

INTERIM MANAGEMENT STATEMENT

AT 31 December 2016



SABAF S.p.A.

Via dei Carpini 1 – OSPITALETTO (BS), ITALY

Fully paid-in share capital: € 11,533,450

www.sabaf.it

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Group structure

Parent company

SABAF S.p.A.

Subsidiaries and equity interest owned by the Group

Wholly consolidated companies

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

Non-consolidated companies

Sabaf US Corp.	100%
Handan ARC Burners Co., Ltd.	35%

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 Auditors

Chairman	Antonio Passantino
Statutory auditor	Luisa Anselmi
Statutory auditor	Enrico Broli

Consolidated statement of financial position

(€/000)	31/12/2016	30/09/2016	31/12/2015
ASSETS			
NON-CURRENT ASSETS			
Tangible assets (property, plant, and equipment)	73,064	74,023	73,037
Real estate investment	6,270	6,380	6,712
Intangible assets	9,284	9,348	7,525
Equity investments	306	311	204
Non-current receivables	262	536	432
Deferred tax assets	4,781	4,793	4,887
Total non-current assets	93,967	95,391	92,797
CURRENT ASSETS			
Inventories	31,484	32,706	31,009
Trade receivables	36,842	39,448	40,425
Tax receivables	3,163	2,350	2,489
Other current receivables	1,419	1,332	1,447
Current financial assets	0	53	69
Cash and cash equivalents	12,143	6,724	3,991
Total current assets	85,051	82,613	79,430
ASSETS HELD FOR SALE	0	0	0
TOTAL ASSETS	179,018	178,004	172,227
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	11,533	11,533	11,533
Retained earnings, other reserves	90,471	91,847	90,509
Net profit for the period	9,009	6,297	8,998
<i>Total equity interest of the Parent Company</i>	<i>111,013</i>	<i>109,677</i>	<i>111,040</i>
<i>Minority interests</i>	<i>1,296</i>	<i>1,242</i>	<i>0</i>
Total shareholders' equity	112,309	110,919	111,040
NON-CURRENT LIABILITIES			
Loans	18,892	7,980	6,388
Other financial liabilities	1,762	1,762	0
Post-employment benefit and retirement reserves	3,086	3,077	2,914
Provisions for risks and charges	434	331	395
Deferred tax liabilities	764	736	772
Total non-current liabilities	24,938	13,886	10,469
CURRENT LIABILITIES			
Loans	14,612	26,465	23,480
Other financial liabilities	335	107	31
Trade payables	18,977	17,316	19,450
Tax payables	1,190	1,772	1,219
Other payables	6,657	7,539	6,538
Total current liabilities	41,771	53,199	50,718
LIABILITIES HELD FOR SALE	0	0	0
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	179,018	178,004	172,227

Consolidated Income Statement

	Q4 2016		Q4 2015		12M 2016		12M 2015	
<i>(€/000)</i>								
INCOME STATEMENT COMPONENTS								
OPERATING REVENUE AND INCOME								
Revenue	32,919	100.0%	33,434	100.0%	130,978	100.0%	138,003	100.0%
Other income	863	2.6%	906	2.7%	2,819	2.2%	3,758	2.7%
Total operating revenue and income	33,782	102.6%	34,340	102.7%	133,797	102.2%	141,761	102.7%
OPERATING COSTS								
Materials	(10,950)	-33.3%	(13,057)	-39.1%	(47,346)	-36.1%	(54,366)	-39.4%
Change in inventories	(1,392)	-4.2%	(1,057)	-3.2%	(754)	-0.6%	1,025	0.7%
Services	(6,872)	-20.9%	(6,871)	-20.6%	(27,983)	-21.4%	(29,759)	-21.6%
Payroll costs	(7,927)	-24.1%	(7,911)	-23.7%	(32,112)	-24.5%	(32,526)	-23.6%
Other operating costs	(419)	-1.3%	(77)	-0.2%	(1,078)	-0.8%	(1,193)	-0.9%
Costs for capitalised in-house work	196	0.6%	292	0.9%	841	0.6%	1,230	0.9%
Total operating costs	(27,364)	-83.1%	(28,681)	-85.8%	(108,432)	-82.8%	(115,589)	-83.8%
OPERATING PROFIT BEFORE DEPRECIATION & AMORTISATION, CAPITAL GAINS/LOSSES, AND WRITE-DOWNS/WRITE-BACKS OF NON-CURRENT ASSETS (EBITDA)								
	6,418	19.5%	5,659	16.9%	25,365	19.4%	26,172	19.0%
Depreciation & amortisation	(3,257)	-9.9%	(3,124)	-9.3%	(12,853)	-9.8%	(12,185)	-8.8%
Capital gains/(losses) on disposals of non-current assets	0	0.0%	45	0.1%	18	0.0%	104	0.1%
Write-downs/write-backs of non-current assets	0	0.0%	0	0.0%	0	0.0%	0	0.0%
EBIT	3,161	9.6%	2,580	7.7%	12,530	9.6%	14,091	10.2%
Financial income	52	0.2%	23	0.1%	101	0.1%	67	0.0%
Financial expenses	(176)	-0.5%	(134)	-0.4%	(620)	-0.5%	(596)	-0.4%
Exchange rate gains and losses	231	0.7%	(489)	-1.5%	435	0.3%	(89)	-0.1%
Profits and losses from equity investments	0	0.0%	0	0.0%	0	0.0%	0	0.0%
PROFIT BEFORE TAXES	3,268	9.9%	1,980	5.9%	12,446	9.5%	13,473	9.8%
Income tax	(501)	-1.5%	(729)	-2.2%	(3,350)	-2.6%	(4,475)	-3.2%
Minority interests	(55)	-0.2%	0	0.0%	(87)	-0.1%	0	0.0%
NET PROFIT FOR THE PERIOD	2,712	8.2%	1,251	3.7%	9,009	6.9%	8,998	6.5%

