Half-Year Report

at 30 June 2016

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GROUP STRUCTURE AND CORPORATE BODIES

Group structure

Parent company

SABAF S.p.A.
Registered and administrative office: **Via dei Carpini 1 - 25035 Ospitaletto (Brescia)**
R.E.A. Brescia 347512
Tax code 03244470179
Share capital: €11,533,450 fully paid in
www.sabaf.it

Subsidiaries and equity interest owned by the Group

Faringosi Hinges s.r.l.	100%
Sabaf Immobiliare s.r.l.	100%
Sabaf do Brasil Ltda.	100%
Sabaf US Corp.	100%
Sabaf Appliance Components (Kunshan) Co., Ltd,	100%
Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki	100%
A.R.C. s.r.l.	70%
Sabaf Appliance Components Trading (Kunshan) Co., Ltd. (in liquidation)	100%

Subsidiaries and equity interest owned by the Group

Handan ARC Burners Co., Ltd.	35%

Corporate Bodies

Board of Directors

Chairman	Giuseppe Saleri
Vice-Chairman	Cinzia Saleri
Vice-Chairman	Ettore Saleri
Vice-Chairman	Roberta Forzanini
Chief Executive Officer	Alberto Bartoli
Director	Gianluca Beschi
Director (*)	Renato Camodeca
Director (*)	Giuseppe Cavalli
Director (*)	Fausto Gardoni
Director	Alessandro Potestà
Director (*)	Anna Pendoli
Director (*)	Nicla Picchi

(*) independent directors

Board of Statutory Auditors

Chairman	Antonio Passantino
Statutory Auditor	Luisa Anselmi
Statutory Auditor	Enrico Broli

Independent Auditor

DELOITTE & TOUCHE S.p.A.

INTERIM MANAGEMENT STATEMENT

Foreword

This Half-Year Report at 30 June 2016 has been prepared in accordance with Article 154-ter of Legislative Decree 58/1998 and in compliance with the applicable international accounting standards recognized in the European Community and, in particular, IAS 34 - Interim Financial Reporting. The interim data at 30 June 2016 and 30 June 2015 and for the six-month periods ending on the same dates were subject to a limited audit by Deloitte & Touche S.p.A.

The Business

The Sabaf Group is one of the world's leading manufacturers of components for household gas cooking appliances. Its reference market therefore consists of manufacturers of cookers, hobs and ovens.
Sabaf's product range focuses on the following main lines:

- Gas components, made up of:
    - Valves and thermostats, with or without thermoelectric safety devices: the components which regulate the flow of gas to the burner;
    - Burners: these are the components which, via the mixing of gas with air and combustion of the gas used, produce one or more rings of flame;
    - Accessories: other components which complete the range, aimed particularly at making it possible to light and control the flame.
- Hinges: these components enable the smooth and balanced movement of appliance doors when they are opened or closed.

The Sabaf Group currently has five production plants: Ospitaletto (Brescia), Bareggio (Milan), Jundiaì (Brazil), Manisa (Turkey) and Kunshan (China).

The acquisition of A.R.C. s.r.l.

In June 2016 the parent company Sabaf S.p.A. finalised the acquisition of a 70% stake in A.R.C. s.r.l., a leader in Italy in the manufacture of burners for professional cooking. This transaction will allow Sabaf to enter a new market related to its traditional sector of components for household gas cooking appliances and to enhance the Group's strong international presence. Mr. Loris Gasparini, who continues to hold a 30% stake in A.R.C., will remain Chief Executive Officer for a period of 5 years, after which time Sabaf may exercise an option to purchase the remaining 30% of the share capital, as well as a simultaneous sale option in favor of Loris Gasparini. A.R.C. closed 2015 with sales of €4.4 million, EBITDA of €0.9 million and net profit of €0.6 million. ARC closed H1 2016 with sales of €2.73 million, EBITDA of €0.59 million and net profit of €0.38 million. At 30 June 2016, shareholders' equity amounted to €4.033 million and there was a positive net financial position of €2.186 million.

Economic performance

Financial highlights

(amounts in €'000)	**Q2 2016 (*)**	**Q2 2015 (*)**	% change	**H1 2016**	**H1 2015**	% change	**FY 2015**
Sales revenue	33,993	35,008	*-2.9%*	64,853	72,509	*-10.6%*	138,003
EBITDA	6,783	6,661	*+1.8%*	12,366	14,364	*-13.9%*	26,172
EBITDA %	***20.0***	***19.0***		***19.1***	***19.8***		***19.0***
Operating profit (EBIT)	3,583	3,656	*-2.0%*	6,043	8,390	*-28.0%*	14,091
EBIT %	***10.5***	***10.4***		***9.3***	***11.6***		***10.2***
Pre-tax profit	3,572	3,521	*+1.4%*	5,916	8,223	*-28.1%*	13,473
Net profit	2,378	2,341	*+1.6%*	3,935	5,455	*-27.9%*	8,998

(*) unaudited figures

Consolidated income statement

(€/000)	Q2 2016 (*)	Q2 2015 (*)	H1 2016	H1 2015
OPERATING REVENUE AND INCOME				
Revenues	33,993	35,008	64,853	72,509
Other income	739	916	1,350	1,979
Total operating revenue and income	**34,732**	**35,924**	**66,203**	**74,488**
OPERATING COSTS				
Materials	(13,922)	(13,591)	(25,370)	(28,853)
Change in inventories	1,874	(135)	2,496	1,877
Services	(7,420)	(7,327)	(14,368)	(15,963)
Payroll costs	(8,460)	(8,405)	(16,577)	(17,060)
Other operating costs	(234)	(158)	(451)	(752)
Costs for capitalised in-house work	213	353	433	627
Total operating costs	**(27,949)**	**(29,263)**	**(53,837)**	**(60,124)**
OPERATING PROFIT BEFORE DEPRECIATION & AMORTISATION, CAPITAL GAINS/LOSSES, AND WRITE-DOWNS/WRITE-BACKS OF NON-CURRENT ASSETS (EBITDA)	**6,783**	**6,661**	**12,366**	**14,364**
Depreciation and amortisation	(3,198)	(3,008)	(6,331)	(6,019)
Capital gains/(losses) on disposals of non-current assets	(2)	3	8	45
Write-downs/write-backs of non-current assets	0	0	0	0
OPERATING PROFIT (EBIT)	**3,583**	**3,656**	**6,043**	**8,390**
Financial income	10	10	32	18
Financial expenses	(150)	(154)	(285)	(305)
Exchange rate gains and losses	129	9	126	120
Profits and losses from equity investments	0	0	0	0
PROFIT BEFORE TAXES	**3,572**	**3,521**	**5,916**	**8,223**
Income tax	(1,194)	(1,180)	(1,981)	(2,768)
Minority interests	0	0	0	0
NET PROFIT FOR THE PERIOD	**2,378**	**2,341**	**3,935**	**5,455**

(*) unaudited figures

Sales by geographical area

(amounts in €'000)	**Q2 2016** (*)	**Q2 2015** (*)	% change	**H1 2016**	**H1 2015**	% change	**FY 2015**
Italy	10,123	11,152	*-9.2%*	20,966	22,662	*-7.5%*	41,244
Western Europe	1,865	1,643	*+13.5%*	3,551	3,968	*-10.5%*	7,438
Eastern Europe	9,304	9,520	*-2.3%*	17,088	18,947	*-9.8%*	35,125
Middle East and Africa	2,772	4,206	*-34.1%*	4,910	9,002	*-45.5%*	16,759
Asia and Oceania	1,664	1,428	*+16.5%*	3,101	3,151	*-1.6%*	7,019
South America	5,275	4,834	*+9.1%*	9,761	10,421	*-6.3%*	20,815
North America and Mexico	2,990	2,225	*+34.4%*	5,476	4,358	*+25.7%*	9,603
Total	**33,993**	**35,008**	*-2.9%*	**64,853**	**72,509**	*-10.6%*	**138,003**

(*) unaudited figures

Sales by product line

(amounts in €'000)	**Q2 2016** (*)	**Q2 2015** (*)	% change	**H1 2016**	**H1 2015**	% change	**FY 2015**
Brass valves	2,509	3,397	*-26.1%*	4,540	7,038	*-35.5%*	12,689
Light alloy valves	8,980	8,723	*3.0%*	17,133	18,115	*-5.4%*	33,784
Thermostats	2,486	2,760	*-9.9%*	4,426	5,871	*-24.6%*	10,596
Standard burners	9,369	9,335	*0.4%*	18,160	19,229	*-5.6%*	37,789
Special burners	5,126	5,342	*-4.0%*	9,903	11,125	*-11.0%*	21,622
Accessories	3,296	3,459	*-4.7%*	6,432	7,174	*-10.3%*	13,577
Total gas parts	*31,766*	*33,016*	*-3.8%*	*60,594*	*68,552*	*-11.6%*	*130,057*
Hinges	2,227	1,992	*+11.8%*	4,259	3,957	*+7.6*	7,946
Total	**33,993**	**35,008**	*-2.9%*	**64,853**	**72,509**	*-10.6%*	**138,003**

(*) unaudited figures

First half 2016

The Sabaf Group reported revenue of €64.9 million in the first half of 2016, a decrease of 10.6% versus the figure of €72.5 million in the corresponding period of the previous year.

