SABAF GROUP

CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2016

Group structure and corporate bodies

Group structure

Parent company

SABAF S.p.A.

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 (Sabaf Turkey)	100%
Sabaf Appliance Components Trading (Kunshan) Co. Ltd. in liquidation	100%
A.R.C. s.r.l.	70%

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 (*)	Anna Pendoli
Director (*)	Nicla Picchi
Director	Alessandro Potestà

(*) Independent directors

Board of Statutory Auditors

Chairman	Antonio Passantino
Statutory Auditor	Luisa Anselmi
Statutory Auditor	Enrico Broli

Independent Auditor

Deloitte & Touche S.p.A.

Consolidated statement of financial position

(€/000)	**Notes**	**31/12/2016**	**31/12/2015**
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	**1**	73,064	73,037
Investment property	**2**	6,270	6,712
Intangible assets	**3**	9,284	7,525
Equity investments	**4**	306	204
Non-current receivables	**5**	262	432
Deferred tax assets	**21**	4,781	4,887
Total non-current assets		**93,967**	**92,797**
CURRENT ASSETS			
Inventories	**6**	31,484	31,009
Trade receivables	**7**	36,842	40,425
Tax receivables	**8**	3,163	2,489
Other current receivables	**9**	1,419	1,447
Current financial assets	**10**	0	69
Cash and cash equivalents	**11**	12,143	3,991
Total current assets		**85,051**	**79,430**
ASSETS HELD FOR SALE		**0**	**0**
TOTAL ASSETS		**179,018**	**172,227**
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	**12**	11,533	11,533
Retained earnings, other reserves		90,471	90,509
Profit for the year		9,009	8,998
Total equity interest of the Parent Company		*111,013*	*111,040*
Minority interests		*1,296*	*0*
Total shareholders' equity		**112,309**	**111,040**
NON-CURRENT LIABILITIES			
Loans	**14**	18,892	6,388
Other financial liabilities	**15**	1,762	0
Post-employment benefit and retirement reserves	**16**	3,086	2,914
Provisions for risks and charges	**17**	434	395
Deferred tax liabilities	**21**	764	772
Total non-current liabilities		**24,938**	**10,469**
CURRENT LIABILITIES			
Loans	**14**	14,612	23,480
Other financial liabilities	**15**	335	31
Trade payables	**18**	18,977	19,450
Tax payables	**19**	1,190	1,219
Other payables	**20**	6,657	6,538
Total current liabilities		**41,771**	**50,718**
LIABILITIES HELD FOR SALE		**0**	**0**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**179,018**	**172,227**

Consolidated income statement

(€/000)	Notes	2016	2015
INCOME STATEMENT COMPONENTS			
OPERATING REVENUE AND INCOME			
Revenue	**23**	130,978	138,003
Other income	**24**	2,819	3,758
Total operating revenue and income		**133,797**	**141,761**
OPERATING COSTS			
Materials	**25**	(47,346)	(54,366)
Change in inventories		(754)	1,025
Services	**26**	(27,983)	(29,759)
Payroll costs	**27**	(32,112)	(32,526)
Other operating costs	**28**	(1,078)	(1,193)
Costs for capitalised in-house work		841	1,230
Total operating costs		**(108,432)**	**(115,589)**
OPERATING PROFIT BEFORE DEPRECIATION AND AMORTISATION, CAPITAL GAINS/LOSSES, AND WRITE-DOWNS/WRITE-BACKS OF NON-CURRENT ASSETS		**25,365**	**26,172**
Depreciation and amortisation	**1, 2, 3**	(12,853)	(12,185)
Capital gains on disposals of non-current assets		18	104
EBIT		**12,530**	**14,091**
Financial income		101	67
Financial expenses	**29**	(620)	(596)
Exchange rate gains and losses	**30**	435	(89)
PROFIT BEFORE TAXES		**12,446**	**13,473**
Income tax	**31**	(3,350)	(4,475)
Minority interests		(87)	0
PROFIT FOR THE YEAR		**9,009**	**8,998**
EARNINGS PER SHARE (EPS)	**32**		
Base		**€ 0.792**	**€ 0.781**
Diluted		**€ 0.792**	**€ 0.781**

Consolidated statement of comprehensive income

(€/000)	2016	2015
PROFIT FOR THE YEAR	**9,009**	**8,998**
Total profits/losses that will not be subsequently reclassified under profit (loss) for the year		
Actuarial post-employment benefit reserve evaluation	(41)	49
Tax effect	10	(14)
	(31)	**35**
Total profits/losses that will be subsequently reclassified under profit (loss) for the year		
Forex differences due to translation of financial statements in foreign currencies	**(340)**	**(3,400)**
Total other profits/(losses) net of taxes for the year	**(371)**	**(3,365)**
TOTAL PROFIT	**8,638**	**5,633**

