with the amortized cost method based on the effective rate of interest (€14 thousand in 2006 and €41 thousand in 2005). See also note 5.25.

Discounts on purchases rose by €205 thousand. In 2006, this was due to the discounts obtained following early payments to suppliers. In fact, thanks to the proceeds from the IPO (€62.4 million), the Group proceeded to pay off trade payables totalling €19 million, which would otherwise have fallen due in 2007.

5.14 Finance costs

(€000)	2005	2006	Increase/(Decrease)
Finance costs:			
on overdrafts and bank loans	1,116	1,722	606
on other borrowings	490	936	446
on employee termination benefits	483	651	168
Discounts on sales	604	571	(33)
Other finance costs	48	12	(36)
Sub total of finance costs	**2,741**	**3,892**	**1,151**

(€000) – cont'd -	2005	2006	Increase/(Decrease)
Additional finance costs			
Losses/(gains) on fair value measurement of cash flow hedges transferred from equity	41	(24)	(65)
Losses/(gains) on derivative instruments held for trading	301	(339)	(640)
Total	**3,083**	**3,529**	**446**

Finance costs rose by €446 thousand, due to the combined effects of interest and other finance costs of €1,151 thousand, and profit of €705 thousand on derivative instrument trading.
In particular, the increase in bank interest and interest on other borrowings was mainly due to the additional charges on bank and other debt assumed in connection with the Turbo business, totalling €950 thousand (inclusive of €113 thousand related to the employee termination benefits).

Losses (gains) on derivative instruments held for trading showed net gains of €339 thousand (net losses of €301 thousand in 2005). This item consisted mainly of income from foreign exchange derivatives (€146 thousand) and income from an IRS agreement (€193 thousand), which did not meet all the requirements for treatment as hedges – even though they were arranged for this purpose - and where, therefore, recognised at fair value in the income statement. The €301 thousand in net losses in 2005 included €245 thousand in charges on foreign exchange derivatives and a charge of €56 thousand on IRS contracts.

5.15 Foreign exchange gains and losses

(€000)	2005	2006	Increase/(Decrease)
Foreign exchange losses	(485)	(1,617)	(1,132)
Foreign exchange gains	1,222	780	(442)
Total	**737**	**(837)**	**(1,574)**

In 2006, net foreign exchange losses totalled €837 thousand, compared to net gains of €737 thousand in 2005.
These net results are explained by the contrasting trends regarding the main currencies used by the Group, which is a net creditor in foreign currency.
In fact, 2005 saw the US Dollar, the GB Pound and the Japanese Yen strengthen significantly against the euro, while the same currencies gradually weakened against the euro in 2006 compared to their 2005 year end levels.

This item includes unrealised exchange gains and losses arising from the adjustment of foreign currency receivables and payables at closing exchange rates. Net unrealised foreign exchange gains totalled €125 thousand at 31 December 2005, while net unrealised foreign exchange losses amount to €160 thousand at the end of 2006.
The consolidation of the Mexican companies led to foreign exchange losses of €104 thousand, while foreign exchange losses related to the Turbo division amounted to €19 thousand.

5.16 Other non-operating income

The amount of €12 thousand regards the gain on the contribution in kind of the property division by the subsidiary, Turbo Air S.p.A., to Camino Immobiliare S.r.l.. Reference should be made to note 5.46 for more detailed information.

5.17 Taxation

Income tax for 2006 amounted to €12,013 thousand. A breakdown between current and deferred taxation is provided below:

(€000)	2005	2006	Increase/(Decrease)
Current taxation	10,845	12,368	1,523
Deferred taxation	398	(265)	(663)
Total income taxes	**11,243**	**12,103**	**860**

During the year, in keeping with the underlying transactions, deferred tax assets of €2,192 and deferred tax liabilities of €15 thousand were recognised directly in equity.

In 2006, the Parent Company was subject to a statutory tax rate (share of pre-tax income payable to tax authorities) of 37.5%, based on the corporate income tax (IRES) and regional business tax (IRAP) rates applicable to the reported taxable income for the period ended 31 December 2006. For foreign subsidiaries the statutory tax rate varies from country to country. The table below shows a reconciliation between the expected and effective tax rates paid by the Parent Company.

Reconciliation between expected and effective tax rates

		2005					2006			
Expected IRES rate		33.00%					33.00%			
Expected IRAP rate		4.50%					4.50%			
(€000)	**Taxable profit**	**IRES**	**IRAP**	**Total**	**% IRES on pre-tax profit**	**Taxable profit**	**IRES**	**IRAP**	**Total**	**% IRES on pre-tax profit**
Income tax										
- Current		7,193	3,652	10,845			8,116	4,252	12,368	
- Deferred - cost (income)		494	(96)	398			(329)	64	(265)	
[A] TOTAL INCOME TAX		**7,687**	**3,556**	**11,243**	**35.35%**		**7,787**	**4,316**	**12,103**	**37.64%**
PRE-TAX PROFIT	21,748					20,689				
+ Tax calculated using local tax rate		7,177			33.00%		6,827			33.00%
+ Tax effect of expenses/revenues that are not deductible/taxable in determining taxable profit	1,742	576			2.65%	2,106	695			3.35%
- Tax effect on the different tax rates of foreign subsidiaries and on losses for the period of certain subsidiaries not recognised in the income statement	-	-			-	842	278			1.34%
- Decrease/increase in initial deferred tax assets/liabilities due to changes in tax rates	(182)	(59)			(0.27%)	-	-			-
- Other differences	(21)	(7)			(0.03%)	(39)	(13)			(0.06%)
[B] Effective tax charge and tax rate	**23,288**	**7,687**			**35.35%**	**23,598**	**7,787**			**37.64%**

5.18 Net profit from discontinued operations

Turbo Air S.p.A.'s plastics division was spun off in December 2006. The transaction was carried out for the following reasons: the plastics division is small in size; plastics moulding and mould manufacturing technology is not of strategic importance; specific expertise is required to run the plastics division profitably. The division was thus transferred to a established company set up for the specific purpose and sold.

The 2006 results of the plastics division are shown separately in the table below. The impact of the individual cost and revenue items was eliminated from the consolidated income statement for the period ended 31 December 2006 and the revenues and costs so eliminated were grouped in a single item, in accordance with IFRS 5.

(€000)	**20 06**
Revenue	1,974
Changes in inventories of finished and semi-finished goods	50
Increase in self-constructed assets	14
Raw and consumable materials	(1,144)
Service expense	(316)
Staff costs	(589)
Amortisation and depreciation	(159)
Other operating expenses and provisions	(55)
Operating profit/(loss) from discontinued operations	(225)
Taxation	55
Net profit/(loss) from discontinued operations	(167)

5.19 Profit attributable to minority interest

The profit attributable to minority interest relates to those subsidiaries not wholly owned by the Elica Group. They include Fox I.F.S. (minority interest 30%), Fime S.p.A. (0.009%), Fime Polska S.p.z.oo (0.009%) and Ariafina Co Ltd. (minority interest 49%).
For further information, reference should be made to the notes in Paragraph 5.44.

5.20 Basic earnings per share – Diluted earnings per share

Basic earnings per share (EPS) from continuing and discontinued operations amounted to €15.83 at 31 December 2006 (€19.96 in 2005), while 2006 EPS from continuing operations amounted to €16.15.
As indicated in note 5.18, the net loss on the disposal of assets related to the plastics moulding business sold in 2006.

Earnings per share were calculated by dividing the profit attributable to the shareholders of the Parent Company by the average number of shares outstanding.
The average used for 2006 was 52,603,622, following the issue of 12,500,000 new shares, ranking on a parity with existing shares as to dividends, at the time of the IPO. In 2005 there were 50,822,800 shares outstanding.

No dilutive instruments have been issued.

5.21 Other information about income statement items

The cost of sales amounted to €324,035 thousand in 2006 (€276,475 thousand in 2005).

Research and development costs recognised directly in the income statement for 2006 are summarised below:

(€000)	2005	2006	Increase/(Decrease)
R&D costs expensed	6,455	6,966	511
Amortisation of capitalised R&D costs	602	637	35
Total R&D costs	**7,057**	**7,603**	**546**
R&D costs capitalised during the year	**329**	**824**	**495**

CONSOLIDATED BALANCE SHEET

5.22 Property, plant and equipment

The table below shows details of the changes in property, plant and equipment in 2005 and 2006.

