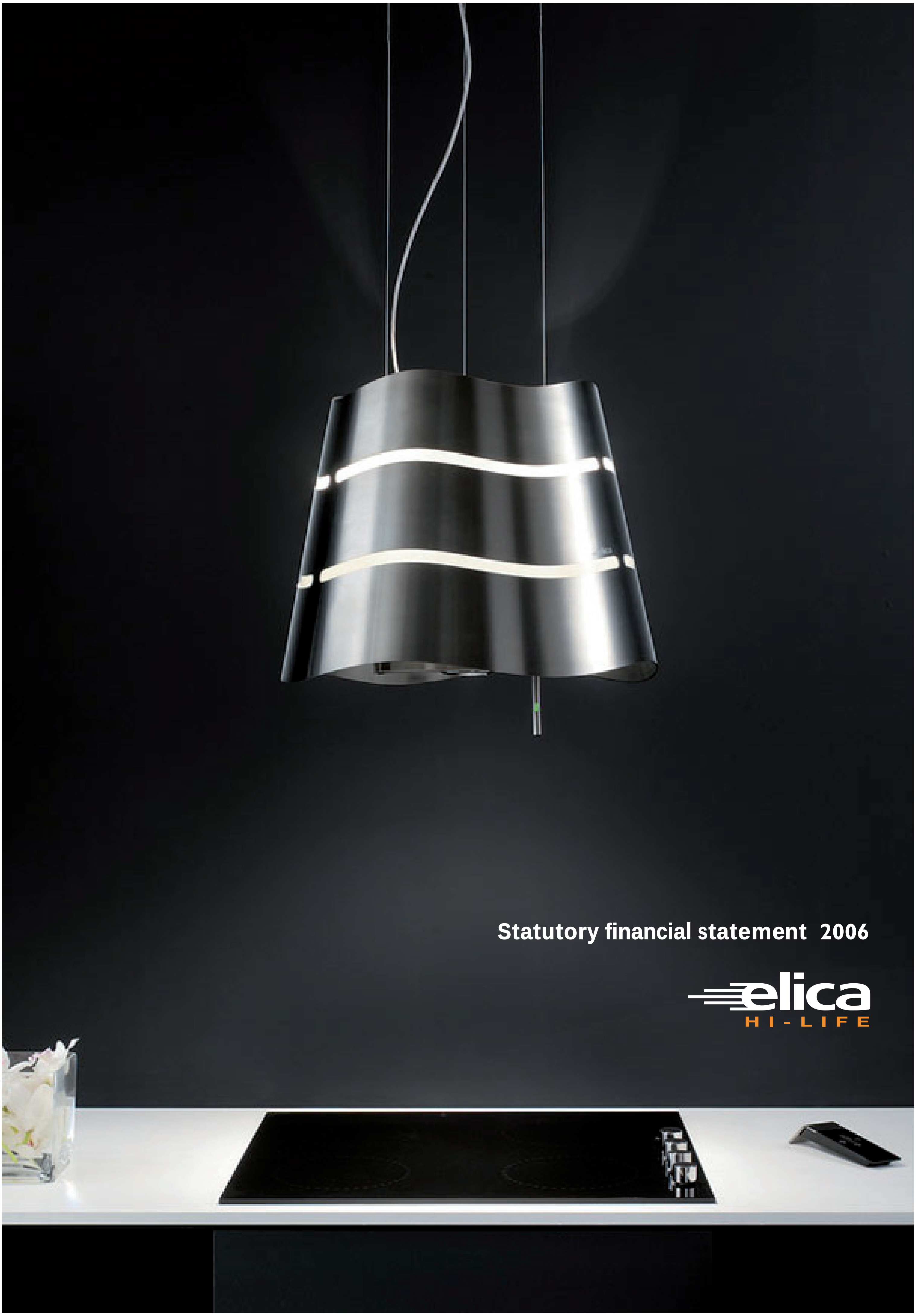


Statutory financial statement 2006

elica HI-LIFE

Report on Operations 2006
Statutory financial statement of Elica S.p.A.

Elica Today

Elica is the parent company of a Group operating in the market for household cooker hoods since the 1970s, and is currently the world's leading manufacturer of cooker hoods as well as the market leader in terms of units sold in the main European countries. The Group also leads Europe in the design, manufacture and marketing of electric motors for hoods and household boilers for heating.
With over 2,100 employees and an annual output of about 5 million hoods, the Elica Group boasts a production platform spread over 11 facilities specializing in specific work processes and products, including 9 in Italy, 1 in Poland and 1 in Mexico. The keys to Elica's success include thirty years' experience in the industry, meticulous focus on design, high-quality materials and state-of-the-art technology, all of which have allowed the company to revolutionize the traditional image of cooker hoods: they are no longer mere accessories but designer objects in and of themselves.

Macroeconomic Framework of Reference

In 2006, the international economy has gone through significant growth that was heavily accentuated in the first half of the year and slightly mitigated during the second half. International geopolitical dynamics, oil prices and the strengthening of the euro against the US dollar, give rise to uncertainties that undermine the stability of economic expansion.

The cooling-down of the global economy in the second half of the year was primarily due to the contraction of the US economy as a result of a sharp drop in investments in housing and the trade deficit. This situation also affected Europe and China. On an annual basis, economic growth in the euro area was however quite significant (+2.7% in 2006 as against 1.5% in 2005) with promising prospects for 2007.

Experts feel that Europe has acquired the ability to independently sustain a growth cycle substantially free of the impact of dynamics of the American economic climate. China's growth rate is expected to match its 2006 level (about 10%), despite the slowdown resulting from restrictions imposed by monetary and tax authorities in terms of interest rates, compulsory reserves and administrative formalities. In 2006, the Italian economy grew significantly (+1.8% against almost zero-growth in 2005), although the country's main European partners performed slightly better.

Exchange Rates

2006 saw a new gradual strengthening of the euro against dollar, mainly as a result of the already cited slowdown in the American economy and the growing US trade deficit.

Compared to 2005 (mean monthly exchange rates as published by the Italian Exchange Office), the mean euro exchange rate rose by 0.9% against the US dollar and 6.7% against the Japanese yen, while it fell by 3.2% against the Polish zloty and remained essentially stable against pound sterling. With specific reference to the dollar, at the end of April, the exchange rate fluctuated between 1.18 and 1.24 dollars against the euro; in May, the euro rose to 1.25 US dollars and from the end of November remained consistently above 1.31 US dollars, reflecting a mean annual exchange rate of 1.26 US dollars to the euro, slightly above the mean for the previous year (1.24 US dollars to the euro).

A comparison of the exchange rates as at December 30, 2006 and December 29, 2005, shows that the euro rose by 11.6% against the US dollar and 13% against the Japanese yen. Euro fell by 2% against sterling and remained unchanged against the Polish zloty.

	2005 Average	2006 Average	%	December 30, 2005	December 29, 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, the strengthening of the euro and the fall in energy prices in the last quarter of the year, had a positive impact on the consumer price index. This braked growth which stood at around 2.1% in 2006 in the euro area (as against 2.2% in 2005). Even in the case of the United States which is highly exposed to cost-related inflation risks, the drop in energy prices led to a reduction in import prices with repercussions on consumer price inflation within stood at around 3.2% in 2006 (as against 3.5% in 2005).

IAS/IFRS

The income statement and balance sheet of Elica S.p.A. at December 31, 2006 were prepared in accordance with IAS/IFRS as issued by the International Accounting Standards Board and endorsed by the European Commission, and in compliance with the provisions of Art. 9 of Legislative Decree 38/2005.

In the period under review no new accounting standards were adopted by the European Union and/or issued by IAS/IASB having a material impact on these financial statements.

These financial statements are denominated in thousands of Euro. All amounts have been rounded to the nearest thousand Euro, unless otherwise stated.

Performance of Operations and Financial Results

In thousands of Euro	Dec. 31, 2005	Dec. 31, 2006	2006 Vs 2005
Revenues	**235,175**	**251,265**	**6.8%**
EBITDA	22,662	27,251	20.3%
% revenues	**9.6%**	**10.8%**	**1.2%**
EBIT	14,085	18,242	29.5%
% revenues	**6.0%**	**7.3%**	**1.3%**
Net financial costs	**-1,045**	**-638**	**-39.0%**
% revenues	**-0.4%**	**-0.3%**	**0.2%**
Exchange gains (losses)	**336**	**-550**	**-263.7%**
% revenues	**0.1%**	**-0.2%**	**-0.4%**
Profit for the year	8,216	9,957	21.2%
Earnings per share - Basic from continuing operations (Euro/cents)	**16.17**	**18.93**	**17.1%**
Earnings per share - Diluted from continuing operations (Euro/cents)	**16.17**	**18.93**	**17.1%**

EBIT corresponds to operating profit. EBITDA is defined as operating profit before amortization.
The Net Financial Position is defined as the sum of (current and non-current) payables for financial leases and to other lenders, plus (current and non-current) bank loans and financing, net of cash and cash equivalents and financial receivables, recognized in the Balance Sheet.

(in thousands of Euro)	December 31, 2005	December 31, 2006	Change
Cash and cash equivalents	13,803	11,301	(2,502)
Financial receivables from related parties	2,616	36,206	33,590
Current bank loans and financing	(8,667)	(1,882)	6,785
Current obligations under finance leases and towards other lenders	(4,619)	(3,372)	1,247
Financial payable to related parties	-	(830)	(830)
(Net financial debt) / Net Financial Position — current	**3,133**	**41,423**	**38,290**
Non-current bank loans and financing	(4,588)	(254)	4,334
Non-current obligations under finance leases and towards other lenders	(1,348)	(1,248)	100
(Net financial debt) – non current	**(5,936)**	**(1,502)**	**4,434**
(Net financial debt) / Net Financial Position	**(2,803)**	**39,921**	**42,724**

The year 2006 featured the followed elements:

- significant increase in revenues;
- essential stability of operating profitability (EBIT), taking account of start-up and restructuring costs;
- further strengthening of liquidity and financial stability indicators;

In the year just ended, Elica's revenues grew by 6.8% over figures for the previous year, to reach Euro 251.3 million, compared to Euro 235.1 million in 2005. This growth is organic in nature. If the effect of the movements in the euro exchange rate against the US dollar, Japanese yen and sterling were to be neutralized, the growth rate would increase by a further 0.25%.

Growth in revenues was achieved primarily through the Elica Collection product line and decorative hoods. Revenues grew particularly sharply in the US, a strategic country for the company's business.

Operating profit (EBIT) have continued to grow, confirming the positive trend recorded in previous years, and mainly driven by operating efficiencies, higher volumes and improvements in the sales mix. Net of non-recurring items, EBIT would have grown by 45%, increasing from 6.0% in 2005 to 7.3% in 2006.

In 2006, Elica S.p.A. had non-recurring charges of approximately Euro 2.6 million, as against non-recurring revenues of Euro 0.8 million in 2005.

The non-recurring expenses in question include Euro 0.5 million by way of staff mobility costs and severance benefits, and about Euro 0.4 million by way of costs for the development of sales of hoods under the company's own brands, and approximately Euro 1.7 million for start-up of operations in Mexico.

Net interest payable improved considerably, dropping from over Euro 1 million in 2005 to about Euro 0.6 million in 2006, mainly as a result of constant improvements in Net Financial Position.

Against exchange gains of Euro 0.3 million in 2005, the company recorded a Euro 0.6 million exchange loss in 2006, primarily because of the unfavorable trend of the euro against the US dollar and Japanese yen.

The Net Result for the financial year increased by over 21%, up from Euro 8.2 million in 2005 to nearly Euro 10 million 2006. Basic earnings per share from operations rose by 17.1%, from 16.17 euro cents in 2005 to 18.93 Euro cents in 2006.

Elica S.p.A.'s financial stability remained high, given that Net Financial Position was negative by Euro 2.8 million at the end of 2005 and positive by Euro 40 million at the end of 2006. The higher growth of the company's profitability and the containment of working capital, are related to the capital increase implemented during the IPO.

Guidelines for 2007

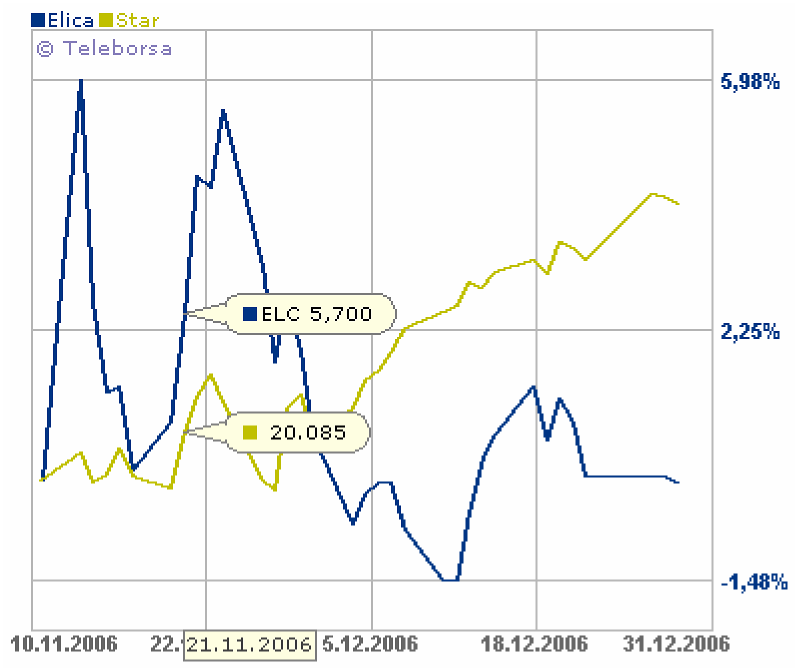
In 2007, the Company intends to continue to pursue a policy of improving the mix of sales in core European countries by constantly developing high-range products and taking significant steps towards expanding sales and manufacturing in the US and Eastern Europe, especially by supporting the business operations of the subsidiaries Elicamex and Elica Group Polska.

The Company will continue to improve production efficiency by relocating certain work processes to Mexico and Poland, as well as by constantly updating current production facilities. Furthermore, in the second half of 2007, three companies in the hood sector, are to be merged into one. The merger is aimed at further integrating Elica's business processes and streamlining its structure by creating a corporate organization that reflects business management. It is expected to streamline the equity investment structure and achieve improved operating efficiency with a view to reducing operating expenses.

In order to manage raw material costs, in addition to developing top-of-the-range products, the Company intends to use new materials that provide the same technical and aesthetic properties of existing materials, but at lower costs.

Elica and the Financial Markets

On November 10, 2006, Elica shares were placed at an IPO price of Euro 5.0 each. At the end of the first day of trading, the share price was Euro 5.562 and at the end of the last trading day of 2006, the share price was Euro 5.560.



The share capital is made up of 63,322,800 ordinary shares bearing voting rights. As at December 31, 2006, the following parties held a significant participating interest in the Company's share capital:

Relevant person	No. of shares held	% held
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

Equity investments of members of the Board of Directors and supervisory bodies, as well as members of the Board of Auditors and general managers

At December 31, 2006, the following members of the Board of Directors, Board of Auditors and executives with strategic responsibilities held shares in Elica S.p.A. as indicated in the table below:

Name and surname	**No. of shares at Dec. 31, 2005**	**No. of shares purchased**	**No. of shares sold**	**No. of shares at Dec. 31, 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
Executives with strategic responsibilities	-	3,150	-	3,150

Massimo Marchetti further holds a 10.31% stake in Fox IFS S.r.l.

Name and surname	**Office held**
Casoli Francesco	Executive Chairman of the Board of Directors of Elica S.p.A.
Pieralisi Gianna	Chief Executive Officer of Elica S.p.A.
Marchetti Massimo	Chief Executive Officer and Managing Director of Elica S.p.A.; he resigned from office on March 21, 2007.

At December 31, 2006, Elica S.p.A. did not hold own shares. Furthermore, no subsidiaries hold shares in Elica S.p.A.

Significant Events in the Year 2006

During 2006, Elica S.p.A. further strengthened its business as a company heading an industrial Group, constantly committed to improving synergies and coordination within the Group. Elica S.p.A. accordingly coordinated the following significant transactions, described in greater detail below: the acquisition of the "Turbo Air" business; the transfer of part of the business acquired to Immobiliare Camino S.r.l.; the acquisition of the remaining share capital of Jet Air S.r.l.; acquisition of a majority stake in the Ariafina Joint Venture; the incorporation of a company to conduct operations in North America; the official inauguration of the operations of Fime Polska Sp.zo.o, now known as Elica Group Polska Sp.zo.o; the listing of Elica's shares on the electronic share market (Mercato Telematico Azionario MTA) in the STAR Segment, organized and managed by Borsa Italiana S.p.A.

These events are described in further detail below.

Acquisition of the Turbo Air business unit

The Group intends to increase its presence in several important international cooker hood markets e.g. Russia and the Far East with the acquisition of Turbo Air. The Turbo Air brand has had a strong position in these markets for several years now. The acquisition also offers interesting opportunities in relation to the cooker hood electrical motors business which will lead to significant economies of scale when integrated with the manufacturing activities of Fime S.p.A.

Elica management has drawn up a plan of integration for the Turbo Air business unit. The main points may be summarized as follows:

1) Spin-off of real estate assets not required by the new manufacturing structure;

2) Integration of the Turbo Air Motors Division into the Fime S.p.A. manufacturing structure;

3) Spin-off of the Plastics Division;

4) Transfer of business to Immobiliare Camino.

These main points may be further analyzed as follows.

1) *Real estate spin-off*

The business plan for the integration of the "hoods" division is based on streamlining the Supply Chain of Turbo Air which is well on its way to being fully integrated into the Elica Group. This has gradually freed industrial complexes that previously housed Turbo's manufacturing units. These buildings have been contributed to the associate Immobiliare Camino S.r.l.. The transaction is described in greater detail in one of subsequent points.

2) *Motors Division*

In June, Company management drew up plans to reorganize the electrical motors production process. The aim is to achieve significant economies of scale. After these plans were implemented, the personnel involved and the machinery used in the production of motors were transferred to the Fime S.p.A. production facilities. The reorganization led to redundancy incentives amounting approximately to Euro 437 thousand.

3) *Spin-off of the Plastics Division*

In December 2006, Turbo Air S.p.A.'s plastics division was spun off, for the following main reasons: the plastics division was small; plastic molding and mould construction technology is not of strategic value; profitable management of the plastics division required specialist competences. Accordingly, the business segment was contributed to a new company that was sold to third parties.
In 2006, the plastics division generated the following economic results:

In thousands of Euro	Dec. 31, 2006
Revenues	1,974
Other operating income	0
Change in inventories of finished goods and work in progress	50
Increase in tangible and intangible assets due to capitalization of internal costs	14
Raw materials and supplies	(1,144)
Services	(316)
Personnel costs	(589)
Amortization and depreciation	(159)
Other operating expenses and provisions	(55)
Operating profit/(loss) from discontinued operations	**(225)**
Net profit/(loss) from discontinued operations	**(167)**

4) *Transfer of business to Immobiliare Camino*

On March 15, 2006, Turbo Air S.p.A. transferred the real estate division mainly comprising three industrial properties, the related mortgage loans and other assets and liabilities to the newly incorporated company Immobiliare Camino S.r.l. The Company acquired 40% of the said company while the remaining 60% is owned by third parties. The transfer was effected on the basis of the findings of technical experts. On June 20, 2006, the Extraordinary General Meeting of Camino Immobiliare S.r.l. approved a paid share capital increase — in one or more installments — of around Euro 92,308 with share premium, to enable a pool of banks, creditors of Immobiliare Camino S.r.l., to acquire a stake of around 32% of the company. Following the full subscription of the capital increase and the payment made by the banks in November, the Elica Group's stake in the company fell to 20.8%.

Activities regarding the acquisition of Turboair S.p.A. have proceeded in accordance with the initial plan. Pursuant to the valuation mechanism based on an earn out on results of the first half of 2006, Elica Group management took over operations of Turbo Air S.p.A. as of July 1, 2006. The integration plan is already at an advanced stage and the results of the integration are starting to become apparent. The personnel involved and the machinery used in the production of motors have been already transferred to the FIME S.p.A. facilities. Turbo Air S.p.A.'s sales structure was integrated into Elica S.p.A.'s sales network in order to ensure integrated management of markets, products and brands.
The building in Marischio was deconsolidated in December 2006, as part of the plan for the reorganization of industrial activities. The building was sold to a finance lease company that has transferred it under a finance lease to the associate company Immobiliare Camino S.r.l., which in turn has leased the building to Turbo Air. S.p.A. These transactions were effected at arm's length

terms and on the basis of the findings of technical experts and were part of the plan to integrate Turbo Air and Elica Group activities.

In 2006, Turbo Air S.p.A., consolidated as of February 2006, generated the following individual results (IAS/IFRS-compliant figures):

In thousands of Euro	**FY 2006**
Revenues	43,406
EBITDA	82
EBIT	(1,054)
Net Result	(2,058)
Net Financial Position	(7.569)

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Acquisition of the remaining 40% stake in Jet Air S.r.l.

On February 28, 2006, the Group bought from third parties the remaining 40% of Jet Air — already a consolidated company — for Euro 2.8 million; this cost includes incidental charges of Euro 6 thousand. The acquisition cost was determined based on an appraisal carried out in-house. The main decisions taken with regard to accounting for the acquisition resulted in the effects outlined in the Explanatory Notes.

Acquisition of a majority interest in the Ariafina Joint Venture

On May 28, 2006, the Parent Company Elica S.p.A. acquired 1% of Ariafina Co. Ltd, in which it already held a 50% stake, thus becoming the majority shareholder. Ariafina Co. Ltd - Sagamihara-Shi (Japan) is a Joint Venture set up in September 2002 with Fuji Industrial of Tokyo, the Japanese leader with more than 70% of the cooker hoods market. By acquiring this controlling interest, the Group intends to trigger further commercial growth on the important Japanese market where it sells top of the range products.

Incorporation of companies to undertake operations in North America

Two new, Mexican-based companies were incorporated at the start of 2006: 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. have the objective of concentrating manufacturing of products for American markets and handling distribution and logistics matters. The expected advantages of this arrangement include an increase in revenue, improved and quicker service for American customers, lower distribution costs, shorter delivery periods and increased flexibility for individual production batches.

Listing on the electronic share market (Mercato Telematico Azionario – MTA) in the STAR Segment

On April 12, 2006, the Extraordinary Shareholders' Meeting of Elica S.p.A. approved the application for listing of the Company's ordinary shares for trading on the MTA in the STAR Segment, organized and managed by Borsa Italiana S.p.A. The Extraordinary Shareholders' Meeting also approved the fractioning of the number of ordinary shares in the ratio of 5 to 1. Following this fractioning, the Company's share capital was made up of 50,822,800 ordinary shares of a par value of Euro 0.20 each. The same Extraordinary Shareholders' Meeting further approved the amendment of the General Shareholders' Meeting Rules, the Corporate Governance regulations, the rules of conduct contained in the Internal Dealing Code, the rules governing the procedure for transactions with group companies and other related parties.

On November 10, 2006, shares in Elica S.p.A. were listed on the MTA – in the STAR Segment, organized and managed by Borsa Italiana S.p.A. The share was offered on the market at the price of Euro 5.0 per share. The transaction was effected through an IPO of 10,000,000 shares, and the subscription of 12,500,000 new shares. Following the issue of the new shares, Elica S.p.A.'s share capital is now made up of 63,322,800 shares.