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	Profit for the year	Total Group shareholders' equity	Minority interests	Total shareholders' equity
Balance at 31 Dec 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 Dec 2015					(3,400)	35		8,998	5,633		5,633
Balance at 31 Dec 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
ARC acquisition and consolidation										1,210	1,210
ARC option							(1,522)		(1,522)		(1,522)
Purchase of treasury shares				(1,676)					(1,676)		(1,676)
Total profit at 31 Dec 2016					(340)	(31)		9,009	8,638	86	8,724
Balance at 31 Dec 2016	**11,533**	**10,002**	**2,307**	**(2,399)**	**(7,388)**	**(612)**	**88,561**	**9,009**	**111,013**	**1,296**	**112,309**

Consolidated cash flow statement

	12M 2016	12M 2015
Cash and cash equivalents at beginning of year	***3,991***	***3,675***
Profit for the year	9,009	8,998
Adjustments for:		
- Depreciation and amortisation	12,853	12,185
- Realised gains	(18)	(104)
- Net financial income and expenses	519	529
- Income tax	3,350	4,475
Change in post-employment benefit reserve	(184)	(129)
Change in risk provisions	39	(210)
Change in trade receivables	*5,107*	*107*
Change in inventories	*416*	*(170)*
Change in trade payables	*(1,286)*	*(58)*
Change in net working capital	4,237	(121)
Change in other receivables and payables, deferred tax	1,363	(72)
Payment of taxes	(4,762)	(5,931)
Payment of financial expenses	(576)	(556)
Collection of financial income	101	67
Cash flow from operations	**25,931**	**19,131**
Investments in non-current assets		
- intangible	(477)	(781)
- tangible	(11,465)	(11,581)
- financial	5	(26)
Disposal of non-current assets	175	309
Cash flow absorbed by investments	**(11,762)**	**(12,079)**
Repayment of loans	(33,141)	(19,480)
Raising of loans	37,321	19,488
Short-term financial assets	69	(69)
Purchase of treasury shares	(1,676)	(718)
Payment of dividends	(5,467)	(4,613)
Cash flow absorbed by financing activities	**(2,894)**	**(5,392)**
A.R.C. acquisition	(2,614)	0
Foreign exchange differences	(509)	(1,344)
Net financial flows for the year	**8,152**	**316**
Cash and cash equivalents at end of year (Note 10)	***12,143***	***3,991***
Current financial debt	14,947	23,511
Non-current financial debt	20,654	6,388
Net financial debt (Note 22)	***23,458***	***25,908***

Explanatory Notes

ACCOUNTING STANDARDS

Statement of compliance and basis of presentation

The consolidated financial statements of the Sabaf Group for the financial year 2016 have been prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union. Reference to IFRS also includes all current International Accounting Standards (IAS). The financial statements have been prepared in euro, the current currency in the economies in which the Group mainly operates, rounding amounts to the nearest thousand, and are compared with consolidated financial statements for the previous year, prepared according to the same standards. The report consists of the statement of financial position, the income statement, the statement of changes in shareholders' equity, the cash flow statement, and these explanatory notes. The financial statements have been prepared on a historical cost basis except for some revaluations of property, plant and equipment undertaken in previous years, and are considered a going concern. The Company found that, despite the difficult economic and business climate, there were no significant uncertainties (as defined by paragraphs 25 and 26 of IAS 1) regarding the continuity of the Company, also due to the strong competitive position, high profitability and solidity of the financial structure.

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 the financial position;
- an income statement that expresses costs using a classification based on the nature of each item;
- a comprehensive income statement that expresses revenue and expense items not recognised in profit (loss) for the year as required or permitted by IFRS;
- 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 operating results, financial position and cash flows.

Scope of consolidation

The scope of consolidation at 31 December 2016 comprises the parent company Sabaf S.p.A. and the following companies controlled by Sabaf S.p.A.:

- 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.

The participation in the controlled company A.R.C. s.r.l., acquired during the financial year, was consolidated starting from the date of acquisition and therefore for the period from 1 July 2016 to 31 December 2016.

Sabaf U.S. is not consolidated since it is irrelevant for the purposes of the consolidation. Handan A.R.C. Ltdd, Chinese company in which the Group holds a 35% share, was measured at cost in that at 31 December 2016 it has not yet started its activity and therefore it is considered irrelevant.

The companies in which Sabaf S.p.A. simultaneously possesses the following three elements are considered subsidiaries: (a) power over the company; (b) exposure or rights to variable returns resulting from involvement therein; (c) ability to affect the size of these returns by exercising power. If these subsidiaries exercise a significant influence, they are consolidated as from the date in which control begins until the date in which control ends so as to provide a correct representation of the Group's operating results, financial position and cash flows.

Consolidation criteria

The data used for consolidation have been taken from the income statements and statements of financial position prepared by the directors of the individual subsidiary companies. These figures have been appropriately amended and restated, when necessary, to align them with international accounting standards and with uniform group-wide classification criteria.

The criteria applied for consolidation are as follows:

a) Assets and liabilities, income and costs in the 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 investee 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. In accordance with the provisions of IFRS 3, the Group has changed the accounting treatment of goodwill on a prospective basis as from the transition date. Therefore, since 1 January 2004, the Group has not amortised goodwill and instead subjects it to impairment testing.
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 thereto is posted in specific items of the balance sheet and income statement.