Property, plant and equipment *(€000)*	1 Jan 2005	Additions	Disposals	31 Dec 2005
Historical cost				
Land and buildings	36,235	1,051	(282)	37,004
Plant and machinery	65,358	4,501	(1,769)	68,090
Industrial and commercial equipment	66,219	6,275	(1,524)	70,970
Other assets	9,988	769	(585)	10,172
Assets under construction and advances	280	1,158	(97)	1,341
Total	**178,080**	**13,754**	**(4,257)**	**187,577**

(€000)	1 Jan 2005	Additions	Disposals	31 Dec 2005
Accumulated depreciation				
Land and buildings	6,571	1,107	(267)	7,411
Plant and machinery	46,494	5,192	(1,243)	50,443
Industrial and commercial equipment	53,721	6,306	(1,239)	58,788
Other assets	8,035	799	(472)	8,362
Total	**114,821**	**13,404**	**(3,222)**	**125,004**

(€000)	1 Jan 2005	Additions	Disposals	Depreciation	31 Dec 2005
Carrying amount					
Land and buildings	29,664	1,051	(15)	(1,107)	29,593
Plant and machinery	18,864	4,501	(526)	(5,192)	17,647
Industrial and commercial equipment	12,498	6,275	(285)	(6,306)	12,182
Other assets	1,953	769	(113)	(799)	1,810
Assets under construction and advances	280	1,158	(97)	-	1,341
Total	**63,259**	**13,754**	**(1,036)**	**(13,404)**	**62,573**

Property, plant and equipment *(€000)*	1 Jan 2006	Additions	Disposals	Other changes	31 Dec 2006
Historical cost					
Land and buildings	37,004	6,375	(14,956)	15,923	44,346
Plant and machinery	68,090	6,146	(3,211)	4,741	75,766
Industrial and commercial equipment	70,970	5,713	(1,031)	2,188	77,840
Other assets	10,172	1,300	(682)	397	11,187
Assets under construction and advances	1,341	5,458	(32)	26	6,793
Total	**187,577**	**24,992**	**(19,912)**	**23,275**	**215,932**

(€000)	1 Jan 2006	Additions	Disposals	Other changes	31 Dec 2006
Accumulated depreciation					
Land and buildings	7,411	1,400	(172)	217	8,856
Plant and machinery	50,443	5,268	(954)	(2)	54,755
Industrial and commercial equipment	58,788	6,823	(862)	32	64,781
Other assets	8,362	767	(595)	(1)	8,533
Total	**125,004**	**14,258**	**(2,583)**	**246**	**136,925**

(€000)	1 Jan 2006	Additions	Disposals	Other changes	Depreciation	31 Dec 2006
Carrying amount						
Land and buildings	29,593	6,375	(14,784)	15,706	(1,400)	35,490
Plant and machinery	17,647	6,146	(2,257)	4,743	(5,268)	21,011
Industrial and commercial equipment	12,182	5,713	(169)	2,156	(6,823)	13,059
Other assets	1,810	1,300	(87)	398	(767)	2,654
Assets under construction and advances	1,341	5,458	(32)	26	-	6,793
Total	**62,573**	**24,992**	**(17,329)**	**23,029**	**(14,258)**	**79,007**

The carrying amount of €79,007 thousand at 31 December 2006 represents a net increase of €16,434 thousand on the €62,573 thousand at 31 December 2005

The investments made in the period mainly regarded the upgrading of facilities, improvements to the manufacturing plant and machinery, the acquisition of new mouldings and equipment for the launch of new products.
The start-up of new ventures in Poland and Mexico involved investments totalling €5,251 thousand in land and buildings, including €5,182 thousand to buy the land and the plant in Mexico. Assets under construction and advances amounted to €5,458 thousand and included €1,568 thousand for the construction of the new head office in Fabriano and €3,356 thousand for the renovation and restructuring of the manufacturing facilities acquired in Poland. Improvement of the Polish production facilities continued, with the purchase of property, machinery and equipment for €228 thousand, as did the activities to commence operations in the Mexican plant, with investment amounting to €2,768 thousand.

"Disposals" mainly consist of amounts relating to the contribution in kind of Turbo Air S.p.A.'s property division to Camino Immobiliare S.r.l.. Reference should be made to note 5.46 C- Transfer of property division to Camino Immobiliare for further information; the remaining disposal refers to the sale of another Turbo Air S.p.A. plant in the last quarter of 2006. Reference should be made to section 8 – Positions or changes arising from exceptional and/or unusual transactions for further information.

"Other changes", regarding the historical cost of land and buildings, includes €1,082 thousand relating to the allocation of the fair value to the buildings owned by Jet Air S.r.l. after the acquisition of the remaining 40% of that company.
The €217 thousand in "Other changes" in the accumulated depreciation of land and buildings includes €213 thousand in depreciation calculated on the additional amount for the period ended 31 December 2005.

For further information on the effect of the transaction on the financial conditions and cash flows, reference should be made to note 5.46 B – Acquisition of the remaining 40% of Jet Air S.r.l..

The remaining balance of "Other changes" includes amounts resulting both from the acquisition of the Turbo business - as described in section 1 above (see note 5.46 A- Acquisition of Turbo business for further information) – and from the first-time consolidation of Ariafina Co Ltd (for further information, refer to Note 5.465 D- Acquisition of majority interest in Ariafina Co Ltd.).

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

It is worthy of note that property, plant and equipment includes assets obtained under finance lease agreements.
Details of the historical cost, accumulated depreciation and depreciation charged to the income statement in the period as a result of application of the method recommended by IAS no 17 for the accounting treatment of assets held under finance lease agreements are provided below.

Assets held under finance lease agreements

Components of property, plant and equipment held under finance lease agreements *(€000)*	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other assets	Total
Gross value	16,457	12,253	6,810	714	36,234
Accumulated depreciation	(3,125)	(6,168)	(3,785)	(602)	(13,680)
31 December 2005	**13,332**	**6,085**	**3,025**	**112**	**22,554**
Depreciation for the year ended 31 December 2005	*494*	*1,726*	*1,042*	*63*	*3,325*
Gross value	16,496	12,199	6,912	713	36,320
Accumulated depreciation	(3,620)	(7,695)	(4,899)	(659)	(16,873)
31 December 2006	**12,876**	**4,504**	**2,013**	**54**	**19,447**
Depreciation for the year ended 31 December 2006	*495*	*1,527*	*1,114*	*57*	*3,285*

Historical cost was used, instead of fair value, to report property, plant and equipment after initial recognition.

Historical cost includes pre-existing revaluations made in accordance with the law, as these were considered to reflect the fair value of the property, plant and equipment at the time such revaluations were made.

5.23 Goodwill

(€000)	31 Dec 2005	31 Dec 2006	Increase/(Decrease)
Goodwill recorded by subsidiaries	9,635	12,208	2,573
Goodwill arising on consolidation	17,174	17,174	-
Total	***26,809***	***29,382***	***2,573***

Goodwill is tested every year for impairment, or more frequently if there are indicators of any such impairment. For the purposes of such test, on first-time adoption of IAS/IFRS goodwill of €27,734 thousand was allocated to different Cash Generating Units (CGU), that is "Motors" (€22,667 thousand), "Fox Design third-party brands" represented by the subsidiary, Fox Design S.p.A. (€4,142 thousand), and "Transformers" (€925 thousand), which was written off at the time of transition to IFRS (1 January 2004).

The increase of €2,573 thousand in 2006 regards goodwill arising on the acquisition of the Turbo business as previously described. Further information is provided in note 5.46. This goodwill was allocated to "Turbo Air third-party brands" for €1,160 thousand and to "Turbo Air own brands" for the remaining amount. Goodwill was first tested for impairment at the time of the business combination with Turbo Air and no exceptions were raised as to its recognition.

Details of the allocations are provided below:

(€000)	31 Dec 2005	31 Dec 2006	Increase/(Decrease)
Cost per CGU			
Motors	22,667	22,667	-
Turbo Air own brands	-	1,413	1,413
Turbo Air third-party brands	-	1,160	1,160
Fox Design third-party brands	4,142	4,142	-
Total carrying amount of goodwill	**26,809**	**29,382**	**2,573**

On 26 February 2007 the supplementary and final agreement to acquire Turbo Air was signed. This marked finalisation of the acquisition price, which called for a fixed part and for a variable portion, to be determined on the basis of the operating and financial performance of the business during the first half of the year. In addition, the review of the assets and liabilities acquired, to determine their fair value under IFRS 3, was completed by the independent consultants retained by the Company.
Therefore, the total cost of the Turbo acquisition and the resulting goodwill were finally established at the time these financial statements were prepared. Both had been provisionally recognised in the interim reports, in accordance with prevailing GAAP, on the basis of the best estimate of the fulfilment of contractual conditions and the fair value of the assets and liabilities acquired.
Adjustments to the acquisition cost and the allocation of fair value were offset by changes in goodwill.

The recoverable value of a CGU is based on the calculation of its value in use. Such calculation involves the discount to present value of the cash flows projected by the respective CGUs over a time horizon of five years, three of which reflecting the period covered by the three-year operational plan and the remaining two year pro forma assessment.
The cash flows utilised to estimate the recoverable value of the CGUs have been derived from the medium-term plan prepared in accordance with management's forecasts and expectations, which are based on past experience and are in keeping with market trends. On the other hand, the cash flows related to the fourth and fifth year were extrapolated assuming a 2% growth rate, which reflects the expected rate of inflation for the medium term.
The expected cash flows were discounted to present value at a weighted average cost of capital (WAAC) of 7.4% (risk free rate of 4%) for all the CGUs. The terminal value of the CGUs was determined by assuming long-term cash flows equivalent to the EBITDA of the first year of the plan multiplied by a factor of 6.77 for all the CGUs ("Third-party brands", "Own brands", "Motors", and "other assets"), as calculated following an analysis of comparable businesses.

Goodwill was tested for impairment on 31 December 2005 and 31 December 2006 and was found unimpaired.

5.24 Other intangible assets

The table below shows details of changes in other intangible assets in 2005 and 2006.

Intangible assets *(€000)*	1 Jan 2005	Additions	Disposals	Amortization	31 Dec 2005
Book value, net					
Development costs	1,414	329	-	(602)	1,141
Patents and intellectual property rights	1,239	801	-	(884)	1,156
Concessions, licenses, brands and similar rights	154	48	-	(43)	159
Assets under construction and advances	16	229	(9)		236
Other intangible assets	286	206	-	(151)	341
Total	**3,109**	**1,613**	**(9)**	**(1,680)**	**3,033**

Intangible assets *(€000)*	1 Jan 2005	Additions	Disposals	Increase/(Decrease)	Amortization	31 Dec 2005
Carrying amount						
Development costs	1,141	824	(225)	-	(637)	1,103
Patents and intellectual property rights	1,156	976	(1)	174	(1,100)	1,205
Concessions, licenses, brands and similar rights	159	44	-	-	(46)	157
Assets under construction and advances	236	601	(4)	-	-	833
Other intangible assets	341	394	(140)	27	(169)	453
Total	**3,033**	**2,839**	**(370)**	**201**	**(1,952)**	**3,751**

At 31 December 2006, intangible assets amounted to €3,751 thousand, an increase of €718 thousand on the previous year.