The decline in sales is mainly attributable to the economic downturn in some of the main markets in which the group operates, such as Egypt and Brazil. Sales in Italy, which have been associated with customers with a strong focus on exports – mainly in North Africa and the Middle East – have also been affected by the difficult economic and socio-political scenario of this geographical area.

Average sale prices for the period were down by 1.6% versus the first half of 2015.

The analysis per product family shows a more marked decrease of brass valves and thermostats, products intended mainly for the North African and Middle East markets.

During the first half of the year, the Group has benefited, apart from the reduction in the costs of acquisition of raw materials (estimated at 1% of sales) and the favourable exchange rate development (estimated at 0.8% of sales), from the improvement in efficiency of the production processes following further technical and organisational measures.

Therefore, the profitability of the period, although affected by the low sales volumes, stood at satisfactory levels: EBITDA of the first half of 2016 came in at €12.4 million (19.1% of sales and down 13.9% on the same period of 2015, when it was 19.8% of sales) and EBIT was €6 million (9.3% of sales, down by 28% on the figure of €8.4 million for the first half of 2015). Pre-tax profit amounted to €5.9 million in H1 2016 (€8.2 million in H1 2015), and net profit was €3.9 million (€5.5 million in H1 2015, a drop of 27.9%).

Second quarter 2016

Sales in the second quarter of 2016 amounted to €34 million, a drop of 2.9% compared to €35 million in the same period of 2015. In the period there was a more regular development of demand, and some signs of recovery have been noticed in the markets that suffered most at the start of the year, such as Egypt and Turkey.

Second-quarter EBITDA was €6.8 million, equivalent to 20% of sales (+1.8% versus €6.7 million in Q2 2015, when it was 19% of sales), and EBIT was €3.6 million, equivalent to 10.5% of sales (-2% versus €3.7 million in Q2 2015, when it was 10.4% of sales). Net profit for the period was €2.4 million, versus €2.3 million for Q2 2015 (+1.6%).

Balance sheet and financial position

(€'000)	**30.06.2016**	**31.12.2015**	**30.06.2015**
Non-current assets	*96,674*	*92,797*	*96,726*
Current assets[1]	82,338	75,370	80,438
Current liabilities[2]	(31,145)	(27,207)	(35,339)
Net working capital[3]	*51,193*	*48,163*	*45,099*
Short-term financial assets	*75*	*69*	*0*
Provisions for risks and charges, deferred taxes and employee severance pay reserve	*(4,221)*	*(4,081)*	*(4,270)*
Net invested capital	**143,721**	**136,948**	**137,555**
Short-term net financial position	(23,501)	(19,520)	(19,018)
Net medium/long-term financial position	(10,778)	(6,388)	(8,289)
Net financial debt	**(34,279)**	**(25,908)**	**(27,307)**
Group shareholders' equity	**108,232**	**111,040**	**110,249**
Third-party shareholders' equity	**1,210**	**0**	**0**

At 30 June 2016 the equity situation shows consolidated shareholders' equity owned by the Group of €108.2 million and net financial debt of €34.3 million (€111 million and €25.9 million respectively at 31 December 2015), after the distribution of dividends of €5.5 million and acquisition of the controlling interest of A.R.C. for €4.8 million.

Investments in H1 2016 were €7 million (€7.9 million in H1 2015); the largest investments were used for increasing production capacity in Turkey and in Brazil, where the production of triple crown burners for the local market got under way. Investments were also made to improve production processes and in maintenance and replacement, to ensure that production equipment is kept constantly up to date and remains efficient.

Net working capital is €51.2 million at 30 June 2016, versus €48.2 million at the end of 2015. The increase is attributable to the seasonal trend and the first-time consolidation of A.R.C.'s financial data.

Related-party and infragroup transactions

Transactions with related parties, including infragroup transactions, have not been qualified as atypical or unusual, as they fall under the normal course of Group operations. These transactions are regulated at arm's length conditions.

Related-party transactions other than infragroup transactions are described in the Explanatory Notes to the half-yearly condensed consolidated financial statements, which also show to what extent related-party transactions affected financial statement items.

[1] sum of inventories, trade receivables, tax credits, and other current receivables
[2] sum of trade payables, tax payables, and other payables
[3] difference between current assets and current liabilities

Risk factors related to the segment in which the Group operates and main risks and uncertainties for the remainder of 2016

Risks related to the overall conditions of the economy and trend in demand

The business and financial circumstances of the Group are influenced by a variety of factors, such as gross domestic product, consumer and corporate confidence, interest rate trends, the cost of raw materials, the unemployment rate, and the ease of access to credit.

The protracted nature of the European crisis, which has become systemic over the years, has had an impact on the transformation of the household appliances sector in which the Sabaf Group operates. Indeed, the continuing contraction of demand on mature markets has been accompanied by a further concentration of end markets, a progressive increase in sales volumes in emerging countries and, finally, tougher competition, phenomena which require aggressive policies when setting sales prices.

To cope with this situation, the Group aims to retain and reinforce its leadership position wherever possible through:

- the launch of new products characterised by superior performance compared with market standards, and tailored to the needs of the customer;
- expansion on markets with high growth rates;
- the maintenance of high quality and safety standards, which make it possible to differentiate the product through the use of resources and implementation of production processes which are not easily sustainable by competitors;
- the improvement in the efficiency of production processes.

In consideration of the limited exposure to the British market, the Group estimates that the impact resulting from the United Kingdom's decision to leave the European Union is negligible.

Risks connected to trends in commodity prices

The Group uses metals and alloys such as brass, aluminium alloys and steel in its production processes. Sales prices of products are generally renegotiated annually; as a result, the Group is unable to immediately pass on to clients any changes in the prices of commodities during the year. The Group protects itself from the risk of changes in the price of brass and aluminium with supply contracts signed with suppliers for delivery up to twelve months in advance or, alternatively, with derivative financial instruments.

The Sabaf Group has already fixed purchase prices to cover more than 50% of production needs until the end of 2016 for aluminium alloys, brass and steel. Based on the contracts concluded and current market prices, the Group expects purchase costs in the second half of 2015 to be around €0.8 million lower than in the same period of the previous year.

Risks related to exchange rates

The Sabaf Group operates primarily in euro. There are, however, transactions in other currencies, such as the U.S. dollar, the Brazilian real, the Turkish lira and the Chinese renminbi.

Sales in dollars represent around 15% of the consolidated turnover: the euro's appreciation against the dollar has had a negative effect on sales and profits. More generally, an unfavourable exchange rate trend could lead to a loss of competitiveness on the markets where sales are made in dollars (mainly North and South America), and, for financial assets in foreign currencies (mainly trade receivables), the booking of negative foreign exchange differences.

At 30 June 2016 the Group has derivative contracts to hedge the risk of the euro/dollar exchange rate for a total notional amount of USD 3 million, maturing on 30 June 2017. The effects of this on the accounts are shown in Note 20.

Customer insolvency risk

The high concentration of sales on a small number of customers generates a concentration of the respective trade receivables, with a resulting increase in the negative impact on economic and financial results in the event of insolvency of any one of them.

The risk is partially transferred to third parties by credit insurance, or guaranteed through the request for letters of credit issued by leading banks for customers. The remainder of the receivable risk is covered in the financial statements by a doubtful account provision.

Risks connected to the presence in Turkey

Turkey is today the principal production centre for household appliances at European level. The strong competitiveness of the local industry has attracted substantial foreign investments and favoured the growth of large local entities which are conquering an ever more important position on the international stage. In this context, the Sabaf Group started up a plant in Turkey at the end of 2012 and today achieves more than 10% of its total production in Turkey. The Turkish market represented 22% of the Group's total sales in H1 (a significant share of Sabaf components is assembled by the customers on products finished and then exported from Turkey). The recent social and political unrest in Turkey has not had any effect on the Sabaf Group's business, which has continued in a completely normal manner. However, in consideration of the strategic relevance of this country for the sector and for the Group, the management has assessed the risks which could result from the impossibility of operating in Turkey following dramatic events, even though these are today considered to be improbable. It should in particular be noted that all the products made in Turkey today can also be made in Italy, although at higher costs, thus enabling the Sabaf Group to guarantee the continuation of supplies to the customers.

Risks connected to the presence in emerging markets
Almost 40% of Sabaf Group sales are achieved on markets outside Europe. Furthermore, products sold in Italy can be exported by customers in international markets, making the percentage of sales earned directly and indirectly from emerging economies more significant.
The Group's main markets outside Europe include North Africa and the Middle East. Any embargoes or major political or economic instability, changes in the regulatory and/or local law systems or new tariffs or taxes imposed in the future could affect a portion of Group sales and the related profitability.
To combat this risk, the Group has adopted a policy of diversifying investments at international level, setting different strategic priorities which, as well as business opportunities, also consider the different associated risk profiles.