Financial Risk Management

The Group's business is exposed to various types of financial risks, including exchange-rate risk, interest-rate risks, risks related to raw material prices and cash flow fluctuations. In order to contain the impact of these risks on the Company's results, the Group uses derivative instruments solely for hedging purposes; derivative instruments are not generally held purely for speculative or trading purposes.

Exchange rate risk
The Group's functional currency is the Euro. However, the Group companies also enter into commercial relations in US Dollars (USD), British Pounds Sterling (GBP), Japanese Yen (JPY), Polish Zloty (PLN) and Mexican Pesos (MXN). The Elica Group records more revenues than costs in all of these currencies except for the Mexican Peso. This means that fluctuations in the exchange rate between the Euro and the aforementioned currencies affect the Group's results as described below:

- if the Euro strengthens, revenue and operating profit are negatively affected;
- if the Euro weakens, revenue and operating profit are positively affected.

The exchange rate risk is hedged using forward contracts and options with the sole aim of safeguarding the value expected from business.

Interest rate risk
The Group's indebtedness is almost entirely variable rate debt. The use of IRS agreements has been restricted to a small portion of the debt after consideration of the economic factors involved.

Liquidity risk
The Elica Group manages the liquidity risk using credit facilities of the right size and flexibility.

Credit risk
Trade receivables are stated net of provisions made for the collection risk. These provisions have been calculated based on past experience and on an assessment of factors relating to the individual debtors.

Governance bodies

Members of the Board of Directors:

Francesco Casoli
Executive Chairman,
born in Senigallia (AN) on 05/06/1961. Appointed as director on 12/04/2006.

Andrea Sasso
Managing Director, born in Rome on 24/08/1965. Appointed on 21/03/2007.

Gianna Pieralisi
Managing Director, born in Monsano (AN) on 12/12/1934. Appointed as director on 12/04/2006..

Alberto Geroli
Director, born in Milan (MI) on 04/01/1942. Appointed as director on 12/04/2006..

Gennaro Pieralisi
Director, born in Monsano (AN) on 14/02/1938. Appointed as director on 12/04/2006..

Stefano Romiti
Independent Director and Lead Independent Director, born in Rome (RM) on 17/11/1957. Appointed as director on 12/04/2006.

Enrico Palandri
Independent Director, born in Milan (MI) on 02/10/1962. Appointed as director on 12/04/2006.

Members of the Board of Statutory Auditors

Giovanni Frezzotti
Chairman,
born in Jesi (AN) on 22/02/1944. Appointed on 12/04/2006..

Stefano Marasca
Statutory auditor, born in Osimo (AN) on 09/08/1960. Appointed on 12/04/2006..

Corrado Mariotti
Statutory auditor, born in Numana (AN) on 29/02/1944. Appointed on 12/04/2006..

Guido Cesarini
Substitute statutory auditor, born in Bolzano (BZ) on 19/08/1972. Appointed on 12/04/2006.

Gilberto Casali
Substitute statutory auditor, born in Jesi (AN) on 14/01/1954. Appointed on 12/04/2006..

Internal Control Committee
Stefano Romiti
Gennaro Pieralisi
Enrico Palandri

Remuneration Committee
Stefano Romiti
Gennaro Pieralisi
Enrico Palandri

External Auditors
Deloitte & Touche S.p.A.

Registered office and corporate details
Elica S.p.A.
Registered office: Via Dante, 288 – 60044 Fabriano (AN) - Italy
Share Capital Euro 12,664,560.00
Tax Number and Register of Companies Number: 00096570429
Registered with Ancona REA No. 63006 – VAT Number 00096570429

Investor Relations
E-mail: investor-relator@elica.com
Telephone: +39 0732 610326

Research & Development

Product development lies at the heart of the Company’s business. Accordingly the Company dedicates considerable resources to product development and innovation, focusing not only on design but also on the use of hi-tech materials and solutions.

During the course of the financial year, the company sustained costs for industrial and basic research pertaining to improvements not only in products but also in terms of organization, processes and structure (such as, for instance, the setting up of design monitoring systems, improvements in the planning of procurement and the management of customer orders through the implementation of an effective logistics system, improved integration of systems and processes amongst group companies, the computerization of after-sales service management, EDI integration and integration of the OPS system for scheduling production) that have been fully expensed and that involved all the Company’s facilities across the board.
These activities entailed costs of Euro 3,647,389.00.
The Company has also achieved progress in process innovation. The most significant projects in this direction include research for the development of a process for the formulation of polypropylene in a mobile unit for a total amount of Euro 1,518,680.00.

Table of statutory revaluation

The following table provides an overview of the assets as at December 31, 2006 that were subjected to revaluation pursuant to specific laws.

Statement of write-ups made in compliance with law *(in thousands of Euro)*	**Land and buildings**	**Plant and machinery**	**Industrial and commercial equipment**	**Other assets**	**Total**
December 31, 2005	**240**	**3**	**1**	**1**	**245**
Additions					
Disposals			**(1)**	**(1)**	**(2)**
Other movements					
December 31, 2006	**240**	**3**	**-**	**-**	**243**

Information on the Processing of Personal Data

With regard to the provisions for protection of personal data, the Company has updated and implemented the Program Document on the security of personal data (DPS), as required pursuant to articles 33-34-35-36 and rules 19 and 26 of Schedule B “Technical Rules on Minimum Security Measures” to Legislative Decree No. 196/2003."

Group structure and Consolidation Area

The Elica Group is currently the leading world manufacturer of household cooker range hoods and leads Europe in the sector of motors for heating boilers for household use.

Parent Company

- Elica S.p.A. — Fabriano (Ancona), Italy, is the parent company of a Group of companies whose activities include the design, production and sale of household cooker hoods and electrical motors for household heating boilers, cooker hoods and domestic appliances.

Subsidiary Companies

- FIME S.p.A. – Castelfidardo (Ancona), Italy. This company operates in the electrical motors sector. The motors are mainly used in domestic appliances (cooker hoods, ovens, refrigerators), boilers for domestic use, fan coils and transformers for electrical and electronic applications. The company mainly operates on European markets where it has a significant, rising market share despite the presence of larger competitors. The subsidiary is also engaged in major programs regarding the launch of new products, sometimes together with large US multinationals. This demonstrates the high level of quality of the business structure as a whole.

- FIME POLSKA Sp.Zo.o. (currently Elica Group Polska Sp.Zo.o.) – Wroclaw, Poland . This company was incorporated in 2005 and has been operating in the electrical motors sector since September. Since December 2006 it has been also operating in the cooker range hoods industry. The factory for the production of motors and cooker hoods was built in 2006.

- FOX Design S.p.A.– Campodarsego (Padua), Italy. Fox became part of the Group at the end of 2001. It is the main cooker hoods sector company outside the Fabriano area and has acquired a significant market share in the distribution channel. Fox’s industrial structure is unusual compared to the organization of Elica S.p.A. as its internal processes focus on marketing, R&D, design and management of a supply chain with a very high level of outsourcing of mechanical processes and assembly.

- FOX I.F.S. S.r.l. – Bergamo, Italy. This company was incorporated at the end of 2001. It is 69.44% indirectly owned through subsidiary Fox Group S.p.A. It operates in the industrial extraction system sector, involving the treatment of air.

- JET AIR S.r.l. – Cerreto d’Esi (Ancona), Italy. The company operates in the cooker hoods sector and has benefited from Group wide synergies that have accelerated the upgrading of its product range. It operates mainly outside Italy, especially in China and Eastern Europe.

- Turbo Air S.p.A. – Fabriano (Ancona), Italy. Fabriano-based company operating in the cooker hoods sector. When it acquired this company in February 2006, Elica sought to strengthen its competitive position in Italy and acquire new market share in Eastern Europe – especially Russia – where the Turbo Air brand is well known and in the Middle and Far East, while also benefiting from important economies of scale.

- ElicaMex S.A.d.C.V. – Queretaro, Mexico. This company was incorporated at the start of 2006. It is 100% owned (98% directly by Elica S.p.A. and 2% through Fox Design S.p.A.). Investments for the construction of the industrial complex have already been completed, while investments for plant and machinery are currently underway. The objective is concentrating in Mexico the manufacturing of products destined for the American markets and to deal with distribution and logistics matters. This investment is expected to result in an increase in revenue, improved and faster service for American customers, lower distribution costs, shorter delivery periods and more flexibility for individual production batches.

- Leonardo Services S.A.d.C.V. – Queretaro, Mexico. This company was incorporated in January 2006. It is 98% owned by the Parent Company and 2% by Fox Design. Leonardo Services handles all of the employees of the Mexican businesses, supplying services to ElicaMex. S.V. de C.V.

- Ariafina Co. Ltd – Sagamihara-Shi, Japan – is a Joint Venture set up in September 2002 with Fuji Industrial of Tokyo, Japanese market leader with more than 70% of the cooker hoods market. Following the acquisition of a further 1%, at May, 31 2006, Elica S.p.A. held control of the Joint Venture with a 51% stake. Elica S.p.A. intends to further develop sales on the key Japanese market that focuses on high-range products.

Associated companies

- Roal Electronics S.p.A. – Castelfidardo (Ancona), Italy. This company produces power supplies for the world's main HW equipment manufacturers, including IBM. It has a high quality R&D division. It is also integrated with the cooker hoods and motors businesses for the supply of control electronics. Elica S.p.A. holds a 21.271% stake in the company.

- I.S.M. S.r.l. - Cerreto d'Esi (Ancona), Italy. The company operates in the field of mechanical processing regarding the intermediate phases of the hoods production cycle. Its activities are integrated with assembly at the Elica S.p.A. plants. Elica S.p.A. holds a 49.385% stake in the company.

- Projet S.r.l. – Castelbellino (Ancona), Italy. The Group holds a 30% stake in this company that was incorporated in March 2003. Projet S.r.l. is involved in the production of design and graphic models. Generally speaking, it is involved in all aspects of the industrial design of domestic appliances.

- Air Force S.p.A. – Fabriano (Ancona), Italy. This company operates in a specialist position in the hoods sector. At December 31, 2006, Elica S.p.A's shareholding amounted to a 45% stake. On January 23, 2007, Elica S.p.A. acquired a further 15% of Air Force S.p.A., and therefore currently holds a majority stake in the company. Air Force holds a 95% interest in Technovent GmbH which sells cooker hoods on the German market through "kitchen studios". In 2005, the activities of Technovent GmbH were sold to third parties and, in the near future, the company will be organized to handle sales intermediation on the German market while terminating its direct sales activities.

- Immobiliare Camino S.r.l. – Fabriano (Ancona), Italy. This company is 20.8% owned by Turbo Air S.p.A. and operates in the real estate sector where it manages the real estate assets of the Turbo Air business. It lets real estate properties to Turbo Air at market rates.

- **Inox Market Messico – Queretaro, Mexico.** In September, the company under Mexican law Inox Market Mexico S.A. de .C.V. was formed. Its corporate purpose is marketing of steel in the American continent. The Group subscribed a 30% stake in the company through Elicamex S.A. de C.V. By acquiring this stake, the Group aims at achieving cost cutting for one of the more expensive cost items for cooker hoods production.

Dealings with subsidiaries, associate companies and other related parties

In 2006, the company effected transactions with subsidiaries, associated companies and other related parties. All the said transactions were part of the Group’s routine day-to-day business operations and were effected at arm’s length terms.

Subsequent Events and Business Outlook

On January 22, 2007, the Board of Directors approved the merger by incorporation of Jet Air S.r.l., Turbo Air S.p.A. and Fox Design S.p.A into Elica S.p.A. The subsidiaries’ Boards of Directors also approved the merger plan on the same date. The merger is aimed at further integrating Elica S.p.A.’s business processes and streamlining its structure by creating a corporate organization that reflects business management. It is expected to streamline the equity investment structure and achieve improved operating efficiency with a view to reducing operating expenses. Elica currently holds 100% of the share capital of Jet Air S.r.l. and Turbo Air S.p.A., while it directly owns 98% of the capital in Fox Design S.p.A with the remaining 2% being held indirectly through Jet Air S.r.l., the company to be merged.

The transaction will take place based on the balance sheets and income statements as of September 30, 2006, of both the merging company and those to be merged. The merger will also be completed without any new shares being issued, so there will be no capital increase of the merging company. The merger is to be completed during the financial year underway.

As part of its growth plan, on January 23, 2007 Elica S.p.A. acquired from Fintrack S.p.A. — the company which controls Elica via Fan S.A. — 15% of Air Force S.p.A., a company which manufactures and sells decorative cooker hoods for the high and medium-high segments of the market. The products are characterized by innovative design and high technology. The value of the transaction, amounting to Euro 0.3 million, was covered using Elica’s liquidity.

By acquiring this additional stake, Elica will hold 60% of the share capital of Air Force S.p.A., further strengthening its commercial presence in central and northern Europe as well as the channel of high-end furniture manufacturers, a market with high growth potential.

In 2006, Air Force S.p.A. generated revenues of Euro 16.6 million (up 18.4% compared to 2005), a Net Result of Euro 0.7 million (as against a negative result of Euro 0.1 million in 2005). Net Financial Position is slightly in the black.

On March 21, 2007, the Board of Directors of Elica S.p.A. acknowledged the resignation of Director and Chief Executive Officer Massimo Marchetti, and at the same time appointed Andrea Sasso as member of the Board of Directors and Chief Executive Officer of the Company. This occurred in a context of operating continuity and with a view to enhancing the Elica Group strategic plan designed to strengthen its sales operations to best respond to the needs of the market it serves.

There were no exceptional events following December 31, 2006 susceptible of changing Elica S.p.A.’s economic structure or assets and liabilities, or that would warrant additional notes. The Company’s business operations, the projects underway, sales and investments plans have been proceeding as planned.

Proposal for the use of profits and reclassification of reserves

Dear Shareholders,
the Financial Statements for the year 2006 that we submit for your approval closed with a net profit of Euro 9,957,326 and equity of Euro 142,671,002.

In light of the above, we invite you:

1) to approve the Directors' Report on Operations for the year 2006, and the Financial Statements for the year ended December 31, 2006, made up of the Balance Sheet, the Income Statement, and the Notes. The FTA Appendix on transition to the IAS/IFRS is an integral part of these financial statements;
2) to allocate net profit as follows: Euro 500,000 to Legal Reserve, up to one fifth of Share Capital, as provided for by Art. 2430 of the Italian Civil Code;
3) Euro 2,532,912.00 to Shareholders, with the distribution of a gross dividend of Euro 0.04 on each of the 63,322,800 shares;
4) the rest and residue, amounting to Euro 6,924,414.16 to the Extraordinary Reserve.

Thank you in advance.

Final Declaration

We hereby declare that as at the date of closure of the financial year, Elica S.p.A. does not hold own shares and/or participating interests in parent companies, either directly or through trust companies or third party intermediaries. During the financial year, the Company did not acquire or dispose of any own shares or shares in any parent company whatsoever.

Fabriano - March 29, 2007

The Board of Directors
The Chairman
Francesco Casoli

ELICA S.p.A.

Registered office: Via Dante, 288 – 60044 Fabriano (AN) – Share capital: Euro 12,664,560 fully paid up

Separate Financial Statements for the Year Ended December 31, 2006

Income Statement	Note	**Dec. 31, 2005 Adjusted for IAS**	**Dec. 31, 2006**
Revenues from third parties	4.1	211,849,454	223,412,788
Revenues from related parties	4.1	23,325,131	27,852,344
Other operating income	4.2	2,617,521	2,462,156
Change in inventories of finished goods and work in progress	4.3	82,990	1,074,044
Increase in tangible and intangible assets due to capitalization of internal costs	4.4	309,517	497,061
Raw materials and supplies	4.5	(93,211,039)	(97,205,883)
Cost of raw and consumable materials to related parties	4.5	(25,377,147)	(28,484,081)
Service expense to third parties	4.6	(39,372,863)	(41,242,561)
Service expense to related parties	4.6	(13,471,963)	(14,107,716)
Personnel costs	4.7	(39,960,130)	(42,792,586)
Amortization and depreciation	4.8	(8,576,405)	(9,008,904)
Other operating expenses and provisions	4.9	(4,129,658)	(4,214,457)
Operating profit		**14,085,408**	**18,242,204**
Income and loss from equity investments in associates and joint ventures	4.10	2,227,375	1,939,897
Impairment of available-for-sale Financial Assets	4.11	(606,796)	(194,735)
Financial income	4.12	422,197	620,754
Financial charges	4.13	(1,466,964)	(1,258,497)
Foreign exchange gains (losses)	4.14	336,367	(550,494)
Profit before tax		**14,997,587**	**18,799,129**
Income taxes	4.15	(6,781,669)	(8,841,803)
Profit for the year		**8,215,918**	**9,957,326**
Earnings per share—Basic			
from continuing operations (Euro/cents)	4.16	16.17	18.93
Earnings per share—Diluted			
from continuing operations (Euro/cents)	4.16	16.17	18.93

Balance Sheet	Note	Dec. 31, 2005 adjusted for IAS	Dec. 31, 2006
Property, plant and equipment	4.17	35,176,628	35,093,365
Other intangible assets	4.18	2,283,770	2,983,627
Investments in subsidiaries	4.19	32,559,130	48,080,640
Investments in associates and joint ventures	4.20	4,286,208	6,057,834
Other financial assets	4.21	1,748,112	150,000
Sundry receivables	4.22	1,295,148	1,262,597
Tax receivables	4.23	6,041	752
Deferred tax assets	4.24	1,849,068	3,457,258
Available-for-sale investments	4.25	84,223	86,223
Non current assets		**79,288,328**	**97,172,296**
Trade receivables	4.26	55,936,021	57,439,089
Trade receivables and loans to related parties	4.26	11,933,979	50,981,580
Inventories	4.27	21,682,538	24,161,036
Other receivables	4.28	949,937	1,189,615
Tax receivables	4.23	4,476,202	1,163,826
Derivative financial instruments	4.29	1,676	95,660
Cash and cash equivalents	4.30	13,803,054	11,301,281
Current assets		**108,783,407**	**146,332,087**
Total assets		**188,071,735**	**243,504,383**

Balance Sheet		Dec. 31, 2005 adjusted for IAS	Dec. 31, 2006
Liabilities and equity	Note		
Retirement benefit obligation	4.31	6,993,518	7,357,761
Provisions	4.32	1,075,705	1,136,588
Deferred tax liabilities	4.24	4,579,311	4,615,726
Due to banks and bank loans	4.33	8,666,744	1,881,643
Obligations under finance leases and towards other lenders	4.34	4,618,799	3,372,274
Tax payables	4.35	3,877,277	3,851,924
Other payables	4.36	3,943,225	3,934,581
Derivative financial instruments	4.29	57,832	9,888
Non current liabilities		**33,812,411**	**26,160,385**
Provisions	4.32	350,000	611,000
Due to banks and bank loans	4.33	4,587,953	254,191
Obligations under finance leases and towards other lenders	4.34	1,348,109	1,248,137
Trade payables to third parties	4.37	48,356,207	48,272,930
Trade payables to and loans from related parties	4.37	13,104,549	14,634,341
Tax payables	4.35	3,540,929	2,582,285
Other payables	4.36	6,535,848	7,053,655
Derivative financial instruments	4.29	24,683	16,457
Current liabilities		**77,848,278**	**74,672,996**
Share capital		10,164,560	12,664,560
Capital reserves		14,810,711	71,123,336
Retained losses		(48,801)	(17,651)
Earnings reserve		43,268,658	48,943,432
Profit for the year		8,215,918	9,957,326
Equity	4.38	**76,411,046**	**142,671,002**
Total liabilities and equity		**188,071,735**	**243,504,383**

Statement of Movements in Equity *(in thousands of Euro)*	**Share capital**	**Share premium reserve**	**Earnings reserve**	**Other reserves**	**Profit**	**Total equity**
Balance at December 31, 2004 — Italian GAAP	10,165	14,811	41,579	-	1,950	**68,505**
Transition to IAS	-	-	247	(66)	-	**181**
Balance at December 31, 2004 restated in accordance with IFRS	**10,165**	**14,811**	**41,826**	**(66)**	**1,950**	**68,686**
Allocation of profit for 2004						
Dividends			(509)			**(509)**
Allocation of profit (loss) for the year			1,950		(1,950)	**0**
Economic items directly recognized in equity						
Adjustment of hedging reserve				44		**44**
Other changes						
Transfer to income statement of hedging derivatives, net of the tax effect				(27)		**(27)**
Net profit for the year — Italian GAAP					6,737	**6737**
Higher profit generated by transition to IAS					1,480	**1,480**
Balance at December 31, 2005 — IFRS	**10,165**	**14,811**	**43,267**	**(49)**	**8,217**	**76,411**
Allocation of profit for 2005						
Dividends			(2,541)			**(2,541)**
Allocation of Profit (loss) for the year			6,737		(6,737)	**-**
Allocation of higher profit generated by transition to IAS			1,480		(1,480)	**-**
Economic items directly recognized in equity						
Adjustment of hedging reserve				16		**16**
Other changes						
Share capital increase	2,500	59,962				**62,462**
Cost of issuing share capital (note 4.38)		(5,840)				**(5,840)**
Tax effect on the costs of issuing share capital (note 4..38)		2,190				**2,190**
Transfer to income statement of the hedging reserve				16		**16**
Profit for the year					9,957	**9,957**
Balance at December 31, 2006	**12,665**	**71,123**	**48,943**	**(17)**	**9,957**	**142,671**

CASH FLOW STATEMENT	Note	Dec. 31, 2005	Dec. 31, 2006
OPERATING ASSETS	4.40		
Profit for the year		**8,215,918**	**9,957,326**
Adjustments for non-cash items:			
Amortization for intangible assets		1,248,945	1,562,821
Depreciation of property, plant and equipment		7,327,459	7,446,083
Termination indemnity accruing for the year		1,197,787	1,539,872
Termination indemnity paid during the year		(891,847)	(1,527,729)
Financial charges on termination indemnity		308,465	352,100
Current and deferred taxation for the year		6,781,668	8,841,803
Other financial charges		1,194,220	906,397
Effect of foreign exchange fluctuations		(17,236)	85,232
Increase / (Decrease) in provisions for doubtful debts		119,913	-
Increase / (Decrease) in provisions for risks and charges		(124,975)	321,883
Impairment of available-for-sale assets		606,796	194,735
Cash flow from operating activities before changes in working capital		**25,967,113**	**29,680,523**
(Increase)/decrease in receivables		(6,577,313)	(3,573,095)
Inventories		2,142,704	(2,478,498)
Increase/(decrease) in payables		(2,264,095)	(3,351,969)
		(6,698,704)	(9,403,562)
Cash generated from operations		**19,268,409**	**20,276,961**
Income taxes paid		(4,383,534)	(8,999,346)
Interest paid		(989,921)	(629,103)
Net cash generated from operations		**13,894,954**	**10,648,512**
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds on disposal of property, plant and equipment		2,955,282	1,342,767
Purchases of property, plant and equipment		(8,448,245)	(6,469,540)
Net increase in intangible assets		(1,422,944)	(2,262,678)
Net change in investments and available-for-sale assets		(339,764)	(15,733,784)
Jet Air dividends from pre-acquisition profit			200,000
Increase in available-for-sale assets		(381,637)	(196,735)
Increase/(Decrease) in intra-group financial receivables		2,849,841	(33,588,995)
Generated net cash used for investment activities		**(4,787,467)**	**(56,708,965)**
FINANCIAL ACTIVITIES			
Increase/(Decrease) in financial payables		(2,732,503)	(12,465,359)
Increase in share capital and share premium reserve	4.38	-	62,463,075
Use to pay costs for increase in share capital *	4.38	-	(3,897,895)
Dividend payout	4.38	(508,228)	(2,541,140)
Generated net cash generated/(used) for investment activities		(3,240,731)	43,558,681
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**5,866,756**	**(2,501,772)**
CASH AND CASH EQUIVALENTS AT THE START OF THE YEAR		**7,936,297**	**13,803,054**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**13,803,054**	**11,301,281**

Summary of Notes to the Separate Financial Statements

at December 31, 2006

1. Accounting Standards, Critical Accounting Policies and Transition to IFRS

General Information

Elica S.p.A. is a company incorporated under Italian law based in Fabriano (Ancona – Italy), Via Dante 288.
The Company listed on the STAR segment of the electronic share market (Mercato Telematico Azionario – MTA), organized and managed by Borsa Italiana S.p.A.
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.
The financial statements are denominated in Euro, which is the functional currency.
The financial statements are denominated in Euro, whereas figures in the notes are in thousands of Euro.