Information related to IFRS 3

Starting from these consolidated financial statements, A.R.C. s.r.l., company active in the production of burners for professional cooking of which the Group acquired control at the end of June 2016, was consolidated.

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 from the acquisition date.
The effects of this operation are shown in the following table:

	Original values
Non-current assets	
Property, plant and equipment and intangible assets	303
Financial fixed assets	107
Non-current receivables and deferred tax assets	145
Current assets	
Inventories	891
Trade receivables	1,525
Other receivables	234
Cash and cash equivalents	2,186
Total assets	**5,391**
Non-current liabilities	
Post-employment benefit reserve	(238)
Current liabilities	
Trade payables	(813)
Sundry payables	(308)
Total liabilities	**(1,359)**
Fair value of net assets acquired	**4,032**
- % pertaining to Sabaf (70%) (a)	2,823
Total cost of acquisition (b)	4,800
Goodwill deriving from acquisition (b-a) (Note 3)	1,977
Acquired cash and cash equivalents (c)	2,186
Total cash outlay (b-c)	2,614

Conversion into euro of foreign-currency income statements and statements of financial position

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 statements, the financial statement of each foreign entity is 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-year exchange rates. Income statement items are converted at average exchange rates for the year.
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" in shareholders' equity.

The exchange rates used for conversion into euro of the financial statements of the foreign subsidiaries, prepared in local currency, are shown in the following table:

Description of currency	Exchange rate in effect at 31/12/2016	Average exchange rate 2016	Exchange rate in effect at 31/12/2015	Average exchange rate 2015
Brazilian real	3.4305	3.8576	4.3117	3.7004
Turkish lira	3.7072	3.3435	3.1765	3.0255
Chinese renminbi	7.3202	7.3512	7.0608	6.9714

Reconciliation between parent company and consolidated shareholders' equity and net profit for the year

	31/12/2016		31/12/2015	
Description	Profit for the year	Shareholders' equity	Profit for the year	Shareholders' equity
Profit and shareholders' equity of parent company Sabaf S.p.A.	**2,460**	**91,524**	**5,642**	**96,234**
Equity and consolidated company results	6,175	66,276	4,775	56,427
Elimination of consolidated equity investments' carrying value	521	(49,900)	(1,303)	(45,616)
Goodwill	0	6,422	0	4,445
Put option on A.R.C. minorities	0	(1,522)	0	0
Intercompany eliminations	(60)	(491)	(116)	(450)
Minority interests	(87)	(1,296)	0	0
Profit and shareholders' equity attributable to the Group	**9,009**	**111,013**	**8,998**	**111,040**

Segment reporting

The Group's Operating segments in accordance with IFRS 8 - Operating Segment are identified in the business segments that 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 parts (household and professional)
- hinges.

Accounting policies

The accounting standards and policies applied for the preparation of the consolidated financial statements at 31 December 2016, unchanged versus the previous year, are shown below:

Property, plant and equipment

These are recorded at purchase or manufacturing cost. The cost includes directly chargeable ancillary costs. These costs also include revaluations undertaken in the past based on monetary revaluation rules or pursuant to company mergers. Depreciation is calculated according to rates deemed appropriate to spread the carrying value of tangible assets over their useful working life. Estimated useful working life, in years, is as follows:

Buildings	33
Light constructions	10
General plants	10
Specific plant and machinery	6 – 10
Equipment	4 – 10
Furniture	8
Electronic equipment	5
Vehicles and other transport means	4 – 5

Ordinary maintenance costs are expensed in the year in which they are incurred; costs that increase the asset value or useful working life are capitalised and depreciated according to the residual possibility of utilisation of the assets to which they refer.
Land is not depreciated.

Leased assets

Assets acquired via finance lease contracts are accounted for using the financial method and are reported with assets at their purchase value, less depreciation. Depreciation of such assets is reflected in the consolidated annual financial statements applying the same policy followed for Company-owned property, plant and equipment. Set against recognition of such assets, the amounts payable to the financial lessor are posted among short- and medium-/long-term payables. In addition, financial charges pertaining to the period are charged to the income statement.

Goodwill

Goodwill is the difference between the purchase price and fair value of investee companies' identifiable assets and liabilities on the date of acquisition.
As regards acquisitions completed prior to the date of IFRS adoption, the Sabaf Group has used the option provided by IFRS 1 to refrain from applying IFRS 3 – concerning business combinations – to acquisitions that took place prior to the transition date. Consequently, goodwill arising in relation to past acquisitions has not been recalculated and has been posted in accordance with Italian GAAPs, net of amortisation reported up to 31 December 2003 and any losses caused by a permanent value impairment.
After the transition date, goodwill – as an intangible asset with an indefinite useful life – is not amortised but subjected annually to impairment testing to check for value loss, or more frequently if there are signs that the asset may have suffered impairment (impairment test).