The environment in which the Sabaf Group operates is marked by further risk factors (product liability, protection of product exclusivity, concentration of sales, group governance, potential resistance to change, loss of key staff) which are described in the Management Statement at 31 December 2015, and whose profile did not change during the first half of 2016.

Significant events after the end of the first half

No significant events emerged subsequent to the end of the half year and to the date of the present half-year report.

Outlook for the current year

Sales and orders for July and August show a substantial stability versus the same period of 2015. The Group confirms the forecasts of a modest decline in sales and profitability for the full year 2016.

These forecasts assume a macroeconomic scenario not affected by unpredictable events. If the economic situation were to change significantly, actual figures might diverge from the forecasts.

On behalf of the Board of Directors
The Chairman
Giuseppe Saleri

Ospitaletto, 4 August 2016

HALF-YEARLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Consolidated statement of financial position

(€/000)	**Notes:**	**30.06.2016**	**31.12.2015**
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	**1**	74,802	73,037
Real estate investment	**2**	6,491	6,712
Intangible assets	**3**	9,598	7,525
Investments	**4**	311	204
Non-current receivables	**5**	708	432
Deferred tax assets	**22**	4,764	4,887
Total non-current assets		**96,674**	**92,797**
CURRENT ASSETS			
Inventories	**6**	34,643	31,009
Trade receivables	**7**	43,629	40,425
Tax receivables	**8**	2,616	2,489
Other current receivables	**9**	1,450	1,447
Current financial assets	**20**	75	69
Cash and cash equivalents	**10**	5,105	3,991
Total current assets		**87,518**	**79,430**
ASSETS HELD FOR SALE		0	0
TOTAL ASSETS		**184,192**	**172,227**
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	**11**	11,533	11,533
Retained earnings, other reserves		92,764	90,509
Net profit (loss) for period		3,935	8,998
Total equity interest of the Parent Company		*108,232*	*111,040*
Minority interests		*1,210*	*0*
Total shareholders' equity		**109,442**	**111,040**
NON-CURRENT LIABILITIES			
Loans	**13**	8,956	6,388
Other financial payables	**14**	1,822	0
Post-employment benefit and retirement reserves	**15**	3,130	2,914
Reserves for risks and contingencies	**16**	329	395
Deferred tax	**22**	762	772
Total non-current liabilities		**14,999**	**10,469**
CURRENT LIABILITIES			
Loans	**13**	28,578	23,480
Other financial payables	**20**	28	31
Trade payables	**17**	21,975	19,450
Tax payables	**18**	1,586	1,219
Other liabilities	**19**	7,584	6,538
Total current liabilities		**59,751**	**50,718**
LIABILITIES HELD FOR SALE		0	0
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**184,192**	**172,227**

Consolidated income statement

(€/000)	Notes:	H1 2016	H1 2015
OPERATING REVENUE AND INCOME			
Revenues	**23**	64,853	72,509
Other income	**24**	1,350	1,979
Total operating revenue and income		**66,203**	**74,488**
OPERATING COSTS			
Materials	**25**	(25,370)	(28,853)
Change in inventories		2,496	1,877
Services	**26**	(14,368)	(15,963)
Payroll costs	**27**	(16,577)	(17,060)
Other operating costs	**28**	(451)	(752)
Costs for capitalised in-house work		433	627
Total operating costs		**(53,837)**	**(60,124)**
OPERATING PROFIT BEFORE DEPRECIATION & AMORTISATION, CAPITAL GAINS/LOSSES, AND WRITE-DOWNS/WRITE-BACKS OF NON-CURRENT ASSETS (EBITDA)		**12,366**	**14,364**
Depreciation and amortisation		(6,331)	(6,019)
Capital gains/(losses) on disposals of non-current assets		8	45
Write-downs/write-backs of non-current assets		0	0
OPERATING PROFIT (EBIT)		**6,043**	**8,390**
Financial income		32	18
Financial expenses	**29**	(285)	(305)
Exchange rate gains and losses	**30**	126	120
Profits and losses from equity investments	**31**	0	0
PROFIT BEFORE TAXES		**5,916**	**8,223**
Income tax	**32**	(1,981)	(2,768)
Minority interests		0	0
NET PROFIT FOR THE PERIOD		**3,935**	**5,455**
(in euro)			
Basic earnings per share	33	**0.345**	**0.473**
Diluted earnings per share	33	**0.345**	**0.473**

Consolidated statement of comprehensive income

(€/000)	Notes:	H1 2016	H1 2015
NET PROFIT FOR THE PERIOD		**3,935**	**5,455**
Total profits/losses that will later be reclassified under profit (loss) for the year:			
Forex differences due to translation of financial statements in foreign currencies		1,378	(1,331)
Tax effect		0	0
Total other profits/(losses) net of taxes for the year		**1,378**	**(1,331)**
TOTAL PROFIT		**5,313**	**4,124**

Consolidated statement of cash flows

	H1 2016	H1 2015
Cash and cash equivalents at beginning of period	***3,991***	***3,675***
Net profit/(loss) for the period	3,935	5,455
Adjustments for:		
- Depreciation and amortisation for the period	6,331	6,019
- Realised gains/losses	(8)	(45)
- Financial income and expenses	253	287
- Income taxes	1,981	2,768
Change in post-employment benefit reserve	(53)	(84)
Change in risk provisions	(22)	(43)
Change in trade receivables	*(1,680)*	*(3,678)*
Change in inventories	*(2,743)*	*(1,458)*
Change in trade payables	*1,712*	*4,183*
Change in net working capital	(2,711)	(953)
Change in other receivables and payables, deferred tax	775	(305)
Payment of taxes	(1,558)	(769)
Payment of financial expenses	(265)	(281)
Collection of financial income	32	18
Cash flow from operations	**8,690**	**12,067**
Investments in non-current assets		
- intangible	(438)	(506)
- tangible	(6,574)	(7,605)
- financial	0	(26)
Disposal of non-current assets	52	204
Cash flow from investments	**(6,960)**	**(7,933)**
Repayment of loans	(11,083)	(9,501)
New loans	19,046	12,204
Purchase of own shares	(1,132)	0
Payment of dividends	(5,467)	(4,613)
Cash flow from financing activity	**1,364**	**(1,910)**
Acquisition of A.R.C.	(2,614)	0
Foreign exchange differences	634	(611)
Net financial flows for the period	**1,114**	**1,613**
Cash and cash equivalents at end of period	***5,105***	***5,288***
Current financial debt	28,606	24,305
Non-current financial debt	10,778	8,289
Net financial debt	***34,279***	***27,306***

Statement of changes in consolidated shareholders' equity

(€/000)	Share capital	Share premium reserve	Legal reserve	Treasury shares	Translation reserve	Post-employment benefit discounting reserve	Other reserves	Net profit for the year	Total Group shareholders' equity	Minority interests	Total shareholders' equity
Balance at 31 December 2014	**11,533**	**10,002**	**2,307**	**(5)**	**(3,648)**	**(616)**	**82,827**	**8,338**	**110,738**	**0**	**110,738**
Allocation of 2014 earnings											
- dividends paid out								(4,613)	(4,613)		(4,613)
- carried forward							3,725	(3,725)	0		0
H1 2015 comprehensive income					(1,331)			5,455	4,124		4,124
Balance at 31 June 2015	**11,533**	**10,002**	**2,307**	**(5)**	**(4,979)**	**(616)**	**86,552**	**5,455**	**110,249**	**0**	**110,249**
Purchase of own shares				(718)					(718)		(718)
H1 2015 comprehensive income					(2,069)	35		3,543	1,509	0	1,509
Balance at 31 December 2015	**11,533**	**10,002**	**2,307**	**(723)**	**(7,048)**	**(581)**	**86,552**	**8,998**	**111,040**	**0**	**111,040**
Allocation of 2015 earnings											
- dividends paid out								(5,467)	(5,467)		(5,467)
- carried forward							3,531	(3,531)	0		0
Purchase of own shares				(1,132)					(1,132)		(1,132)
ARC consolidation										1,210	1,210
ARC 30% put option							(1,522)		(1,522)		(1,522)
H1 2016 comprehensive income					1,378			3,935	5,313		5,313
Balance at 30 June 2016	**11,533**	**10,002**	**2,307**	**(1,855)**	**(5,670)**	**(581)**	**88,561**	**3,935**	**108,232**	**1,210**	**109,442**

EXPLANATORY NOTES

Basis of presentation and accounting policies used

The half-yearly condensed consolidated financial statements, at 30 June 2016, were prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union and, in particular, in accordance with IAS 34 on interim reports. This set of half-yearly condensed consolidated financial statements does not include all the information required for the annual financial report and must be read in conjunction with the consolidated financial statements for the year ended 31 December 2015. Reference to the IFRS includes all the International Accounting Standards (IAS) currently in force. The financial statements have been prepared in euro, rounding amounts to the nearest thousand, and are compared with the half-yearly and annual financial statements of the previous year, prepared according to the same standards. The half-yearly condensed consolidated financial statements consist of the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the statement of changes in consolidated shareholders' equity, the consolidated statement of cash flows, and these explanatory notes.

The consolidation policies, criteria for converting items in foreign currencies, and accounting principles and policies are the same as those used for the annual financial report at 31 December 2015, to which reference should be made for additional information.