Adoption of the International Accounting Standards

The Financial Statements of Elica S.p.A. for the year ended December 31, 2006 were prepared for the first time in accordance with the International Financial Reporting Standards (hereinafter referred to as IFRS or IAS) issued by the International Accounting Standards Board (IASB), as interpreted by the International Financial Reporting Interpretation Committee (IFRIC) and adopted by the European Union. The accounting statements and this report have been prepared in accordance with CONSOB regulations, with special reference to Resolutions 15519 and 15520 of July 27, 2006 and Communication 6064293 of July 28, 2006.

The financial statements for the year ended December 31, 2006, include an Appendix on First Time Adoption (FTA), on the transaction to the IFRS. The Appendix is an integral part of this report, which was approved by the Board of Directors today, March 29, 2007.

The separate financial statements at December 31, 2006 present a comparison with the financial statements for the previous year, and are made up of the Income Statement, the Balance Sheet, the Cash Flow Statement, and the Statement of Movements in Equity and these Notes. Figures for the year 2005 have been restated by retroactively applying the international accounting standards as of January 1, 2005, as prescribed by IFRS 1.

For the purposes of a thorough analysis of the valuation principles and the effects arising on the transition to IFRS, please refer to the FTA Appendix, which is an integral part of these Notes.

The Financial Statements and Notes obey to the minimum content prescribed by IAS/IFRS, integrated — where applicable — by the Italian legislator and by CONSOB.

General Criteria

The separate financial statements have been prepared based on the historic cost convention except for several financial instruments that are stated at fair value. The account balances have been valued in accordance with the general prudence and accruals concepts, on a going concern basis and taking into account the economic purpose of the assets and liabilities.

Accounting Statements

According to IAS 1, the management of the Company has chosen the following options regarding the presentation of financial statements:

- The **Balance Sheet** has been presented in such a way as to distinguish between current and non-current assets and liabilities. An asset/liability is classified as current when it meets the following criteria: It is expected to be realized/extinguished in, or is intended for sale or consumption in, the entity's normal operating cycle; it is held for trading; it is expected to be extinguished within 12 months after the Balance Sheet date. If they do not meet all three conditions, assets/liabilities are classified as non-current.

- The **Income Statement** has been prepared by nature of the account balances and also presents interim operating profit and profit before tax to allow for a better measurements of the operating performance.
  Operating profit is measured as the difference between net revenues and operating costs (the latter including non-monetary costs pertaining to amortization, depreciation and impairments of current and non-current assets, net of any value reversal). It also includes gains/losses arising on the sale of non-current assets.

- **The Cash Flow Statement** has been prepared using the indirect method, whereby the operating result is adjusted for the effects of non-monetary transactions;

- **The Statement of Movements in Equity** explains the changes in equity items.

Accounting Policies

The most significant accounting standards and accounting policies adopted to prepare Elica S.p.A.'s financial statements are outlined below.

Property, Plant and Equipment

Tangible assets 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, 2005. which is considered to reflect the fair value of the asset at the date of the revaluation ("deemed cost" in terms of IFRS 1).

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

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

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 %

Purchase cost is also adjusted for capital grants already allocated to the Group companies. These grants are recognized in the income statement by gradually reducing the depreciation charged over the useful life of the assets to which they relate.

Maintenance, repair, expansion, modernization 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.

Other Intangible Assets

Other Intangible Assets include assets that can generate future benefits.

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 Elica products are recognized only if the following conditions are met:
- the asset is identifiable;
- it is likely that it will generate future economic benefits;
- the cost of developing the asset can be reliably measured.

These intangible assets are amortized on a straight line basis over their useful lives.
When internally generated assets cannot be recognized in the Balance Sheet, the related development costs are charged to the income statement in the period in which they are incurred.

Internally generated intangible assets

This item refers to participation to expenses for the production of equipment and are amortized based on the duration of the underlying contracts.

Trademarks and patents

Trademarks and similar rights refer to the Company's proprietary trademarks and are amortized on a straight line basis over their useful lives.
Patents are initially measured at purchase cost and amortized on a straight-line basis over their useful lives.
Intellectual property rights

This item includes the cost of application software with indefinite user license, which is recognized at cost.
Intellectual property rights are amortized on a straight-line basis over their useful lives.

Impairment

At each reporting date, the Company assesses the existence of events or circumstances that raise doubts as to the recoverability of the value of property, plant, equipment and intangible assets with a definite useful life. If there are any indications that there has been an impairment of value, the Company estimates the recoverable value of the property, plant, 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 tested for impairment once a year 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 loss is immediately recognized in the income statement.
When the reasons for impairment no longer exist, the carrying amount of the asset (or CGU) – except for goodwill – is written back to the revised estimate of its recoverable value. The new value cannot exceed the net carrying prior to recognition of the impairment loss.
The reversal of an impairment loss is recorded immediately in the income statement.

Equity Investments in Subsidiaries and Associates

Equity investments in associates that are not classified as held for sale are recognized at cost. At every reporting date, they are assessed in order to find any indications of reduction in the value of the cost of the equity investment. If such indications are found, the investments are tested for impairment as required by IAS 36. Any impairment loss in the equity investment is recognized in case the recoverable value is lower than the carrying value. Recoverable value is the higher between the fair value of the equity investment, net of costs to sell, if they can be measured, and the usage value, which is the present value of estimated cash flows for the periods of operations of the Company tested for its value, and generated by its disposal at the end of its useful life. If, after the write-down there are signs that the loss does not exist or is reduced, the value of the equity investment is written up to account for the lower impairment loss. After writing off the cost of the equity investment, any further losses recognized by the investee company are included among liabilities, if a legal or implicit obligation of the investing company to cover the higher losses of the investee company exists.

Inventories

Inventories are recognized at the lower of purchase or production cost and net realizable value as argued from the market trend.
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 amortized 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 recognized 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 reporting dates, the financial assets are valued depending on their characteristics as follows:

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

- Held-for-trading financial assets 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 recognized in equity are charged to the income statement for the period. Available-for-sale 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 Company 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 normally represents their fair value. In the event of a significant difference between nominal value and fair value, the trade payables are recorded at fair value and subsequently valued at amortized 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 recognized at amortized cost using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recognized based on the proceeds received, net of direct issue costs.

Derivative instruments and accounting for hedging transactions

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

Exchange risk management is regulated by a risk policy with a view to protecting the value expected by the business, without any speculative or trading objective.

The exchange risk method applied involves the systematic hedging of foreign exchange risks arising for the individual companies. Once the budgeted exchange rate — or the target exchange rate — has been identified for each currency other than the euro, the Company determines the cash flows to be hedged (the balance of receivables and payables at period start plus the balance of 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 authorized by the risk policy to use.

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

Where applicable, hedge accounting is applied, whereby derivatives are recognized at fair value in the Balance Sheet. Mark-to-market derivative instruments 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 recognized 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 recognized 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 classified as hedges are recognized 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.

Retirement Benefit Obligation

The Italian retirement benefit obligations (TFR) is considered equivalent to a defined benefit scheme. For these schemes, the cost of the benefits is measured 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 defined-benefit obligations are amortized over the estimated average remaining working life of the employees taking part in the scheme.

Post-retirement benefits recognized in the Balance Sheet represent the present value of liabilities under defined benefit plans as adjusted for unrecognized actuarial gains and losses.

Finally, the interest on employee benefit plans is recognized under financial costs.

Provisions

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

Provisions are made based on the 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 recognized when the goods are delivered and the Company has transferred the significant risks and rewards of ownership of the goods to the buyer.

Interest income (except for dividends) 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 rewards of ownership to the leasee. All other lease agreements are considered as operating leases.

Assets held under finance leases are measured 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 lessors 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 on a straight-line basis 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 Transactions

Assets and liabilities denominated in foreign currency are translated at the reporting 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 unrealized, otherwise they are recorded in the income statement.

Taxation

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

Current taxation is based on taxable income for the year as determined under applicable tax law. Current tax liabilities were calculated using the rates of taxation applicable at the Balance Sheet date.

As of financial year 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 tax consolidation 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 Elica (Parent Company) and the aforementioned subsidiaries are defined by a consolidation agreement prepared with each consolidated company.

With regard to accountability, the agreement provides that Elica, the Parent Company, is jointly liable with the subsidiaries adhering to the tax consolidation:

- amounts due by the subsidiary under Article 127(1) of the Income Tax Consolidated Law;
- 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 subsidiaries that participate in the tax consolidation 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. 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 tax consolidation, 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

Elica for the current tax on income transferred by such subsidiaries under the tax consolidation regulations.

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

Deferred and prepaid IRES is calculated on the temporary differences between the values of the assets and liabilities measured using IAS criteria, and the relevant taxable values, only with reference to the company.

Current, deferred and prepaid IRAP is determined only with reference to the company.

Deferred taxes are allocated based on temporary differences and are recognized using the liability method. Deferred tax assets and liabilities also arise as a result of consolidation adjustments made.
No tax provision has been made in relation to reserves subject to taxation upon distribution as no transactions that could trigger their taxation are planned.

Deferred tax assets are recognized 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 realized 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 recognized in equity.

Earnings per Share

Basic earnings per share is calculated based on the net profit 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.

2. Accounting Standards Effective as of January 1, 2006

Accounting Standards Applied as of January 1, 2006

In December 2004, IFRIC issued IFRIC interpretation 4 — Determining whether an arrangement contains a lease to provide guidance on determining whether arrangements that do not take the legal form of a lease should, nonetheless, be accounted for in accordance with IAS 17 – *Leases*. In detail, the interpretation specifies that a contract containing a leasing and its fulfillment depends on the use of a specific asset and gives right to control and use of that asset.
The interpretation of January 1, 2006 was applied without however finding any significant impacts.

In April 2005, IASB issued an amendment to IAS 39 – *Financial Instruments: Recognition and Measurement*, to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedge item in a cash flow hedge in consolidated financial statements — provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk affects the consolidated financial statements. This amendment also specifies that if the coverage of an intra-group transaction respects the prerequisites for hedge accounting, any gains or losses recognized directly in equity in accordance with IAS 39 is reclassified in the income statement in the period in which the effects of the exchange risk of the hedged transaction are recognized in the income statement.
In June 2005, IASB issued an amendment to IAS 39 – *Financial Instruments*: Recognition and Measurement to restrict the use of the option to designate any financial asset or any financial liability to be measured at fair value through income statement (the "fair value option"). This revision of the standard confines the use of this option to the financial instruments that comply with the following conditions:

- designation according to the fair value option eliminates or significantly reduces the imbalance in the recognition;
- a group of financial assets, financial liabilities or both are managed and their performance is measured based on the fair value, using a documented strategy of risk or investment management;
- and an instrument includes an implicit derivative that meets specific requirement.

The Group has applied these amendments to IAS 39 as of January 1, 2006. The adoption of these amendments however did not have any impact on equity and the result for the period.
In August 2005, IASB issued a further amendment to IAS 39 and IFRS 4 for the accounting treatment of guarantees issued. Based on this amendment, liabilities from financial contracts on guarantees must be recognized in the financial statements of the guarantor, as follows:
initially at fair value, then, at the higher of (i) the best estimate of the expense necessary to fulfill an obligation at the reporting date, as per IAS 37 — Provisions, Contingent Liabilities and Contingent Assets, and (ii) the initially recognized amount less any accumulated depreciation and amortization as per IAS 18 - Revenue.
The application of this amendment had no impact on these financial statements.

New Accounting Standards

In August 2005, IASB issued a new accounting standard, IFRS 7 – Financial Instruments: additional information and a complementary amendment to IAS 1 – Presentation of Financial Statements: *Disclosures*. IFRS 7 includes an updated version of information requirements previously included in IAS 32 – Financial Instruments: Presentation, which requires additional information to account for the financial instruments with respect to economic performances and to the company's financial position. The new accounting principle requires a description of the objectives, policies and processes set by the management for managing risks arising from financial instruments to which the entity is exposed (liquidity risk, market risk and credit risk), including sensitivity analyses for any type of market risks (exchange rate risk, interest rate risk, equity risk and commodity risk) and information on the concentration of risk and on minimum, intermediate and maximum exposures to those risks during the reference period, if the data disclosed at the reporting date are unrepresentative of the Company's exposure.
The amendment to IAS 1 introduces further obligations to disclose information on objectives, policies and processes for managing capital; the entity is also required to specify any capital requirements imposed by third parties and, if any, their nature, management and any

consequences in the event of non-compliance. IFRS 7 and the amendment to IAS 1 became effective as of January 1, 2007, and require entities to disclose comparison figures pertaining to 2006.
The impacts of application of this principle are currently being assessed in view of its application starting from the Financial Statements for the period ended December 31, 2007. On March 3, 2006, IFRIC issued interpretation document IFRIC 9 – *Reassessment of Embedded Derivatives*, requiring an entity to assess whether any embedded derivatives are required to be separated from the host contract and accounted for as if they were stand-alone derivatives when the entity first becomes a party to a hybrid 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 for periods beginning on or after January 1, 2007 and no significant effects are forecast. On November 30, 2006 IASB issued accounting principle IFRS 8 – *Operating Segments*, which will be applicable for periods beginning on or after January 1, 2009 and will replace IAS 14 – *Segment Reporting*. The new IFRS requires an entity to base information reported in its Segment Reporting on the elements that management uses internally for taking operating decisions. It therefore requires an entity to identify operating segments according to internal reporting systematically reviewed by the management to allocate resources to the different segments and to conduct performance analyses. At the reporting date, the effects that may derive from the adoption of this principle were being evaluated. To that date, no significant differences had been identified compared to the disclosure that is currently presented.
In November 2006, IFRIC issued interpretation IFRIC 12 — *Service Concession Arrangements* (applicable starting from January 1, 2008), whose impact is currently being evaluated. It should lastly be noted that IFRIC 8 (Scope of IFRS 2 – applicable starting on January 1, 2007), which was issued in 2006, cannot be applied by the Companies.

3. Valuation Decisions and Significant Estimates

Preparation of the annual financial statements in accordance with IFRS, requires management to make accounting estimates and assumptions which impacted the assets and liabilities and information reported, in general. The actual results might 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 date of the interim report that may lead to significant adjustments to the carrying amount of assets and liabilities within the following year mainly relate to the goodwill of subsidiaries and associates, which are recognized at cost, adjusted in case of impairment losses (impairment test).

4. Notes to the Income Statement, Balance Sheet and Cash Flow Statement

INCOME STATEMENT

4.1 Revenues

4.01 Revenues from third parties

This item is broken down as follows:

(in thousands of Euro)	Dec. 31, 2005	Dec. 31, 2006	Increase/ (Decrease)
Revenues from the sale of products	210,662	221,965	11,303
Revenues for services	1,187	1,448	261
Total	**211,849**	**223,413**	**11,564**

Revenues increased approximately 5.5% compared to the previous year; this allowed the Company to improve its market share, continuing to remain an absolute leader in its industry.

4.01 Revenues from related parties

(in thousands of Euro)	Dec 31, 2005	Dec. 31, 2006	Increase/ (Decrease)
from subsidiary companies	22,272	26,549	4,277
from associates	1,053	1,303	250
Total	**23,325**	**27,852**	**4,527**

This item was Euro 27,852 thousand (Euro 23,325 thousand in 2005); these amounts mainly refer to the sale of finished products to subsidiary Fox Design amounting to Euro 7,860 thousand (Euro 1,817 thousand in 2005), to subsidiary Jet Air S.r.l. for Euro 10,657 thousand (Euro 14,633 thousand in 2005), to Ariafina for Euro 2,272 thousand (Euro 4,141 thousand in 2005), to the associate company AirForce S.p.A. for Euro 1,201 thousand (Euro 1,013 thousand in 2005).
All transactions are settled at transfer price at arm's length, in line with conditions applied to third parties.

4.01 Breakdown of revenues by geographical area

The breakdown of revenues from sales and services by geographical area of destination is as follows:

(in thousands of Euro)	Dec. 31, 2005	Dec. 31, .2006	Increase/ (Decrease)
Europe + CIS	200,219	212,862	12,643
Other countries	13,480	12,058	(1,422)
America	21,475	26,345	4,870
Total	**235,174**	**251,265**	**16,091**

The revenues increase was mainly achieved in European (up 6%) and American markets (up 23%).

4.2 Other operating income

(in thousands of Euro)	Dec. 31, 2005	Dec. 31, 2006	Increase/ (Decrease)
Capital grants	215	0	(215)
Ordinary gains	284	221	(63)
Claims and insurance payouts	1,551	617	(934)
Expenses recovered	238	1,414	1,176
Other revenues and income	330	210	(120)
Total	**2.618**	**2.462**	**(154)**

The item Expenses recovered increased sharply due to transport costs totaling Euro 456 thousand, the recovery of costs incurred for starting up operations in Mexico (Euro 426 thousand) and in Poland (Euro 155 thousand), and the reimbursement of custom fees and foreign taxes (Euro 76 thousand). The decrease in claims and insurance payouts mainly refers to insurance payout received following heavy snowfalls in January 2005, which is offset by lower insurance payout for weather damage in 2006.
This non-recurring insurance payout amounted to Euro 776 thousand for indirect damages suffered in the form of the loss of industrial margin as a result of the suspension of production and commercial activities. The remaining amount refers to the payout received for damaged inventories.

4.3 Change in inventories of finished goods and work in progress

This item increased by Euro 991 thousand compared to 2005. This increase is due to the higher level of Balance Sheet inventory in line with the revenue growth.

4.4 Increase in property, plant, equipment and intangible assets due to capitalization of internal costs

Increase in fixed assets due to the capitalization of internal costs amounted to Euro 497 thousand (Euro 310 thousand in the prior year). It refers to capitalization of internal deferred charges regarding the design, development of new products and the in-house construction of moulds and equipment.

4.5 Raw materials and consumables used

(in thousands of Euro)	Dec. 31, 2005	Dec. 31, 2006	Increase/ (Decrease)
Purchases of supplies	1,662	1,488	(174)
Workshop materials	90	70	(20)
Purchases of raw materials	100,934	108,921	7,987
Change in inventories of raw materials, ancillary, and supplies	2,226	(1,404)	(3,630)
Purchases of finished products	5,219	7,315	2,096
Packaging	7,829	8,661	832
Other purchases	371	513	142
Transport on purchases	257	126	(131)
Total	**118,588**	**125,690**	**7,102**

The balances are broken down as follows:

(in thousands of Euro)	Dec. 31, 2005	Dec. 31, 2006	Increase/ (Decrease)
Third parties	93,211	97,206	3,995
Related parties	25,377	28,484	3,107
Total	**118,588**	**125,690**	**7,102**

Raw materials used increased by over Euro 7 million in 2006 in absolute terms, compared to 2005. This increase was due to the change in revenues and the trend of costs of raw materials, which was on average more disadvantageous than in 2005.
The item Purchases of supplies is recognized among non-recurring charges for an amount totaling Euro 111 thousand in purchases of supplies, for prototypes and laboratory, of which Euro 63 thousand for starting up operations in Mexico and Euro 48 thousand for building up sales of own brand products.

Purchases from related parties made in the year amounted to Euro 28,484 thousand (Euro 25,377 thousand in 2005).

The largest purchases were made for electrical motors from subsidiary Fime S.p.A., amounting to Euro 19,002 thousand (Euro 18,424 thousand in 2005); products sold to subsidiary Fox Design S.p.A., amounting to Euro 3,757 thousand (Euro 2,451 thousand in 2005) and to subsidiary Turbo Air S.p.A. (former O.L.A. S.r.l.), amounting to Euro 1,009 thousand (Euro 1,164 thousand in 2005); of electronic components from the associate company Roal Electronics S.p.A. amounting to Euro 3,598 thousand (Euro 2,739 thousand in 2005).

All transactions are settled at transfer price at arm's length, in line with conditions applied to third parties.

4.6 Services

(in thousands of Euro)	Dec. 31, 2005	Dec. 31, 2006	Increase/ (Decrease)
Third party manufacturing	29,489	30,324	835
Transportation	4,879	5,252	373
Finished goods inventories / logistics costs	3,213	3,126	(87)
Consulting	2,653	2,127	(526)
Maintenance	2,012	1,897	(115)
Utilities	1,860	2,127	267
Sales commissions	828	1,384	556
Travel expenses	1,239	1,583	344
Advertising	1,126	1,350	224
Insurance	771	778	7
Compensation of Board of Directors and Board of Statutory auditors	487	524	37
Trade fairs and promotional events	765	1,150	385
Industrial services	456	430	(26)
Commissions for bank charges	184	161	(23)
Other services	2,883	3,137	254
Total	**52,845**	**55,350**	**2,505**

The balances are broken down as follows:

(in thousands of Euro)	Dec. 31, 2005	Dec. 31. 2006	Increase/ (Decrease)
Third parties	39,373	41,242	1,869
related parties	13,472	14,108	636
Total	**52,845**	**55,350**	**2,505**

The costs of services increased 4%, though the ratio to revenues remained in line with that of the previous year (approximately 22% in both financial years).
The main items that increased during 2006 are those related to sales: commissions, transportation, trade fairs and promotional events, travel expenses; consulting and finished goods inventories decreased; the other items remained virtually unaltered.
Third-party manufacturing grew in line with the revenue increase.

In 2006, services included non-recurring costs for starting up operations in Mexico (Euro 910 thousand), mainly including consulting, promotional and marketing initiatives, trade fairs and other events undertaken to sustain growth of the strategic business area, regarding the sale of own brand products (Euro 316 thousand).

Total services from related parties amounted to Euro 14,108 thousand (Euro 13,472 thousand in 2005).
The highest amounts refer to mechanical works carried out by I.S.M. S.r.l., amounting to Euro 13,943 thousand (Euro 13,201 thousand in 2005).

4.7 Personnel costs

Personnel costs for 2005 and 2006 was broken down as follows:

(in thousands of Euro)	Dec. 31, .2005	Dec. 31, 2006	Increase/ (Decrease)
Wages and salaries	28,055	29,529	1,474
Social benefit charges	9,419	9,604	185
Termination indemnity	1,198	1,540	342
Other costs	1,288	2,119	831
Total	**39,960**	**42,792**	**2,832**

This item amounted to Euro 42,792 thousand, overall increasing about 7% compared to the previous year.
The change in the balance of this item was due to the increase in personnel in order to better manage the complex organizational structure and the effects of the renewal of the Italian collective labor agreement for the metalworkers industry.
We also note that the item Other costs includes non-recurring charges for staff redundancy incentives (amounting to Euro 511 thousand in 2006 and Euro 117 thousand in 2005), and non-recurring charges for personnel relating to the start-up of production operations in Mexico (Euro 775 thousand).