Other intangible assets

As established by IAS 38, other intangible assets acquired or internally produced are recognised as assets when it is probable that use of the asset will generate future economic benefits and when asset cost can be measured reliably. If it is considered that these future economic benefits will not be generated, the development costs are written down in the year in which this is ascertained.

Such assets are measured at purchase or production cost and - if the assets concerned have a finite useful life - are amortised on a straight-line basis over their estimated useful life.
The useful life of projects for which development costs are capitalised is estimated to be 10 years.
The SAP management system is amortised over five years.

Impairment of value
At each end of reporting period, the Group reviews the carrying value of its tangible and intangible assets to determine whether there are signs of impairment of the value of these assets. If there is any such indication, the recoverable amount of said assets is estimated so as to determine the total of the write-down. If it is not possible to estimate recoverable value individually, the Group estimates the recoverable value of the cash generating unit (CGU) to which the asset belongs.
In particular, the recoverable value of the cash generating units (which generally coincide with the legal entity to which the capitalised assets refer) is verified by determining the value of use. The recoverable amount is the higher of the net selling price and value of use. In measuring the value of use, future cash flows net of taxes, estimated based on past experience, are discounted to their present value using a pre-tax rate that reflects fair market valuations of the present cost of money and specific asset risk. The main assumptions used for calculating the value of use concern the discount rate, growth rate, expected changes in selling prices and cost trends during the period used for the calculation. The growth rates adopted are based on future market expectations in the relevant sector. Changes in the sales prices are based on past experience and on the expected future changes in the market. The Group prepares operating cash flow forecasts based on the most recent budgets approved by the Board of Directors of the consolidated companies, draws up the forecasts for the coming years and determines the terminal value (current value of perpetual income), which expresses the medium and long term operating flows in the specific sector.
If the recoverable amount of an asset (or CGU) is estimated to be lower than its carrying value, the asset's carrying value is reduced to the lower recoverable amount, recognising impairment of value in the income statement.
When there is no longer any reason for a write-down to be maintained, the carrying value of the asset (or of the cash-generating unit) - with the exception of goodwill - is increased to the new value resulting from the estimate of its recoverable value, but not beyond the net carrying value that the asset would have had if it had not been written down for impairment of value. Reversal of impairment loss is recognised in the income statement.

Investment Property
As allowed by IAS 40, non-operating buildings and constructions are assessed at cost net of depreciation and losses due to cumulative impairment of value. The depreciation criterion applied is the asset's estimated useful life, which is considered to be 33 years.
If the recoverable amount of the investment property – determined based on the market value of the properties – is estimated to be lower than its carrying value, the asset's carrying value is reduced to the lower recoverable amount, recognising impairment of value in the income statement.

When there is no longer any reason for a write-down to be maintained, the carrying value of the asset (or CGU) is increased to the new value stemming from the estimate of its recoverable amount – but not beyond the net carrying value that the asset would have had if it had not been written down for impairment of value. Reversal of impairment loss is recognised as income in the income statement.

Equity investments and non-current receivables
Equity investments not classified as held for sale are stated in the accounts at cost, reduced for impairment. The original value is written back in subsequent years if the reasons for write-down cease to exist.
Non-current receivables are stated at their presumed realisable value.

Inventories
Inventories are measured at the lower of purchase or production cost – determined using the weighted average cost method – and the corresponding fair value represented by the replacement cost for purchased materials and by the presumed realisable value for finished and semi-processed products – calculated taking into account any manufacturing costs and direct selling costs yet to be incurred. Inventory cost includes accessory costs and the portion of direct and indirect manufacturing costs that can reasonably be assigned to inventory items. Inventories subject to obsolescence and low turnover are written down in relation to their possibility of use or realisation. Inventory write-downs are eliminated in subsequent years if the reasons for such write-downs cease to exist.

Receivables
Receivables are recognised at their presumed realisable value. Their face value is adjusted to a lower realisable value via specific provisioning directly reducing the item based on in-depth analysis of individual positions. Trade receivables assigned without recourse, despite being transferred legally, continue to be stated with “Trade receivables” until they are collected, which is never prior to the due date. Trade receivables past due and non-recoverable assigned without recourse are recorded under "Other current receivables"

Current financial assets
Financial assets held for trading are measured at fair value, allocating profit and loss effects to finance income or expense.

Provisions for risks and charges
Provisions for risks and charges are provisioned to cover losses and debts, the existence of which is certain or probable, but whose amount or date of occurrence cannot be determined at the end of the year. Provisions are stated in the statement of financial position only when a legal or implicit obligation exists that determines the use of resources with an impact on profit and loss to meet that obligation and the amount can be reliably estimated. If the effect is significant, the provisions are calculated by updating future financial flows estimated at a rate including taxes such as to reflect current market valuations of the current value of the cash and specific risks associated with the liability.