Consolidated statement of comprehensive income

(€/000)	Q4 2016	Q4 2015	12M 2016	12M 2015
NET PROFIT FOR THE PERIOD	2,712	1,251	9,009	8,998
<i>Total profits/losses that will not be subsequently restated under profit (loss) for the period:</i>				
Actuarial post-employment benefit reserve evaluation	(41)	49	(41)	49
Tax effect	10	(14)	10	(14)
	(31)	35	(31)	35
<i>Total profits/losses that will later be reclassified under profit (loss) for the year:</i>				
Forex differences due to translation of financial statements in foreign currencies	(940)	1,688	(340)	(3,400)
Total other profits/(losses) net of taxes for the year	(971)	1,723	(371)	(3,365)
TOTAL PROFIT	1,741	2,974	8,638	5,633

Statement of changes in consolidated shareholders' equity

(€/000)	Share capital	Share premium reserve	Legal reserve	Treasury shares	Translation reserve	Updated post-employment benefit 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 profit											
- dividends paid out								(4,613)	(4,613)		(4,613)
- carried forward							3,725	(3,725)	0		0
Purchase of treasury shares				(718)					(718)		(718)
Total profit at 31 December 2015					(3,400)	35		8,998	5,633		5,633
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 profit											
- dividends paid out								(5,467)	(5,467)		(5,467)
- carried forward							3,531	(3,531)	0		0
Other movements											
Purchase of treasury shares				(1,676)					(1,676)		(1,676)
ARC acquisition and consolidation										1,210	1,210
ARC option							(1,522)		(1,522)		(1,522)
Total profit at 31 December 2016					(340)	(31)		9,009	8,638	86	8,724
Balance at 31 December 2016	11,533	10,002	2,307	(2,399)	(7,388)	(612)	88,561	9,009	111,013	1,296	112,309

Consolidated statement of cash flows

(€/000)	Q4 2016	Q4 2015	12M 2016	12M 2015
<i>Cash and cash equivalents at beginning of period</i>	6,724	5,686	3,991	3,675
Net profit/(loss) for the period	2,712	1,251	9,009	8,998
Adjustments for:				
- Depreciation and amortisation for the period	3,257	3,124	12,853	12,185
- Realised gains/losses	0	(45)	(18)	(104)
- Financial income and expenses	124	111	519	529
- Income tax	501	729	3,350	4,475
Payment of post-employment benefit	(109)	(37)	(184)	(129)
Change in risk provisions	103	(115)	39	(210)
<i>Change in trade receivables</i>	<i>2,606</i>	<i>(1,895)</i>	<i>5,107</i>	<i>107</i>
<i>Change in inventories</i>	<i>1,222</i>	<i>902</i>	<i>416</i>	<i>(170)</i>
<i>Change in trade payables</i>	<i>1,661</i>	<i>(114)</i>	<i>(1,286)</i>	<i>(58)</i>
Change in net working capital	5,489	(1,107)	4,237	(121)
Change in other receivables and payables, deferred tax	49	(304)	1,363	(72)
Payment of taxes	(2,451)	(2,154)	(4,762)	(5,931)
Payment of financial expenses	(162)	(154)	(576)	(556)
Collection of financial income	52	23	101	67
Cash flow from operations	9,565	1,322	25,931	19,131
Net investments	(2,388)	(2,476)	(11,762)	(12,079)
Repayment of loans	(15,788)	(4,252)	(33,141)	(19,480)
New loans	15,075	2,819	37,321	19,488
Short-term financial assets	69	(69)	69	(69)
Purchase/sale of treasury shares	(405)	(543)	(1,676)	(718)
Payment of dividends	0	0	(5,467)	(4,613)
Cash flow from financing activities	(1,049)	(2,045)	(2,894)	(5,392)
ARC acquisition	0	0	(2,614)	0
Foreign exchange differences	(709)	1,504	(509)	(1,344)
Net financial flows for the period	5,419	(1,695)	8,152	316
<i>Cash and cash equivalents at end of period</i>	<i>12,143</i>	<i>3,991</i>	<i>12,143</i>	<i>3,991</i>
Current financial debt	14,947	23,511	14,947	23,511
Non-current financial debt	20,654	6,388	20,654	6,388
Net financial debt	23,458	25,908	23,458	25,908