The "Other changes" column includes the opening balances recorded upon the acquisition of the Turbo business and upon the first-time consolidation of Ariafina Co Ltd.

"Development costs" regards product design and development activities. The increase mainly relates to the cost of developing new products. Development costs are amortised on a straight-line basis over a five-year period.
"Patents and intellectual property rights" includes patents and royalties regarding the recognition of patents, intellectual property rights and software programs. The increase for the period mainly relates to the acquisition of licenses to technical software programs and the continuous upgrading of technical and management reporting software (SAP, TXT). Patents and intellectual property rights are amortised over a three-year period.

"Concessions, licenses, brands and similar rights" regards the registration of brands by Group companies.
"Assets under construction and advances" includes advances paid on software implementation projects. The increase of €601 thousand for the year related mainly to the design and development of a new and innovative electronic platform and the relevant IT system.

"Other intangible assets" mainly consists of shared costs regarding the development of mouldings.
The method applied to amortize intangibles is considered appropriate to reflect the remaining useful life of the assets

5.25 Investments in associates and joint ventures

The table below shows changes in investments in associates and joint ventures.

(€000)	**31 Dec 2005**	**Acquisitions or subscriptions**	**Other Changes**	**Revaluations/ (Impairments)**	**31 Dec 2006**
Carrying amount					
Investments in associates and joint ventures	3,641	1,916	(450)	809	5,916
Total	**3,641**	**1,916**	**(450)**	**809**	**5,916**

The amount of €1,916 thousand in the Acquisitions column includes €102 thousand, relating to the acquisition of an investment in Immobiliare Camino S.r.l. – the company to which the property portfolio of subsidiary Turbo Air S.p.A. was transferred (see Note 5.46 for more detailed information), €1,759 thousand, regarding the increase in the investment in Roal Electronics S.p.A., following a share capital increase effected by means of the early conversion of convertible bonds (see Note 5.26 for further information), while the remaining amount of €55 thousand reflects a supplementary payment made in connection with the acquisition of ISM S.r.l..

The €450 thousand entered in the other changes column is related to the reclassification of the carrying value of Ariafina Co. Ltd. (equivalent to €353 thousand, which was increased by €97 thousand during the year due to the recognition of the share of the attributable pre-acquisition profits, until May 2006).

Revaluations/(Impairments), totalling €809 thousand, include adjustments made to the investments accounted for using the equity method during the period. This valuation led to revaluations totalling €26 for Immobiliare Camino S.r.l., €136 thousand (€234 thousand in 2005) for Roal Electronics S.p.A., €241 thousand (impairment of €229 thousand in 2005) for I.S.M. S.r.l., and €310 thousand (impairment of €51 thousand in 2005) for Air Force S.p.A..

For further information about the main operating and financial data of associates and joint ventures and about their dealings with the Group, reference should be made to section 7.

The following table contains details of the carrying amount of investments in associates and joint ventures at 31 December 2006.

Associates and joint ventures

(€000)	Acquisition cost	Share of post-acquisition profits (less dividends)	Balance at December 31, 2005	Acquisition cost	Share of post-acquisition profits (less dividends)	Balance at December 31, 2006
Airforce S.p.A.	910	(563)	347	910	(252)	658
Ism S.r.l.	1,845	(352)	1,493	1,899	(112)	1,787
Projet S.r.l.	6	-	6	6	-	6
Roal Electronics. S.p.A.	1,304	138	1,442	3,063	274	3,337
Immobiliare Camino S.r.l.	-	-	-	102	25	127
Inox Market Mexico S.a.de C.V.	-	-	-	1	0	1
Sub-total	**4,065**	**(777)**	**3,288**	**5,981**	**(65)**	**5,916**
Joint ventures						
Ariafina Co Ltd (*)	42	311	353	-	-	-
Sub-total	**42**	**311**	**353**	**-**	**-**	**-**
Total	**4,107**	**(466)**	**3,641**	**5,981**	**(65)**	**5,916**

(*) In May 2006 the Group acquired a majority interest in AriafinaCo. Ltd which, as a result, is included in the basis of consolidation.

5.26 Other financial assets

At 31 December 2006 this item amounted to €180 thousand (€1,748 thousand at 31 December 2005). The gross decrease of €1,568 thousand was due to the conversion, and removal from the accounts, of the convertible bonds issued by the associate, Roal Electronics S.p.A. (€1,598 thousand), and to the consolidation of Turbo (€30 thousand).

To this end, it is worthy of note that, in a Special General Meeting held on 21 April 2006, the shareholders of Roal Electronics S.p.A. resolved to reduce the company's share capital to €6,938 thousand to cover losses, in accordance with article 2446 of the Italian Civil Code. Eventually, on 28 April 2006, the Board of Directors resolved to increase the share capital to €16,606 thousand by converting the full amount of the convertible bonds of €9,668 thousand into shares.

The €180 thousand included €150 thousand (the same amount at December 31, 2005) in bonds issued by Aerdorica S.p.A. (see note 5.29), a company in which the Parent Company holds a 7.7% interest, maturing on December 31, 2008 and carrying a rate of interest linked to Euribor, payable every six months.
The balance includes financial assets acquired with the Turbo business, primarily consisting of an insurance investment of €30 thousand.

5.27 Other receivables

Details of this item are as follows:

(€000)	31 Dec 2005	31 Dec 2006	Increase/(Decrease)
Due from employees	1,295	1,262	(33)
Other receivables	12	194	182
Total	**1,307**	**1,456**	**149**

The amount "due from employees" includes amounts receivable from employees for welfare contributions and tax deductions from the income of employees and freelance personnel. The withholding of these amounts was suspended after the earthquake in 1997

As of this writing, the competent ministries have granted a further postponement of collection and payment of these amounts until the end of 2007, with payment expected to resume in January 2008. In addition to these receivables from employees, the Company has corresponding payables due to tax authorities and welfare institutions as well as its own portion which are included under "Other payables" (see note 5.41).

These assets are recorded in the balance sheet under non-current assets at nominal value given their characteristics, their non contractual nature and the additional postponement granted by the competent ministries.

The amounts associated with the acquisition of the Turbo business totalled €11 thousand and related to security deposits. Other receivables include €177 thousand of security deposits relating to the premises rented by Ariafina Co Ltd.

5.28 Tax receivables – non-current

Details of non-current tax receivables are provided below:

(€000)	31 Dec 2005	31 Dec 2006	Increase/(Decrease)
IRPEF (employee income tax) paid in advance on termination indemnity	5	-	(5)
IRPEG and ILOR refunds receivable (corporate and local income taxes)	35	35	-
Other tax receivables	6	6	-
Total	**46**	**41**	**(5)**

5.29 Available-for-sale financial assets

This item regards investments held by the Elica Group in other companies. The investments are held in unlisted companies whose shares are not traded on a regulated market.
Therefore, as there were no purchases or sales of these shares in the last year, their fair value cannot be determined in a reliable manner. The only exception regards Carifac shares which are stated at their fair value at 31 December 2006 (unchanged compared to the fair value used at the time of the allocation of the cost of the acquisition of the Turbo business).

These investments are recognised at cost, as shown in the table below.

(€000)	31 Dec 2005	31 Dec 2006	Increase/(Decrease)
Meccano S.p.A.	16	16	-
Kappe & Kappe Falmec S.r.l.	73	73	-
UnifabrianoSoc. S.r.l.	2	2	-
Consorzio Energia	2	2	-
Aerdorica S.p.A.	-	-	-
Carifac	-	152	152
Cedec	-	4	4
Other minor investments	1	2	1
Total	**94**	**251**	**157**

This item rose by €157 thousand, due mainly to €152 thousand attributable to the CARIFAC shares (derived from the purchase of the Turbo business), as well as to other minor investments of €4 thousand.

The investment in Aerdorica was written off, with a charge of €195 thousand in 2006, following an impairment of €607 thousand in 2005.
During the year, an equity injection of €195 thousand was made (equity interest of 7.7%). The investment in this company is held indirectly through a fiduciary company.
The remaining increase of €4 thousand regards the investment made upon joining the CECED Italia Consortium, an association of domestic appliance manufacturers.

5.30 Trade receivables and loans

This item consisted of:

(€000)	31 Dec 2005	31 Dec 2006	Increase/(Decrease)
Trade receivables	87,589	105,245	17,656
Amounts due from associates	3,242	1,629	(1,613)
Total	**90,831**	**106,874**	**16,043**

Trade receivables rose by €16,043 thousand, due to the acquisition of Turbo (€12,443 thousand), the consolidation of Ariafina Ltd. (€717 thousand), and sales in the last quarter of 2006 that were higher than in the previous year.

This item does not include receivables due after more than five years at the period end.

Receivables are shown net of any provisions for doubtful debts made following an analysis of the credit risk on receivables and on the basis of historical data on credit losses, considering that a substantial portion of the receivables is insured by prime international insurance companies.
Management thinks that the reported amount reflects closely the fair value of receivables.
Provisions made during the year to approximate receivables to their expected realisable value amounted to €391 thousand.
Amounts due from associates arose from transactions that are commonly carried out by the Company. These are entered into on an arm's length basis and are of a commercial nature. Details are as follows:

(€000)	31 Dec 2005	31 Dec 2006	Increase/(Decrease)
Air Force S.p.A.	972	891	(81)
Ariafina Co Ltd	1,617	-	(1,617)
I.S.M. S.r.l.	297	275	(22)
Projet S.r.l.	30	-	(30)
Roal Electronics S.p.A.	326	463	137
Total	**3,242**	**1,629**	**(1,613)**

The decrease in the amount due from associates is due mainly to the elimination of the receivables outstanding with Ariafina Co. Ltd., as this company entered the basis of consolidation from 28 May 2006.