Post-employment benefit reserve
The post-employment benefit reserve (TFR) is provisioned to cover the entire liability accruing vis-à-vis employees in compliance with current legislation and with national and

supplementary company collective labour contracts. This liability is subject to revaluation via application of indices fixed by current regulations. Up to 31 December 2006, post-employment benefits were considered defined-benefit plans and accounted for in compliance with IAS 19, using the projected unit-credit method. The regulations of this fund were amended by Italian Law no. 296 of 27 December 2006 and subsequent Decrees and Regulations issued during the first months of 2007 In the light of these changes, and, in particular, for companies with at least 50 employees, post-employment benefits must now be considered a defined-benefit plan only for the portions accruing before 1 January 2007 (and not yet paid at the end of the reporting period). Conversely, portions accruing after that date are treated as defined-contribution plans. Actuarial gains or losses are recorded immediately under "Other total profits/(losses)".

Payables

Payables are recognised at face value; the portion of interest included in their face value and not yet payable at period-end is deferred to future periods.

Loans

Loans are initially recognised at cost, net of related costs of acquisition. This value is subsequently adjusted to allow for any difference between initial cost and repayment value over the loan's duration using the effective interest rate method.
Loans are classified among current liabilities unless the Group has the unconditional right to defer discharge of a liability by at least 12 months after the reference date.

Policy for conversion of foreign currency items

Receivables and payables originally expressed in foreign currencies are converted into euro at the exchange rates in force on the date of the transactions originating them. Forex differences realised upon collection of receivables and payment of payables in foreign currency are posted in the income statement. Income and costs relating to foreign-currency transactions are converted at the rate in force on the transaction date.
At year-end, assets and liabilities expressed in foreign currencies, with the exception of non-current items, are posted at the spot exchange rate in force at the end of the reporting period and related foreign exchange gains and losses are posted in the income statement. If conversion generates a net gain, this value constitutes a non-distributable reserve until it is effectively realised.

Derivative instruments and hedge accounting

The Group's business is exposed to financial risks relating to changes in exchange rates, commodity prices and interest rates. The company uses derivative instruments (mainly forward contracts on currencies and commodity options) to hedge risks stemming from changes in foreign currencies relating to irrevocable commitments or to planned future transactions.
Derivatives are initially recognised at cost and are then adjusted to fair value on subsequent closing dates.
Changes in the fair value of derivatives designated and recognised as effective for hedging future cash flows relating to the Group's contractual commitments and planned transactions are recognised directly in shareholders' equity, while the ineffective portion is immediately posted in the income statement. If the contractual commitments or planned transactions materialise in the recognition of assets or liabilities, when such assets or liabilities are recognised, the gains or losses on the derivative that were directly

recognised in equity are factored back into the initial valuation of the cost of acquisition or carrying value of the asset or liability. For cash flow hedges that do not lead to recognition of assets or liabilities, the amounts that were directly recognised in equity are included in the income statement in the same period when the contractual commitment or planned transaction hedged impacts profit and loss – for example, when a planned sale actually takes place.
For effective hedges of exposure to changes in fair value, the item hedged is adjusted for the changes in fair value attributable to the risk hedged and recognised in the income statement. Gains and losses stemming from the derivative's valuation are also posted in the income statement.
Changes in the fair value of derivatives not designated as hedging instruments are recognised in the income statement in the period when they occur.
Hedge accounting is discontinued when the hedging instrument expires, is sold or is exercised, or when it no longer qualifies as a hedge. At this time, the cumulative gains or losses of the hedging instrument recognised in equity are kept in the latter until the planned transaction actually takes place. If the transaction hedged is not expected to take place, cumulative gains or losses recognised directly in equity are transferred to the year's income statement.
Embedded derivatives included in other financial instruments or contracts are treated as separate derivatives when their risks and characteristics are not strictly related to those of their host contracts and the latter are not measured at fair value with posting of related gains and losses in the income statement.

Revenue reporting
Revenue is reported net of return sales, discounts, allowances and bonuses, as well as of the taxes directly associated with sale of goods and rendering of services.
Sales revenue is reported when the company has transferred the significant risks and benefits associated with ownership of the goods and the amount of revenue can be reliably measured.
Revenues of a financial nature are recorded on an accrual basis.

Financial income
Finance income includes interest receivable on funds invested and income from financial instruments, when not offset as part of hedging transactions. Interest income is recorded in the income statement at the time of vesting, taking effective output into consideration.

Financial expenses
Financial expenses include interest payable on financial debt calculated using the effective interest method and bank expenses.

Income taxes for the year

Income taxes include all taxes calculated on the Group's taxable income. Income taxes are directly recognised in the income statement, with the exception of those concerning items directly debited or credited to shareholders' equity, in which case the tax effect is recognised directly in shareholders' equity. Other taxes not relating to income, such as property taxes, are included among operating expenses. Deferred taxes are provisioned in accordance with the global liability provisioning method. They are calculated on all temporary differences emerging between the taxable base of an asset and liability and its book value in the consolidated financial statements, with the exception of goodwill that is not tax-deductible and of differences stemming from investments in subsidiaries for which cancellation is not envisaged in the foreseeable future. Deferred tax assets on unused tax losses and tax credits carried forward are recognised to the extent that it is probable that future taxable income will be available against which they can be recovered. Current and deferred tax assets and liabilities are offset when income taxes are levied by the same tax authority and when there is a legal right to settle on a net basis. Deferred tax assets and liabilities are measured using the tax rates that are expected to be applicable, according to the respective regulations of the countries where the Group operates, in the years when temporary differences will be realised or settled.