Other costs includes the cost of temporary labor (Euro 1,054 thousand in 2006, Euro 811 thousand in 2005).

The following table reports details of average Company workforce at December 31, 2005 and December 31, 2006:

Headcount	Dec. 31, 2005	Dec. 31, 2006	Increase/ (Decrease)
Managers	15	18	3
White collar	168	195	27
Blue collar	1,007	930	(77)
Others	32	35	3
Total	**1,222**	**1,178**	**(44)**

4.8 Amortization and depreciation

Total amortization and depreciation charges increased from Euro 8,576 thousand in 2005 to Euro 9,009 thousand in 2006, due to changes in amortization of intangible assets and depreciation of property, plant and equipment as explained in the relevant Fixed assets section.

4.9 Other operating expenses and provisions

The item is broken down as follows:

(in thousands of Euro)	Dec. 31, 2005	Dec. 31, 2006	Increase/ (Decrease)
Leasing and rental	858	1,029	171
Rental of vehicles	1,020	1,113	93
Expenses for hardware, software and patent	134	140	6
Taxes other than income taxes	246	237	(9)
Magazines and newspapers	39	33	(6)
Other unaccrued prior year charges and losses on disposals	280	134	(146)
Tools	156	152	(4)
Catalogues and brochures	51	336	285
Other losses	490	519	29
Bad debt loss	120	0	(120)
Provisions for risks and charges	268	261	(7)
Other minor charges	24	55	31
Claims, damages and penalties	443	205	(238)
Total	**4,129**	**4,214**	**85**

4.10 Income and loss from associates equity investments

(in thousands of Euro)	Dec. 31, 2005	Dec. 31, 2006	Increase/ (Decrease)
Income from associates equity investments	2,227	1,940	(287)
Total	**2,227**	**1,940**	**(287)**

This amount includes dividends approved by subsidiary companies, specifically by Fime S.p.A. (Euro 1,150 thousand), Fox Design S.p.A. (Euro 490 thousand), and Jet Air S.r.l. (Euro 300 thousand).
Jet Air paid out further Euro 200 thousand for pre-acquisition profits at acquisition date. These dividends reduced the value of the equity investment, in line with the relevant standard.

4.11 Impairment of available-for-sale financial assets

(in thousands of Euro)	Dec. 31, 2005	Dec. 31, 2006	Increase/ (Decrease)
Charges	(607)	(195)	412
Total	**(607)**	**(195)**	**412**

This item refers to writedowns made in 2006 to take account of the permanent impairment of the value of the investment in Aerdorica S.p.A., amounting to 195 thousand (written down by Euro 607 thousand in 2005).

4.12 Financial income

Financial income is analyzed below:

(in thousands of Euro)	Dec. 31, 2005	Dec. 31, 2006	Increase/ (Decrease)
Interest income from subsidiary companies	124	192	68
Income from long-term securities	83	28	(55)
Income from current securities	6	6	-
Interest income from associated companies	7	2	(5)
Bank interest income	150	253	103
Other financial income	52	140	88
Total	**422**	**621**	**199**

The increase in financial income, amounting in absolute value to Euro 199 thousand, was largely due to additional bank interest income; Income from current securities, amounting to Euro 28 thousand (Euro 83 thousand in 2005), includes interest income on the convertible bond issued in 2004 by the associate company Roal Electronics S.p.A., which was converted ahead of schedule, on April 28, 2006.
As a result of loans to Group Companies, using financial resources generated by the listing of shares on the stock exchange on November 10, 2006, the interest income from subsidiaries increased by Euro 68 thousand.

4.13 Financial charges

(in thousands of Euro)	Dec. 31, 2005	Dec 31, .2006	Increase/ (Decrease)
Financial charges			
on due to banks and bank loans	505	248	(257)
on amounts due to other lenders	194	265	71
on termination indemnity provision	308	352	44
Other financial charges	460	393	(67)
Total financial charges	**1,467**	**1,258**	**(209)**

The change in this item was mainly due to financial charges and bank loans amounting to Euro 257 thousand, an increase in interest paid to other lenders, mainly leasing companies (Euro 71 thousand), as a result of Euribor increase.

4.14 Foreign exchange gains and losses

(in thousands of Euro)	Dec. 31, 2005	Dec. 31, 2006	Increase/ (Decrease)
Foreign exchange losses	(289)	(1.094)	(805)
Charges from derivatives	(137)	(12)	125
Foreign exchange gains	759	400	(359)
Derivative premiums	3	156	153
Total	**336**	**(550)**	**(886)**

In 2006, net exchange losses were mainly due to the weakening of the US dollar and Japanese Yen against the Euro.

This item includes unrealized exchange gains and losses arising on the restatement of foreign currency receivables and payables at year end exchange rates; net unrealized exchange gains totaled Euro 72 thousand, whereas net exchange losses amounted to Euro 222 thousand.

4.15 Income taxes

Taxes for 2006 amounted to Euro 8,842 thousand, and consists of the following current and deferred taxes:

(in thousands of Euro)	Dec. 31, 2005	Dec. 31, 2006	Increase/ (Decrease)
Current taxation (Ires)	4,663	5,788	1,125
Deferred taxation (Ires)	(51)	446	497
Current taxation (Irap)	2,252	2,597	345
Deferred taxation (Irap)	(82)	11	93
Total income taxes	**6,782**	**8,842**	**2,060**

Moreover, during the year, deferred taxation amounting to Euro 2,190 thousand was directly recognized in the Balance Sheet, in line with underlying transactions (Euro 15 thousand tax losses in 2005).

Theoretical tax rate for 2006 (the ratio of theoretical taxes on pre-tax profit) was 37.5%. This amount was calculated by applying current tax rates for IRES and IRAP taxes to the relevant taxable income as reported in the financial statements for the year ended December 31, 2006.

The reconciliation between theoretical taxes, as calculated based on the theoretical tax rate of the Parent Company, and effective tax rate for the year is reported in the table below.

Reconciliation Statement Between Theoretical and Effective Tax Rates

The IRES provision for the year can be reconciliated with the profit for the year, as reported in the following table:

			2005					**2006**			
	IRES rate		33.00%					33.00%			
	IRAP rate		4.50%					4.50%			
		Taxable profit	**IRES**	**IRAP**	**Total**	**% IRES on profit before tax**	**Taxable profit**	**IRES**	**IRAP**	**Total**	**% IRES on profit before tax**
	Income taxes										
	- Current		4,663	2,252	6,915			5,788	2,597	8,385	
	- Differed cost (income)		(51)	(82)	(134)			446	11	457	
	[A] TOTAL INCOME TAX		**4,612**	**2,170**	**6,782**	**30.75%**		**6,234**	**2,607**	**8,842**	**33.16%**
	PROFIT BEFORE TAX	14,998					18,799				
+/-	Tax calculated using local tax rate		4,949			33.00%		6,203			33.00%
-	Tax effect of revenues that are not deductible in determining taxable profit	(2,227)	(735)			(4.90%)	(1,969)	(650)			(3.46%)
+	Tax effect of expenses that are not deductible in determining taxable profit	1,538	507			3.38%	2,071	683			3.63%
+/-	Decrease/increase in deferred tax assets and liabilities at year start, due to different tax rate	(182)	(60)			(0.40)%	-	-			0.00%
+/-	Other differences	(152)	(50)			(0.33%	6	(2)			0.01%
	[B] Tax expense and effective tax rate for the year	**13,975**	**4,612**			**30.75%**	**18,905**	**6,234**			**33.16%**

4.16 Earnings per share – Diluted

Basic earnings per share at December 31, 2006 amounted to 18.93 Euro cents (16.17 in 2005). They were calculated by dividing the Euro 9,957 thousand profit attributable to the shareholders (Euro 8,216 thousand at the end of 2005), by the weighted average number of ordinary shares outstanding during the relevant periods.
On April 12, 2006 the Ordinary Shareholders' Meeting approved a 5:1 ordinary shares split. Following this decision, the Share Capital was made up of 50,822,800 ordinary shares of a par value of Euro 0.20 each. After the listing on the STAR segment of the Italian MTA (electronic share market) and the subsequent increase in share capital, the number of shares increased to 63,322,800.

As there was no dilutive effect, this calculation is applicable also for diluted earnings per share.

There were no discontinued operations in 2006, therefore the earnings per share refers only to continuing operations.

Other information about income statement items

Capitalized R&D costs for 2006 are summarized in the following table:

(in thousands of Euro)	Dec. 31, 2005	Dec. 31, 2006	Increase/ (Decrease)
R&D cost expensed	5.,243	5,166	(77)
Amortization charge for period on capitalized development costs	445	524	79
Total cost for R&D expenses	**5,688**	**5,690**	**2**
Development costs capitalized in the year	**342**	**649**	**307**

BALANCE SHEET

4.17 Property, plant and equipment

The following table shows movements in property, plant and equipment in 2005 and 2006.

Property, plant and equipment *(in thousands of Euro)*	Jan. 1, 2005	Additions	Disposals	Other movements	Dec. 31, 2005
Historic cost					
Land and buildings	19,515	680	(312)	0	19,883
Plant and machinery	29,299	2,101	(1,345)	741	30,796
Industrial and commercial equipment	39,313	4,248	(920)	0	42,641
Other assets	6,562	561	(379)	0	6,744
Assets under construction and advances	183	493	0	0	676
Total	**94,872**	**8,083**	**(2,956)**	**741**	**100,740**

(in thousands of Euro)	Jan. 1, 2005	Depreciation	Disposals	Other movements	Dec. 31, 2005
Accumulated depreciation					
Land and buildings	4,359	608	(301)	0	4,666
Plant and machinery	18,637	2,758	(1,157)	214	20,452
Industrial and commercial equipment	32,455	3,421	(860)	0	35,016
Other assets	5,257	539	(367)	0	5,429
Total	**60,708**	**7,326**	**(2,685)**	**214**	**65,563**

(in thousands of Euro)	Jan. 1, .2005	Additions	Disposals	Other movements	Depreciation	Dec. 31, 2005
Net book value						
Land and buildings	15,156	680	(11)	0	(608)	15,217
Plant and machinery	10,662	2,101	(188)	527	(2,758)	10,344
Industrial and commercial equipment	6,858	4,248	(60)	0	(3,421)	7,625
Other assets	1,305	561	(12)	0	(539)	1,315
Assets under construction and advances	183	493	0	0	0	676
Total	**34,164**	**8,083**	**(271)**	**527**	**(7,326)**	**35,177**

Property, plant and equipment *(in thousands of Euro)*	Jan. 1, 2006	Additions	Disposals	Dec. 31, 2006
Historic cost				
Land and buildings	19,883	928	0	20,811
Plant and machinery	30,796	2,149	(160)	32,785
Industrial and commercial equipment	42,641	2,562	(731)	44,472
Other assets	6,744	347	(452)	6,639
Assets under construction and advances	676	1,568	0	2,244
Total	**100,740**	**7,554**	**(1,343)**	**106,951**

(in thousands of Euro)	Jan. 1, 2006	Depreciation	Disposals	Dec. 31, 2006
Accumulated depreciation				
Land and buildings	4,666	677	0	5,343
Plant and machinery	20,452	2,612	(147)	22,917
Industrial and commercial equipment	35,016	3,689	(557)	38,148
Other assets	5,429	468	(447)	5,450
Total	**65,563**	**7,446**	**(1,151)**	**71,858**

(in thousands of Euro)	Jan. 1, 2006	Additions	Disposals	Depreciation	Dec. 31, 2006
Net book value					
Land and buildings	15,217	928	0	(677)	15,461
Plant and machinery	10,344	2,149	(13)	(2,612)	9,868
Industrial and commercial equipment	7,625	2,562	(174)	(3,689)	6,324
Other assets	1,315	347	(5)	(468)	1,189
Assets under construction and advances	676	1,568	0	0	2,244
Total	**35,177**	**7,554**	**(192)**	**(7,446)**	**35,093**

The book value was Euro 35,093 thousand, compared to Euro 35,177 thousand in the previous year, down Euro 84 thousand.

Investments in the year mainly regarded the modernization of facilities, upgrading of production plant and machinery, the acquisition of new tooling and equipment for the launch of new products, upgrading of hardware to implement new technical and logistical projects.
Assets under construction amounted to Euro 1,568 thousand and mainly refer to the construction of new management offices at Fabriano headquarters.

Technical assets are duly and specifically insured from the risk of fire, weather, and similar damage with major insurance companies.
The financial statements include assets under finance lease agreements.
The following table shows the historic taxable amount charged to the Income Statement in 2006, in accordance with IFRS 17, recognizing assets held under finance lease agreements.

Assets held under finance lease agreements

Schedule of tangible assets held under financial lease agreements *(in thousands of Euro)*	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other assets	Total
Dec. 31, 2005					
Gross value	5,990	4,041	2,870	58	12, 959
Accumulated depreciation	(1,214)	(1,731)	(597)	(58)	(3,600)
	4,776	**2,310**	**2,273**	**0**	**9,359**
Dec. 31, 2006					
Depreciation for the year ended December 31, 2005	*173*	*464*	*517*	*5*	*1,159*
Gross value	5,996	4,064	2,971	58	13,089
Accumulated depreciation	(1,385)	(2,346)	(1,336)	(58)	(5,125)
	4,611	**1,718**	**1,635**	**0**	**7,964**
Depreciation for the year ended December 31, 2005	*173*	*616*	*739*	*0*	*1,528*

Property, plant, equipment have been valued at historical cost (instead of fair value), following initial recognition. The historical cost includes previous revaluations pursuant to specific laws, insofar as they are representative of the fair value of the asset at the time of the revaluation.

4.18 Other intangible assets

The following table provides a breakdown of movement in Other intangible assets in 2005 and 2006.

Intangible assets *(in thousands of Euro)*	Jan. 1, .2005	Additions	Amortization	Dec. 31, 2005
Net book value				
Development costs	1,018	342	(446)	914
Patents and intellectual property rights	874	710	(714)	870
Concessions, licenses, brands and similar rights	102	34	(18)	118
Assets under construction and advances	7	217	0	224
Other intangible assets	108	119	(70)	157
Total	**2,109**	**1422**	**(1,248)**	**2,283**

Intangible assets *(in thousands of Euro)*	Jan 1, 2006	Additions	Disposals	Amortization	Dec. 31, 2006

Net book value

Development costs	914	649	(51)	(524)	988
Patents and intellectual property rights	870	858	0	(917)	811
Concessions, licenses, brands and similar rights	118	37	0	(22)	133
Other intangible assets	157	181	(13)	(99)	226
Assets under construction and advances	224	604	-	-	825
Total	**2,283**	**2,326**	**(64)**	**(1,562)**	**2,983**

At December 31, 2006 intangible assets amounted to Euro 2,983 thousand, up Euro 700 thousand compared to the previous year. This amount is the algebraic sum of additions, disposals and the amortization charged to the Income Statement.

The item Development costs refers to development and design of products typical of this business. The increase for 2006 mainly relates to the cost of developing new products.

The item Patents and intellectual property rights includes patents and royalties regarding the filing of patents, intellectual property rights and software; the increase for the year mainly relates to the acquisition of user licenses to technical software and ongoing updating of technical and management reporting software.

The item Concessions, licenses, brands and similar rights regards the registration of brands by Group companies.
The item Other intangible assets mainly includes shared costs regarding the development of tooling. The amortization method applied to intangible assets is considered to reflect the remaining useful life of the assets.
Assets under construction amounting to Euro 601 thousand mainly refer to advances for the design and development of a new and innovative electronic platform and the development of new software implementation projects.

4.19 Investments in subsidiary companies

Movements on investments in subsidiary companies are summarized below:

(in thousands of Euro)	**Dec. 31, 2005**	**Acquisitions or subscriptions**	**Other movements**	**Dec. 31, 2006**
Investments in subsidiaries	32,558	15,681	(158)	48,081
Total	**32,558**	**15,681**	**(158)**	**48,081**

Investments in subsidiary companies are listed below:

(in thousands of Euro)	**Dec. 31, 2005**	**Acquisitions or subscriptions**	**Other movements**	**Dec. 31, 2006**
Subsidiary Companies				
Jet Air S.r.L.	1,659	2,807	(200)	4,266
Turbo Air S.p.A.	589	1,400	-	1,989
Fime S.p.A.	23,904	-	-	23,904
Fox Design S.p.A	6,275	-	-	6,275
Fime Polska Sp.Zoo	131	2	-	133
Elicamex S.a.d. C.V.	-	11,461	-	11,461
Leonardo Services S.a.d. C.V.	-	4	-	4
Ariafina Co.Ltd	-	7	42	49
Total	**32,558**	**15,681**	**(158)**	**48,081**

The balance shows a total net increase of Euro 15,523 thousand. This increase mainly refers to the subscription of the share capital of the associate company Elicamex S.A. amounting to Euro 11,461 thousand.
In February 2006, a 40% stake in Jet Air S.r.L. was purchased from third parties for Euro 2,807 thousand. Elica S.p.A. already held a 60% stake in the company, which is now fully held by Elica S.p.A. . The Euro 200 thousand reduction refers to the dividend distributed by Jet Air S.r.l. in April 2006, for the aforementioned 40% stake acquired in February. This amount was recognized as a reduction of the cost of the investment as it regarded profit made before the acquisition date. Therefore the amount was recognized as income from investments in accordance with IAS 28.4. Moreover, the item Acquisitions and/or subscriptions includes the subscription of the increase in share capital made by subsidiary Officina Lavorazione Acciai S.r.l., amounting to Euro 1,400 thousand, which, following the Extraordinary Shareholders' Meeting held on January 30, 2006, changed its company name in Turbo Air S.p.A. Unipersonale and transferred its registered office to Fabriano, 98, Via delle Fornaci. The increase in share capital was made with a view to acquire (on February 1, 2006) the business line of range hoods and relevant operations from RHEIN S.p.a. (formerly TURBO AIR S.p.A.), headquartered in Cerreto d'Esi località Pian del Cerro, 1 (Ancona).
The remaining amount of Euro 49 thousand refers for Euro 7 thousand to the purchase of a further 1% stake in Ariafina Co Ltd., already 50% held, and for Euro 42 thousand to the restatement of the balance previously recognized under associate companies.

The following table shows the highlights of the companies in accordance with Italian GAAP or local accounting standards:

(in thousands of Euro)	**Head office**	**%**	**Indirect %**	**Share Capital**	**Equity**	**Profit/ (Loss) for the year**
Jet Air S.r.L.	Cerreto d'Esi (AN)	100		235	2,297	859
Turbo Air S.p.A.	Fabriano (AN)	100		1,500	1	(1,700)
Fime S.p.A.	Castelfidardo (AN)	99.991		2,990	8,454	240
Fox Design S.p.A	Campodarsego (PD)	98	2	2,500	4,879	1,484
Elicamex S.a.d. C.V.	Queretaro (Mexico)	98	2	11,695	9,471	(2,108)
Leonardo Services S.a.d. C.V.	Queretaro (Mexico)	98	2	4	11	8

(in thousands of Euro)	**Head office**	**Direct %**	**Indirect %**	**Share Capital**	**Equity**	**Profit/ (Loss) for the year**

Ariafina Co.Ltd	Sagamihara (Japan)	51		83	992	206
Fime Polska S.p.zoo	Wroklaw (Poland)	5	95	2,610	1,964	(520)
Fox I.F.S. S.r.L.	Bergamo (BG)		70	72	11	(4)

Fime Polska S.p.Z.oo is indirectly held through Fime S.p.A. for a further 95% stake.
Fox I.F.S. S.r.l. is indirectly controlled through Fox Design S.p.A (98% directly held by Elica and 2% indirectly held through Jet Air S.r.l), which holds a 70% stake.
Elicamex S.a.d C.V. was incorporated at the start of 2006. It is 100% owned (98% directly by Elica S.p.A. and 2% through Fox Design S.p.A.).
Leonardo Services S.a.d. C.V. was incorporated in January 2006. It is 98% owned by the Parent Company and 2% by Fox Design.
As explained in the Report on Operations, during the year major investments were made in Mexico, in Poland, and for the acquisition of Turbo Air S.p.A..
The necessary start-up for the setting up of the two production units abroad impacted the operating results for the year of the two companies, although both units will be soon prove crucial for opening up interesting and developing markets.

The situation of Turbo Air is different. During the year, an industrial reorganization was carried out for the electrical motor and plastic components divisions. This major restructuring will allow the company to achieve economies of scale generated by their integration in the Group, and exploit the opportunities linked to the spread of its brand, especially in Eastern markets.
Investments in subsidiaries are recognized at cost, including in some cases (Fime, Fox Design, Jet Air) goodwill recognized at the time of acquisition. Measurement tests as per IAS 36, with reference to December 31, 2006 confirmed the full recoverability of the book value.

4.20 Investments in associates and joint ventures

Movements in associates and joint ventures are summarized below:

(in thousands of Euro)	**Dec. 31, 2005**	**Acquisitions or subscriptions**	**Other movements**	**Dec. 31, 2006**
Investments in associates	4,287	1,813	(42)	6,058
Total	**4,287**	**1,813**	**(42)**	**6,058**

The book value of investments at December 31, 2005 and 2006 can be summarized as follows:

(in thousands of Euro)	Acquisition cost	Previous year writedowns	Acquisition or subscriptions	Other changes	Reversals/(impairments)	Balance at December 31, 2005
Airforce S.p.A.	821	-	90	-	-	911
Ism S.r.l.	1,845	-	-	-	-	1845
Projet S.r.l.	6	-	-	-	-	6
Roal Electronics. S.p.A.	2,270	(787)	-	-	-	1483
Ariafina Co Ltd (*)	42	-	-	-	-	42
Subtotal	**4,984**	**(787)**	**90**	**-**	**-**	**4,287**

(in thousands of Euro)	Acquisition cost	Previous year writedowns	Acquisition or subscriptions	Other changes	Reversals/(impairments)	Balance at December 31, 2006
Airforce S.p.A.	911	-	-	-	-	911
Ism S.r.l.	1,845	-	54	-	-	1,899
Projet S.r.l.	6	-	-	-	-	6
Roal Electronics S.p.A.	1,483	-	1,759	-	-	3,242
Ariafina Co Ltd (*)	42	-	-	(42)	-	-
Subtotal	**4,287**	**-**	**1,813**	**(42)**	**-**	**6,058**

(*) On May 28, 2006 the majority stake was acquired and the investment was reclassified among Equity investments in subsidiaries.

Among other movements in equity investments in associates, Roal Electronics S.p.A. was written up by Euro 1,759 thousand following the increase in share capital made through the early conversion of the Convertible Bond that had already been included in Other securities under Financial Assets. With the Extraordinary Shareholders' Meeting held on April 21, 2006, Roal Electronics S.p.A had already reduced its share capital by Euro 6,938 thousand due to losses, as per Art. 2446 of the Italian Civil Code. Subsequently, the Board of Directors on April 28 approved a Euro 16,606 thousand increase through the full conversion of the Convertible Bond for Euro 9,668 thousand.
The column Other changes relates to the restatement of the equity investment already held as at December 31, 2006 in Ariafina Co Ltd. from note explaining equity investments in subsidiaries.