Consolidated net financial position

<i>(€/000)</i>	31/12/2016	30/09/2016	31/12/2015
A. Cash	12	19	11
B. Positive balances of unrestricted bank accounts	8,376	5,042	3,822
C. Other cash equivalents	3,755	1,663	158
D. Liquidity (A+B+C)	12,143	6,724	3,991
E. Current bank payables	7,811	22,119	19,697
F. Current portion of non-current debt	6,801	4,346	3,783
G. Other current financial payables	335	107	31
H. Current financial debt (E+F+G)	14,947	26,572	23,511
I. Net current financial debt (H-D)	2,804	19,848	19,520
J. Non-current bank payables	17,281	6,332	4,632
K. Other non-current financial payables	3,373	3,410	1,756
L. Non-current financial debt (J+K)	20,654	9,742	6,388
M. Net financial debt (L+I)	23,458	29,590	25,908

Explanatory notes

Accounting standards and scope of consolidation

The Interim Management Statement of the Sabaf Group at 31 December 2016 was prepared in pursuance of the Italian Stock-exchange regulations that establish the publication of interim management statements as one of the requirements for maintaining a listing in the STAR segment of the MTA (Electronic Stock Market).

This statement, prepared in continuity with the past, does not contain the information required under IAS 34.

Accounting standards and policies are the same as those adopted for preparing the consolidated financial statements at 31 December 2015, which should be consulted for reference. All the amounts contained in the statements included in this Interim Management Statement are expressed in thousands of euro.

We also draw attention to the following points:

- The Interim Management Statement was prepared according to the “discrete method of accounting” whereby the quarter in question is treated as a separate financial period. In this respect, the quarterly income statement reflects the income statement components pertaining to the period on an accruals basis;
- the financial statements used in the consolidation process are those prepared by the subsidiaries for the period ended 31 December 2016, adjusted to comply with Group accounting policies, where necessary;
- the parent company, Sabaf S.p.A., and the subsidiaries Faringosi-Hinges S.r.l., Sabaf Immobiliare S.r.l., Sabaf do Brasil Ltda, Sabaf Turkey, Sabaf Appliance Components Trading (Kunshan) Co. Ltd (in liquidation) and Sabaf Appliance Components (Kunshan) Co. Ltd have been consolidated on a line-by-line basis;
- as of June 30, 2016, A.R.C. s.r.l. was also consolidated. This company is active in the production of burners for professional cooking and the Group acquired control of it at the end of June 2016. In this interim management statement, therefore, the results of operations of A.R.C. have contributed to the profit for the Sabaf Group only from 1 July 2016 to 31 December 2016;
- The evaluation of A.R.C. in accordance with IFRS 3 revised, namely recognising the fair value of assets, liabilities and contingent liabilities at the acquisition date, is to be considered temporary for the moment, in that, in accordance with IFRS 3 revised, the evaluation becomes final within 12 months of the acquisition date;
- the subsidiary Sabaf US Corp. has not been consolidated as its contribution is considered immaterial for the purposes of consolidation.

The Interim Management Statement at 31 December 2016 has not been independently audited.

Sales breakdown by geographical area

<i>(amounts in €/000)</i>	Q4 2016	Q4 2015	% change	12M 2016	12M 2015	% change
Italy	7,951	9,772	-18.6%	36,365	41,244	-11.8%
Western Europe	2,557	1,776	+44.0%	8,553	7,438	+15.0%
Eastern Europe	8,547	7,614	+12.3%	34,123	35,125	-2.9%
Middle East and Africa	3,659	4,431	-17.4%	11,698	16,759	-30.2%
Asia and Oceania	2,520	2,352	+7.1%	8,088	7,019	+15.2%
South America	4,989	5,022	-0.7%	20,847	20,815	+0.2%
North America and Mexico	2,696	2,467	+9.3%	11,304	9,603	+17.7%
Total	32,919	33,434	-1.5%	130,978	138,003	-5.1%