Dividends

Dividends are posted on an accrual basis when the right to receive them materialises, i.e. when shareholders approve dividend distribution.

Treasury shares

Treasury shares are booked as a reduction of shareholders' equity. The carrying value of treasury shares and revenues from any subsequent sales are recognised in the form of changes in shareholders' equity.

Earnings per share

Basic EPS is calculated by dividing the profit or loss attributable to the direct parent company's shareholders by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is calculated by dividing the profit or loss attributable to the direct parent company's shareholders by the weighted average number of shares outstanding, adjusted to take into account the effects of all potential ordinary shares with a dilutive effect.

Use of estimates

Preparation of the financial statements and notes in accordance with IFRS requires management to make estimates and assumptions that affect the carrying values of assets and liabilities and the disclosures on contingent assets and liabilities as of the end of the reporting period. Actual results might differ from these estimates. Estimates are used to measure tangible and intangible assets subject to impairment testing, as described earlier, as well as to measure provisions for bad debts, for inventory obsolescence, depreciation and amortisation, asset write-downs, employee benefits, taxes, and other provisions. Specifically:

Recoverable value of tangible and intangible assets

The procedure for determining impairment of value of tangible and intangible assets described in "Impairment of value" implies – in estimating the value of use – the use of the Business Plans of investees, which are based on a series of assumptions relating to future events and actions of the investees' management bodies, which may not necessarily come about. In estimating market value, however, assumptions are made on the expected trend in trading between third parties based on historical trends, which may not actually be repeated.

Provisions for bad debts

Receivables are adjusted by the related bad debt provision to take into account their recoverable value. To determine the size of the write-downs, management must make subjective assessments based on the documentation and information available regarding, among other things, the customer's solvency, as well as experience and historical payment trends.

Provisions for inventory obsolescence

Warehouse inventories subject to obsolescence and slow turnover are systematically valued, and written down if their recoverable value is less than their carrying value. Write-downs are calculated based on management assumptions and estimates, resulting from experience and historical results.

Employee benefits

The current value of liabilities for employee benefits depends on a series of factors determined using actuarial techniques based on certain assumptions. Assumptions concern the discount rate, estimates of future salary increases, and mortality and resignation rates. Any change in the above-mentioned assumptions might have significant effects on liabilities for pension benefits.

Income tax

The Group is subject to different bodies of tax legislation on income. Determining liabilities for Group taxes requires the use of management valuations in relation to transactions whose tax implications are not certain at the end of the reporting period. Furthermore, the valuation of deferred taxes is based on income expectations for future years; the valuation of expected income depends on factors that might change over time and have a significant effect on the valuation of deferred tax assets.

Other provisions and reserves

When estimating the risk of potential liabilities from disputes, the Directors rely on communications regarding the status of recovery procedures and disputes from the lawyers who represent the Group in litigation. These estimates are determined taking into account the gradual development of the disputes, considering existing exemptions.

Estimates and assumptions are regularly reviewed and the effects of each change immediately reflected in the income statement.

New accounting standards

Accounting standards and amendments applicable from 1 January 2016

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

- Amendment to IAS 19 "Defined Benefit Plans: Employee Contributions" (published on 21 November 2013): related to the recognition in the financial statements of the contributions made by employees or third parties to defined benefit plans. The application of these amendments did not have any effect on the Group's consolidated financial statements.

- Amendments to IFRS 11 Joint Arrangements – "Accounting for acquisitions of interests in joint operations" (published on 6 May 2014): related to the accounting for acquisitions of interests in a joint operation the activity of which is a business. The application of these amendments did not have any effect on the Group's consolidated financial statements.

- Amendments to IAS 16 – Property, plant and Equipment and to IAS 38 – Intangibles Assets – "Clarification of acceptable methods of depreciation and amortisation" (published on 12 May 2014): according to which a method of depreciation based on revenues is considered generally inappropriate, in that, revenues generated by an asset that includes the use of the asset to be depreciated generally reflect factors other than just consumption of the economic benefits of the asset, a requirement that is, however, required for depreciation. The adoption of this amendment 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 amendments is to provide clarifications with regard to elements of information that can be perceived as impediments to a clear and intelligible preparation of the financial statements. The adoption of this amendment did not have any effect on the Group's consolidated financial statements.

- 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), which contains amendments relating to issues arising following application of the consolidation exception granted to investment entities.

Finally, as part of the annual process of improvement of the standards, on 12 December 2013 the IASB published the document "*Annual Improvements to IFRSs: 2010-2012 Cycle*" (including IFRS 2 *Share Based Payments – Definition of vesting condition*, IFRS 3 *Business Combination – Accounting for contingent consideration*, IFRS 8 *Operating segments – Aggregation of operating segments* and *Reconciliation of 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*" (including: IFRS 5 – *Non-current Assets Held* *for Sale and Discontinued Operations,* IFRS 7 – *Financial Instruments: Disclosure* and IAS 19 – *Employee Benefits*) which partially integrate the existing standards.