Accounting standards and amendments applicable from 1 January 2016

The following IFRS and IFRIC accounting standards, amendments and interpretations were applied by the Group for the first time on 1 January 2016:

- Amendments to **IAS 19** "***Defined Benefit Plans: Employee Contributions***" (published on 21 November 2013): on the recognition in the accounts of contributions by employees or third parties to defined benefit plans.

- Amendments to **IFRS 11** ***Joint Arrangements*** – ***"Accounting for acquisitions of interests in joint operations"*** (published on 6 May 2014): on accounting for the acquisition of an interest in a joint operation whose activity constitutes a business.

- Amendments to **IAS 16 –** ***Property, Plant and Equipment*** and to **IAS 38** – ***Intangible Assets*** – "***Clarification of acceptable methods of depreciation and amortisation***" (published on 12 May 2014): according to which a revenue-based depreciation is not considered to be an appropriate method of amortisation, as the revenues generated by an activity that includes the use of the activity subject to depreciation generally reflect factors other than only the consumption of the economic benefits of the same activity, a requirement which rather is required for the depreciation. The application of these amendments did not have any effect on the Group's consolidated financial statements.

- Amendment to **IAS 1 – "*Disclosure Initiative*"** (published on 18 December 2014): The objective of the changes is to provide clarification with regard to elements of information which could be perceived as impediments to a clear and intelligible preparation of the financial statements. The application of these amendments did not have any effect on the Group's consolidated financial statements.

Finally, within the scope of the annual improvement process of the standards, on 12 December 2013 the IASB published the document "***Annual Improvements to IFRSs: 2010-2012 Cycle***" (among which IFRS 2 Share Based Payments – Definition of vesting condition; IFRS 3 Business Combinations - Accounting for contingent consideration; IFRS 8 Operating Segments – Aggregation of operating segments / Reconciliation of the total of the reportable segments' assets to the entity's assets; IFRS 13 Fair Value Measurement – Short-term receivables and payables) and on 25 September 2014 the document ***"Annual Improvements to IFRSs: 2012-2014 Cycle***" (among which: IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations,* IFRS 7 – *Financial Instruments: Disclosures* and IAS 19 – *Employee Benefits*) which partly include the pre-existing principles.

IFRS accounting standards, amendments and interpretations not yet endorsed by the European Union

As at the date of these condensed consolidated half-year financial statements, the competent bodies of the European Union had not yet completed the approval process necessary for the application of the amendments and standards described below.

- Standard **IFRS 15 - *Revenue from Contracts with Customers*** (published on 28 May 2014 and completed with further clarifications published on 12 April 2016), which is scheduled to replace IAS 18 - *Revenue* and IAS 11 - *Construction Contracts*, as well as interpretations IFRIC 13 - *Customer Loyalty Programmes*, IFRIC 15 - *Agreements for the Construction of Real Estate*, IFRIC 18 - *Transfers of Assets from Customers* and SIC 31: *Revenue-Barter Transactions Involving Advertising Services*. The standard establishes a new revenue recognition model, which will apply to all contracts concluded with customers except those falling within the application of other IAS/IFRS standards, such as leases, insurance contracts and financial instruments. The fundamental issues for revenue recognition according to the new model are:
    - the identification of the contract with the client;
    - the identification of the contract's performance obligations;
    - the determination of the price;
    - the allocation of the price to the contract's performance obligations;
    - the revenue recognition criteria when the entity satisfies each performance obligation.

  The principle applies from 1 January 2018, but early application is permitted. Despite not yet having completed a systematic analysis of the situation, and in particular a detailed analysis of contracts with customers, the directors do not expect the adoption of IFRS 15 to have a significant effect on recognised revenue or on the related information given in the Group's condensed consolidated financial statements.

- Final version of **IFRS 9 – *Financial Instruments*** (published on 24 July 2014). The document welcomes the results of the phases relating to classification and valuation, *Impairment, and hedge accounting*, of the IASB project intended to replace IAS 39. The new standard, which replaces the preceding versions of IFRS 9, must be applied by the financial statements that commence on 1 January 2018 or later.

- On 13 January 2016 the IASB published the standard **IFRS 16 – *Leases***, which is intended to replace the standard IAS 17 – *Leases*, as well as the interpretations IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases—Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.
  The new standard provides a new definition of *lease* and introduces a criterion based on right of use of an asset in order to distinguish leasing contracts from contracts for services, identifying as distinguishing criteria: the identification of the asset, the right to replace the same, the right to obtain substantially all of the economic benefits arising from the use of the asset and the right to direct the use of the asset underlying the contract.
  The standard establishes a unique model for recognising and evaluating leasing contracts for the lessee which provides for the recognition of the asset under the lease also operating in the assets set against a financial debt, in addition providing the possibility of not recognising as leasing contracts those contracts which have as their subject matter low-value assets and leases with a term of 12 months or less. On the contrary, the Standard does not include significant changes for lessors.
  The standard applies from 1 January 2019, but early application is permitted, only for the Companies/Groups which have applied IFRS 15 - *Revenue from Contracts with Customers* in advance. The Directors expect that the application of IFRS 16 may have a significant impact on the accounting of the leasing contracts and on the related information reported in the Group's condensed consolidated interim financial statements. However, it is not possible to provide a reasonable estimate of the effects until the Group has completed a detailed analysis of the related contracts.

- On 18 December 2014 the IASB published the document "***Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)***" (published on 18 December 2014), containing changes relating to issues arising following application of the consolidation exception granted to investment entities.

- On 19 January 2016 the IASB published the document "***Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)***" which contains changes to the international accounting standard IAS 12. The document aims to provide some clarifications on the recognition of the deferred tax assets on unrealised losses when verifying certain circumstances and on the estimation of the taxable income for future years. The changes apply from 1 January 2017, but early application is permitted.

- On 29 January 2016 the IASB published the document "***Disclosure Initiative (Amendments to IAS 7)***" which contains changes to the international accounting standard IAS 7. The document aims to provide some clarifications for improving information on financial liabilities. In particular the changes require the provision of information which permits users of the financial statement to understand the changes of the liabilities resulting from financial operations.

- On 20 June 2016 the IASB published the document "Classification and measurement of share-based payment transactions (Amendments to IFRS 2)", which contains some clarifications relating to the accounting of the effects of vesting conditions in the presence of cash-settled share-based payments, the classification of share-based payments with net settlement characteristics and the accounting of the changes to the terms and conditions of a share-based payment which change its classification from cash-settled to equity-settled. The changes apply from 1 January 2018, but early application is permitted.

Financial statements

The Group has adopted the following formats:

- current and non-current assets and current and non-current liabilities are stated separately in the statement of financial position;
- the income statement expresses costs using a classification based on the nature of each item;
- a comprehensive income statement, which records all changes in Other overall earnings (losses) during the year, generated by transactions other than those conducted with shareholders and based on specific IAS/IFRS standards;
- a cash flow statement that presents financial flows originating from operating activity, using the indirect method.

Use of these formats permits the most meaningful representation of the Group's capital, business, and financial status.

Scope of consolidation

The scope of consolidation at 30 June 2016 comprises the parent company Sabaf S.p.A. and the following companies which Sabaf S.p.A. controls:

- Faringosi Hinges s.r.l.
- Sabaf Immobiliare s.r.l.
- Sabaf do Brasil Ltda.
- Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki (Sabaf Turkey)
- Sabaf Appliance Components Trading (Kunshan) Co., Ltd.
- Sabaf Appliance Components (Kunshan) Co., Ltd,
- A.R.C. s.r.l. (limited to the items of the balance sheet)

Control is the power to directly or indirectly determine the financial and operating policies of an entity in order to obtain benefits from its activities. Controlled companies (i.e. subsidiaries) are consolidated from the date on which such control starts until the date on which it ends.

As in the preceding years, the company Sabaf US Corp. has not been consolidated and is valued at cost, as its contribution is considered immaterial for the purposes of consolidation.

Information relating to IFRS 3

As of these half-yearly condensed consolidated financial statements, A.R.C. s.r.l., a company active in the production of burners for professional cooking of which the Group acquired control at the end of June 2016, has been consolidated.

The valuation of A.R.C. within the meaning of IFRS 3 *revised* recognizes the assets and liabilities and potential liabilities at fair value on the acquisition date and at the time to be considered as provisional, as, within the meaning of IFRS 3 *revised*, the valuation becomes definitive within 12 months from the acquisition date.

The effects of this operation are reported in the following table:

	Original values	Acquired assets and liabilities at fair value
Non-current assets		
Tangible and intangible assets	303	303
Financial assets	107	107
Non-current receivables and deferred tax assets	145	145
Current assets		
Inventories	891	891
Trade receivables	1,525	1,525
Other receivables	234	234
Cash and cash equivalents	2,186	2,186
Total assets	**5,391**	**5,391**
Non-current liabilities		
Employee severance pay reserve fund	(238)	(238)
Current liabilities		
Payables to suppliers	(813)	(813)
Various payables	(308)	(308)
Total liabilities	**(1,359)**	**(1,359)**
Acquired net assets at fair value	**4,032**	**4,032**
- % of the scope of Sabaf's remit (70%) (a)		2,823
Total cost of the acquisition (b)		4,800
Goodwill resulting from the acquisition (b-a) (Note 2)		1,977
Cash and cash equivalents (c)		2,186
Overall cash outlay (b-c)		2,614

At 30 June 2016 only A.R.C.'s balance sheet figures have been consolidated, and therefore the economic results thereof have not contributed to the formation of the Sabaf Group's profit for the period in the present consolidated financial statements.