Sales breakdown by product category

<i>(amounts in €/000)</i>	Q4 2016	Q4 2015	% change	12M 2016	12M 2015	% change
Brass valves	1,965	2,831	-30.6%	9,007	12,689	-29.0%
Light alloy valves	7,486	8,019	-6.6%	32,393	33,784	-4.1%
Thermostats	1,741	2,504	-30.5%	7,699	10,596	-27.3%
Standard burners	9,790	9,287	+5.4%	37,338	37,789	-1.2%
Special burners	5,573	5,515	+1.1%	21,215	21,622	-1.9%
Accessories	3,125	3,391	-7.8%	12,613	13,577	-7.1%
<i>Total gas parts</i>	<i>29,680</i>	<i>31,547</i>	<i>-5.9%</i>	<i>120,265</i>	<i>130,057</i>	<i>-7.5%</i>
<i>Professional burners</i>	1,093	0	<i>n/a</i>	2,289	0	<i>n/a</i>
<i>Hinges</i>	2,146	1,887	+13.7%	8,424	7,946	+6.0%
Total	32,919	33,434	-1.5%	130,978	138,003	-5.1%

Management Statement

Results of operations

In Q4 2016, the Sabaf Group booked sales revenue of €32.9 million, a decrease of 1.5% compared with the figure of €33.4 million registered in Q4 2015. Taking into consideration the same scope of consolidation (i.e. excluding the contribution of A.R.C.), sales in the fourth quarter decreased by 4.8% compared with the same period last year. In the period, the sharpest decline was recorded in the Italian market, while the other markets in Europe registered positive growth rates. As in the rest of the year, also in the fourth quarter, the Middle East and North Africa suffered a strong decline, South America reached levels similar to 2015, while North America and Asia confirmed the expansion phase.

The improvement in production efficiency, already pointed out in the first nine months, affected even more strongly the profits of the fourth quarter: EBITDA amounted to €6.4 million, equal to 19.5% of sales, up 13.4% on €5.7 million (16.9% of sales) in Q4 2015. EBIT was €3.2 million, equivalent to 9.6% of sales, and 22.5% higher than €2.6 million of the same quarter in 2015 (7.7% of sales). Profit before taxes was €3.3 million, up by 65.1% compared with €2 million in Q4 2015. The net profit for the period was €2.7 million, up 117% compared with the figure of €1.3 million in Q4 2015. Tax benefits of €0.4 million were booked during the period, deriving from the investments made in Turkey in 2016.

Revenues for 2016 came in at €131 million, down 5.1% compared with €138 million in 2015. Taking into consideration the same scope of consolidation, the drop in revenues was 6.7%. Despite the drop in sales volumes, the Group managed to maintain satisfactory income-related performances and to achieve a % EBITDA better than 2015: in detail, EBITDA 2016 was €25.4 million (equal to 19.4% of sales, down 3.1% compared with the previous year, when they were 19% of sales) and EBIT stood at €12.5 million (equal to 9.6% of sales, with a decline of 11.1% compared with €14.1 million in 2015, corresponding to 10.2% of sales). Net profit of 2016, equal to €9 million, was mainly unchanged compared with the previous financial year.

Equity and cash flow

Quarter investments totalled €2.4 million, bringing total investments for the year to €11.8 million (€12.1 million in 2015).

At 31 December 2016, net financial debt was €23.5 million, compared with €29.6 million at 30 September 2016 and €25.9 million at 31 December 2015. The significant improvement in the net financial position in the last quarter was mainly attributable to the reduction in working capital.

Significant non-recurring, atypical and/or unusual transactions

During the fourth quarter of 2016 the Group engaged in significant transactions qualifying as non-recurring, atypical and/or unusual, as envisaged by the CONSOB communication of 28 July 2006.

Outlook

2017 got off to a positive start and sales in the first quarter are expected to increase with a double-digit growth compared with 2016, which was marked by a very weak start.

Although there are uncertainties on some of the main markets in which Sabaf operates, for the whole of 2017, the Group expects to be able to reach sales of around €140 million and increasing operating margins compared with 2016.

If the economic situation were to change significantly, actual figures might diverge from forecasts.

Statement of the Financial Reporting Officer pursuant to Article 154-bis (2) TUF

The Financial Reporting Officer, Gianluca Beschi, declares that, pursuant to paragraph 2, Article 154-bis of Legislative Decree 58/1998 (Consolidated Finance Act), the accounting information contained in the Interim Management Statement at 31 December 2016 of Sabaf S.p.A. corresponds to the Company's records, books and accounting entries.

Ospitaletto (BS), 14 February 2017

Financial Reporting Officer
Gianluca Beschi