IFRS and IFRIC accounting standard, amendments approved by the European Union, not yet universally applicable and not adopted early by the Group at 31 December 2016

- Standard IFRS 15 – *Revenue from Contracts with Customers* (published on 28 May 2014 and supplemented 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 – *Revenues-Barter Transactions Involving Advertising Services*. The standard establishes a new revenue recognition model, which will apply to all contracts signed with customers except those falling within the application of other IAS/IFRS standards, such as leases, insurance contracts and financial instruments. The fundamental passages for the recognition of revenues according to the new model are:
    - the identification of the contract with the customer;
    - 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. Although the systematic analysis of the case and in particular a detailed analysis of the contracts with the customers have not yet been completed, the directors do not expect that the application of IFRS 15 can have a significant impact on the amounts recorded for the revenues and on the related disclosures in the Group's consolidated financial statements.

- Final version of IFRS 9 – *Financial Instruments* (published on 24 July 2014). The document includes the results of the phases relating to the classification and valuation, Impairment and Hedge accounting, of the IASB project designed to replace IAS 39. The new standard, which replaces the previous versions of IFRS 9, should be applied by financial statements from 1 January 2018 onwards. The directors do not expect that the application of IFRS 9 can have a significant impact on the amounts and on the disclosures in the Group's consolidated financial statements. However, it is not possible to provide a reasonable estimate of the effect as long as the Group has not completed a detailed analysis.

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

On the reporting date of these consolidated financial statements, the competent bodies of the European Union have not yet concluded the approval process necessary for the adoption of the amendments and principles described below.

- On 13 January 2016, the IASB published the standard IFRS 16 – *Leases*, which will replace the standard IAS 17 – *Leases*, as well as 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 the control (right of use) of an asset in order to distinguish the leasing contracts from the service contracts, identifying the discriminatory ones: the identification of the asset, the right of replacement of the same, the right to obtain substantially all of the economic benefits deriving from the use of the asset and the right to direct the use of the asset underlying the contract. The standard establishes a single model of recognition and measurement of the lease agreements for the lessee which requires the recognition of the asset to be leased (operating lease or otherwise) in assets offset by a financial debt, while also providing the opportunity not to recognise as leases the agreements whose subject matter are "low-value assets" and leases with a contract duration equal to or less than 12 months. By contrast, the Standard does not include significant changes for the lessors. The standard applies beginning on 1 January 2019 but early application is permitted, only for Companies that opted for early application of IFRS 15 - *Revenue from Contracts with Customers*. The directors do not expect that the application of IFRS 16 can have a significant impact on the accounting of the leasing contracts and on the related disclosures in the Group's consolidated financial statements.

- On 19 January 2016, the IASB published the document *"Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)"*, which contains the amendments to IAS 12. The aim of the document is to provide some clarification on the recognition of deferred tax assets on unrealised losses upon the occurrence of certain circumstances and on the estimate of taxable income for future years. The amendments apply from 1 January 2017 but early application is permitted.

- On 29 January 2016, IASB published the document *"Disclosure Initiative (Amendments to IAS 7)"*, which contains the amendments to IAS 7. The aim of the document is to provide some clarification to improve disclosure on financial liabilities. In particular, the amendments require providing disclosures that enable the users of financial statements to understand changes in liabilities arising from financing activities.

- IFRIC 22 Interpretation "Foreign Currency Transactions and Advance Consideration" (published on 8 December 2016). The interpretation aims to provide guidelines for foreign currency transactions if advances or non-cash payments are recognised in the financial statements, prior to the recognition of the related asset, cost or revenue. This document provides guidance on how an entity should determine the date of a transaction, and consequently, the spot exchange rate to be used when foreign currency transactions occur in which the payment is made or received in advance. IFRIC 22 is applicable from 1 January 2018, but early application is permitted. The directors do not expect a significant effect on the Group's consolidated financial statements through the adoption of these changes.

- Amendment to IAS 40 "Transfers of Investment Property" (published on 8 December 2016). These amendments clarify the transfers of a property to, or from, investment property. In particular, an entity must reclassify a property among, or from, investment property only when there is evidence that there was a change in the intended use of the property. This change must refer to a specific event that happened and must not be limited to a change of intention by the Management of an entity. The directors do not expect a significant effect on the Group's consolidated financial statements through the adoption of these changes.