At 31 December 2005, the amount due from Projet S.r.l. and Air Force S.p.A. included interest-bearing loans provided by Elica of €30 thousand and €51 thousand, respectively, and repaid during the year.

5.31 Inventories

(€000)	31 Dec 2005	31 Dec 2006	Increase/(Decrease)
Raw, ancillary and consumable materials	17,963	22,859	4,896
Valuation allowance for raw material inventory	(1,125)	(1,155)	(30)
Total	*16,838*	*21,704*	4,866
Work in process and semi-finished products	15,024	17,165	2,141
Valuation allowance for work in process and semi-finished products	(452)	(796)	(344)
Total	*14,572*	*16,369*	1,797
Finished products and goods for resale	9,970	11,811	1,841
Valuation allowance for finished products	(916)	(985)	(69)
Total	*9,054*	*10,826*	1,772
Advances	2	-	(2)
Carrying amount	**40,466**	**48,899**	**8,433**

Inventories recorded a gross increase of approximately €8,433 thousand. This included €3,861 from the acquisition of the Turbo business and €209 thousand relating to newly consolidated company Ariafina. This item also included €770 thousand of inventories at the Mexican plant, which commenced operations in November.

Inventories are stated net of provisions of approximately €2.9 million, in order to take into consideration the effect of waste, obsolete and slow moving items, components and semi-finished products no longer suitable for use. These provisions are based on management's estimates. During the year, additional provisions of approximately €443 thousand were made.

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

Recognition of the inventories at current value does not entail any difference from recognition with the average weighted cost method.

5.32 Other receivables

Details of this item are as follows:

(€000)	31 Dec 2005	31 Dec 2006	Increase/(Decrease)
Other receivables	1,218	5,417	4,199
Accrued income and prepaid expenses	228	367	139
Total	**1,446**	**5,784**	**4,338**

The increase on the comparable amount at 31 December 2005 was due to the inclusion of Turbo in the basis of consolidation (€993 thousand) and to advance payments to suppliers (€2.8 million), in connection with the new international undertakings. The balance pertains to advances paid to suppliers for services, security deposits on packaging, customs duty reimbursement receivable, as well as approximately €0.5 million due from insurance companies.

Accrued income and prepaid expenses included €25 thousand contributed by the Turbo business. Other receivables do not include any amounts due after more than five years at the balance sheet date.

5.33 Tax receivables - Current

Details of current tax receivables are provided below:

(€000)	31 Dec 2005	31 Dec 2006	Increase/(Decrease)
IRAP (regional business tax)	502	436	(66)
VAT	4,783	5,630	847
Other tax receivables	118	135	17
Total	**5,403**	**6,201**	**798**

VAT and other indirect foreign tax receivables rose by €847 thousand, mainly as a result of the VAT credit of ElicaMex (€1,093 thousand at 31 December 2006). The balance is related to the amounts due to the Italian companies.

In the first half of 2006, the Parent Company got the refund of the 2004 VAT receivable of €3,000 thousand, which had been requested for reimbursement in 2005. The amount receivable in relation to IRAP resulted form advance payment in excess of the sum due for the year. Lastly, it should be noted that the Italian consolidated companies participate in the "consolidated tax" system.

5.34 Derivative financial instruments

(€000)	31 Dec 2005		31 Dec 2006	
	Assets	Liabilities	Assets	Liabilities
Foreign exchange derivatives	2	10	96	-
IRS	-	329	-	89
Total	**2**	**339**	**96**	**89**
Including				
Non-current	-	136	-	10
Current	2	203	96	79
Total	**2**	**339**	**96**	**89**

Foreign exchange derivatives

The amounts shown in the table refer to foreign exchange derivatives outstanding at the balance sheet date and to the IRS linked to a property lease contract expiring on 30 July 2010. At 31 December 2006, foreign exchange derivatives included a number of USD options. These consist of zero-cost collar structures involving the purchase of a put option funded by the sale of a call option, both of them out of the money. This type of structure allows a hedging corridor to be fixed and involves a maximum USD commitment equivalent to the underlying of the funding option (call), which generally has twice the leverage as the underlying of the hedge option (put).

The notional value of currency options at December 31, 2006 was USD3.8 million. Although these transactions are intended to hedge the exchange risk relating to forward sales, under IFRS, they do not qualify for hedge accounting treatment and have been recognised at fair value through financial income and charges.

Therefore, at December 31, 2005, the net fair value of foreign exchange derivative instruments arranged by the Group was estimated at a net positive amount of €96 thousand. This amount was determined based on market conditions at December 31, 2006 and was recorded, in accordance with the matching principle, in the income statement with a liability shown for the payment of derivative instruments.

Interest rate swaps

The Group was party to two interest rate swaps – a plain vanilla fixed vs. floating swap linked to the repayment plan for a property lease agreement entered into by Elica S.p.A. - and an Atlantic collar swap linked to the 3-month US Dollar Libor rate to hedge Fime S.p.A.'s borrowings.
Given the financial characteristics of the first instrument, the plain vanilla IRS has been treated as a cash flow hedge and has proved effective.
The fair value of this IRS at 31 December had decreased by €26 thousand (a decrease of €73 thousand at the end of 2005). In accordance with IFRS, the gross change of €47 thousand was recognised in equity, net of the underlying tax effect.

For the Atlantic IRS, considering the structure of Fime's debt and the presence of a collar, all of the elements required by IFRS for it to qualify as a hedging instrument are not present and hedge accounting cannot be used, even though it was designed to hedge interest rate risk. Therefore, this derivative has been recognised at fair value (a decrease of €63 thousand at 31 December 2006 and of €257 thousand at 31 December 2005) in the income statement as a finance cost.

At 31 December 2006, the notional value of IRS agreements in place was around €9.7 million.

5.35 Cash and cash equivalents

(€000)	31 Dec 2005	31 Dec 2006	Increase/(Decrease)
Bank and post office accounts	18,266	29,214	10,948
Cash and cash equivalents	50	120	70
Total	**18,316**	**29,334**	**11,018**

This item reflects positive balances held in bank current accounts and cash on hand. The increase was due to a different make-up of the net cash/debt position. The book value of these assets reflects their fair value.
For further information, reference should be made to comments on net debt in the Directors' Report on Operations and to the consolidated cash flow statement.

Credit risk

The Group's credit risk essentially relates to its trade receivables. The amount stated in the balance sheet is net of provisions for bad debts, estimated by the Group's management based on past experience and its assessment of the current economic situation.
The credit risk relating to cash and cash equivalents and derivative financial instruments is limited as the counterparties are banks with a high ratings assigned by leading international rating agencies.
The Group follows a thorough policy of arranging insurance cover for its credit risk relating to trade receivables so its risk is fairly limited.

5.36 Liabilities for post-retirement benefits

The Elica Group reports obligations of €13,288 thousand, reflecting the present value of its retirement benefit obligations accruing at the period end in favour of employees of the Group's Italian companies and representing termination benefits at the end of the period.

The most recent actuarial calculations of the present value of the provision were performed at 31 December 2006 by Mercer Human Resource Consulting S.r.l., with a projection of the expected cost at 31 December 2007.
The amounts recognised in the income statement may be summarised as follows:

(€000)	**Balance at 31 December 2005**	**Balance at 31 December 2006**	**Increase/(Decrease)**
Cost of current retirement benefits	1.964	2.582	618
Net actuarial losses recognised for the period	3	103	100
Finance costs	483	651	168
Total	**2,450**	**3,336**	**886**

The changes for the period regarding the present value of retirement benefit obligations were as follows:

(€000)	**31 December 2006**
Opening balance	10,679
Acquisition of Turbo business	3,148
	13,827
Cost of current retirement benefits	2,582
Net actuarial losses recognised for the period	103
	2,685
Finance costs	651
Benefits paid	(3,923)
Transfer to Immobiliare Camino S.r.l.	(12)
Total	**13,228**

The Group decided to use the corridor method. Under this method it may elect not to recognise actuarial gains or losses, where these do not exceed 10% of the present value of the defined benefit obligation. Accordingly, actuarial losses totalling €2,633 thousand were not recognised at 31 December 2006 (€3,083 at December 31, 2005).

Lastly, the Group shows the interest component of the charge relating to employee defined-benefit schemes under financial charges, with a resulting increase of €651 thousand in this item for the period. The cost of current retirement benefits and net actuarial losses were recorded under staff costs.

The 2007 Finance Bill and the relevant implementation decrees have introduced significant amendments to the law on staff termination benefits, effective 1 January 2007. Under the new provisions, staff may opt to transfer the amounts to which they are entitled to pension funds selected by them personally or to keep the funds with their employer (in which case, contributions for staff termination benefits will be credited to an account held by INPS, the national social security institution). Currently, the interpretation uncertainties concerning the new law, the possible different interpretations of the recognition rules under IAS 19 of future staff termination benefits and the resulting changes in the actuarial calculations for accrued staff termination benefits, as well as the inability to estimate possible staff elections concerning the allocation of future termination benefits (the deadline for which is 30 June 2007), make any change in the actuarial calculation of staff termination benefits accrued at 31 December 2006 premature.