Consolidation criteria

The policies applied for consolidation are as follows:

a) Assets and liabilities, income and costs in financial statements consolidated on a 100% line-by-line basis are incorporated into the Group financial statements, regardless of the entity of the equity interest concerned. In addition, the carrying value of equity interests is eliminated against the shareholders' equity relating to subsidiary companies.

b) Positive differences arising from elimination of equity investments against the carrying value of shareholders' equity at the date of first-time consolidation are attributed to the higher values of assets and liabilities when possible and, for the remainder, to goodwill.

c) Payable/receivable and cost/revenue items between consolidated companies and profits/losses arising from intercompany transactions are eliminated.

d) If minority shareholders exist, the portion of shareholders' equity and net profit for the period pertaining to them is posted in specific items of the consolidated statement of financial position and income statement.

Conversion into euro of foreign-currency income statements and balance sheets

Separate financial statements of each company belonging to the Group are prepared in the currency of the country in which that company operates (functional currency). For the purposes of the consolidated financial state-

ments, each company's financial statements are expressed in euro, which is the Group's functional currency and the reporting currency for the consolidated financial statements.
Balance sheet items in accounts expressed in currencies other than euro are converted by applying current end-of-period exchange rates. Income statement items are converted at average exchange rates for the period.
Foreign exchange differences arising from the comparison between opening shareholders' equity converted at current exchange rates and at historical exchange rates, together with the difference between the net result expressed at average and current exchange rates, are allocated to "Other Reserves" under shareholders' equity.
The exchange rates used for conversion into euro of Sabaf do Brasil's and Sabaf Turkey's income statements and balance sheets, prepared in Brazilian real and Turkish lira respectively, are shown in the following table:

Description of the currency	**Exchange rate as at 30/06/16**	**Average exchange rate 01.01.2016 - 30.06.2016**	**Exchange rate as at 31/12/15**	**Average exchange rate 01.01.2015 - 30.06.2015**
Brazilian real	3.5898	4.1317	4.3117	3.3101
Turkish lira	3.2060	3.2585	3.1765	2.8626
Chinese renminbi	7.3755	7.2960	7.0608	6.9368

Segment reporting
The Group's operating segments in accordance with IFRS 8 - Operating Segments are identified in the business segments which generate revenue and costs, whose results are periodically reassessed by top management in order to assess performance and decisions regarding resource allocation. The Group operating segments are the following:
- gas components
- hinges.

Use of estimates
The preparation of the half-year financial statements and notes in accordance with IFRS requires the Directors to make estimates and assumptions that affect the values of revenues, costs, assets and liabilities of the half-year financial statements and the disclosures on contingent assets and liabilities as at 30 June 2016. In the event that in future these estimates and assumptions, which are based on the Directors' best assessments, should deviate from actual circumstances, they will be amended appropriately at the time the circumstances change. Estimates and assumptions are regularly reviewed and the effects of each change immediately reflected in the income statement.

It should also be noted that certain valuation processes, particularly the more complex ones such as the determination of any impairment losses of non-current assets, are generally carried out in full only for the preparation of the annual financial statements, when all information that could be necessary is available, except in cases in which impairment indicators require an immediate valuation of any impairment losses.

Finally it should be noted that the actuarial valuation of the post-employment benefit reserve is not conducted for the purpose of preparing the interim financial statements, but only for the annual financial statements, since the resulting effects on the statement of financial position and the comprehensive income statement are not considered to be significant.

Comments on key income statement items

1. PROPERTY, PLANT AND EQUIPMENT

	Property	Plant and equipment	Other assets	Assets under construction	Total
Cost					
At 31 December 2015	**51,225**	**176,529**	**37,149**	**2,059**	**266,962**
Increases	68	4,657	1,026	1,132	**6,883**
Reclassifications	1	764	157	(1,231)	**(309)**
Disposals	-	(2,618)	(84)	-	**(2,702)**
Change in consolida-tion method	-	1,335	584	-	**1,919**
Forex differences	342	889	411	116	**1,758**
At 30 June 2016	**51,636**	**181,556**	**39,243**	**2,076**	**274,511**
Accumulated depre-ciation and amorti-sation					
At 31 December 2015	**15,470**	**146,059**	**32,396**	**-**	**193,925**
Increases	719	3,880	1,161	-	**5,760**
Reclassifications	2	19	10	-	**31**
Disposals	-	(2,610)	(48)	-	**(2,658)**
Change in consolida-tion method	-	1,145	492	-	**1,637**
Forex differences	85	640	289	-	**1,014**
At 30 June 2016	**16,276**	**149,133**	**34,300**	**-**	**199,709**
Carrying value					
At 31 December 2015	**35,755**	**30,470**	**4,753**	**2,059**	**73,037**
At 30 June 2016	**35,360**	**32,423**	**4,943**	**2,076**	**74,802**

The carrying value of the item “Property” is made up as follows:

	30.06.2016	**31.12.2015**	**Change**
Land	6,741	6,624	117
Industrial buildings	28,619	29,131	(512)
Total	**35,360**	**35,755**	**(395)**

In the course of the half-year the largest investments were used for increasing production capacity in Turkey, where the fifth die-casting island and the second enamelling line were installed, and in Brazil, where the production of triple crown burners for the local market got under way. Investments were also made to improve production processes and in maintenance and replacement, to ensure that production equipment is kept constantly up to date and remains efficient.
Internal and external indicators which would necessitate an impairment test on property, plant and equipment with reference to these half-year financial statements were not identified.

2. INVESTMENT PROPERTY

Cost	
At 31 December 2015	**13,136**
Increases	-
Disposals	-
At 30 June 2016	**13,136**

Accumulated depreciation and amortisation and write-downs	
At 31 December 2015	**6,424**
Depreciation and amortisation for the period	221
Eliminations for disposals	-
At 30 June 2016	**6,645**

Carrying value	
At 31 December 2015	6,712
At 30 June 2016	6,491

This item includes non-operating buildings owned by the Group: these are mainly properties for residential use, located in Ospitaletto near Sabaf's headquartes, held for rental or sale. The carrying value is considered to be in line with the presumed realisable value.

3. INTANGIBLE ASSETS

	Goodwill	Patents, software and know-how	Development costs	Other intangible assets	Total
Cost					
At 31 December 2015	**9,008**	**6,231**	**4,685**	**799**	**20,723**
Increases	-	120	268	18	406
Reclassifications	-	63	(1)	(30)	32
Change in consolidation area	1,977	13	-	19	2,009
Forex differences	-	4	-	-	4
At 30 June 2016	**10,985**	**6,431**	**4,952**	**806**	**23,174**
Accumulated depreciation and amortisation					
At 31 December 2015	**4,563**	**5,732**	**2,347**	**556**	**13,198**
Increases	-	127	180	56	363
Reclassifications	-	-	-	-	0
Change in consolidation area	-	3		8	11
Forex differences	-	4			4
At 30 June 2016	**4,563**	**5,866**	**2,527**	**620**	**13,576**
Carrying value					
At 31 December 2015	**4,445**	**499**	**2,338**	**243**	**7,525**
At 30 June 2016	**6,422**	**565**	**2,425**	**186**	**9,598**

A consolidation difference of €1.977 million has emerged from the first-time consolidation of A.R.C. s.r.l.. As detailed in the preceding paragraph "Information relating to IFRS 3", this difference has been provisionally allocated in full to the item "Goodwill".

The Group verifies the ability to recover goodwill at least once a year or more frequently if there are indications of value impairment. Recoverable value is determined through value of use, by discounting expected cash flows.

Goodwill booked in the balance sheet arises mainly (€ 4.19 mn) from the acquisition of Faringosi Hinges s.r.l. and consequently is allocated to the "Hinges" CGU (cash generating unit), whose development in the course of the first half-year has turned out to be in line with the forecasts of the 2016-2020 business plan. The Group did not identify any impairment indicators in the first half-year of 2016, i.e. signs that tangible and intangible assets including goodwill relating to the Hinges business unit may suffer an impairment loss. Consequently, at 30 June 2016, it was not deemed necessary to conduct an impairment test based on an updated business plan.

Other intangible assets have a finite useful life and are therefore amortised based on this lifetime. The useful life of projects for which development costs are capitalised is estimated at 10 years.

The increase in development costs mainly includes the costs for the designing of new models of special burners.

Internal and external indicators which would necessitate an impairment test on intangible assets, other than goodwill, with reference to these half-year financial statements were not identified.