The table below summarizes highlights of associates, taken from the financial statements of the associates prepared in accordance with the Italian CDND&R for Italian companies, and as per local standards for foreign companies.

(in thousands of Euro)	**Head office**	**Direct %**	**Indirect %**	**Share Capital**	**Equity**	**Profit/ (Loss) for the year**
I.S.M. S.r.L.	Cerreto d'Esi (AN)	49.385		10	1,532	415
Air Force S.p.A.	Fabriano (AN)	45		103	747	601
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 Market Mexico S.a. de C.V.	Queretaro (Mexico)		30	4	4	-

With reference to Air Force S.p.A., on January 23, 2007 a further 15% stake was acquired in the company Air Force for a total price of Euro 300 thousand, thus bringing its stake to 60%.
Air Force S.p.A. (45% of which held by Elica) holds a 95% stake in Air Force Germany GmbH, headquartered in Mannheim (Germany), with a Share Capital of Euro 26 thousand, an Equity of Euro 242 thousand, and a Loss for the year of Euro 59 thousand.

Immobiliare Camino was incorporated on March 15, 2006 through the transfer of the business line of Turbo Air S.p.A., which as of December 31, 2006 holds a 20.8% stake in the share capital of the company.

4.21. Other financial assets

The balance amounted to Euro 150 thousand at December 31, 2006 (Euro 1,748 at December 31, 2005) and refers to the bond maturing on December 31, 2008 issued by the company Aerdorica S.p.A., in which Elica held a 7.7% stake at December 31, 2006. Six monthly interest accrues on this amount at the Euribor rate. The decrease in this balance is due to the cancellation of the convertible bond issued by the associate company Roal Electronics S.p.A., amounting to Euro 1,598 thousand.

4.22 Other receivables

This item is broken down as follows:

(in thousands of Euro)	Dec. 31, 2005	Dec. 31, 2006	Increase/ (Decrease)
Due from employees	1,291	1,258	(33)
Other receivables	4	4	-
Total	**1,295**	**1,262**	**(33)**

Receivables due from employees include amounts receivable from employees for welfare contribution and tax withholding from the income of employees and freelance personnel. The deduction of these amounts at source was suspended after the earthquake in 1997.
At the date of preparation of these notes, the competent Ministries have granted a further postponement of collection and payment of these amounts until the end of 2007.
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 4.36).

These assets are recognized in the Balance Sheet at nominal value among non-current assets, given their characteristics, their non-contractual nature, and the additional postponement granted by the competent Ministries.

4.23 Tax receivables

This item is broken down as follows:

(in thousands of Euro)	Dec. 31, 2005	Dec. 31, 2006	Increase/ (Decrease)
IRPEF (employee income tax) paid in advance on termination indemnity	5	0	(5)
IRPEG and ILOR refunds receivable (national and local income taxes)	1	1	0
Total	**6**	**1**	**(5)**

4.24 Deferred tax assets and deferred tax liabilities

At December 31, 2006, the measurement of effects of deferred tax assets and liabilities based on the assets-liabilities method, led to the recognition of the following assets and liabilities.

(in thousands of Euro)	Dec. 31, 2005	Dec. 31, 2006	Increase/ (Decrease)
Deferred tax assets	1,849	3,457	1,608
Deferred tax liabilities	(4,579)	(4,616)	(37)
Net deferred tax liabilities	**(2,730)**	**(1,159)**	**1,571**

The item Deferred tax payables include deferred tax payables on accelerated amortization and depreciation, which were deducted only for tax purposes. It also includes the IRAP portion, both for IRES (exclusively for accelerated amortization and depreciation, deducted as of financial year 2003, as the Company took advantage of the provisions envisaged by Art. 4 of Law 448/2001 – Budget Law 2002, which allowed the Company to free the reserves with suspended tax for IRPEG purposes in 2002).

This item also includes latent taxes on gains, which are paid in installments on operating grants, on accrued dividends and exchange gains from measurements.
The following table shows detailed deferred tax assets and liabilities:

(in thousands of Euro)	**Dec. 31, /2005**		**Dec. 31, 2006**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Amortization and Depreciation	93	2,129	132	2,132
Provided	473		451	
Costs deductible in future years	284		128	
Inventory write-down	592		615	
Exchange difference	17	23	213	119
Capital gains and contributions		410		260
Dividends		32		-
Costs for listing on the Stock Exchange	8		1,760	
(in thousands of Euro)	**Dec. 31, 2005**		**Dec. 31, 2006**	
R&D and advertising costs	33	53	24	39
Other capitalized costs	31		23	
Goodwill	143		101	
Other	151			
IRS valuation	24		9	
Termination indemnity		888		1,006
Leases		1,044		1,061
Total	**1,849**	**4,579**	**3,457**	**4,616**

The increase in assets mainly refers to deferred tax assets on costs for listing on the stock exchange, directly recognized in the Balance Sheet, in accordance with reference accounting standards, and deducted from taxation over a 5-year period.

4.25 Available-for-sale investments

This item refers to equity investments of Elica in other companies. These are held in non-listed companies, whose securities are not traded on a regulated market. Therefore it is impossible to reliably measure their fair value, as over the past year there were no transactions on these securities. The following table lists the book value of equity investments:

(in thousands of Euro)	Dec. 31, 2005	Dec. 31, 2006	Increase/ (Decrease)
Meccano S.p.A.	7	7	-
Kappe & Kappe Falmec S.r.l.	73	73	-
UnifabrianoSoc. S.r.l.	2	2	-
Aerdorica S.p.A.	-	-	-
Consorzio Energia	2	2	-
Other minor investments	-	2	2
Total	**84**	**86**	**2**

These investments are accounted for at cost and in compliance with Art.10 of Law 72/83 they have never been written up as per specific laws.
During 2006, an Euro 195 thousand increase in share capital of Aerdorica was subscribed: this investment in Aerdorica was written off during the year, due to permanent impairment losses (the investment was also written down in 2005 for Euro 607 thousand).

4.26 Trade receivables from third parties and loans to related parties

Trade receivables from third parties

This item was made up as follows at year end:

(in thousands of Euro)	Dec. 31, 2005	Dec. 31, 2006	Increase/ (Decrease)
due within one year	55,901	57,386	1,485
due after one year	35	53	18
Total	**55,936**	**57,439**	**1,503**

Net trade receivables recorded an overall increase of Euro 1,503 thousand; this change was mainly due to the performance of sales in the fourth quarter of 2006, which improved year-on-year.

Doubtful receivables are covered by an allowance for doubtful accounts, which was allocated following an analysis of the specific risk relating to doubtful balances and based on historic bad debt trends. It also took account of the fact that a significant percentage of receivables is covered by credit insurance with leading international insurance companies.
The value of receivables was brought in line with their fair value, through an allowance for doubtful accounts, on the one hand due to tax reasons, on the other because the financial statements of subsidiaries are prepared in accordance with local accounting standards. The Management deems that the value accounted for using this method approximates the fair value of the amounts receivable.

Movements in the provisions for doubtful accounts were as follows:

(in thousands of Euro)	Dec. 31, 2005	Dec. 31, 2006	Increase/ (Decrease)
Opening balance	487	465	(22)

Provided	120	0	(120)
Utilized	(142)	0	142
Total	**465**	**465**	**0**

No further provisions were made for the year, as the present amount is deemed sufficient to adjust the receivables to their presumable realizable value.

Trade receivables and loans to related parties

Receivables from related companies include both trade receivables and loans to subsidiaries and associate companies.
The item does not include any receivable maturing after five years from the reporting date.
The following table provides details on receivables:

(in thousands of Euro)	Dec. 31, 2005	Dec. 31, 2006	Increase/ (Decrease)
receivables from subsidiary companies	9,611	50,063	40,452
receivables from associate companies	2,323	919	(1,404)
Total	**11,934**	**50,982**	**39,048**

The breakdown of receivables from subsidiary companies is made up as follows:

(in thousands of Euro)	Dec. 31, 2005	Dec. 31, 2006	Increase/ (Decrease)
Fime S.p.A.	3,117	20,3334	17,217
TurboAir S.p.A.	68	12,333	12,265
Fox Design S.p.A.	1,153	7,158	6,005
Jet Air S.r.l.	5,273	3,759	(1,514)
Fime Polka S.p.z.oo	-	2,359	2,359
(in thousands of Euro)	Dec. 31, 2005	Dec. 31, 2006	Increase/ (Decrease)
Leonardo S.A. de C.V.	-	3	3
Elicamex S.A. de C.V.	-	3,791	3,791
Ariafina Co Ltd	-	326	326
Total	**9,611**	**50,063**	**40,452**

With reference to receivables from Fime S.p.A., Turbo Air S.p.A., Fox Design S.p.A., Fime Polska, it is noted that they include financial receivables for the following amounts: Euro 19,986 thousand; Euro 10,365 thousand; Euro 3,850 thousand; Euro 2,005.

Loans to subsidiaries are regulated by specific contract envisaging the possibility for Elica to withdraw without notice; the interest rate applied to this loans is one month Euribor, prior month average plus a spread.
The changes show the development of a synergy aimed at optimizing the management of financial flows.

Trade receivables refer to semi-finished, finished products and management services, and increased by approximately Euro 6,534 thousand.

Moreover, the balance includes amounts receivable generated by participation in tax consolidation (see Valuation Methods - Taxes) totaling Euro 842 thousand (Euro 403 thousand in 2005).

Receivables from associate companies arised on ordinary transactions. They are carried out at arm's length terms and consist both of trade receivables and loans, as detailed below:

Receivables from associates

(in thousands of Euro)	Dec. 31, 2005	Dec. 31, 2006	Increase/ (Decrease)
Air force S.p.A.	368	325	(43)
Ariafina Co Ltd	1,618	0	(1,618)
I.S.M. S.r.l.	297	275	(22)
Projet S.r.l.	30	0	(30)
Roal Electronics S.p.A.	10	319	309
Total	**2,323**	**919**	**(1,404)**

Receivables from associates decreased sharply due to the restatement of receivables from the associate company Ariafina (in 2005 and up to May 2006 it was an associate company. Subsequently, it was included among subsidiaries).

During the year, Air Force S.p.A and Projet S.r.l. paid back interest-bearing loans previously granted by Elica for Euro 51 thousand and Euro 30 thousand, respectively.

The item does not include any receivable maturing after five years from the reporting date.

4.26 Inventories

(in thousands of Euro)	Dec. 31, 2005	Dec. 31, 2006	Increase/ (Decrease)
Raw and ancillary materials and supply	10,644	11,928	1,284
Raw materials reserve	(688)	(567)	121
Total	***9,956***	***11,361***	***1,405***
Work in progress and semi-finished goods	6,928	6,867	(61)
Work in progress reserve	(157)	(328)	(171)
Total	***6,771***	***6,539***	***(232)***
Finished goods	5,689	7,005	1,316
Finished goods reserve	(733)	(744)	(11)
Total	***4,956***	***6,261***	***1,305***
Book value	**21,683**	**24,161**	**2,478**

The value of inventories recorded a gross increase of about Euro 2.5 million.

Inventories are stated net of provisions totaling about Euro 1.6 million. These provisions were made to account for the effect of obsolete and slow-moving items.
Inventories include also materials and products that at the reporting date were not physically held on the Company's premises, but were held by third parties on display, for processing or on consignment.

The estimate of inventory reserve of raw materials, semi-finished and finished products was based on assumptions made by the Management.

4.28 Other receivables

The following table reports a breakdown of Other receivables:

(in thousands of Euro)	Dec. 31, 2005	Dec. 31, 2006	Increase/ (Decrease)
Tax authorities, repayments	149	146	(3)
Guarantee deposits	53	44	(9)
Advances on trade receivables	281	365	84
Sundry receivables	315	388	73
Advances on insurance premiums	16	177	161
Advances on maintenance fees	12	15	3
Advances on advertising contracts	9	10	1
Other accrued income and prepaid expenses	114	44	(70)
Total	**949**	**1,189**	**240**

Other receivables mainly include trade receivables for cautions receivable for packaging and the amount receivables for reimbursement of customs duties.
Other receivables includes receivables for insurance compensation defined in 2006 and not yet settled at the reporting date (Euro 194 thousand).

Other accrued income and prepaid expenses includes prepaid expenses on hardware and software maintenance fees and sundry services.
The item does not include any receivable maturing after five years from the reporting date.

4.23 Tax receivables

Tax receivables are summarized in the following table:

(in thousands of Euro)	Dec. 31, 2005	Dec. 31, 2006	Increase/ (Decrease)
IRPEG and IRAP	405	-	(405)
VAT	3,974	1,015	(2,959)
Other tax receivables	97	149	52
Total	**4,476**	**1,164**	**(3,312)**

In the first months of 2006 a VAT refund of Euro 3,000 thousand relating to 2004 that the Company had applied for in 2005 was collected.

4.29 Derivative financial instruments

(in thousands of Euro)	**Dec. 31, 2005**		**Dec. 31, 2006**	
	Assets	Liabilities	Assets	Liabilities
Foreign exchange derivatives	2	0	96	0
IRS	0	(83)	0	(26)
Total	**2**	**(83)**	**96**	**(26)**
including				
Non-current	0	(58)	0	(10)
Current	2	(25)	96	(16)
Total	**2**	**(83)**	**96**	**(26)**

Foreign exchange derivatives

The amounts shown in the table relate to foreign exchange derivatives in place at the reporting date and the IRS on leased property, maturing on July 30, 2010. At December 31, 2006, they included option agreements denominated in US dollars. The option agreements consist of a zero cost, collar structure comprising the purchase of a put option agreement funded by the sale of a call option, both of them out of the money at the date the agreement was signed. This type of structure allows a hedging corridor to be fixed and involves a maximum commitment in USD equal to the underlying call option, which usually has a leverage 2 on the hedging put option.

The notional value of forward currency sale agreements at December 31, 2006 amounted to Euro USD 3.8 million. Although these transactions are intended to hedge the exchange rate risk relating to forward sales, under IFRS, they do not qualify for hedge accounting treatment and have thus been recognized at fair value against financial income/charges.

Therefore, at December 31, 2006, the net fair value of derivative instruments arranged by the Company was estimated at a net positive amount of Euro 96 thousand. This amount was determined based on market conditions at December 31, 2006, and was recognized on an accrual basis in the Income Statement with a liability for the liquidation of derivatives.

Interest rate swap

At December 31, 2006, Elica S.p.A. was party to two interest rate swaps — a plain vanilla fixed vs floating agreement linked to the repayment plan of a real estate lease agreement entered into by the Company.
Given the characteristics of this instrument, the plain vanilla IRS was treated as a cash flow hedge and has proved to be "effective".

The fair value of the IRS at December 31, 2006 was negative by Euro 26 thousand (a decrease of Euro 73 thousand in 2005). In accordance with IFRS, the change of Euro 18 thousand was recognized under a specific net equity reserve.

At December 31, 2006, the notional value of the interest rate swap agreement amounted to Euro 1.9 million, with a 0.73% spread (calculated as the difference between the variable interest rate received by Elica S.p.A. (3.73%), and the fixed interest rate paid to the bank (4.45%).

4.30 Cash and cash equivalents

(in thousands of Euro)	Dec. 31, .2005	Dec. 31, 2006	Increase/ (Decrease)
Bank and post office accounts	13,770	11,300	(2,470)
Cash and cash equivalents	33	1	(32)
Total	**13,803**	**11,301**	**(2,502)**

The item includes balances held on bank current accounts and cash on hand. The change is due to a difference in the net financial position. The book value of this asset is close to its fair value.

Further information is provided in the Notes on the net financial position in the Report on Operations and in the Cash Flow Statement.

Credit risk

The credit risk essentially relates to its trade receivables balance. The amount stated in the Balance Sheet is net of provisions for doubtful accounts estimated by the Management based on their experience and their assessment of the current economic situation.
The credit risk relating to cash and cash equivalents and derivative financial instruments is limited as the other parties are highly-rated banks according to leading international rating agencies.
The Company follows a thorough policy of arranging insurance cover for its credit risk relating to trade receivables so its risk is fairly limited.

4.31 Retirement benefit obligation

This item amounted to Euro 7,358 thousand, which is the present value of the retirement benefit obligation matured by employees up to the reporting date.

The most recent actuarial calculations of the present value of the provision were made at December 31, 2006 by actuarial experts working for the service provider Mercer Human Resource Consulting S.r.l.

Provisions charged to the Income Statement are summarized below:

(in thousands of Euro)	Dec. 31, 2005	Dec. 31, 2006	Increase/ (Decrease)
Cost of current service	1,198	1,494	296
Net actuarial losses recorded in the year	-	45	45
Financial charges	308	352	44
Total	**1,506**	**1,891**	**385**

As of January 1, 2007, the Italian Budget Law and its implementing decrees introduced significant changes to the accounting treatment of retirement benefit obligations, including giving employees the option to choose how their retirement obligation should be allocated.
Specifically, the new flows from employees' retirement obligations may be allocated to the employee in the form of a chosen pension fund or kept with the company (in which case the company pays the related contributions to a treasury account with INPS).
Currently, there is uncertainty over the interpretation of the recently issued law. The possible different interpretations over classification in accordance with IAS 19, the changes to the actuarial calculations of matured leaving entitlement as a result, and the fact that it is impossible to estimate employees' decisions on how to allocate maturing leaving indemnities (the decision deadline is June 30, 2007). Consequently, any assumption on actuarial changes in the calculation of employees' leaving entitlement maturing at December 31, 2006 would be premature.

Movements for the year of employee retirement obligations were as follows:

(in thousands of Euro)	Dec. 31, 2005	Dec. 31, 2006	Increase/ (Decrease)
Opening balance	6,379	6,994	615
Current service cost	1,198	1,494	296
Net actuarial losses recorded in the year	0	46	46
	1,198	1,540	342
Financial charges	308	352	44
Benefits paid	(891)	(1,528)	(637)
Total	**6,994**	**7,358**	**364**

The Company adopted the corridor method, allowing it not to recognize the portion of costs calculated used the above method in the form of actuarial gains and losses, provided it does not exceed 10% of the present value of the defined benefit obligation. As a result of the application of this method, actuarial losses at December 31, 2006, amounting to Euro 1,777 thousand (Euro 1,993 thousand in 2005) were not recognized.

Finally, it should be noted that the interest component of the charge relating to defined benefit schemes for employees has been recognized under financial charges. This led to an increase in financial charges for 2006 amounting to Euro 352 thousand. The current cost of labor services and net actuarial losses has been recognized under personnel costs.

Assumptions made for the calculation:

(in thousands of Euro)	Dec. 31, 2005	Dec. 31, 2006
Discount rate to determine obligation	4.00%	4.50%
Expected rate of salary increases	2.50%	2.50%
Rate of inflation	2.00%	2.00%
Discount rate to determine obligation	4.50%	4.00%

Number of employees

The Company had an average of 1,178 employees at December 31, 2006 (1,222 in 2005), as follows:

Headcount	Dec. 31, 2005	Dec.31, 2006	Increase/ (Decrease)
Managers	16	17	1
White collar	183	205	22
Blue collar	957	908	(49)
Other	28	26	(2)
Total	**1,184**	**1,156**	**(28)**

4.32 Provisions

Movements in provisions are reported in the following table:

(in thousands of Euro)	Dec. 31, 2005	Provided	(Utilized)	Dec. 31, 2006
Supplementary agents' leaving indemnity provision	717	416	(356)	777
Directors' leaving indemnity provision	109	0	0	109
Product warranty provision	350	261	0	611
Provision for risks	250	0	0	250
Total	**1,426**	**677**	**(356)**	**1,747**
including				
Non-current	1,076			1,136
Current	350			611
Total	**1,426**			**1,747**

The supplementary agents' leaving indemnity provision is intended to cover possible charges upon termination of relations with agents and sales representatives. In 2006, prior year provisions for termination of an agency relationship were paid (Euro 356 thousand).

The TFM provision refers to the end-of-mandate indemnity of the Executive Chairman.

The product warranty provision represents an estimate of the costs likely to be incurred to repair or replace items sold to customers. The provision is determined by applying the percentage incidence of average warranty costs historically incurred by the Company to sales still covered by warranty. This provision increased by Euro 261 thousand in 2006.
The Provision for Risks relates to likely writedowns and charges to be incurred as a result of ongoing legal disputes, based on the best possible estimate considering the available information. The provision at the reporting date is deemed sufficient.

4.33 Due to banks and bank loans

(in thousands of Euro)	Dec. 31, 2005	Dec. 31, 2006	Increase/ (Decrease)
Bank loans	13,255	2,135	(11,120)
Total	**13,255**	**2,135**	**(11,120)**
Bank loans are due as follows:			
On demand or after less than one year	4,588	254	(4,334)
After between one and two years	2,602	255	(2,347)
After between two and three years	2,642	259	(2,383)
After between three and four years	2,056	264	(1,792)
After between four and five years	264	268	4
After more than five years	1,103	835	(268)
Total	**13,255**	**2,135**	**(11,120)**
Less amount due after less than a year	4,588	254	(4,334)
Amount due after more than a year	**8,667**	**1,881**	**(6,786)**

All bank loans are denominated in Euro.
The main payables stated above are floating interest loans. Though the Company is exposed to interest rate risk, it does not systematically follow an interest rate risk hedging policy. In fact, given its expectations of constant cash flow generation, it would repay bank loans ahead of schedule, thus eliminating the need for interest rate risk hedging.

4.34 Obligations under finance leases and towards other lenders

Obligations under finance leases and towards other lenders	**Minimum payments due under finance lease agreements and other loans**		**Present value of minimum payments due under finance lease agreements and other loans**	
(in thousands of Euro)	**Dec. 31, 2005**	**Dec. 31, 2006**	**Dec. 31, 2005**	**Dec. 31, 2006**
Due after less than a year	1,558	1,413	1,347	1,248
Due after between one and five years	5,007	3,596	4,620	3,372
Due after more than five years				
	6,565	**5,009**	**5,967**	**4,620**
Less future finance charges	599	389	n/a	n/a
Present value of obligations under finance leases	**5,966**	**4,620**	5,966	4,620
Less: obligations due after less than a year			**1,347**	**1,248**
Amount due after more than a year			**4,619**	**3,372**

Obligations under finance leases refer to property, plant, machinery and equipment. The present value of minimum payments due at December 31, 2006 was Euro 1,857 thousand (Euro 368 thousand due within 12 months) for property, Euro 1,129 thousand (Euro 374 due within 12 months) for plant and machinery, and Euro 1,619 thousand (Euro 491 due within 12 months) for equipment.
Interest accrues at a rate equal to the one-month or three-month Euribor, as set forth in the relevant agreements. All lease contracts are repayable through an amortization plan at constant rates. As per the agreement, the original plan cannot be changed. As previously explained, a hedging instrument (IRS) recognized as *cash flow hedge* is used. The IRS specifically refers to a lease agreement (see note 3.34).
The remaining obligations towards other lenders totaled Euro 16 thousand at December 2006 (of which Euro 16 thousand within 12 months) and Euro 121 thousand in 2005 (Euro 107 thousand within 12 months). They mainly refer to payables for the purchase of electronic machines financed by IBM Servizi Finanziari.