Assumptions adopted for the calculation

(€000)	**31 December 2005**	**31 December 2006**
Discount rate to determine the obligation	4.00%	4.50%
Expected salary growth rate	2.43%	2.50%
Rate of inflation	2.00%	2.00%
Discount rate to determine pension cost	4.50%	4.00%

At 31 December 2006 the Company had 2.113 employees (1,814 in 2005). A breakdown is provided below:

Headcount	**31 December 2005**	**31 December 2006**	**Increase/(Decrease)**
Executives	23	30	7
Administrative staff	352	415	63
Manual workers	1.401	1.623	222
Other	38	45	7
Total	**1.814**	**2.113**	**299**

5.37 Provisions

Details of this item are as follows:

(€000)	31 Dec 2005	Provisions	(Uses)	31 Dec 2006
Supplementary agent termination benefits	1,411	683	(368)	1,726
Directors' termination benefits	108	-	-	108
Restructuring provisions	-	412	(412)	-
Provisions for risks	250	71	-	321
Product warranty provisions	504	332	-	836
Total	**2,273**	**1,499**	**(780)**	**2,991**

(€000)	31 Dec 2005	Provisions	(Uses)	31 Dec 2006
Including				
Non-current	1,769			2,155
Current	504			836
Total	**2,273**			**2,991**

The supplementary agent termination benefits are intended to cover possible charges upon termination of relations with agents and sales representatives. The utilisation of provisions during the period was triggered by the termination of several agency relationships following the strengthening of the strategic business area of the own brand product sales.

The Directors' termination benefits regard the termination benefits for the Parent Company's Executive Chairman.

The restructuring provisions, regarding the electric motor division included in the Turbo business, have been fully utilised following completion of the transfer and integration with Fime S.p.A..

The provisions for risks relates to likely impairments and charges to be incurred as a result of ongoing legal disputes. The provisions have been determined based on the best possible estimates, considering the available information.
The increase of €71 thousand for the year was due to provisions made, reflecting the best estimate of likely repayments of capital grants received, for which notice from the granting institutions is pending. The estimate was made on the basis of a prudent application of the related laws.

Product warranty provisions 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 Group as a percentage of sales still covered by warranty.

5.38 Deferred tax assets – Deferred tax liabilities

At 31 December 2006, details of deferred tax assets and liabilities, determined on the basis of the asset-liabilities method, were as follows:

(€000)	31 Dec 2005	31 Dec 2006	Increase/(Decrease)
Deferred tax assets	3,325	6,305	2,980
Deferred tax liabilities	(8,995)	(10,357)	(1,362)
Net deferred tax liabilities	**(5,670)**	**(4,052)**	**1,618**

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

(€000)	**31 Dec 2005**	**31 Dec 2006**	**Increase/(Decrease)**
Provisions, non-tax-deductible risks	1,704	2,325	621
Elimination of goodwill amortisation	528	823	295
Elimination of intercompany profits	233	388	155
Tax losses carried forward	59	800	741
Other deductible timing differences	801	1,969	790
Total deferred tax assets	**3,325**	**6,305**	**2,980**

Accelerated depreciation	3,264	3,368	104
Impact of IAS 19 (staff termination benefits)	1,352	1,553	201
Effect of IAS 17 (Leases)	2,053	2,008	(45)
Deferred gains on disposals	444	1,049	605
Elimination of amortisation/depreciation (goodwill and land)	630	773	143
Fair value adjustments on business combination	1,204	1,495	291
Other deferred tax liabilities	48	111	63
Total deferred tax liabilities	**8,995**	**10,357**	**1,362**

The increase in deferred tax assets related mainly to deferred tax assets on IPO costs recognised in equity, as required by IAS/IFRS. These deferred tax assets will be reversed over the next five years.

5.39 Amounts due under finance leases and other borrowings

Amounts due under finance leases and other borrowings	**Minimum payments due under finance lease agreements and other loans**		**Present value of minimum payments due under finance lease agreements and other loans**	
(€000)	**31 December 2005**	**31 December 2006**	**31 December 2005**	**31 December 2006**
Due within 12 months	4,169	3,624	3,524	3,109
Due between one and five years	11,195	10,608	9,762	9,617
Due after more than five years	2,963	-	2,963	-
	18,327	**14,232**	**16,249**	**12,726**

Amounts due under finance leases and other borrowings (cont'd)	**Minimum payments due under finance lease agreements and other loans**		**Present value of minimum payments due under finance lease agreements and other loans**	
(€000)	**31 December 2005**	**31 December 2006**	**31 December 2005**	**31 December 2006**
Less future finance costs	2,078	1,506	n/a	n/a
Present value of obligations under finance leases	**16,249**	**12,726**	16,249	12,726
Less obligations due within one year			3,524	3,109
Amounts due after more than a year			**12,725**	**9,617**

Amounts due under finance leases relate to buildings, plant, machinery, equipment and other assets. The present value of the minimum payments due at 31 December 2006 was €7,609 thousand (€1,059 thousand due within 12 months) for buildings, €2,919 thousand (€1,264 thousand due within 12 months) for plant and machinery, €2,159 thousand (€747 thousand due within 12 months) for equipment and €24 thousand (€24 thousand due within 12 months) for other assets.
The interest rates are linked to one-month or three-month Euribor and are set at the date the finance lease agreement is signed. All finance lease agreements involve a fixed repayment plan and there is no contractual provision for rescheduling the debt.
As already mentioned, we highlight the use of an IRS designated and effective as a cash flow hedge which is linked to a finance lease agreement. As described in note 5.34, this instrument has a negative fair value of €26 thousand.
The remaining borrowings totalled €16 thousand at 31 December 2006 (including €16 thousand within 12 months) and €121 thousand in 2005 (€107 thousand within 12 months). These amounts mainly relate to amounts payable for the purchase of computer equipment financed by IBM Servizi Finanziari.

5.40 Bank borrowings and mortgages

(€000)	**31 December 2005**	**31 December 2006**	**Increase/(Decrease)**
Bank borrowings	4,159	5,656	1,497
Mortgages	26,453	13,242	(13,211)
Total	**30,612**	**18,898**	**(11,714)**
Bank borrowings and mortgages are due as follows:			
On demand or within 12 months	12,147	11,284	(863)
Between one and two years	6,035	1,797	(4,238)
Between two and three years	6,106	1,808	(4,298)
Between three and four years	4,930	654	(4,276)
Between four and five years	291	635	344
Beyond five years	1,103	2,720	1,617
Total	**30,612**	**18,898**	**(11,714)**
Less amount due within 12 months	12,147	11,284	(863)
Amount due after more than a year	**18,465**	**7,614**	**(10,851)**

All bank borrowings and mortgages are denominated in euros.

The main borrowings indicated above carry a floating rate of interest. While it is exposed to interest rate risk, the Group does not systematically hedge its exposure as, given the expectations of constantly generated cash flows, it is constantly inclined to repay early its bank loans, thus eliminating the need for any such hedge.

The acquisition of the Turbo business and the subsequent transfer of its property portfolio to Immobiliare Camino S.r.l. resulted in a net increase of €7,334 thousand in this item at 31 December 2006 (including €3,328 thousand due after more than a year); this is net of repayments already made prior to 31 December 2006. Reference should be made to Note 5.46 A- Acquisition of Turbo business and C- Transfer of property division to Immobiliare Camino for further information.

Lastly, it is worthy of note that the proceeds received from the IPO were used in part for the early repayment of bank borrowings and mortgages, totalling €17.4 million and €2.7 million, respectively.

5.41 Sundry and other payables

Other payables (non-current)

(€000)	31 Dec 2005	31 Dec 2006	Increase/(Decrease)
Other payables	2	2	-
INAIL contributions – earthquake suspension 1997	303	303	-
INPDAI contributions – earthquake suspension 1997	158	158	-
Employee INPS contributions – earthquake 1997	3,554	3,545	(9)
Freelance INPS contributions – earthquake 1997	17	17	-
Total	**4,034**	**4,025**	**(9)**

Other non-current payables includes amounts due to welfare and social security institutions (INAIL, INPDAI and INPS) in relation to social contributions not withheld as a result of measures introduced in relation to areas hit by earthquake in 1997. They also include the Company's share of welfare and tax liabilities accruing during the period covered by the suspension. Given the nature of these amounts and, in particular, their non contractual nature and the further recent postponement of payment granted by the competent Ministries until the end of 2007 with payments expected to resume on January 1, 2008, the amounts in question are stated under non current liabilities at nominal value.

Other payables (current)

(€000)	31 Dec 2005	31 Dec 2006	Increase/(Decrease)
Due to social security institutions	3,397	3,928	531
Other payables	451	385	(66)
Due to staff – remuneration	5,947	6,933	986
Due to customers	329	622	293
(€000) – cont'd -	31 Dec 2005	31 Dec 2006	Increase/(Decrease)
Accrued expenses and deferred income	175	483	308
Advances from customers	311	503	192
Due to Board of directors and Board of statutory auditors	23	321	298
Payable for acquisition of Turbo business	-	2,847	2,847
Total	**10,633**	**16,022**	**5,389**

This item increased by €5,389 thousand, including around €4,214 thousand due to the acquisition of the Turbo business. This increase mainly consisted of the balance of the debt for the Turbo business acquisition (€2,849 thousand), amounts due to staff (€828 thousand), and amounts due to social security institutions (€513 thousand).

Accrued expenses and deferred income includes €214 thousand from the Turbo business in relation to deferred income on government grants related to property, plant and equipment and €21 thousand of accrued loan interest expenses.