4. INVESTMENTS

	31.12.2015	Acquisition of equity investments	Change in scope of consolidation	30.06.2016
Sabaf U.S.	139	-	-	139
Handan ARC Burners Co., Ltd.	-	-	101	101
Other shareholdings	65	-	6	71
Total	**204**	**0**	**107**	**311**

The subsidiary Sabaf U.S. operates as a commercial base for North America. The carrying value of the investment is deemed recoverable taking into consideration expected developments on the North American market.

Handan ARC Burners Co. is a Chinese joint venture established at the end of 2015, in which A.R.C. s.r.l. holds 50% (the Group's interest is therefore equivalent to 35%). Handan ARC Burners has the objective to produce and market burners for professional cooking in China; the start of production is expected by the end of the current financial year.

5. NON-CURRENT RECEIVABLES

	30.06.2016	31.12.2015	Change
Tax receivables	549	395	154
Guarantee deposits	36	35	1
Other	123	2	121
Total	**708**	**432**	**276**

Tax receivables include €187,000 of VAT credits from the Turkish treasury and €359,000 of indirect tax credits from the Brazilian treasury.

6. INVENTORIES

	30.06.2016	31.12.2015	Change
Commodities	10,079	10,407	(328)
Semi-processed goods	11,889	10,564	1,325
Finished products	15,190	12,155	3,035
Provision for inventory write-downs	(2,515)	(2,117)	(398)
Total	**34,643**	**31,009**	**3,634**

The value of inventories at 30 June 2016 was higher than at the end of 2015 because of seasonal factors. The increase in the inventories of finished products is also dependent on the fact that some sales planned for the end of the first half-year have been postponed to July. At 30 June 2016, the inventory obsolescence provision was adjusted based on an improved estimate of the obsolescence risk, measured by analysing slow and non-moving inventory.

7. TRADE RECEIVABLES

The geographical breakdown of trade receivables was as follows:

	30.06.2016	31.12.2015	Change
Italy	18,350	16,591	1,759
Western Europe	2,443	1,746	697
Eastern Europe and Turkey	9,912	9,668	244
Asia and Oceania	1,834	1,875	(41)
South America	5,159	4,481	678
Middle East and Africa	3,767	4,412	(645)
North America and Mexico	3,304	2,666	638
Gross total	**44,770**	**41,439**	**3,331**
Provision for doubtful accounts	(1,141)	(1,014)	(127)
Net total	**43,629**	**40,425**	**3,204**

Trade receivables at 30 June 2016 increased versus end-2015 because of the seasonal trend in sales. There were no significant changes in average payment terms agreed with clients. At 30 June 2016, receivables overdue by more than 90 days totalled €2,051,000 (€2,062,000 at 31 December 2015).
The amount recognised in the accounts includes €2.2 million of receivables assigned on a no-recourse basis (€2.3 million at 31 December 2015), for which financial advances have not been requested, and around €25 million of insured credits (€23.5 million at 31 December 2015).
At 30 June 2016, trade receivables included balances of some USD 6.2 million, posted at the €/USD exchange rate at the end of the period, i.e. 1.1102.

8. TAX RECEIVABLES

	30.06.2016	31.12.2015	Change
From Giuseppe Saleri S.a.p.A. for IRES	1,205	1,204	1
From Inland Revenue for VAT	646	70	576
From Inland Revenue for IRAP	14	614	(600)
Other tax receivables	751	601	150
Total	**2,616**	**2,489**	**127**

Since 2004 the Italian companies of the Group have been part of the national tax consolidation scheme pursuant to articles 117/129 of the Unified Income Tax Law. In this scheme, Giuseppe Saleri S.a.p.A., the parent company of Sabaf S.p.A., acts as the consolidating company. This option was renewed in the course of 2013 for the 2013-2015 three-year period, while it has not been renewed in 2016, as one of the conditions permitting the Group's tax regime (controlling party's shareholding in the controlled party greater than 50%) is no longer valid.
At 30 June 2016 the receivable from Giuseppe Saleri S.a.p.A. includes, at €1,159,000, the receivable from the deductibility of IRAP from IRES relating to the expenses incurred for employees for the period 2006-2011 (Legisla-

tive Decree 201/2011), for which the consolidating company has presented an application for a refund and which will revert to the Sabaf Group companies for the share pertaining to them as soon as it is refunded.
Other tax receivables mainly relate to the indirect taxes of the group's foreign companies (Brazil, Turkey and China).

9. OTHER CURRENT RECEIVABLES

	30.06.2016	**31.12.2015**	**Change**
Advances to suppliers	188	170	18
Credits to be received from suppliers	533	865	(332)
Other receivables, accrued income and deferred charges	729	412	317
Total	**1,450**	**1,447**	**3**

Credits to be received from suppliers, at €411,000, include the energy subsidy due to companies which consume a large amount of energy (so-called “energy-intensive users’ bonus”) for the 2014 and 2015 financial years, and for the remainder the attributable share of bonuses from suppliers linked to the attainment of specific purchasing objectives.

10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents, which amounted to €5,105,000 at 30 June 2016 (€3,991,000 at 31 December 2015) consisted of bank current account balances of €4,745,000 (€2.8 million at 31 December 2015) and investments in mutual funds with immediate liquidity of €360,000 (€0.2 million at 31 December 2015). Changes in the net financial position are analysed in the cash flow statement.

11. SHARE CAPITAL

Sabaf S.p.A.’s share capital at 30 June 2016 consists of 11,533,450 shares with a par value of €1 each and has not changed compared with 31 December 2015.

12. TREASURY SHARES

In the course of the first half-year of 2016, 112,984 own shares were acquired at an average unit price of €10,118, while they have not been sold.
At 30 June 2016, Sabaf S.p.A. held 175,062 treasury shares (1.518% of the share capital), reported in the financial statements as an adjustment to shareholders’ equity at a unit value of €10,662.
There were 11,358,388 outstanding shares at 30 June 2016 (11,471,372 at 31 December 2015).

13. LOANS

	30.06.2016		**31.12.2015**	
	Current	Non Current	Current	Non Current
Property leasing	143	1,684	142	1,756
Property mortgages	468	-	934	-
Unsecured loans	3,719	7,272	2,707	4,632
Short-term bank loans	16,847	-	13,666	-
Advances on bank receipts or invoices	7,384	-	5,988	-
Interest payable	17	-	43	-
Total	**28,578**	**8,956**	**23,480**	**6,388**

Changes in loans over the first half of the year are shown in the cash flow statement. During the half-year period, the Company took out short-term loans (with a maximum term of three months) with interest rates between 0.30% and 0.70%, as part of ordinary cash flow management activities. An unsecured loan of €5 million was also taken out in order to provide funding for the acquisition of A.R.C.'s controlling share, at the Euribor 3-month rate + 0.80%.

None of these loans are bound by contractual provisions (covenants).

14. OTHER NON-CURRENT FINANCIAL PAYABLES

	30.06.2016	31.12.2015	Change
Option on minorities	1,522	-	1,522
Payables to A.R.C.'s shareholders	300	-	300
Total	**1,822**	**0**	**1,822**

In June 2016, in the course of the purchase operation of 70% of A.R.C. s.r.l., SABAF concluded with Mr Loris Gasparini (current minority shareholder at 30% of A.R.C.) an agreement to regulate Mr Gasparini's right of withdrawal from A.R.C. and SABAF's interest in acquiring 100% of the shares after five years, through the signing of specific option agreements. The agreement thus provides for specific option rights to acquire (by SABAF) and to sell (by Mr Gasparini), exercisable as from 24 June 2021, the remaining shares equivalent to 30% of A.R.C., with strike prices based on profitability parameters recorded by A.R.C. at 31 December 2020.

Pursuant to the provisions of IAS 32, the assignment of an option to sell (put option) under the terms described above requires the initial recognition of a liability corresponding to the estimated reimbursement value, expected at the time of the possible exercise of the option: to this end, these condensed consolidated interim financial statements show non-current financial liabilities equivalent to €1,522 million. It is noted that in the course of the subsequent periods until the date of the possible exercise of the option the Group will have to value from time to time the estimate of the outlay and determine the adjustment of the liabilities recognized, opting for the application of the fair value method of valuation of the liabilities in accordance with the provisions of IAS 39.

The payables to A.R.C.'s shareholders, equivalent to €300,000 at 30 June 2016, are related to the part of the price not yet liquidated to the vendors, which will be deposited on an escrow account and released for the benefit of vendors on a straight-line basis in 5 years, in accordance with the contractual agreements and the guarantees given by the vendors.

15. POST-EMPLOYMENT BENEFIT AND RETIREMENT RESERVES

	Severance indemnity	Provision for pensions	Total
Liabilities at 31 December 2015	**2,914**	**0**	**2,914**
Social security costs	11	-	11
Financial expenses	20	-	20
Amounts paid out	(53)	-	(53)
Change in consolidation area	106	132	238
Liabilities at 30 June 2016	**2,998**	**132**	**3,130**

16. RESERVES FOR RISKS AND CONTINGENCIES

	31.12.2015	Provisions	Utilization	Release of excess	Forex differences	30.06.2016
Reserve for agents' indemnities	297	-	-	(63)	-	234
Product guarantee fund	60	-	(11)	-	-	49
Reserve for legal risks	38	-	-	-	8	46
Total	**395**	**0**	**(11)**	**(63)**	**8**	**329**

The reserve for agents' indemnities covers amounts payable to agents if the Group terminates the agency relationship.
The product guarantee fund covers expenses to be incurred for servicing products during the warranty period.
The reserve for legal risks is allocated for disputes of a modest size.