4.35 Current and non-current tax payables

Tax payables (non current)

(In thousands of Euro)	Dec. 31, 2005	Dec. 31, .2006	Increase/ (Decrease)
ILOR (former local income tax) payable—earthquake suspension	667	667	0
ICI (tax on property) payable—earthquake suspension	32	32	0
Tax in advance of termination indemnity—earthquake suspension	90	90	0
IRPEF (employees' income tax) payable—earthquake suspension	1,401	1,375	(26)
Net equity tax—earthquake suspension	1.687	1.687	0
Total	**3,877**	**3,851**	**(26)**

Tax payables (current)

(In thousands of Euro)	Dec. 31, 2005	Dec. 31, 2006	Increase/ (Decrease)
Other taxation	20	13	(7)
IRPEF deducted at source	1,207	1,512	305
IRAP payable for the year	0	342	342
IRES payable for the year	2,314	715	(1,599)
Total	**3,541**	**2,582**	**(959)**

Non-current tax payables includes payables for tax withholding and withheld tax not paid in accordance with law provisions issued in favor of the areas hit by the 1997 earthquake. The item also includes the share attributable to the company of pension and tax payables matured during the tax suspension.
Payables are reported in the Non Current section and they are not stated at actuarial value, given the uncertainty about when they will become due.

4.36 Sundry payables and other payables

Sundry payables (non current)

These payables are broken down as follows:

(in thousands of Euro)	31.12.2005	31.12.2006	Increase/(Decrease)
Other payables	2	2	0
INAIL contributions — earthquake suspension 1997	293	293	0
INPDAI contributions — earthquake suspension 1997	158	158	0
Employee INPS contributions — earthquake 1997	3.476	3.467	(9)
Freelance INPS contributions — earthquake 1997	14	14	0
Total	**3.943**	**3.934**	**(9)**

Non-current other payables includes amounts due to welfare and social security institutions in relation to social contribution not withheld as a result of measures introduced in relation to the areas that were hit by the 1997 earthquake. The item also includes 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 recommence as of January 1, 2008, the amounts in question are stated under non-current liabilities at nominal value.

Other payables (current)

(in thousands of Euro)	31.12.2005	31.12.2006	Increase/ (Decrease)
Due to social security institutions	2,208	2,314	106
Other payables	284	209	(75)
Due to employees — remuneration	3,720	4,008	288
Due to customers	94	65	(29)

(in thousands of Euro)	Dec. 31, 2005	Dec. 31, 2006	Increase/ (Decrease)
Accrued expenses and deferred income	95	74	(21)

Advances from customers	135	143	8
Due to the Board of Directors and the Board of Statutory Auditors	-	240	240
Total	**6.536**	**7.053**	**517**

4.37 Trade payables to third parties and related parties

(in thousands of Euro)	Dec. 31, 2005	Dec. 31, 2006	Increase/ (Decrease)
Due within one year			
Trade payables	48,220	48,137	(83)
Due after one year			
Trade payables	136	136	-
Total	48,356	48,273	(83)
Due to subsidiary companies	7,498	9,364	1,866
Due to associated companies	5,607	5,270	(337)
Total	13,105	14,634	1,529
Total	**61,461**	**62,907**	**1,446**

This item mainly includes payables for trade purchases and other types of cost. The average turnover of trade payables is about 120 days.
According to Management's estimates, the book value of trade payables and other payables approximates their fair value.

Amounts due to subsidiary companies

(in thousands of Euro)	Dec. 31, 2005	Dec. 31, 2006	Increase/ (Decrease)
Fime S.p.A.	5,507	5,444	(63)
TurboAir S.p.A.	213	1,440	1,227
Fox Design S.p.A.	1,424	1,331	(93)
Jet Air S.r.l.	336	1,147	811
Elicamex S.A.	0	1	1
Ariafina Co Ltd	1	1	0
Fox IFS	17	-	(17)
Total	**7,498**	**9,364**	**1,866**

The amount due to subsidiaries refers to trade payables, payables arising on participation in tax consolidation, and payables for a loan taken out in US dollars by the subsidiary Jet Air.
Payables to subsidiaries arising on tax consolidation amounted to Euro 600 thousand and referred to the balance of IRES received from Fime (Euro 96 thousand) and from Turbo Air (Euro 505 thousand). At December 31, 2005, payables arising on participation in tax consolidation amounted to Euro 566 thousand.

The amount due to Jet Air includes a loan taken out in US dollars, whose countervalue at the reporting date was Euro 830 thousand.
This payable is regulated by a specific agreement, envisaging the possibility for Elica to withdraw without notice; the interest rate applied is LIBOR at the end of each quarter, plus a spread.

Therefore, net of the aforementioned components, the balance of trade payables increased by Euro 1,003 thousand due to the increased industrial and manufacturing integration with the other Group companies, and to the increase in purchases resulting from the increase in sales.

Trade payables to associated companies

These are only trade payables and include the amounts reported in the following table:

(in thousands of Euro)	Dec. 31, .2005	Dec. 31, 2006	Increase/(Decrease)
Air force S.p.A.	143	310	167
Projet S.r.l.	55	96	41
I.S.M. S.r.l.	4,670	2,904	(1,766)
Roal Electronics S.p.A.	739	1,960	1,221
Total	**5,607**	**5,270**	**(337)**

4.38 Equity

Details of movements on net equity are provided in the relevant schedule.
The individual net equity balances are analyzed below.

Share capital

At December 31, 2006, Share Capital was wholly subscribed and consisted of 63,322,800 ordinary shares with a nominal value of Euro 0.20 each for a total of Euro 12,664 thousand, an increase by Euro 2,500 thousand compared to the previous year, following the conclusion of the Offering for the listing of the Company shares on the Star segment of the Italian electronic share market (MTA), on November 10, 2006.
An Extraordinary General Meeting held on April 12, 2006 approved a 5:1 share splitting with the nominal value reduced from Euro 1 to Euro 0.20 each.

Capital reserves

Capital reserves amounted to Euro 71,123 thousand and refer to the Share Premium Reserve. The latter increased by Euro 56,312, as the shares issued have been placed for a price of Euro 5 and a share premium of Euro 4.8 each. In accordance with international accounting standards, the Share Premium Reserve includes charges relating to the Euro 3,650 thousand increase in share capital, net of the relevant tax effect amounting to Euro 2,190 thousand.

Hedging reserves

The hedging reserve for derivative contracts qualified as cash flow hedges was negative at Euro 18 thousand (negative at Euro 49 thousand at December 31, 2005).

Earnings reserves

(in thousands of Euro)	31.12.2005	31.12.2006	Increase/ (Decrease)
Legal reserve	2.033	2.033	-

Exchange gain reserves	0	18	-
Reserve from transition to IAS	247	1.727	1.480
Extraordinary reserve	37.113	41.291	4.178
Reserve restricted under Law 488/92	3.875	3.875	-
Total	**43.268**	**48.944**	**5.658**

The Legal Reserve amounted to Euro 2,033 thousand. 5% of the Company's net profit accrue to the reserve each year. This item did not change during the year, as at December 31, 2005 it had already reached the maximum required level of 20% of Share Capital.

For 2006, the directors proposed the payment of a dividend of Euro 0.04 for the 63,322,800 outstanding shares for a total estimated amount of Euro 2,533 thousand. The ex-dividend date will be May 14, 2007. The dividend will be paid as of May 17, 2007 (coupon No. 1).
The proposed dividend for 2005, which was payable to all shareholders included in the Register of Shareholders as at April 12, 2006 was paid in May 2006.

The reserve arising on transition to IAS, amounted to Euro 1,727 thousand and was formed through the net adjustments at January 1, 2005, the date of first application of IAS, amounting to Euro 247 thousand and the allocation of the difference between net profit for 2005, calculated in accordance with Italian GAAP, and net profit for the same year, as restated based on IAS/IFRS, totaling Euro 1,480 thousand.

The reserve from the transition to IAS, amounting to Euro 4,178 thousand relates to the transfer to another account of the profit for 2005, after dividend payout.

Information on unrestricted reserves

The following table reports information on the availability for use and distribution for each equity item.

Origin	Amount	Possible use	Share available	Use during the prior 3 months to cover losses	Other use during the prior 3 months
I Share capital	12,664,560	=		-	
Share premium reserve	71,123,336	A,B,C	70,623,336 (*)	-	-
IV Legal reserve	2,032,912	B		-	
VII Other reserves					
Extraordinary reserve	41,290,519	A,B,C	41,290,519	-	4,452,549
Reserve restricted under Law 488/92	3,875,493	B	-		-
Reserve from exchange gains	17,236	A,B			
Reserve from transition to IAS	1,727,273	A,B,C	1,727,273		
Total	**132,731,329**		**113,641,128**	**-**	**4,452,549**
Restricted share of reserves	-		988,786		
Unrestricted share of reserves	-		112,652,342		

(*) Pursuant to Art. 2431 of the Italian Civil Code, the entire amount of the reserve can be distributed only after reaching the limits
of the Legal Reserve, established by Art. 2430 of the Italian Civil Code

A – for capital increase
B – for covering losses
C – for distribution to shareholders

4.39 Net financial debt, default risk and covenants

(Under Consob Communication No. DEM/6064293 of July 28, 2006)

At December 31, 2006, net financial position was Euro 39,921 thousand, an increase by Euro 42,724 thousand compared to the previous year. This increase was mainly due to the operating cash flow and the financial effects of the conclusion, at the end of November, of the Initial Public Offering aimed at listing the shares of the Company on the Italian electronic share market (MTA).

The net financial debt is summarized in the following table. Further information is provided in the notes to the Consolidated Cash Flow and notes 4.30, 4.33, and 4.34.

(in thousands of Euro)	December 31, 2005	December 31, 2006	Increase/ (Decrease)
Cash and cash equivalents	13,803	11,301	(2,502)
Financial receivables from related parties	2,616	36,206	33,590
Current bank loans and financing	(8,667)	(1,882)	6,785
Current obligations under finance leases and towards other lenders	(4,619)	(3,372)	1,247
Financial payable to related parties	-	(830)	(830)
(Net financial debt) / Net Financial Position — current	**3,133**	**41,423**	**38,290**
(in thousands of Euro)	December 31, 2005	December 31, 2006	Increase/ (Decrease)

Non-current bank loans and financing	(4,588)	(254)	4,334
Non-current obligations under finance leases and towards other lenders	(1,348)	(1,248)	100
(Net financial debt) – non current	**(5,936)**	**(1,502)**	**4,434**
(Net financial debt) / Net Financial Position	**(2,803)**	**39,921**	**42,724**

Default risk and debt covenants

It should be pointed out that bank loans are not subject to any reimbursement obligations in case the Group creditworthiness decreases and that loan facilities have no financial covenant.

4.40 Transactions that did not impact cash flows

In 2005, several investments were made to acquire machinery and equipment for a total amount of Euro 2,846 thousand, through the opening of new finance lease agreements. In 2006, no material finance lease agreements were stipulated.

Moreover, the increase in share capital in the associate Roal Electronics S.p.A. through the full conversion of the extant convertible bond (see note 4.21) did not impact cash flows.

5. Guarantees, Commitments and Contingent Liabilities

a) Potential liabilities

Elica is not a party to any administrative, judicial or arbitration proceedings underway or decided with a final judgment or award handed down in the last 12 months that are no longer subject to appeal that may have or have had a significant impact on its financial situation or profitability.

It must however be pointed out that the Company has been summoned in several proceedings under which the application of the rules governing sub-contracts pursuant to Law 192/92 has been sought. As a result, deeming that the relationships were terminated without good cause, the claimants seek compensatory damages for the same, together with certain accessory claims.
The Company feels that these claims are groundless.
Suitable provisions have been made in keeping with the principle of prudence to cover the potential liability that could arise from pending court cases: as at December 31, 2006, the provisions carried in the financial statements for liabilities and charges related to litigation amounted to Euro 250 thousand.

The Management feels that the amounts set aside by way of provisions for liabilities and charges to cover exposure arising from pending or potential litigation is adequate on the overall.

b) Guarantees and commitments

In 2006, the Parent Company issued a suretyship in favor of Bank Polska Kasa Opieki SA on behalf of its subsidiaries Fime Polska Sp.Z.o.o (indirectly owned through Fime S.p.A — renamed ElicaGroup Polska, in January 2007), in the amount of Euro 2,500 thousand and in favor of ElicaMex S.A.d.C.V. in favor of IntesaSanPaolo in the amount of Usd 6,500 thousand, covering credit lines granted to the same.
The amount of the orders issued to suppliers for property, plant and equipment due to be delivered at December 31, 2006 was about Euro 643 thousand; these orders mainly refer to

investments for developing production capacity such as equipment, machinery, plant and buildings for new office space.

c) Operating leases

At the reporting date, leases of several industrial and commercial buildings, car renting contracts and hardware leases were still open. The amount of fees due as per contracts covering operating leases and real estate rentals is listed in the following table:

(in thousands of Euro)	31.12.2005	31.12.2006
Real estate rentals	163	213
Car and forklift rental	897	1.172
Hardware operating leases	274	357
Total	**1.334**	**1.742**

The total cost incurred in 2006 with reference to operating leases amounted to Euro 1,504 thousand.

6. Information on the Remuneration of Management and on Related Parties

Pursuant to law, information on overall remuneration of Directors, Members of the Board of Auditors, and Managers holding important offices also in other companies.

6.1 Remuneration of Directors, Auditors and Executives with strategic responsibilities

Remuneration of Directors and auditors are listed in the following table (in thousands of Euro):

Name	**Office**	**Term of office**	**Remuneration**	**Non-monetary benefits**	**Bonuses and other incentives**	**Other remuneration**
Francesco Casoli	Executive chairman	Approval of the Financial Statements for the year ended December 31, 2008	231	3	0	204
Gianna Pieralisi	Executive Director	Approval of the Financial Statements for the year ended December 31, 2008	150			
Andrea Sasso (*)	Chief Executive Officer	Approval of the Financial Statements for the year ended December 31, 2008				
Massimo Marchetti (*)	Managing Director	Approval of the Financial Statements for the year ended December 31, 2008	11	1	60	314
Gennaro Pieralisi	Director	Approval of the Financial Statements for the year ended December 31, 2008	11			
Enrico Palandri	Director	Approval of the Financial Statements for the year ended December 31, 2008	11			
Alberto Geroli	Director	Approval of the Financial Statements for the year ended December 31, 2008	11			61
Stefano Romiti	Director	Approval of the Financial Statements for the year ended December 31, 2008	8			
Total			**433**	**4**	**60**	**579**

(*) Andrea Sasso was co-opted by the Board of Directors on March 21, 2007. He was appointed as Managing Director after Massimo Marchetti resigned on the same date.

Name	Office	Term of office	Remuneration	Non-monetary benefits	Bonuses and other incentives	Other remuneration
Giovanni Frezzotti	Statutory Auditor (*)	Approval of the Financial Statements for the year ended December 31, 2008	6	0	0	0
Stefano Marasca	Statutory Auditor (*)	Approval of the Financial Statements for the year ended December 31, 2008	4	0	0	0
Corrado Mariotti	Statutory Auditor (*)	Approval of the Financial Statements for the year ended December 31, 2008	4	0	0	0
Claudio Ceccarelli	Statutory Auditor (**)	Approval of the Financial Statements for the year ended December 31, 2008	31	0	0	0
Franco Borioni	Statutory Auditor (**)	Approval of the Financial Statements for the year ended December 31, 2008	23	0	0	0
Loris Mancinelli	Statutory Auditor (**)	Approval of the Financial Statements for the year ended December 31, 2008	23	0	0	0
Total			**91**	**0**	**0**	**0**

(*) appointed by the General Shareholders' Meeting of April 12, 2006
(**) office ceased on April 12, 2006

The following have been identified as executives with strategic responsibilities: the Administration, Finance and Control Director, the Supply Chain Director, the Sales Director for "Third-party brands", and Elicamex General Manager). Their aggregate remuneration for 2006 amounted to Euro 702 thousand.

6.2 Management and coordination

The Casoli family indirectly controls the Group through Fintrack S.p.A., a company headquartered in Fabriano (AN).

Fintrack S.p.A. operates as a holding and does not carry out management and coordination activities. Francesco Casoli, Executive Chairman of Elica S.p.A. holds a majority stake and is Sole Director in the Company.
Gianna Pieralisi Casoli is the owner with life-interest, of 68.33% of the share capital of Fintrack S.p.A. She therefore indirectly controls the Issuer, as per Art. 93 of the Consolidation Act.

6.3 Information on subsidiaries and associates

During the year, the Company carried out transactions with related parties. All the said transactions were part of the Company's routine day-to-day business operations and were effected at arm's length.
The following tables report the highlights on these companies and the amount of economic and financial transactions at December 31, 2006.

Summary information:

The following figures refer to the financial statements for the year ended December 31, 2006. They are taken from the relevant financial statements, which were prepared in accordance with Italian GAAP and, for foreign companies, with local applicable standards.

(in thousands of Euro)	**Assets**	**Liabilities and equity**	**Equity**	**Production value**	**Profit (loss) for the year**
Subsidiary Companies					
Jet Air S.r.L.	7,633	5,336	2,297	14,171	859
Turbo Air S.p.A.	39,035	39,130	(95)	44,105	(1,796)
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
Fime Polska S.p.zoo	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
Ariafina Co.Ltd	1,941	949	992	4,315	206

Elica has financial income and liabilities arising on intra-group loans granted/received in the framework of a general project aiming at achieving a centralized treasury management. These loans are interest-bearing and are regulated at arm's length.

The following table provides a list of financial receivables and payables:

(in thousands of Euro)	Dec. 31, 2005	Dec. 31, 2006
Financial receivables due from subsidiary companies		
Turbo Air S.p.A.	-	10,365
Fime	2,062	19,986
Fox Design S.p.A	475	3,850
Fime Polska S.p.zoo	-	2,005
Total	**2,537**	**36,206**
Financial payables due from subsidiary companies		
Jet Air S.r.l.	-	831
Total	**-**	**831**
Financial receivables due from associate companies		
Air Force S:p.A.	50	-
Projet S.r.L.	29	-
Total	**79**	**-**
Total	**2,616**	**35,375**

Information on economic and equity relations with related parties for 2006 and 2005, is provided in the specific notes to the Income Statement and Liabilities and Equity. The amounts were discussed separately in those sections, given their significance.

6.4 Transactions with other related parties

Elica's transactions with other related parties are exclusively of a commercial and financial nature.

Commercial relations

The following table contains details of the main income statement and Balance Sheet amounts relating to commercial relations with Fastnet S.p.A. (30% interest held by the parent company of Elica) and with Fintrack S.p.A. (company that controls parent company Elica S.p.A. through Fan S.A.).

Elica with Fastnet S.p.A.:

(in thousands of Euro)	Dec. 31, 2005	Dec. 31, .2006
Trade payables	117	68
Costs from trading transactions	69	161
Investments in fixed assets	264	197

Elica with Fintrack S.p.A.:

(in thousands of Euro)	Dec. 31, 2005	Dec. 31, 2006
Trade payables	30	-
Costs from trading transactions	30	-
Trade receivables	7	5
Revenues from trading transactions	6	4

The income statement and Balance Sheet balances are the result of the purchase of goods, services and fixed assets at arm's length.
The commercial relationship with Fastnet S.p.A. is to be viewed in light of a strategic partnership with the company aimed at developing projects and implementing advanced technological solutions, which accompanied company development: from Intranet to Extranet solutions, from cabling to wireless solutions, from software to hardware consultancy from training to web marketing.

Relations with Fintrack S.p.A. refer to administrative services rendered.

7. Positions or Transitions Generated by Atypical and/or Unusual Transactions

No atypical and/or unusual transaction was carried out in the year, except for the process of listing of company shares on the Star segment of the electronic share market (MTA).

8. Subsequent Events

For events subsequent to December 31, 2006 reference should be made to the Report on Operations.

Fabriano - March 29, 2007

The Board of Directors
The Chairman
Francesco Casoli

9. FTA Appendix

"TRANSITION TO IAS/IFRS IN THE SEPARATE FINANCIAL STATEMENTS OF ELICA S.P.A."

CONTENTS

A. Foreword

Following the entry into force of European Regulation No. 1606 of July 2002, as of 2006, all companies publicly traded on a regulated market of European Union member States must draw up their individual financial statements as from 2006 in accordance with the international accounting standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB) and approved by community organs.

Elica S.p.A.'s consolidated financial statements for the year ended December 31, 2005 were drawn up in accordance with IAS/IFRS, as were its annual financial statements for the year ended December 31, 2006.
This Appendix provides the reconciliations and related explanatory notes required under IFRS 1 – *First-time adoption of IFRS* – of equity and the result for the financial year, as per the previous accounting principles (Italian GAAP) and the new accounting standards:

- at the date of transition (January 1, 2005), corresponding to the beginning of the first accounting period to be compared;
- for the previous period presented for comparative purposes (December 31, 2005).

As required under IFRS 1, Section F of the Appendix sets forth the accounting policies followed in restating the balance sheet at January 1, 2005 and the financial statements for the year ended December 31, 2005, that the Company also adopted in drawing up the annual financial statements for the year ended December 31, 2005.

The reconciliation tables contained in the document are devoid of comparative data and the explanatory notes required to provide a complete representation of the balance sheet and financial situation as well as the economic result in accordance with international accounting standards.
Specifically, during the first-time adoption of international accounting standards and in accordance with the provisions of IFRS 1, the balance sheet at January 1, 2005 (opening balance sheet) has been prepared bringing the required adjustments to the annual financial statements at December 31, 2004, prepared on the basis of Italian GAAP, as illustrated below:

- all the assets and liabilities to be carried pursuant to IFRS, including those not contemplated under Italian accounting policies, have been stated and valued in accordance with IFRS;
- all the assets and liabilities to be carried pursuant to Italian accounting policies but not contemplated under IFRS, have been eliminated;
- certain items in the financial statements have been reclassified in accordance with IFRS.

The effect of applying the new accounting standards to the opening balances of assets and liabilities has been carried under equity, as retained earnings, net of the tax effect recorded in the Fund for Deferred Taxes or Deferred Tax Assets.

During first-time adoption, in re-processing the balance sheet at the date of transition in accordance with the new accounting standards, pursuant to IFRS 1 pertaining to the individual financial statements of a Parent Company prepared in accordance with IFRS after the consolidated report on operations has been drawn up in accordance with the same accounting standards, the Parent Company's assets and liabilities have been carried at the same values used for purposes of the consolidated financial statements, save for adjustments due to consolidation operations. In accordance with the choices adopted at the time of the first IFRS-compliant consolidation, the Company availed of certain options and optional exemptions contemplated in IFRS 1.

The main options in question, pertain to:

- **balance sheet, income statement and other accounting statements:** the balance sheet has been presented in such a way as to distinguish between current and non-current assets and liabilities while the income statement has been prepared by nature of the account balances. The statement of movements in equity items and the cash flow statement have been prepared using the indirect method;

- **equity investments in subsidiaries and associate companies:** pursuant to IAS 27, the Company decided to value equity investments at cost (rather than IAS 39) for the preparation of its separate financial statements.
- **property, plant, equipment and intangible assets**: property, plant, equipment and intangible assets have been valued at historical cost (instead of fair value) following initial recognition. The historical cost includes previous revaluations pursuant to specific laws, insofar as they are representative of the fair value of the asset at the time of the revaluation.
- **employee benefits**: pursuant to IAS 19, the Company has opted to apply the "corridor" method to actuarial gains and losses generated after January 1, 2005, fully recognizing actuarial gains and losses cumulated at the date of transition to IFRS;
- **business combinations:** business combinations prior to the date of transition have not been retrospectively restated, that is to say, through the restatement of the current value of assets and liabilities as per their value at the time of their acquisition by the Company, and the value of goodwill at the date of transition was maintained, save in the case of business combinations under common control.