5.42 Current and non-current tax liabilities

Tax liabilities (non-current)

(€000)	31 Dec 2005	31 Dec 2006	Increase/(Decrease)
ILOR (former local income tax) payable – earthquake suspension	667	667	-
ICI (local property tax) payable – earthquake suspension	35	35	-
Advance on staff termination benefits – earthquake suspension	97	97	-
Flat tax payable – earthquake suspension	4	4	-
IRPEF (employees' income tax) payable – earthquake suspension	1,401	1,375	(26)
Property tax – earthquake suspension	1,867	1,867	-
Total	**4,070**	**4,045**	**(25)**

Non-current tax liabilities include amounts due to the tax authorities in respect of withholding tax and tax not withheld and not paid as a result of measures introduced in relation to areas hit by earthquake in 1997. They also include the Company's share of social security and tax liabilities accruing during the period covered by the suspension.
Taking account of the characteristics of the payables, their non-contractual nature and the repeated postponement granted by the competent Ministries – recently extended until the end of 2007 - these payables are recorded as non-current payables at nominal value.

Tax liabilities (current)

(€000)	31 Dec 2005	31 Dec 2006	Increase/(Decrease)
Other taxation	65	278	213
Flat tax	0	1	1
IRPEF withheld	1,790	2,482	692
IRAP payable for year	16	1,007	991
IRES payable for year	2,314	715	(1,599)
Total	**4,185**	**4,483**	**298**

The acquisition of the Turbo business led to a €708 thousand increase in this item (including current taxation of €341 for current IRAP and €339 thousand for withholding taxes). The consolidation of Ariafina accounted for €47 thousand.

The reduction of IRES was due to the greater advance payments made in 2006, compared to 2005, which were more in line with the final tax amount, compared to the previous years.

5.43 Trade payables

(€000)	31 Dec 2005	31 Dec 2006	Increase/(Decrease)
Trade payables	81,836	89,060	7,224
Amounts due to associates	5,631	5,332	(299)
Total	**87,467**	**94,392**	**6,925**

Trade payables

This mainly includes payables for trade purchases and other types of cost.

The balance includes trade payables of €11.341940 thousand relating to the Turbo business, Ariafina trade payables of €577 thousand and ElicaMex trade payables of €4.693 thousand.
Management believes that the book value of trade payables and other payables reflects their fair value. The rest of the increase was due to extended credit terms obtained from suppliers.

Amounts due to associates

Details of these trade payables are shown in the following table:

(€000)	31 Dec 2005	31 Dec 2006	Increase/(Decrease)
Air force S.p.A.	156	363	207
Ariafina Co Ltd (J.V.)	1	-	-
Projet S.r.l.	55	96	41
I.S.M. S.r.l.	4,675	2,909	(1,766)
Roal Electronics S.p.A.	744	1,964	1,220
Total	**5,631**	**5,332**	**(299)**

5.44 Equity attributable to shareholders of the Parent Company

Changes in equity are shown in the relevant statement.

Details of the individual equity items are provided below.

Share capital

At 31 December 2006, share capital was wholly subscribed and paid in and consisted of 63,322,800 ordinary shares with a nominal value of €0.20 each for a total of €12,664,560, a €2,500,000 increase on the comparable amount at 31 December 2005, following the IPO that the company launched on 10 November 2006 to be listed on the Star segment of the *Mercato Telematico Azionario*.
Furthermore, in a Special General Meeting held on 12 April 2006, the shareholders approved a 5-for-1 share split, which resulted in a reduction in the par value from €1 to €0.20.

Capital reserves

Capital reserves amount to €71,123 thousand and relate entirely to the share premium reserve. This rose by €56,312 thousand in 2006, due to the issuance of the new shares sold at a premium of €4.80 each.
The costs of the IPO, amounting to €3,650 thousand, net of the relevant tax effect of €2,190 thousand, were charged to the share premium reserve, in accordance with IAS/IFRS.

Hedging and currency translation reserve

The hedging portion of this reserve for derivative contracts that qualify as cash flow hedges is negative by €18 thousand (negative by €49 thousand at 31 December 2005). The translation portion of this reserve for financial statements prepared in foreign currency (ElicaMex, Leonardo, Fime Polska and Ariafina) increased from a negative €55 thousand to a negative €300 thousand, following consolidation of the two Mexican companies and Ariafina.

Revenue reserves

(€000)	31 Dec 2005	31 Dec 2006	Increase/(Decrease)
Legal reserve	2,033	2,033	-
Undistributed earnings	418	873	455
IAS transition reserve	247	1,727	1,480
Extraordinary reserve	37,113	41,308	4,195
Reserve restricted under Law 488/92	3,875	3,875	-

Total	43,686	49,816	6,130

The legal reserve amounts to €2,033 thousand. It was created by the Parent Company to allocate 5% of its net profit to the reserve each year. It did not change during the period as, at 31 December 2005, it reached the required level of 20% of share capital.

Undistributed earnings increased by €455 thousand due to the allocation to this reserve of the excess of the consolidated profit for 2005 over the profit reported by the Parent Company in its separate financial statements, net of the amount of €1,473 thousand for which reference should be made to note 5.46 B- Acquisition of remaining 40% of Jet S.r.l.

The IAS transition reserve, amounting to €1,727 thousand, includes the net adjustments determined at 1 January 2005, the date of the Parent Company's transition to IFRS, totalling €247 thousand and the allocation of the difference between the 2005 profit reported under Italian GAAP and the 2005 profit recognised in accordance with IAS/IFRS, totalling €1,480 thousand.

The increase in the extraordinary reserve is due to allocation of the Parent Company's net profit for 2005, less dividends paid in 2006.
On 12 April 2006, the Parent Company, Elica S.p.A., approved payment of a dividend of €0.05 for each of the 50,822,800 shares outstanding (€0.25 before the share split). The dividends amounted to €2,541 thousand and payment was made on 2 May 2006.

As to the year just ended, the Parent Company's Directors have recommended the payment of a dividend of €0.04 per share outstanding, representing a total amount of €2,533 thousand. This dividend is subject to the approval of the General Meeting of shareholders, and has therefore not been reported as a liability in these financial statements.
The proposed dividend for 2006 will be payable to the shareholders on the register at 14 April 2007.

Minority interest

This item decreased by a total of €313 thousand as a result of the following changes: increase of €91 thousand due to allocation of profit attributable to minority interest for 2006, a decrease of €789 thousand in the capital and reserves attributable to minority interest, due to the acquisition of remaining 40% of Jet Air S.r.l., an increase of €426 thousand due to the inclusion of the minority interest in Ariafina, and a decrease in the translation reserve attributable to minority interest of €41 thousand.

The reconciliation between equity and profit attributable to shareholders of the Parent Company and the corresponding consolidated items is provided in the Report on Operations.

5.45 Net debt, default risk and covenants

(Pursuant to Consob release no. DEM/6064293 dated 28 July 2006)

At 31 December 2006, net debt amounts to €2,290 thousand, down from €28,545 thousand at 31 December 2005. This was mainly due to the effect of cash flows from operating activities and the proceeds of the IPO, which was launched when the Company's shares were admitted to trading on the *Mercato Telematico Azionario*.

The table below provides an overview of net debt. For further information is provided in the following note on the consolidated cash flow statement and notes 5.35, 5.39, 5.40.

(€000)	31 December 2005	31 December2006 (*)	Increase/(Decrease)
Cash and cash equivalents	18,316	29,334	11,018
Bank borrowings and mortgages - current portion	(12,147)	(11,284)	863
Amounts due under finance leases and other borrowings – current portion (c)	(3,524)	(3,109)	415
(Net debt) / Net funds – current portion	**2,645**	**14,941**	**12,296**
Bank borrowings and mortgages - non-current portion	(18,466)	(7,614)	10,852
Amounts due under finance leases and other borrowings – non-current portion (c)	(12,725)	(9,617)	3,108
(Net debt) – non-current portion	**(31,190)**	**(17,231)**	**13,959**
(Net debt)	**(28,545)**	**(2,290)**	**26,255**

(*) The data at 31 December 2006 included the net debt of the Turbo division, which was acquired on 1 February 2006, and Ariafina, which was consolidated for the first time from 1 June 2006.

Default risk and debt covenants

It should be noted that there are no accelerated payment provisions on bank debt, in case the group's creditworthiness deteriorates. In addition the Group is not subject to any financial covenants in terms of restrictions with respect to certain financial, performance and cash-flow ratios.

5.46 Acquisitions and asset transfers

A- Acquisition of Turbo business

On 1 February 2006, the Group acquired a business engaged in the manufacture and sale of range hoods and related activities through its subsidiary Ola S.r.l. (now Turbo Air S.p.A.). The business was acquired together with strong commercial positions in Italy and abroad – especially in Russia, Germany, Spain and distribution capabilities in Asia.

On 26 February 2007 the supplementary and final agreement to acquire Turbo Air was signed. This marked the finalization of the acquisition price, which called for a fixed part and for a variable portion, to be determined on the basis of the operating and financial performance of the business during the first half of the year. In addition, the review of the assets and liabilities acquired, to determine their fair value under IFRS 3, was completed by the independent consultants retained by the company.

Therefore, the total cost of the Turbo acquisition and the resulting goodwill value were finally set at the time these financial statements were prepared. Both had been recognised in the interim reports on a provisional basis, in accordance with prevailing GAAPs, on the basis of the best estimate of the fulfilment of contractual conditions and the fair value of the assets and liabilities acquired.
Adjustments to the acquisition cost and the allocation of fair value were offset by changes in goodwill.

Acquisition costs included also ancillary charges of €599 thousand incurred to execute the contract and to perform due diligence.