The provisions booked to the reserve for risks and contingencies, which represent the estimate of future payments made based on historical experience, have not been time-discounted because the effect is considered negligible.

17. TRADE PAYABLES

The geographical breakdown of trade payables was as follows:

	30.06.2016	**31.12.2015**	**Change**
Italy	17,483	15,249	2,260
Western Europe	3,003	2,895	106
Eastern Europe and Turkey	306	651	(54)
Asia	611	459	109
South America	479	184	224
Middle East and Africa	-	11	0
North America and Mexico	93	1	2
Total	**21,974**	**19,450**	**2,646**

The increase in trade payables compared to the end of 2015 reflects the different seasonal trend. Average payment terms remained unchanged. At 30 June 2016, there were no overdue payables of a significant amount, and the Group had not received any injunctions for overdue payables.

18. TAX PAYABLES

	30.06.2016	**31.12.2015**	**Change**
Income tax payables	1,012	157	855
Withholding taxes	507	844	(337)
Other tax payables	67	218	(151)
Total	**1,586**	**1,219**	**367**

The increase in income tax payables compared with the end of the half-year was due to the corporate income tax (IRES) payment dates, requiring payments on account in July and November and payment of the balance in July of the following year.

19. OTHER CURRENT PAYABLES

	30.06.2016	**31.12.2015**	**Change**
Due to employees	5.139	4.032	1.107
To social security institutions	1,888	2,022	(134)
Due to agents	282	317	(35)
Prepayments from customers	145	103	42
Other current payables, accrued liabilities and deferred income	130	64	66
Total	**7,584**	**6,538**	1,046

At 30 June 2016, payables due to employees included amounts for the thirteenth month's pay and for holidays accrued but not taken. Payables to social security institutions at 31 December 2015 include the share of social security charges pertaining to the 13th month bonus paid to employees in December.

20. DERIVATIVE FINANCIAL INSTRUMENTS

	30.06.2016	31.12.2015	Change
Financial assets for exchange rate derivatives	75	69	6
Total	**75**	**69**	**6**
Financial liabilities for exchange rate derivatives	1	17	(16)
Financial liabilities for derivatives on interest rates	27	14	13
Total	**28**	**31**	(3)

Interest rate risk

The Group borrows money at a floating rate; to achieve an optimum mix of floating and fixed rates in the structure of the loans, the Group assesses whether to use derivative financial instruments designating them to cash flow hedges. At 30 June 2016 the Group has in place two interest rate swap (IRS) contracts for amounts and maturities coinciding with two unsecured loans which are being amortised, whose residual value at 30 June 2016 is €8.458 million. The contracts have not been designated as capital flow hedges and are therefore at their fair value through profit and loss, and recognised in the items "Other financial assets" or "Other financial payables".

Exchange rate risk

Approximately 10% of Group sales are expressed in US dollars. To hedge part of the exchange rate risk, at 30 June 2016 the Group had in place forward sale derivative contracts for a notional amount of USD 3 million. These derivatives are recognised at their fair value through profit and loss on the reporting date and recognised in the items "Other financial assets" or "Other financial payables".

21. NET FINANCIAL POSITION

		30.06.2016	31.12.2015	Change
A.	Cash	11	11	0
B.	Positive balances of unrestricted bank accounts	4,734	3,822	912
C.	Other cash equivalents	360	158	202
D.	**Liquidity (A+B+C)**	**5,105**	**3,991**	**1,114**
E.	Current bank overdrafts	24,248	19,697	4,551
F.	Current portion of non-current debt	4,330	3,783	547
G.	Other current financial payables	28	31	(3)
H.	**Current financial debt (E+F+G)**	**28,606**	**23,511**	**5,095**
I.	**Current net financial debt (H-D)**	**23,501**	**19,520**	**3,981**
J.	Non-current bank payables	7,272	4,632	2,640
K.	Other non-current financial payables	3,506	1,756	1,750
L.	**Non-current financial debt (J+K)**	**10,778**	**6,388**	**4,390**
M.	**Net financial debt (L+I)**	**34,279**	**25,908**	**8,371**

The change in cash and cash equivalents (letter D. of the net financial position table) is shown in the Cash Flow Statement.

22. DEFERRED TAX ASSETS AND LIABILITIES

	30.06.2016	31.12.2015	Change
Deferred tax assets	4,764	4,887	(123)
Deferred tax	(762)	(772)	10
Net position	**4,002**	**4,115**	**(113)**

Below are the main elements comprising deferred tax assets and liabilities and their changes during the period:

	Depreciation and amortisa-ion and leasing	Provisions and value adjustments	Fair value of derivative instruments	Goodwill	Tax incen-tives	ctuarial post-mployment enefit reserve evaluation	Other tem-porary differ-ences	Total
At 31 December 2015	**(26)**	**1,014**	**(14)**	**1,771**	**843**	**200**	**327**	**4,115**
In the income state-ment	28	72	(7)	-	(262)	-	26	(143)
Forex differences	-	15	-	-	(12)	-	5	8
Change in consolida-tion method	-	22	-	-	-	-	-	22
At 30 June 2016	**2**	**1,123**	**(21)**	**1,771**	**569**	**200**	**358**	**4,002**

Tax assets relating to goodwill, amounting to €1,771,000, refer to the redemption of the value of the investment in Faringosi Hinges s.r.l. made in 2011. The future tax benefit can be made in ten annual portions starting in 2018. Deferred tax assets related to tax incentives refer to investments made in Turkey, for which the Group benefits from tax breaks recognised on income generated in Turkey for up to 30% of the investments made.

Comments on key income statement items

23. REVENUES

In the first half of 2016, revenue from sales and services totalled €64,853,000, down 10.6% versus €72,509,000 in the same period in 2015. For comments on changes in revenues and a detailed analysis of revenues by product family and geographical area, please see the Report on Operations.

24. OTHER INCOME

	H1 2016	H1 2015	Change
Sale of scrap and raw materials	908	1,529	(621)
Rental income	43	69	(26)
Contingent income	121	141	(20)
Release of reserve for risks	63	-	63
Other income	215	240	(25)
Total	**1,350**	**1,979**	**(629)**

The lower revenues from the sale of scrap are determined by an audit of the production processes, which has permitted a greater re-use thereof as an alternative to sale.

25. MATERIALS

	H1 2016	H1 2015	Change
Commodities and out-sourced components	22,918	26,492	(3,574)
Consumables	2,452	2,361	91
Total	**25,370**	**28,853**	**(3,483)**

The average effective purchase prices of the main commodities have recorded a downturn. During the first half of 2016, the saving due to the effect of the change in the prices of commodities compared to those of the first half of 2015, at equivalent volumes, is estimated at around €0.7 million.

26. COSTS OF SERVICES

	H1 2016	H1 2015	Change
Outsourced processing	4,515	5,206	(691)
Natural gas and electricity	2,404	2,563	(159)
Maintenance	2,143	1,882	261
Transport and export expenses	883	1,100	(217)
Commissions	286	358	(72)
Advisory services	786	869	(83)
Directors' remuneration	558	516	42
Use of temporary agency workers	63	90	(27)
Travel expenses and allowances	364	447	(83)
Waste disposal	220	212	8
Canteen	215	219	(4)
Insurance	409	274	135
Other costs	1,522	2,227	(705)
Total	**14,368**	**15,963**	**(1,595)**

The lower costs for outsourced processing are related to the lower production volumes in Italy. The higher costs for maintenance derive from the work in progress for the continuous adaptation of plant, machinery and equipment at all of the Group's facilities. Other costs include registering of patents, leasing of third-party assets, cleaning and other minor items.

27. STAFF COSTS

	H1 2016	H1 2015	Change
Salaries and wages	11,510	11,540	-30
Social security costs	3,691	3,735	-44
Employee severance pay reserve and supplementary pensions	685	662	23
Temporary agency workers	572	736	-164
Other costs	119	387	-268
Total	**16,577**	**17,060**	-483

The average Group headcount in the first half of 2016 was 761 employees (598 blue-collars, 150 white-collars and supervisors, and 13 managers) compared with 744 in the first half of 2015. The average number of temporary workers was 64, compared with 41 in the same period of 2015. During the period the Group made occasional use of the temporary unemployment fund in periods featuring low production requirements, achieving a cost saving of around €320,000.

28. OTHER OPERATING COSTS

	H1 2016	H1 2015	Change
Allowances for doubtful accounts	50	205	(155)
Duties and other non-income taxes	247	267	(20)
Contingent liabilities	56	87	(31)
Provisions to the risk reserve	-	91	(91)
Other operating costs	98	102	(4)
Total	**451**	**752**	**(301)**

29. FINANCIAL EXPENSES

	H1 2016	H1 2015	Change
Interest paid to banks	124	141	(17)
Interest paid on finance lease contracts	12	15	(3)
Financial expenses on derivative instruments	13	-	13
Banking expenses	115	115	0
Other financial expenses	21	34	(13)
Total	**285**	**305**	**(20)**

30. EXCHANGE RATE GAINS AND LOSSES

In the first half of 2016, the Group reported net foreign exchange gains of €126,000, versus net gains of €120,000 in the same period of 2015.