B Reconciliation of Equity at January 1, 2005 and December 31, 2005 and Result for the Year ended December 31, 2005

The table below provides a reconciliation of equity at January 1, 2005 and December 31, 2005, broken down by type of adjustment, and net of tax effects, where applicable.

Adjustments and reclassifications resulting from the transition to IAS/IFRS are commented in detail in the notes set forth in the following paragraphs, with the effects at January 1, 2005 and at December 31, 2005 being dealt with separately.

(in thousands of Euro)	Equity at January 1, 2005	Profit (Loss) for 2005	Other effects 2005	Equity at December 31, 2005
Balance as per Italian GAAP	**68,505**	**6,736**	**(508)**	**74,733**
Recognition of finance lease agreements for real estate, machinery and equipment	2,414	60		2,474
Reversal of depreciation on land	266	22		288
Capitalization of development expenses	309	(103)		206
Reversal of research costs and other adjustments to intangible fixed assets	(273)	212		(61)
Valuation of equity investments in subsidiaries	(1,490)	-		(1,490)
Valuation of investments in associates and joint ventures	858	563		1,421
Financial Assets - Convertible Bond	10	42		52
Adjustments after statement of dividends pursuant to IAS 18	(2,227)	287		(1,940)
Fair value of derivative instruments classified as cash flow hedges	(98)	-	26	(72)
Recognition of liabilities by way of employee benefits	2,042	650		2,692
Total adjustments pursuant to IFRS	**1,811**	**1,733**	**26**	**3,570**
Tax effects of the adjustments pursuant to IFRS	**(1,629)**	**(254)**	**(9)**	**(1,892)**
Balance as per IAS/IFRS	**68,687**	**8,215**	**(491)**	**76,411**

The column "Other effects" reflects movements in equity that do not impact the result for the year, and that were already carried in the financial statements for 2005, made up of the distribution of dividends in the amount of Euro 508 thousand, and movements due to recognition of the cash flow hedging transactions carried directly under equity, as required under IAS/IFRS, in the amount of Euro 26 thousand, gross of tax effects.

Adjustments and reclassifications resulting from the transition to IAS/IFRS are commented in detail in the notes set forth in the following Sections, with the effects at January 1, 2005 and at December 31, 2005, being dealt with separately.

C. Statement of Reconciliation of the Balance Sheet at January 1, 2005

The statement of reconciliation of the Balance Sheet at the date of transition, reclassified to distinguish between "current" and "non-current" assets and liabilities, is provided below. The reconciliation tables indicate, in respect of each item:

- the balance carried in the balance sheet at January 1, 2005, prepared on the basis of Italian GAAP;
- reclassifications required for the transition to IAS/IFRS;
- adjustments required for the transition to IAS/IFRS;
- values adjusted pursuant to IAS/IFRS.

(in thousands of Euro) *Balance Sheet at January 1, 2005*		**Italian GAAP**	**Effects of the transition to IFRS**		**IFRS**
			Reclassifications	**Adjustments**	
ASSETS					
Property, plant and equipment	1	27,019		7,146	34,165
Goodwill	3	90		(90)	-
Other Intangible Assets	1,2	2,391		(281)	2,110
Investments in subsidiaries	3	33,472		(1,433)	32,039
Investments in associates	4	4,651	(1,990)	1,535	4,196
Financial Assets - Convertible Bond	5	2,207		(501)	1,706
Sundry receivables		1,333			1,333
Tax receivables		109			109
Deferred tax assets	9	766		336	1,102
Other investments /Available-for-sale financial assets		304			304
Non current assets		**72,342**	**(1,990)**	**6,712**	**77,064**
Trade receivables and loans		49,791			49,791
Trade Receivables and Loans Due from Related Parties	6	16,656		(2,227)	14,429
Inventories		23,825			23,825
Other receivables, accrued income and prepaid expenses	1	1,934	(110)	(940)	884
Tax receivables		4,617			4,617
Derivative financial instruments	7	-	110		110
Cash and cash equivalents		7,936			7,936
Current assets		**104,759**	**-**	**(3,167)**	**101,592**
Total assets		**177,101**	**(1,990)**	**3,545**	**178,656**

(in thousands of Euro) *Balance Sheet at January 1, 2005*	**Note**	**Italian GAAP**	**Effects of the transition to IFRS**		**IFRS**
			Reclassifications	**Adjustments**	
LIABILITIES AND EQUITY					
Retirement benefit obligation	8	8,421		(2,042)	6,379
Provisions	4	1,551	(468)		1,083
Deferred tax liabilities	9	2,344		1,787	4,131
Obligations under finance leases and towards other lenders	1	-		3,136	3,136
Due to banks and bank loans		13,276			13,276
Other payables		3,957			3,957
Tax payables		3,890			3,890
Derivative financial instruments	7	-		73	73
Non current liabilities		**33,439**	**(468)**	**2,954**	**35,925**
Due to banks and bank loans	2	4,607		(32)	4,575
Obligations under finance leases and towards other lenders	1	136		831	967
Provisions		-	150		150
Trade payables to third parties		50,211			50,211
Trade payables to related parties		9,952			9,952
Tax payables		2,835			2,835
Other payables and accrued expenses and deferred income	1,3	7,416	(1,338)	(749)	5,329
Derivative financial instruments	7	-		25	25
Current liabilities		**75,157**	**(1,188)**	**75**	**74,044**
Share capital		10,165			10,165
Capital reserves		14,811			14,811
Hedging reserves	7	-		(66)	(66)
Earnings reserve		41,579	(334)	582	41,827
Profit for the year		1,950			1,950
Equity		**68,505**	**(334)**	**516**	**68,687**
Total liabilities and equity		**177,101**	**(1,990)**	**3,545**	**178,656**

The following paragraphs provide information on the main adjustments and reclassifications made in the balance sheet, following the numbering indicated in the above reconciliation tables for the balance sheet at January 1, 2005.

1. Property, plant and equipment

Movements in property, plant and equipment are primarily due to the application of IAS 17 to assets held under finance leases, as well as the reversal of depreciation on land (that was originally purchased together with buildings).

Under Italian GAAP, the charges incurred for property, plant and equipment held under finance lease agreements must be carried in the income statement on the basis of the duration of the finance lease agreement, and recorded as a commitment towards the lessor companies under potential liabilities (in Off-Balance Sheet accounts); at the end of the finance lease, the asset is recognized amount property, plant and equipment at its redemption value.

Under IAS/IFRS, all the assets underlying finance lease agreements must be carried as property, plant and equipment, with a counter-entry under financial debt in the amount payable. The said debt must be gradually reduced in light of the repayment plan of the principal included in the installments, whilst the value of the asset must be subjected to straight-line depreciation in function of its economic-technical lifespan. Accordingly, the Company booked net fixed assets in the amount of Euro 6,856 thousand, payables totaling Euro 3,967 thousand, and related deferred tax liabilities amounting to Euro 921 thousand, whilst reversals were made in respect of Euro 749 thousand by way of accrued liabilities, Euro 938 thousand by way of prepayments, as well as other intangible assets valued at Euro 286 thousand. Lastly, it must be pointed out that the introduction of IFRIC 4 had no effect on the separate financial statements.

As a result of the adjustments pursuant to IAS 17, mentioned above, equity at January 1, 2005, increased by Euro 2,414 thousand, gross of the tax effect. This was further boosted by the impact of IAS 16, amounting to Euro 266 thousand before taxes.

2. Other intangible assets

Under Italian GAAP, in certain circumstances, some of the costs pertaining to the setting up and start-up of new corporations may be deferred or capitalized as intangible fixed assets subject to straight-line amortization over no more than five years.
Costs for internally generated assets, which in the present case represent R&D expenses, may be charged to the Income Statement, or under certain circumstances, capitalized and subjected to straight-line amortization over no more than five years.
Advertising costs may be carried as assets in the balance sheet, provided that they are exceptional, non-recurrent and contribute (and are, therefore, essential) to the success of the project for which they were incurred.

Under IAS/IFRS, costs for the setting up and start-up of new corporations as well as research costs must be expensed directly in the income statement.
On the other hand, development costs may be capitalized under certain circumstances.
Lastly, advertising costs must be expensed in the Income Statement for the year in which they arose.

Accordingly, the Company eliminated advertising costs in the amount of Euro 86 thousand and other multi-year costs of Euro 187 thousand, reclassified multi-year costs on loans amounting to Euro 32 thousand, under the item Bank Loans and Overdraft Facilities, and capitalized development costs totaling Euro 309 thousand.
Pursuant to IAS 17, already dealt with in point 1 above, capitalized expenses were reduced by Euro 286 thousand by way of capitalized charges pertaining to improvements in assets held under finance lease agreements.

As a result of the capitalization of development costs equity has increased by Euro 309 thousand, whilst the reversal of other costs capitalized in this item has reduced equity at January 1, 2005 by Euro 273 thousand, in both cases gross of the tax effect.

3. Investments in subsidiaries

Investments in subsidiaries are recognized at cost, both in the individual financial statements of Elica S.p.A. prepared on the basis of Italian accounting standards, and in the financial statements prepared in accordance with IFRS, the method used as an alternative to measurement at fair value, as provided for by IAS 28.

Under Italian accounting standards, the cost has to be reduced in the event of impairment of value. In general, in the case of permanent impairment, the cost of the investment is restated in the investee's equity, for the relevant portion, even if further writedowns are permitted, where the equity does not adequately reflect the impairment of the investment.

Based on IAS/IFRS, where impairment indicators exist, the value of the investment has to be reduced taking account of the larger of the value in use given by the present value of the cash flows that the investee company will be able to produce in the future and the fair value of the investee, net of sales costs.
Moreover, when applying the cost method, as provided for by IAS 27, excess dividends received relative to the profits generated after the date of acquisition have to be considered as a realized gain on the investment and so have to be deducted from the cost of the investment.
Italian accounting standards, by contrast, allow dividends on pre-acquisition profits to be recognized in the income statement, requiring the value of the investment to be reduced only at the consolidation stage.

The analysis of the value of the investments in subsidiaries carried out on the basis of the above methodology has resulted in a Euro 1,490 thousand reduction in the value of the investment in Jet Air S.r.l. against dividends distributed in respect of reserves already existing on the date of acquisition of the investment, and recognized in the income statement of Elica S.p.A. in previous years.
As a result of the above adjustments, equity at January 1, 2005, was reduced by Euro 1,490 thousand.
The residual increase in the investments amounting to Euro 57 thousand is due to the reclassification in this item of the residual value of goodwill recognized in the financial statements of Elica S.p.A. at January 1, 2005 (Euro 90 thousand, gross of the underlying tax effect) in respect of the acquisition of Jet Air S.r.l.'s painting and assembly business which took place during 2003. Although no retrospective recalculation of the business branch acquisition from the subsidiary has been carried out (as allowed by IFRS 1 at the time of transition to IAS/IFRS), it has been considered adequate to restate the value of the residual goodwill to increase the investment using the same treatment for goodwill as would have happened if the transaction were treated in accordance with the rules prevailing for transactions "under common control".

4. Investments in associates

As already described for investments in subsidiaries, associates are valued by Elica S.p.A. using the cost method both in the financial statements prepared according to Italian GAAP and in the financial statements adjusted on the basis of IAS/IFRS.
As a result of transition to IAS, the value of the investments in associates has fallen overall by Euro 455 thousand. The reduction can be analyzed as follows:

a) Euro 1,193 thousand increase by way of Euro 490 thousand written down in the investment in Air Force S.p.A. prior to January 1, 2005, and Euro 703 thousand written down in the investment in Roal Electronics S.p.A.. The resulting gross cost was checked for recoverability and no impairment was found;
b) the increase of Euro 342 thousand, again pertaining to the equity investment in the associated company Roal Electronics S.p.A., arises from the fair value recognition, of the so-called "embedded derivative" pertaining to the convertible bonds issued by the said associate company in 2004 and carried at their subscription value under Financial Assets – Convertible Bond in the 2004 financial statements drawn up in accordance with Italian accounting policies. The adjustment in question was carried net of the underlying tax effect, quite like the increase in the equity of the associate company, that was also re-stated net of the tax shield, as required under IAS/IFRS in the case of compound financial instruments. Accordingly, the item Financial Assets - Convertible Bond was reduced by Euro 511 thousand, while deferred tax assets were carried in the amount of Euro 169 thousand;
c) decrease of Euro 1,338 thousand due to the transfer of Euro 1,672 thousand from deferred income to reduce the value of the investment in the associate Roal Electronics S.p.A. and Euro 334 thousand due to the reversal of the same deferred income charged to income in the 2004

income statement. The accrued liability was recognized in 2004 to indirectly offset the impact exerted on the value of the shareholding in question, as a result of the carriage at fair value, rather than at historical cost, of certain exceptional transactions effected, in 2004, between entities under common control.

d) The remaining amount of Euro 318 thousand was reclassified from the heading "Provisions for risks and charges" to the item "Contribution to the Provision covering the Write-down of the former Indian Joint-Venture.

For the reasons set forth above, the value of equity increased by a total of Euro 858 thousand at January 1, 2005, gross of tax effects, where applicable.

5. Financial Assets - Convertible Bond

The net adjustment of Euro 501 thousand relates to the decrease of Euro 511 thousand due to the separation from the Convertible Debenture Bond of the fair value of the "embedded derivative" pertaining to the instrument issued by the associate Roal Electronics S.p.A. during 2004 (see previous note 4 -b) and the increase of Euro 10 thousand due to the notional interest accrued from the subscription date to December 31, 2004.
As a result of the above, equity at January 1, 2005, increased by Euro 10 thousand, gross of the tax effect.

6. Trade Receivables and Loans Due from Related Parties (Dividends)

Dividends are recorded when the right of the shareholders to receive them is established, pursuant to a resolution passed by the relevant corporate organ, both in accordance with Italian accounting policies and IAS/IFRS. However, Italian GAAP state that for subsidiary companies dividends may be recorded prior to the year in which they mature if the financial statements have been approved by the subsidiary's Board before the date the parent company's financial statements are approved by its Board, an option chosen by Elica S.p.A. when preparing its financial statements.
The dividends accrued at December 31, 2004 amounting to Euro 2,227 thousand have been reversed and the related receivables from the subsidiaries have been written off. Net equity was consequently reduced by Euro 2,227 thousand, gross of the tax effect, where applicable.

7. Derivative financial instruments

Under Italian accounting standards, derivative contracts that may be classed as hedges are recognized pursuant to the accounting policies applicable to hedged assets and liabilities. Related income and charges are recorded on an accruals basis. In particular, Italian accounting policies do not require the financial statements to show the fair value of a derivative that could be designated as a cash flow hedge until such time as the hedged transaction is realized. Accordingly, IRS derivative agreements were disclosed under Off-Balance Sheet items as commitments.
IAS/IFRS provide for more rigorous and more restrictive methods for the designation of derivative transactions as hedging transactions and for the resulting possibility of applying hedge accounting. If a derivative contract intended to hedge future cash flows qualifies as a cash flow hedge, movements in the fair value of the derivative are carried directly under a specific equity heading while the ineffective portion is recorded immediately in the income statement. Gains and losses resulting from movements in the fair value of derivatives that may be designated as fair value hedges, or arising from derivative contracts that do not qualify as hedges, must be recognized in the income statement.
Moreover, as required under IAS/IFRS, assets and liabilities connected to derivatives have been recorded and/or reclassified under specific balance sheet headings.

Accordingly, the Company has recorded a current liability of Euro 98 thousand among other payables, with a counter-entry made to a specific equity reserve (net of the tax effect); the liability reflects the fair value of a derivative designed to hedge interest rate risk.

Adjustments regarding the valuation of derivatives led to a total reduction of Euro 98 thousand in equity at January 1, 2005, carried gross of the underlying tax effect, in a specific equity reserve known as the “Hedging Reserve”.

8. Retirement Benefit Obligations – Severance Benefit

Under Italian GAAP, provision must be made for retirement benefit obligations, net of advances paid, on the basis of the amount that would be due to employees if they terminated their employment relationships with the Company at the date of the financial statements, and therefore, without taking account of future employee turnover rates and without discounting the liability.

Under IAS/IFRS, employee benefits, including the severance benefit, must be booked pursuant to the “projected unit credit method”. The restatement of the retirement benefit obligations under this method, as supported by an appraisal by an independent actuary, led to a reduction of Euro 2,042 thousand in the provision for severance benefits carried in the financial statements at December 31, 2004.

As a result of the above, equity at January 1, 2005, increased by Euro 2,042 thousand, gross of the underlying tax effect.

9. Deferred Tax Assets and Provision for Deferred Taxes

These items reflect the tax effects arising in respect of all the adjustments described above, where applicable.

The tax effects of the adjustments required to comply with IAS/IFRS resulted in a net reduction of Euro 1,629 thousand in equity at January 1, 2005.

D. Breakdown of reconciliation of the Balance Sheet and Income Statement at December 31, 2005

The reconciliation tables of the Balance Sheet and Income Statement at December 31, 2005 are provided below. The balance sheet has been reclassified to distinguish between "current" and "non-current" assets and liabilities. For IAS/IFRS purposes, Elica S.p.A. opted to draw up its income statement by distinguishing between revenues and costs by nature. This method is in line with that previously used in drawing up the Financial Statements for 2005.

The reconciliation tables indicate, in respect of each item:

- the balance carried in the Balance Sheet and Income Statement at December 31, 2005, prepared on the basis of Italian accounting policies;
- reclassifications required for the transition to IAS/IFRS;
- adjustments required for the transition to IAS/IFRS;
- values adjusted pursuant to IAS/IFRS.

(in thousands of Euro) *Balance Sheet at December 31, 2005*	**Note**	**Italian GAAP**	**Effects of the transition to IFRS**		**IFRS**
			Reclassifications	**Adjustments**	
ASSETS					
Property, plant and equipment	1	25,572		9,605	35,177
Goodwill		380		(380)	-
Other Intangible Assets	1,2	2,856		(572)	2,284
Investments in subsidiaries	3	33,705		(1,146)	32,559
Investments in associates	4	3,526	(1,003)	1,763	4,286
Financial Assets - Convertible Bond	5	2,207		(459)	1,748
Sundry receivables		1,295			1,295
Tax receivables		6			6
Deferred tax assets	6	1,459		390	1,849
Other investments/ Available-for-sale financial assets		84			84
Non current assets		**71,090**	**(1,003)**	**9,201**	**79,288**
Trade receivables and loans		55,936			55,936
Trade receivables and loans to related parties	7	13,874		(1,940)	11,934
Inventories		21,683			21,683
Other receivables, accrued income and prepaid expenses	1,8	1,971	(2)	(1,019)	950
Tax receivables		4,476			4,476
Derivative financial instruments	8	-	2		2
Cash and cash equivalents		13,803			13,803
Current assets		**111,743**	**-**	**(2,959)**	**108,784**
Total assets		**182,833**	**(1,003)**	**6,242**	**188,072**

(in thousands of Euro) *Balance Sheet at December 31, 2005*		**Italian GAAP**	**Effects of the transition to IFRS**		**IFRS**
			Reclassifications	**Adjustments**	
LIABILITIES AND EQUITY					
Retirement benefit obligation	9	9,685		(2,691)	6,994
Provisions		1,426	(350)		1,076
Deferred tax liabilities	6	2,596		1,983	4,579
Obligations under finance leases and towards other lenders	1	14		4,605	4,619
Due to banks and bank loans		8,667			8,667
Other payables		3,943			3,943
Tax payables		3,877			3,877
Derivative financial instruments	8	-		58	58
Non current liabilities		**30,208**	**(350)**	**3,955**	**33,813**
Due to banks and bank loans	2	4,610		(22)	4,588
Obligations under finance leases and towards other lenders	1	108		1,240	1,348
Provisions		-	350		350
Trade payables to third parties		13,105			13,105
Trade payables to related parties		48,356			48,356
Tax payables		3,541			3,541
Other payables and accrued expenses and deferred income	1,4	8,172	(1,013)	(624)	6,535
Derivative financial instruments	8	-	10	15	25
Current liabilities		**77,892**	**(653)**	**609**	**77,848**
Share capital		10,165			10,165
Capital reserves		14,811			14,811
Hedging reserves	8	-		(49)	(49)
Earnings reserve		43,021		247	43,268
Profit for the year		6,736		1,480	8,216
Equity		**74,733**	**-**	**1,678**	**76,411**
Total liabilities and equity		**182,833**	**(1,003)**	**6,242**	**188,072**

(in thousands of Euro) *Income statement at December 31, 2005*	Note	Italian GAAP	Effects of the transition to IFRS		IFRS
			Reclassifications	Adjustments	
Revenues	10	239,780	(4,605)		235,175
Other operating income	10	2,418	200		2,618
Change in inventories of finished goods and work in progress		83			83
Increase in tangible and intangible assets due to capitalization of internal costs		310			310
Raw materials and supplies		(118,549)	(39)		(118,588)
Services	10	(57,117)	4,296	(24)	(52,845)
Personnel costs	11	(40,883)		923	(39,960)
Amortization and Depreciation	12	(7,758)		(818)	(8,576)
Other operating expenses and provisions	10	(4,880)	(542)	1,292	(4,130)
Operating profit		**13,404**	**(690)**	**1,373**	**14,087**
Income and Losses from Subsidiaries and Associates	13	1,166		1,185	2,351
Income and loss from other equity investments		(607)			(607)
Financial Income and Income from Investing Activities	14	257		42	299
Financial charges	15	(990)		(478)	(1,468)
Foreign exchange gains (losses)		336			336
Other non operating income	5, 10	(355)	690	(335)	-
Profit before tax		**13,211**	**-**	**1,787**	**14,998**
Income taxes	16	(6,475)		(307)	(6,782)
Profit for the year		**6,736**	**-**	**1,480**	**8,216**

The following paragraphs provide information on the main adjustments to the financial statements at December 31, 2005, following the numbering indicated in the above reconciliation tables for the Balance Sheet and Income Statement at December 31, 2005.

1. Property, plant and equipment

Movements in property, plant and equipment are primarily due to the application of IAS 17 to assets held under finance leases, as well as the reversal of depreciation on land (that was originally purchased together with buildings).

Under Italian GAAP, the charges incurred for property, plant and equipment held under finance lease agreements must be carried in the income statement on the basis of the duration of the finance lease agreement, and recorded as a commitment towards the lessor companies under potential liabilities (in Off-Balance Sheet accounts); at the end of the finance lease, the asset is recognized amount property, plant and equipment at its redemption value.

Under IAS/IFRS, all the assets underlying finance lease agreements must be carried as property, plant and equipment, with a counter-entry under financial debt in the amount payable. The said debt must be gradually reduced in light of the repayment plan of the principal included in the installments, whilst the value of the asset must be subjected to straight-line depreciation in function of its economic-technical lifespan. Accordingly, the Company booked net fixed assets in the amount of Euro 9,291 thousand, debts totaling Euro 5,845 thousand, and related deferred tax liabilities amounting to Euro 932 thousand, whilst reversals were made in respect of Euro 624 thousand by way of accrued liabilities and Euro

1,018 thousand by way of prepayments, together with other intangible assets valued at Euro 566 thousand. Lastly, it must be pointed out that the introduction of IFRIC 4 had no effect on the separate financial statements.

As a result of the adjustments pursuant to IAS 17, mentioned above, equity at January 31, 2005, increased by Euro 2,474 thousand, gross of the tax effect. This was further boosted by the impact of IAS 16, amounting to Euro 288 thousand before taxes.