Details of the net asset value of the company acquired are shown in the following table:

Net assets acquired	Carrying amount at acquisition date based on Group accounting policies	Fair value adjustments	Fair value
Property, plant and equipment	20,505	1,340	21,845
Other non-current assets	264	92	356
Current assets	19,310	238	19,548
Provisions for risks and charges and post-retirement benefits	(3,218)		(3,218)
Deferred tax liabilities	(51)	(545)	(596)
Bank borrowings and mortgages	(23,540)		(23,540)
Trade and other payables	(13,243)	(185)	(13,428)
	27	**940**	**967**
Goodwill			2,573
Total cost of acquisition			**3,540**
Total cost of acquisition			3,540
Amount borrowed to fund the acquisition of Turbo Air S.p.A.			(2,847)
Cash and cash equivalents acquired			(140)
Net cash outflow for acquisition			**553**

The Turbo business contributed revenues totalling €43,506 thousand.
If the acquisition had been completed on January 1, 2006, total consolidated revenues would have increased by €3,596 thousand.

A plan has been drawn up to rationalise the business acquired by integrating its activities with the Group’s other production units. Reference should be made to the Directors’ Report on Operations for more information.

B- Acquisition of remaining 40% of Jet Air S.r.l.

On 28 February 2006, the Group acquired the remaining 40% of Jet Air – which was already a consolidated subsidiary – from third parties for €2,806 thousand, including incidental charges of €6 thousand for notary’s fees. The acquisition price was determined based on an appraisal performed in-house.

Taking account of the information set out under 3.A) Critical judgements, the acquisition produced the following effects:

Reduction of Minority interest	789
Industrial buildings	870
Deferred tax liabilities	(326)
Reduction of revenue reserves	1,473
Acquisition cost of 40% of Jet Air S.r.l.	**2,806**

C- **Property spin-off to Immobiliare Camino**

On 15 March 2006 Turbo Air S.p.A. spun off its property portfolio, consisting mainly of three plants, the relevant mortgages and other assets and liabilities to the newly-established Immobiliare Camino S.R.L. in exchange for a 40% equity interest. The remaining 60% of this company was held by third parties. In November 2006, a Special General Meeting of the shareholders of Camino Immobiliare S.R.L. then resolved on a capital increase for consideration, amounting to €92 thousand, plus a premium of €142 thousand, in order to transfer an equity interest of 32% to a group of banks that have claims outstanding on Immobiliare Camino S.R.L.. Following the placement of the new units the Elica Group, which did not purchase any new unit, saw its stake decrease to 20.8%.

The following table contains details of the assets and liabilities transferred:

(€000)	Carrying amount transferred
Property, plant and equipment	
- industrial buildings	8,871
- office furnishings and equipment	2
Bank borrowings and mortgages	
- non-current	(7,849)
- current	(500)
Post-retirement benefits	(12)
Deferred tax liabilities	(237)
Derivative financial instruments	(185)
	90
Investment in Camino Immobiliare S.r.l.	102
Gain on transfer	12

The value of the items transferred to the newly-established associate, Camino Immobiliare, was determined based on an appraisal performed as required by Article 2465 of the Italian Civil Code. The gain realised on the transaction is due to the different tax treatment applicable to the book value and the appraised value of the assets transferred and to the different treatment of the IRS derivative contracts linked to the loan transferred under Italian GAAP (applicable for the transfer) and IFRS (as applied in the Group's consolidated financial statements).

The spin-off of Turbo Air S.p.A.'s property represents one of the steps included in the plan to integrate the newly acquired business, which will be completed in 2006. The operating plan for the "range hood" division envisages the simplification of the supply chain of the business acquired. It will be merged, in part, with the Elica S.p.A. business in order to avoid manufacturing duplication. This will lead gradually to the vacation of industrial properties currently used, which will then be sold or let to third parties.

D- Acquisition of majority interest in Ariafina Co Ltd.

On 28 May 2006, Parent Company Elica S.p.A. acquired 1% of Ariafina Co. Ltd. Added to its existing 50% interest in this company, the new acquisition gave it majority control. The balance sheet of the company has been consolidated on a line-by-line basis while its income statement has been consolidated as of the date on which majority control was acquired.

The assets and liabilities acquired are set out in the table below:

(€000)	**Amount at acquisition date**
Property, plant and equipment	13
Intangible assets	339
Inventories	499
Trade receivables	999
Tax receivables	215
Other receivables	204
Cash and cash equivalents	722
Trade payables	(1,656)
Tax payables	(411)
Other payables	(54)
Equity – 100%	870
Minority interest (49%)	(426)
Equity already owned by Elica S.p.A. at 28 May (50%)	(435)
Negative goodwill	2
Total cost of acquisition	(7)
(less) Cash and bank balances acquired	722
Net cash flow from acquisition	715

5.47 Non-cash transactions

In 2005 investments were made in machinery and equipment totalling €4,347 thousand by entering into finance lease arrangements. In 2006 no significant finance lease contracts were signed.
It should also be noted that the property spin-off to Immobiliare Camino S.r.l. (see note 5.45 C - Property spin-off to Immobiliare Camino) and the share capital increase via the conversion of bonds (see note 5.25) did not entail any change in cash flows.

6. Guarantees, commitments and contingent liabilities

a) Contingent liabilities

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

It should be noted, however, that the Parent Company has been sued in connection with sub-contractor/supplier regulations in terms of Law 192/92. The parties taking the legal action believe that their relations with the company were terminated without due cause and they have claimed damages and made other supplementary demands.

The 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 included in the Group consolidated financial statements at 31 December 2006 for contingent risks and charges relating to legal disputes amounted to €250 thousand, unchanged from the comparable amount at 31 December 2005.
Management believes that the provision for risks in order to cover possible liabilities from pending or potential disputes is, on the whole, adequate.

b) Guarantees and commitments

During 2006, the Parent Company issued a surety of €2,500 thousand to Bank Polska Kasa Opieki SA in favour of its subsidiary, Fime Polska Spzoo (owned indirectly through Fime S.p.A. – renamed ElicaGroup Polka in January 2007). In addition, it issued a surety of USD6,500 thousand to IntesaSanPaolo, under a line of credit obtained from this bank by ElicaMex S.A.d.C.V. .

Commitments with suppliers for purchases of components of property, plant and equipment at 31 December 2006 amount to around €2.9 million (€1.5 million at 31 December 2005). The significant increase in commitments at 31 December 2006, compared to the prior year, was mainly due to ongoing investments in Mexico and Poland: €402 thousand for buildings in Mexico and €463 thousand for equipment in Poland.

c) Operating leases

The Group has also entered into rental agreements for several industrial and commercial properties, motor vehicle rental agreements and operating leases for hardware. The payments due by the Group under the property rentals and operating leases are summarized in the following table:

(€000)	**31 December 2005**	**31 December 2006**
Property rentals	6,740	8,112
Car and fork lift rental	921	1,393
Hardware operating leases	156	703
Total	**7,817**	**10,208**

The increase in property lease commitments is mainly due to the acquisition of the Turbo business.

7. Disclosure pursuant to IAS 24 on management compensation and related-party transactions

The Group is indirectly controlled by the Casoli Family through Fintrack S.p.A. of Fabriano.

Francesco Casoli, Chairman of Elica S.p.A., is the majority shareholder and Sole Director of Fintrack S.p.A., a holding company that does not carry out management and coordination activities.
Gianna Pieralisi Casoli is holds a life-time right of usufruct on 68.33% of the shares outstanding of Fintrack S.p.A., thus exercising control over the Issuer, pursuant to article 93 of the Consolidated Finance Act.

7.1 Compensation paid to Directors, Statutory Auditors and Key Executives

The table below provides details of the compensation paid to key executives, directors and statutory auditors (€000):

Name	Position	Expiration of term of office	Emoluments	Non-cash benefits	Bonuses and other incentives	Other compensation
Francesco Casoli	Executive Chairman	Appr. F.S. 31 Dec 2008	231	3		354
Andrea Sasso (*)	Chief Executive Officer	Appr. F.S. 31 Dec 2008	-	-	-	-
Gianna Pieralisi	Executive Director	Appr. F.S. 31 Dec 2008	150	-	-	-
Massimo Marchetti (*)	Chief Executive Officer	Appr. F.S. 31 Dec 2008	11	-	60	396
Gennaro Pieralisi	Director	Appr. F.S. 31 Dec 2008	11	2	-	-
Enrico Palandri	Director	Appr. F.S. 31 Dec 2008	11	-	-	-
Alberto Geroli	Director	Appr. F.S. 31 Dec 2008	11	-	-	64
Stefano Romiti	Director	Appr. F.S. 31 Dec 2008	8	-	-	-
Total			**433**	**5**	**60**	**814**

Name	Office	Expiration of term of office	Emoluments	Non-cash benefits	Bonus and other incentives	Other compensation
Giovanni Frezzotti	Statutory Auditor	Appr. F.S. 31 Dec 2008	6	-	-	-
Corrado Mariotti	Statutory Auditor	Appr. F.S. 31 Dec 2008	4	-	-	-
Stefano Marasca	Statutory Auditor	Appr. F.S. 31 Dec 2008	4	-	-	-
Claudio Ceccarelli	Statutory Auditor	Term of office expired on 12 April 2006	31	-	-	-
Franco Borioni	Statutory Auditor	Term of office expired on 12 April 2006	23	-	-	-
Loris Mancinelli	Statutory Auditor	Term of office expired on 12 April 2006	23	-	-	-
Total			**91**	**-**	**-**	**-**

(*) Andrea Sasso was co-opted by the Board of Directors on 21 March 2007 and appointed CEO, following the resignation of Massimo Marchetti from the posts of CEO and Director on the same date.

Elica S.p.A.'s key executives include: the Finance Director, the Supply Chain Director, the Sales Director for "Third-party brands", Elicamex's General Manager.
Their aggregate compensation for 2006 amounted to €752 thousand.