31. INCOME TAX

	H1 2016	H1 2015	Change
Current tax	1,907	2,783	(876)
Deferred tax	80	(10)	90
Balance of previous FYs	(6)	(6)	-
Total	**1,981**	**2,767**	**(786)**

Income tax is calculated in a precise manner, in the same way as taxes are calculated when drafting the annual financial statements.
The tax rate (current taxes as a share of pre-tax profit) remained nearly stable (33.5%, versus 33.7% in the first

half of 2015).

32. EARNINGS PER SHARE

Basic and diluted EPS are calculated based on the following data:

Earnings

	H1 2016	H1 2015
	Euro '000	*Euro '000*
Net profit for the period	3,935	5,455

Number of shares

	H1 2016	H1 2015
Weighted average number of ordinary shares for determining basic earnings per share	11,413,380	11,532,943
Dilutive effect from potential ordinary shares	0	0
Weighted average number of ordinary shares for determining diluted earnings per share	11,413,380	11,532,943

	H1 2016	H1 2015
	Euro	*Euro*
Basic earnings per share	0.345	0.473
Diluted earnings per share	0.345	0.473

The number of shares for measuring the earnings per share was calculated net of the average number of shares in the portfolio.

33. DIVIDENDS

On 25 May 2016, shareholders were paid a dividend of €0.48 per share (total dividends of €5,467,000); a dividend of €0.40 per share was paid in 2015.

34. INFORMATION BY BUSINESS SEGMENT

Below is the information by business segment for the first half of 2016 and 2015.

First half 2016

	Gas parts	Hinges	Total
Sales	60,630	4,223	**64,853**
Operating result	5,632	411	**6,043**

First half 2015

	Gas parts	Hinges	Total
Sales	68,547	3,962	**72,509**
Operating result	8,136	255	**8,391**

35. RELATED-PARTY TRANSACTIONS

Transactions between Sabaf S.p.A. and its consolidated subsidiaries have been eliminated from the consolidated financial statements and are not addressed in these notes. The table below illustrates the impact of all transactions between the Group and other related parties on the statement of financial position and income statement.

Impact of related-party transactions or positions on items in the statement of financial position at 30 June 2016

	Balance sheet total	Parent company	Unconsolidated subsidiaries	Other related parties	Total related parties	Impact on the total
Trade receivables	43,629	5	-	-	5	0.01%
Tax receivables	2,616	1,205	-	-	1,205	46.06%
Trade payables	21,975	-	45	-	45	0.20%
Tax payables	1,586	157	-	-	157	9.90%

Impact of related-party transactions or positions on items in the statement of financial position at 30 June 2015

	Balance sheet total	Parent company	Unconsolidated subsidiaries	Other related parties	Total related parties	Impact on the total
Trade receivables	44,210	5	-	-	5	0.01%
Tax receivables	2,192	1,219	-	-	1,219	55.61%
Tax payables	4,244	3,627	-	-	3,627	85.46%

Impact of related-party transactions or positions on income statement items at 30 June 2016

	Balance sheet total	Parent company	Unconsolidated subsidiaries	Other related parties	Total related parties	Impact on the total
Other income	1,350	5	-	-	5	0.37%
Services	14,368	-	90	-	90	0.63%

Impact of related-party transactions or positions on income statement items at 30 June 2015

	Balance sheet total	Parent company	Unconsolidated subsidiaries	Other related parties	Total related parties	Impact on the total
Other income	1,979	5	-	-	5	0.25%
Services	15,963	-	90	-	90	0.56%

Transactions were entered into with the parent company Giuseppe Saleri S.a.p.A. under the domestic tax consolidation scheme, which generated the tax receivables and payables shown in the tables.
Transactions with non-consolidated subsidiaries are solely of a commercial nature.
All transactions are regulated by specific contracts regulated at arm's length conditions.

36. SHARE-BASED PAYMENTS

At 30 June 2016, there were no equity-based incentive plans for the Company's directors and employees.

37. SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

Also pursuant to the Consob memorandum of 28 July 2006, the Group declares that no significant non-recurring events or transactions as defined by the memorandum took place in the first half of 2016.

38. ATYPICAL AND/OR UNUSUAL TRANSACTIONS

Pursuant to the Consob memorandum of 28 July 2006, the Group declares that no atypical and/or unusual transactions as defined by the Consob memorandum were carried out during the first half of 2016.

39. COMMITMENTS

Guarantees issued

The Sabaf Group has issued sureties to guarantee consumer and mortgage loans granted by Banco di Brescia to Group employees for a total of €5,877,000 (€6,010,000 at 31 December 2015).

SCOPE OF CONSOLIDATION AT 30 June 2016

COMPANIES CONSOLIDATED USING THE STRAIGHT LINE METHOD

Company name	Registered offices	Share capital	Investor company	% ownership
Parent company				
Sabaf S.p.A.	Ospitaletto (BS) Via dei Carpini, 1	EUR 11,533,450		
Subsidiary companies				
Faringosi Hinges s.r.l.	Ospitaletto (BS) Via Martiri della Libertà, 66	EUR 90,000	Sabaf S.p.A.	100%
Sabaf Immobiliare s.r.l.	Ospitaletto (BS) Via Martiri della Libertà, 66	EUR 25,000	Sabaf S.p.A.	100%
Sabaf do Brasil Ltda.	Jundiaí - São Paulo (Brazil)	BRL 24,000,000	Sabaf S.p.A.	100%
Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki	Manisa (Turkey)	TRY 32,000,000	Sabaf S.p.A.	100%
Sabaf Appliance Components (Kunshan) Co., Ltd.	Kunshan (China)	EUR 200,000	Sabaf S.p.A.	100%
Sabaf Appliance Components (Kunshan) Co., Ltd.	Kunshan (China)	EUR 4,400,000	Sabaf S.p.A.	100%
A.R.C. s.r.l.	Campodarsego (PD)	EUR 45,000	Sabaf S.p.A.	70%

CONSOLIDATED COMPANIES VALUED AT EQUITY

Company name	Registered offices	Share capital	Investor company	% ownership	% interest
Related companies					
Handan ARC Burners Co., Ltd.	Handan (China)	RMB 7,000,000	A.R.C. s.r.l.	50%	35%

NON-CONSOLIDATED COMPANIES VALUED AT COST

Company name	Registered offices	Share capital	Investor company	% ownership
Sabaf US Corp.	Plainfield, Illinois (USA)	USD 100,000	Sabaf S.p.A.	100%

Certification of the Half-Yearly Condensed Consolidated Financial Statements pursuant to Article 154-bis of Legislative Decree 58/98

The undersigned Alberto Bartoli, as Chief Executive Officer, and Gianluca Beschi, as Financial Reporting Officer of Sabaf S.p.A., have taken into account the requirements of Article 154-bis, paragraph 3 and 4, of Legislative Decree 58 of 24 February 1998 and can certify:

- the appropriateness in relation to the characteristics of the company and
- the effective application

of the administrative and accounting procedures to draft the condensed consolidated interim report in the first half of 2016.

They also certify that:

- the half-yearly condensed consolidated financial statements:
  - have been prepared in accordance with the international accounting standards recognised in the European Community in accordance with EC regulation 1606/2002 of the European Parliament and Council, of 19 July 2002;
  - correspond to the results of the accounting entries and ledgers;
  - are appropriate to provide a truthful and correct picture of the income statement, balance sheet, and cash flow of the issuer and the companies included in the consolidation;

- the interim management statement includes a reliable analysis of the important events which occurred in the first six months of the year and their impact on the condensed consolidated interim financial statements, along with a description of the main risks and uncertainties for the six remaining months of the year. The interim management statement also contains a reliable analysis of the information on significant transactions with related parties.

Ospitaletto, 4 August 2016

SABAF S.p.A.	SABAF S.p.A.
CEO	**Financial Reporting Officer**
Alberto Bartoli	Gianluca Beschi

Deloitte.

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REPORT ON REVIEW OF THE HALF-YEARLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
SABAF S.p.A.

Introduction

We have reviewed the accompanying half-yearly condensed consolidated financial statements of SABAF S.p.A. and subsidiaries (the "SABAF Group"), which comprise the consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows, statements of changes in consolidated shareholders' equity and related explanatory notes as of June 30, 2016. The Directors are responsible for the preparation of this interim financial information in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with the criteria recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("CONSOB") for the review of the half-yearly interim financial statements under Resolution n° 10867 of July 31, 1997. A review of half-yearly condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying half-yearly condensed consolidated financial statements of the SABAF Group as of June 30, 2016 are not prepared, in all material respects, in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union.

DELOITTE & TOUCHE S.p.A.

Signed by
Andrea Restelli
Partner

Brescia, Italy
August 5, 2016

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