2. Intangible assets

Under Italian GAAP, in certain circumstances, some of the costs pertaining to the setting up and start-up of new corporations may be deferred or capitalized as intangible fixed assets subject to straight-line amortization over no more than five years.
Costs for internally generated assets, which in the present case represent R&D expenses, may be charged to the Income Statement, or under certain circumstances, capitalized and subjected to straight-line amortization over no more than five years.
Advertising costs may be carried as assets in the balance sheet, provided that they are exceptional, non-recurrent and contribute (and are, therefore, essential) to the success of the project for which they were incurred.

Under IAS/IFRS, costs for the setting up and start-up of new corporations as well as research costs must be expensed directly in the income statement.
On the other hand, development costs may be capitalized under certain circumstances.
Lastly, advertising costs must be expensed in the Income Statement for the year in which they arose.

Accordingly, the Company eliminated advertising costs in the amount of Euro 23 thousand and other multi-year costs of Euro 168 thousand, reclassified multi-year costs on loans amounting to Euro 21 thousand, under the item Bank Loans and Overdraft Facilities, and capitalized development costs totaling Euro 206 thousand.

Pursuant to IAS 17, already dealt with in point 1 above, capitalized expenses were reduced by Euro 566 thousand by way of capitalized charges pertaining to improvements in assets held under finance lease agreements.

As a result of the capitalization of development costs, equity increased by Euro 206 thousand, whilst equity as January 31, 2005 fell by Euro 191 thousand due to the reversal of other costs capitalized in this item, in both cases gross of the tax effect.
As a result of the above adjustments, equity at December 31, 2005, increased by Euro 145 thousand, gross of taxes.

3. Investments in subsidiaries

As already indicated in note 3 above regarding the opening balances at January 1, 2005, to which reference is made for greater detail, investments in subsidiaries are recognized at cost, both in the individual financial statements of Elica S.p.A. prepared on the basis of Italian GAAP, and in the financial statements prepared in accordance with IFRS, the method used as an alternative to measurement at fair value, as provided for in IAS 28.

The analysis of the value of investments in subsidiaries carried out on the basis of the methodology illustrated above has resulted in a net reduction of Euro 1,433 thousand at January 1, 2005 to which is added the further increase in the item in question, amounting to Euro 287 thousand. This is due to the reclassification in this item of the goodwill charged in the financial statements by Elica S.p.A. during 2005 (Euro 438 thousand, gross of the underlying tax effect) in respect of the acquisition of O.l.a. S.r.l.’s business branch dealing in fridge door assembly and production of electrical domestic appliance accessories. In fact, it has been deemed adequate to restate the goodwill paid to increase the investment using the same treatment for goodwill as would have been used for the transaction in compliance with the provisions of the rules prevailing for transactions under common control and, accordingly, to write back the respective amortization and tax effect.

As a result of the above adjustments, equity at December 31, 2005, was reduced by Euro 1,490 thousand.

4. Investments in associates

As already described for investments in subsidiaries, associates are valued by Elica S.p.A. using the cost method both in the financial statements prepared according to Italian GAAP and in the financial statements adjusted on the basis of IAS/IFRS.
As a result of transition to IAS, the value of the investments in associates has fallen overall by Euro 760 thousand. The reduction can be analyzed as follows:

a) decrease of Euro 2,090 thousand by way of Euro 571 thousand written down in the investment in Air Force S.p.A. prior to December 31, 2005, and Euro 1,171 thousand written down in the investment in Roal Electronics S.p.A., and Euro 348 thousand in the investment in I.S.M. s.r.l. The resulting gross cost was checked for recoverability and no impairment was found;
b) the increase of Euro 342 thousand, again pertaining to the equity investment in the associated company Roal Electronics S.p.A., arises from the fair value recognition, of the so-called "embedded derivative" pertaining to the convertible bonds issued by the said associate company in 2004 and carried at their subscription value under Financial Assets – Convertible Bond in the 2004 financial statements drawn up in accordance with Italian accounting policies. The adjustment in question was carried net of the underlying tax effect, quite like the increase in the equity of the associate company, that was also re-stated net of the tax shield, as required under IAS/IFRS in the case of compound financial instruments. Accordingly, the item Financial Assets - Convertible Bond was reduced by Euro 511 thousand, while deferred tax assets were carried in the amount of Euro 169 thousand;
c) decrease of Euro 1,672 thousand due to the reversal from deferred income to reduce the value of the investment in the associate Roal Electronics S.p.A. amounting to Euro 1,003 thousand and the reversal of amortization amounting to Euro 344 thousand for the same deferred income charged annually to revenues in the 2004 and 2005 income statements. Reference is made for further information to note 4 above regarding the reconciliation statements at January 1, 2005.

For the reasons set forth above, the value of equity increased by a total of Euro 1,421 thousand at December 31, 2005, gross of tax effects, where applicable.

5. Financial Assets - Convertible Bond

The net adjustment of Euro 459 thousand is due to a decrease by Euro 511 thousand because the fair value of the "embedded derivative" pertaining to the Convertible Bonds issued by the associated company Roal Electronics S.p.A. in 2004 had to be deducted from its nominal value (see previous note 4 -b), and the increase by Euro 10 thousand due to the notional interest accrued in 2004 and for interest income of Euro 42 thousand accrued in 2006 (see note 14 below).
As a result of the above, equity at December 31, 2005, increased by Euro 52 thousand, gross of the tax effect.

6. Deferred Tax Assets and Provision for Deferred Taxes

These items reflect the tax effects arising in respect of all the adjustments described above, where applicable.

The tax effects arising from adjustments required to comply with IAS/IFRS entailed a reduction of Euro 1,892 thousand in equity at December 31, 2005, and a drop of Euro 254 thousand in the result for the financial year. Deferred taxes recognized directly under equity, in the Hedging reserve, entailed an increase of Euro 26 thousand in equity.

7. Trade Receivables and Loans Due from Related Parties (Dividends)

As already described above, dividends are recorded when the right of the shareholders to receive them is established, pursuant to a resolution passed by the relevant corporate organ, both in accordance with Italian accounting policies and IAS/IFRS. However, Italian GAAP state that for subsidiary companies dividends may be recorded prior to the year in which they mature if the financial statements have been approved by the subsidiary's Board before the date the parent company's financial statements are approved by its Board, an option chosen by Elica S.p.A. when preparing its financial statements.
Accordingly, provisions made for dividends maturing at December 31, 2005, in the amount of Euro 1,940 thousand were reversed, with the result that the related receivables from subsidiaries were also written off. Net equity was consequently reduced by Euro 1,940 thousand, gross of the tax effect, where applicable.

8. Derivative financial instruments

Under Italian accounting standards, derivative contracts that may be classed as hedges are recognized pursuant to the accounting policies applicable to hedged assets and liabilities. Related income and charges are recorded on an accruals basis. In particular, Italian accounting policies do not require the financial statements to show the fair value of a derivative that could be designated as a cash flow hedge until such time as the hedged transaction is realized. Accordingly, IRS derivative agreements were disclosed under Off-Balance Sheet items as commitments.
IAS/IFRS provide for more rigorous and more restrictive methods for the designation of derivative transactions as hedging transactions and for the resulting possibility of applying hedge accounting. If a derivative contract intended to hedge future cash flows qualifies as a cash flow hedge, movements in the fair value of the derivative are carried directly under a specific equity heading while the ineffective portion is recorded immediately in the income statement. Gains and losses resulting from movements in the fair value of derivatives that may be designated as fair value hedges, or arising from derivative contracts that do not qualify as hedges, must be recognized in the income statement.
Moreover, as required under IAS/IFRS, assets and liabilities connected to derivatives have been recorded and/or reclassified under specific balance sheet headings.

Accordingly, the Company has recorded a current liability of Euro 72 thousand under other payables, with a counter-entry made to a specific equity reserve (net of the tax effect); the liability reflects the fair value of a derivative designed to hedge interest rate risk.

Adjustments regarding the valuation of derivatives led to a total reduction of Euro 72 thousand in equity at December 31, 2005, carried net of the underlying tax effect, in the specific Hedging reserve.

9. Retirement Benefit Obligations – Severance Benefit

Under Italian GAAP, provision must be made for retirement benefit obligations, net of advances paid, on the basis of the amount that would be due to employees if they terminated their employment relationships with the Company at the date of the financial statements, and therefore, without taking account of future employee turnover rates and without discounting the liability.

Under IAS/IFRS, employee benefits, including the severance benefit, must be booked pursuant to the "projected unit credit method". The restatement of the retirement benefit obligations under this method, as supported by an appraisal by an independent actuary, led to a reduction of Euro 2,692 thousand in the provision for severance benefits carried in the financial statements at December 31, 2005, resulting in a net positive effect of Euro 650 thousand on the income statement for 2005 (see notes 11 and 15 below).

10. Revenues, Other operating Revenues, Expenses for Services, Other Operating Expenses and Provisions, and Extraordinary Income and Charges

The main reclassification in the income statement involves the expensing of bonuses on turnover granted to a customer and carried as services rendered in the original financial statements, in the amount of Euro 4,296 thousand.
As a result of the IFRS adjustments, the cost of services increased by Euro 24 thousand, whilst other operating expenses and provisions fell by Euro 1,292 thousand. The increase in the cost of services is due primarily to the different treatment of plant and extension costs that are subject to capitalization under Italian GAAP. The drop in operating expenses and provisions, on the other hand, is attributable mainly to the elimination of finance lease installments pursuant to IAS 17 (already dealt with in point 1 above).
Moreover, certain items were reclassified in order to spread over individual items of the income statement, the positive and negative components carried as Extraordinary Income and Charges pursuant to Italian GAAP.

11. Personnel costs

The different accounting treatment of employee benefits led to a Euro 923 thousand decrease in the employee benefits accruing for the year.

12. Amortization and Depreciation

Adjustments in this item pertain to the inclusion of the amortization of capitalized development costs, the effects of the write-off of various multi-year charges that cannot be capitalized under IAS/IFRS accounting standards, the reversal of the depreciation of land and goodwill, and lastly, the impact of the depreciation of property, plant and equipment held under finance lease agreements.

More specifically, the depreciation of the said tangible fixed assets, which represents the most significant adjustment, entailed an increase of a total of Euro 1,032 thousand, in this cost item.

13. Income and Losses from Subsidiaries and Associates

As a result of the IFRS adjustments with a direct impact on the item Equity investments in Associates (see note 5 above), the positive balance of this item increased by Euro 1,185 thousand, including Euro 897 thousand by way of amounts written back pursuant to Italian accounting standards, and Euro 288 thousand by way of the difference between dividends discounted insofar as they were carried as falling due in 2005, and the amount of the dividends to be distributed pursuant to resolutions passed during the year.

14. Financial Income and Income from Investing Activities

Financial income increased by Euro 42 thousand due to the inclusion of additional interest income on the convertible bond loan issued by the associated company Roal Electronics S.p.A. during the year. This is the result of the different treatment of this financial asset for IAS/IFRS purposes.

15. Financial charges

Financial charges increased by Euro 478 thousand due to the IAS/IFRS adjustments. This is mainly due to the allocation to this item of the interest component arising as a result of treating retirement benefit obligations in accordance with the "projected unit cost method" (Euro 273 thousand), as well as interest payable to lenders against finance leases (Euro 194 thousand).

16. Taxation

Taxes increased by Euro 307 thousand mainly because of allocation of the tax effects with an income statement impact triggered by all the adjustments described above: The most significant impact, amounting to Euro 214 thousand was due to the adjustment in the severance benefit for employees.

E. Cash Flow Statement at December 31, 2005

The Company has opted to present its cash flow statement using the indirect method prescribed in IAS 7. It distinguishes between cash flow from operating activities, cash flow from investing activities and cash flow from financing activities. This method is in line with the policies followed by the Company in drawing up its cash flow statement in accordance with Italian accounting standards.

Accordingly, the differences recorded between the cash flow statement at December 31, 2005 pertaining to the financial statements drawn up in accordance with Italian accounting standards and the cash flow statement pertaining to the financial statements drawn up to IAS/IFRS are basically due to adjustments and reclassifications arising from the transition to IAS/IFRS.

F. Accounting Policies and Valuation Methods

The main accounting policies and valuation methods adopted in drawing up the separate financial statements at December 31, 2006, are summarized below. These accounting policies are in line with those used in drawing up the consolidated financial statements.

Revenue recognition

Revenues from the sale of goods are recognized when the goods are delivered and the Company has transferred the significant risks and rewards 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 that discounts the expected future cash flow along the life of the financial asset in order to bring the said cash flow into line with the book value of the asset.

Dividends are recorded when the right of the shareholders to receive them is established, pursuant to a resolution passed by the relevant corporate organ.

Foreign currency transactions

The value of monetary assets and liabilities denominated in foreign currency is translated at the exchange rates prevailing at the date of the financial statements. The value of non-monetary assets recognized at fair value and denominated in foreign currency, is translated at the exchange rates prevailing on the date on which their fair value was determined. Exchange rate differences arising from the settlement of the monetary items or the re-carriage of the same at the exchange rates prevailing at the end of the financial year, are carried in the income statement, save for exchange-rate differences on non-monetary items carried at fair value, movements in the fair value of which are carried directly under equity, together with the exchange-rate component.

To hedge its exchange-rate risk, the Company entered into certain forward contracts and options (see accounting policies for derivative instruments, below).

Finance and Operating Leases

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

Assets held under finance leases are recorded as property, plant and equipment against a counter-entry of a financial obligation of the same amount as a liability in the balance sheet. The liability is gradually reduced on the basis of the repayment plan of the principal covered under the contractually established installments, whilst the value of the asset is subjected to straight-line depreciation in light of its useful economic-technical lifespan.

Operating lease costs are recorded on a straight-line basis through profit and loss over the term of the operating lease agreement.

Income taxes

Income taxes represent the sum of current and deferred taxation. Income tax is based on taxable income for the period as determined under applicable tax law. Provision is made for deferred taxes in light of temporary differences between taxable income and the statutory income reported in the financial statements. Deferred taxation is calculated using the liability method, and applying the rates in force at the time when the temporary differences arose. Deferred taxes are directly carried in the income statement, save for those pertaining to items recorded directly under equity, in which case, the related deferred taxes are also carried under equity.

Deferred tax assets are carried if they are considered recoverable in light of the taxable results expected for the periods the deductible timing differences leading to their creation reverse. Deferred tax assets and liabilities are offset against one another, only in the case of uniform accounts, when there is a legal enforceable right to do so. Otherwise they are recognized separately as receivables or payables.

Property, plant and equipment

Tangible assets are recorded at purchase or production cost, including all directly attributable incidental charges, net of subsequently accumulated depreciation and writedowns for impairment.

Routine maintenance costs are fully charged to the income statement. The cost of maintenance leading to a measurable increase in the value of the asset are attributed to the latter and amortized in accordance with the amortization rate applicable to the asset itself.

Apart from land that is not subject to depreciation, tangible fixed assets as depreciated on a straight-line basis, in function of the estimated useful lifespan, at the following depreciated rates:

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 %.

This item also includes assets held under finance leases that are carried as tangible fixed assets in accordance with the procedures described above.

Intangible assets

Internally generated intangible assets - 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 products are recognized only if the following conditions are met:

the asset is identifiable (such as, for instance, software or new processes);
it is likely that it will generate future economic benefits;
the cost of developing the asset can be reliably measured.

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

When internally generated assets cannot be recorded in the balance sheet, the 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 amortized on a straight line basis over their useful lives, and in any event, over a period of time not exceeding the limit established pursuant to the underlying licensing or purchase agreements.

Impairment of Property, Plant, Equipment and Intangible Assets

At each reporting date, the Company reviews for the existence of events or circumstances that raise doubts as to the recoverability of the value of property, plant, equipment and intangible assets with a defined useful life, and if there are any indications that there has been an impairment of value, the Company estimates the recoverable value of the assets so as to determine the extent of the impairment loss, if any. Intangible assets with an indefinite useful life, including goodwill, are tested for impairment once a year or more frequently if there are indications of a possible impairment.

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 to be carried in the financial statements, is the greater of fair value less costs to sell, if there is a viable market, and value in use. Value in use is quantified by discounting the future cash flows expected to be generated by the asset or group of assets, or through the disposal of the same at the end of its useful lifespan.

Accordingly, fixed assets are written down to take account of impairment and written back to their original cost (save in the case of goodwill) if, in subsequent years, the reasons for the writedown no longer prevail.

Equity Investments

Equity investments in associates that are not classified as held for sale are recognized at cost. At every reporting date, they are assessed in order to find any indications of reduction in the value of the cost of the equity investment. If such indications are found, the investments are tested for impairment as required by IAS 36. Any impairment loss in the equity investment is recognized in case the recoverable value is lower than the value recognized in the financial statements. Recoverable value is the higher between the fair value of the equity investment, net of costs to sell, if they can be measured, and the usage value, which is the present value of estimated cash flows for the periods of operations of the Company tested for its value, and generated by its disposal at the end of its useful life. If, after the write-down there are signs that the loss does not exist or is reduced, the value of the equity investment is written up to account for the lower impairment loss. After writing off the cost of the equity investment, any further losses recognized by the investee company are included among liabilities, if a legal or implicit obligation of the investing company to cover the higher losses of the investee company exists.

Non-current assets held for sale

Non current assets classified as held for sale are recognized at the lower of their previous carrying value and market value less selling costs. Non current assets 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 are available for immediate sale on an "as is" basis and management is committed to a sale, which should take place within 12 months of classification as held for sale.

Inventories

Inventory is valued at the lower between cost and net realizable value. Cost includes direct materials and, if applicable, direct labor, production overheads and the other costs sustained to bring the inventory to the state and location in which it stands. The cost is calculated using the weighted mean cost method. Net realizable value represents the estimated selling price less expected completion costs and selling costs. Obsolete and slow-moving inventory is written down in light of the extent to which it can be used or disposed of.

Financial Assets and Liabilities

Trade receivables

Receivables are carried at nominal value which basically represents their fair value; the nominal value is written down to account for expected losses on bad debts. 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.

Financial assets

Financial assets and liabilities are recognized and de-recognized in the financial statements at the settlement date, and are initially carried at cost, including charges directly related to their acquisition.

At subsequent reporting dates, financial assets the Company intends to hold, and is capable of holding, until maturity (held-to-maturity financial assets) are recognized at amortized cost using the effective interest method net of writedowns to reflect any impairment. Financial assets other than those held to maturity are classified as classified as held for trading or as available for sale, and are recognized at fair value, at the end of each period. Gains and losses arising from changes in the fair value of financial assets held for trading, are recorded in the income statement for the period; gains and losses arising from changes in the fair value of financial assets available for sale, are recorded directly under equity until the assets are sold or suffer a loss of value, in which case, all the gains or losses previously recognized under equity must be charged to the income statement for the period.

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.

Trade payables and loans

Trade payables are carried at their nominal value.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the Company 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 are defined as 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.

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 recognized at amortized cost using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recognized based on the proceeds received, net of direct issue costs.

Own shares

Own shares are carried at their cost of acquisition, as a deduction from equity items. Gains and losses arising from trading in own shares, are carried as retained earnings, net of related tax effects.

Derivative instruments and accounting for hedging transactions

The Group's activities are exposed to financial risks regarding fluctuations in exchange rates and interest rates. Exchange rate risk arises from possible fluctuations in the euro value of accounts denominated in foreign currency (or net exposure in foreign currency), represented by the algebraic sum of the invoices issued for amounts receivable, orders underway, incoming invoices payable, the balance of loans in foreign currency and the cash balances of accounts held in foreign currency. The main currencies involved are the US dollar, the Japanese yen and the British pound. In practice, the Company's risk management policy requires the amount of hedging transactions in force to generally be contained below 50% of the net exposure in foreign currency, and an underlying asset to be identified for each hedging transaction. Hedging may involve futures contracts (outright/currency swaps) or derivative instruments (currency options). As a result of the specific peculiarities of the business, the foreign exchange risk is spread over a large number of individual accounts denominated in foreign currency (pertaining to individual invoices and orders), making it complicated (as well as uneconomical) for each account to be hedged (i.e. by directly correlating the hedging instrument with the underlying asset): as a result, hedging is undertaken on an aggregate basis, and in particular, by matching all the accounts denominated in foreign currency. This hedging procedure, whilst effective from an operational standpoint, does not qualify as a hedging transaction within the meaning of international accounting standards. Accordingly, movements in the fair value of derivative instruments are directly recognized in the income statement. Interest-rate risks arise from bank loans; since some of these loans are denominated in foreign currency, the underlying interest-rate risk is managed by hedging the exchange-rate risk. Company management has opted not to hedge the remaining interest-rate risk, relying on the basic stability of interest rates, at least in respect of short term loans. The use of a hedging instrument classified as cash flow hedge and specifically related to a finance lease contract should also be mentioned.

Derivative instruments are initially recognized at fair value, at the date of subscription, and revalued at fair value at subsequent closure dates.

Gains from movements in the fair value of the derivative instruments hedging future cash flow, are carried directly under equity, whilst related losses are immediately recognized in the income statement. In the case of cash flow hedges that do not result in the recognition of assets of liabilities, the amounts directly carried under equity are included in the income statement for the same period in which the effects or the hedged contractual commitment or forecast transaction are recognized in the income statement.

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

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, gains or losses accumulated by the hedging instrument and recorded directly under equity are retained there until the forecasted transaction occurs. If the forecast transaction does not occur, the accumulated gains or losses

recorded under equity are released to the income statement for the period. 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 Employee Benefits

The Italian retirement benefit obligations (TFR) is considered equivalent to a defined benefit scheme. For these schemes, the cost of the benefits is measured 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 defined-benefit obligations are amortized over the estimated average remaining working life of the employees taking part in the scheme.

Post-retirement benefits recognized in the Balance Sheet represent the present value of liabilities under defined benefit plans as adjusted for unrecognized actuarial gains and losses.

Provisions

Provisions for risks and charges are intended to cover losses or payables that are determined and certain or probable but whose amount or due date could not be determined at year end.

Provisions are made based on the best estimate made by the Management of the cost of fulfilling the obligation at the reporting date and are discounted to present value when the effect is significant**.** This item includes, inter alia, the Product Warranty Fund provided for in the financial statements in anticipation of the economic effect of warranty costs, in accordance with the principle of the correlation between revenues from sales and warranty costs**.**

Auditors' report

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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 separate financial statements of ELICA S.p.A., which comprise the balance sheet as at December 31, 2006, and the income statement, statement of changes in equity, cash flow statement for the year then ended and related explanatory notes. These financial statements are the responsibility of the Directors of ELICA S.p.A.. Our responsibility is to express an opinion on these financial statements based on our audit. These financial statements are the first prepared in accordance with International Financial Reporting Standards (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.

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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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.

   The separate financial statements present for comparative purposes corresponding data for the prior year prepared in accordance with the same accounting principles. In addition, the Appendix "Transition to IAS/IFRS in the separate financial statements of Elica S.p.A." to the financial statements explains the effects of transition to IFRS as adopted by the European Union and includes the information relevant to the Reconciliation Statements, as required by IFRS 1, approved by the Board of Directors together with the separate financial statements as at December 31, 2006, for which reference should be made to our auditors' report issued on April 11, 2007.

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Partita IVA/Codice Fiscale/Registro delle Imprese Milano n. 03049560166 - R.E.A. Milano n. 1720239

3. In our opinion, the separate financial statements present fairly the financial position of ELICA S.p.A. as at 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.