7.2 Disclosure on subsidiaries

The tables below show key data for subsidiaries and the amount of transactions entered into with them at and for the period ended 31 December 2006.

Subsidiaries - highlights:

(€000)	**Assets**	**Liabilities**	**Equity**	**Value of production**	**Profit/(loss) for the period**
Subsidiaries					
Turbo Air S.p.A.	39,035	39,130	(95)	44,105	(1,796)
Fox IFS S.r.l.	829	818	11	1023	(3)
Jet Air S.r.l.	7,633	5,336	2,297	14,171	859
Fime S.p.A.	63,603	55,149	8,454	96,379	240
Fox Design S.p.A.	24,093	19,214	4,879	54,283	1,484
Ariafina Co Ltd	1,941	949	992	4,315	206
Fime Polska S.p.z.oo	9,277	7,313	1,964	6,423	(520)
ElicaMex S.A.d.C.V.	15,759	6,288	9,471	3,306	(2,108)
Leonardo Services S.A.d.C.V.	115	104	11	571	8

Elica also has financial relations with Group companies as a result of loans made to them as part of a general plan to centralize cash management activities. These loans bear interest at market rates. Details are summarised in the following table:

(€000)	**31 Dec 2005**	**31 Dec 2006**
Financial receivables due from subsidiaries		
Fime S.p.A.	2,061	19,986
Fox Design S.p.A.	475	3,850
Turbo Air S.p.A	-	10,365
Fime Polska S.p.zoo.	-	2,005
Financial receivables due from associates		
Air Force.S.p.A.	51	-
Projet S.r.l.	30	-

7.3 Disclosure on associates and joint ventures

The table below shows the operating and financial amounts arisen from transactions with associates for 2006. No separate indication of these positions was given in the financial statements, given the limited amounts involved.

Transactions with consolidated companies have been eliminated from the consolidated financial statements. As a result they cannot be shown in these notes.

All transactions carried out in connection with regular business operations and on an arm's length basis.

	Payables	Receivables	Costs	Revenues
Air Force S.p.A.	363	891	878	2,787
I.S.M. S.r.L.	2,909	275	13,977	68
Projet S.r.L.	96	-	221	-
	Payables	Receivables	Costs	Revenues
Roal Electronics S.p.A.	1,964	463	3,903	959
Immobiliare Camino S.r.l.	-	-	410	-
Total	**5,332**	**1,629**	**19,389**	**3,814**

Details of the main transactions are as follows:

I.S.M. S.r.l.

The costs incurred with ISM S.r.l. included €13,935 thousand related to outsourcing services (shown in the income statement under "Service expense").

Roal Electronics S.p.A.

Roal Electronics S.p.A. provides electronic components to the Group, mainly for the range business unit. In fact, raw material purchases amounted to €3,611 thousand, out of total purchases of €3,903 thousand. The balance was due to services, especially outsourced manufacturing activities. Revenues of €959 thousand related mainly to sales of transformers and electrical parts by the subsidiary, Fime S.p.A..

Immobiliare Camino S.r.l.

Transactions with Immobiliare Camino S.r.l. related to rental agreements covering industrial facilities with the subsidiary, Turbo Air S.p.AZ.. The total amount of annual rentals was agreed on the basis of an appraisal by an independent consultant on the basis of market prices.

Air Force S.p.A.

Sales to Air Force S.p.A. are related to electric motors supplied by Fime, totalling €1.5 million, and to sales of finished products by the companies in the range sector for the remaining amount. Purchases are related to products purchased by the Group for resale.

Projet S.r.l.

Purchases from Projet S.r.l. are related mainly to technical services, that is industrial design activities for home appliances and their external parts.

The table below summarises key operating and financial data for associates and joint ventures, as derived from the companies' financial statements in accordance with Italian GAAP, and local GAAP for foreign companies.

Associates and joint ventures

Summary data at 31 December 2006

(€000)	**Registered office**	**% held**	**Share capital**	**Equity**	**Profit/(loss) for the period**

Air force S.p.A.	Fabriano (AN)	45 (*)	103	747	601
I.S.M. S.r.l.	Cerreto d'Esi (AN)	49,385	10	1,532	415
Projet S.r.l.	Castelbellino (AN)	30	20	13	-
Roal Electronics S.p.A.	Castelfidardo (AN)	21,276	16,606	14,312	(2,294)
Immobiliare Camino S.r.l.	Fabriano (AN)	20.8	192	625	136
Inox M. M. Sa.d.C.V.	Queretaro (Mexico)	30	4	4	0

(*) In January 2007 the Group acquired an additional 15% equity interest in Air Force S.p.A.. As a result, this became a subsidiary (with a 60% equity interest).

Summary data at 31 December 2005

(€000)	**Registered office**	**% held**	**Share capital**	**Equity**	**Profit/(loss) for the period**
Air force S.p.A.	Fabriano (AN)	45	103	146	(123)
Ariafina Co Ltd (*)	Sagamihara-shi (Japan)	50	84	707	543
I.S.M. S.r.l.	Cerreto d'Esi (AN)	49.385	10	1,117	(311)
Projet S.r.l.	Castelbellino (AN)	30	20	13	3
Roal Electronics S.p.A.	Castelfidardo (AN)	21.276	16,920	6,938	(2,331)

(*) In May 2006, the majority of this joint venture was acquired. As a result, Ariafina was consolidated for the first time.

7.4 Dealings with other related parties

The Group's dealings with other related parties are exclusively of a trading and financial nature.

Trading transactions

The table below shows the main operating and financial amounts arising from trading transactions with Fastnet S.p.A. (30% interest held by the parent company of Elica) and with Fintrack S.p.A. (company that indirectly controls the Parent Company, Elica S.p.A.).

Elica Group and Fastnet S.p.A.

(€000)	31 Dec 2005	31 Dec 2006
Trade payables	117	76
Costs deriving from trading transactions	69	286
Purchases of property, plant and equipment	264	245

Elica Group and Fintrack S.p.A.

(€000)	31 Dec 2005	31 Dec 2006
Trade payables	30	-
Costs deriving from trading transactions	30	-
Trade receivables	7	-
Revenues from trading transactions	6	4
Other receivables	30	5

The operating and financial balances arise from the trading transactions conducted to purchase goods and services on an arm's length basis.
The trading relationship with Fastnet S.p.A. forms part of a strategic partnership to develop projects and implement advanced technological solutions. These projects have accompanied and continue to accompany the growth of the business; from intranet solutions to extranet solutions, from wiring to wireless solutions, from software consultancy to hardware consultancy and from training to web marketing.

The relations with Fintrack S.p.A. regard management and administrative/accounting services.

7.5 Directors' investments in Group companies

The following table shows the members of the Board of Directors who directly hold equity interests in Group companies:

Name and surname	Company	No. of shares at 31 December 2005	No. of shares purchased	No. of shares sold	No. of shares at 31 December 2006
Francesco Casoli	Elica S.p.A.	4,035,654	-	3,000,000	1,035,654
Massimo Marchetti	Elica S.p.A.	508,230	-	250,000	258,230
Massimo Marchetti	Fox I.F.S. S.r.l.	7,423	-		7,423
Gianna Pieralisi	Elica S.p.A.	2,107,200	-	1,000,000	1,107,200
Key executives	Elica S.p.A.	-	3,150	-	3,150

(*) Massimo Marchetti resigned from the post of CEO and Director of Elica S.p.A. on 21 March 2007.

8. Positions or changes arising from exceptional and/or unusual transactions

In December a contract was signed for the sale of the industrial facilities in Marischio to Turbo Air S.p.A.. The sale was conducted through the transfer of the facilities to a leasing company for €660 thousand. Eventually, this company provided these facilities to the associate Immobiliare Camino S.r.l. under a finance lease agreement. The sale took place at an amount that was basically in line with the carrying amount (reflecting the fair value as determined on the basis of an independent appraisal of the facilities on the date of acquisition of Turbo Air S.p.A., less depreciation for the year), and resulted in a loss of €67 thousand. In terms of financial conditions, the sale of the facilities entailed a reduction in property, plant and equipment of €6,667, a reduction in VAT credits of €1,320 thousand and an increase in cash and cash equivalents of €7,920 thousand.
Therefore, except for the described property sale and what has already been indicated concerning the completion of the IPO process, as well as the information in notes 5.46 (acquisition of Turbo Air, acquisition of 40% of Jet Air S.r.l., Turbo property spin-off), no other exceptional or unusual transactions were conducted during the year.

9. Events after 31 December 2006

For information on events after 31 December 2006 reference should be made to the Director's Report on Operations.

Fabriano, Italy
29 March 2007

On behalf of the Board of Directors
(Francesco Casoli)
Chairman

Auditors' Report

Deloitte

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AUDITORS' REPORT PURSUANT TO ART. 156 OF LEGISLATIVE DECREE No. 58 OF FEBRUARY 24, 1998

To the Shareholders of
ELICA S.p.A.

1. We have audited the consolidated financial statements of ELICA S.p.A. (and subsidiaries) (the ELICA Group), which comprise the balance sheet as at December 31, 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and related explanatory notes. These consolidated financial statements are the responsibility of the Directors of ELICA S.p.A. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2. We conducted our audit in accordance with the Auditing Standards recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the prior year consolidated financial statements, the balances of which are presented for comparative purposes, reference should be made to our auditors' report issued on April 11, 2006.

3. In our opinion, the consolidated financial statements present fairly the financial position of the ELICA Group as of December 31, 2006, and the results of its operations and its cash flows for the year then ended in accordance with IFRS as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005.

DELOITTE & TOUCHE S.p.A.

Signed by
Carlo Beciani
Partner

Ancona, Italy
April 12, 2007

This report has been translated into the English language solely for the convenience of international readers.