Comments on significant balance sheet items

1. PROPERTY, PLANT AND EQUIPMENT

	Property	Plant and equipment	Other assets	Assets under construction	Total
Cost					
At 31 December 2014	**52,177**	**168,178**	**35,891**	**3,850**	**260,096**
Increases	119	8,574	1,753	1,135	11,581
Disposals	-	(1,173)	(93)	(14)	(1,280)
Change in scope of consolidation	-	112	160	-	272
Reclassifications	-	2,750	105	(2,899)	(44)
Forex differences	(1,071)	(1,912)	(667)	(13)	(3,663)
At 31 December 2015	**51,225**	**176,529**	**37,149**	**2,059**	**266,962**
Increases	95	8,417	2,275	1,101	11,888
Disposals	(1)	(3,075)	(312)	-	(3,388)
Change in scope of consolidation	-	1,335	584	-	1,919
Reclassifications	1	875	177	(1,476)	(423)
Forex differences	(52)	657	430	86	1,121
At 31 December 2016	**51,268**	**184,738**	**40,303**	**1,770**	**278,079**
Accumulated depreciations					
At 31 December 2014	**14,178**	**140,932**	**30,503**	**-**	**185,613**
Depreciations for the year	1,450	7,277	2,421	-	11,148
Eliminations for disposals	-	(1,101)	(108)	-	(1,209)
Change in scope of consolidation	-	1	20	-	21
Reclassifications	5	35	20	-	60
Forex differences	(163)	(1,085)	(460)	-	(1,708)
At 31 December 2015	**15,470**	**146,059**	**32,396**	**-**	**193,925**
Depreciations for the year	1,442	7,961	2,328	-	11,731
Eliminations for disposals	-	(3,066)	(231)	-	(3,297)
Change in scope of consolidation	-	1,145	492	-	1,637
Reclassifications	5	40	21	-	66
Forex differences	59	588	306	-	953
At 31 December 2016	**16,976**	**152,727**	**35,312**	**-**	**205,015**
Net carrying value					
At 31 December 2016	**34,292**	**32,011**	**4,991**	**1,770**	**73,064**
At 31 December 2015	**35,755**	**30,470**	**4,753**	**2,059**	**73,037**

The breakdown of the net carrying value of Property was as follows:

	31/12/2016	**31/12/2015**	**Change**
Land	6,688	6,624	64
Industrial buildings	27,604	29,131	(1,527)
Total	**34,292**	**35,755**	**(1,463)**

The net carrying value of industrial property includes an amount of € 2,211,000 (€ 2,297,000 at 31 December 2015) relating to industrial buildings held under finance leases.

The main investments in the financial year were aimed at increasing production capacity in Turkey and Brazil and the further automation of production of light alloy valves. Investments were also made to improve production processes as well as maintenance and replacement investments designed to keep the capital equipment constantly updated. Decreases mainly relate to the disposal of machinery no longer in use. Assets under construction include machinery under construction and advance payments to suppliers of capital equipment.
At 31 December 2016, the Group found no endogenous or exogenous indicators of impairment of its property, plant and equipment. As a result, the value of property, plant and equipment was not submitted to impairment testing.

2. INVESTMENT PROPERTY

Cost	
At 31 December 2014	**13,257**
Increases	-
Disposals	(121)
At 31 December 2015	**13,136**
Increases	-
Disposals	-
At 31 December 2016	**13,136**

Accumulated depreciations	
At 31 December 2014	**6,029**
Depreciations for the year	442
Eliminations for disposals	(47)
At 31 December 2015	**6,424**
Depreciations for the year	442
Eliminations for disposals	-
At 31 December 2016	**6,866**

Net carrying value	
At 31 December 2016	6,270
At 31 December 2015	6,712

This item includes non-operating buildings owned by the Group: these are mainly properties for residential use, held for rental or sale.
At 31 December 2016, the Group found no endogenous or exogenous indicators of impairment of its investment property. As a result, the value of investment property was not submitted to impairment testing.

3. INTANGIBLE ASSETS

	Goodwill	Patents, software and know-how	Development costs	Other intangible assets	Total
Cost					
At 31 December 2014	**9,008**	**5,980**	**4,318**	**644**	**19,950**
Increases	-	193	414	155	762
Reclassifications	-	66	(47)	-	19
Decreases	-	-	-	-	-
Forex differences	-	(8)	-	-	(8)
At 31 December 2015	**9,008**	**6,231**	**4,685**	**799**	**20,723**
Increases	-	155	314	18	487
Change in the scope of consolidation	1,977	13	-	19	2,009
Reclassifications	-	62	(44)	(30)	(12)
Decreases	-	-	-	(15)	(15)
Forex differences	-	6	-	-	6
At 31 December 2016	**10,985**	**6,467**	**4,955**	**791**	**23,198**
Amortisation/Write-downs					
At 31 December 2014	**4,563**	**5,528**	**2,011**	**489**	**12,591**
2015 Amortisation	-	209	336	67	612
Decreases	-	-	-	-	-
Forex differences	-	(5)	-	-	(5)
At 31 December 2015	**4,563**	**5,732**	**2,347**	**556**	**13,198**
2016 Amortisation	-	266	352	98	716
Change in the scope of consolidation	-	3	-	8	11
Decreases	-	-	-	(15)	(15)
Forex differences	-	4	-	-	4
At 31 December 2016	**4,563**	**6,005**	**2,699**	**647**	**13,914**
Net carrying value					
At 31 December 2016	**6,422**	**462**	**2,256**	**144**	**9,284**
At 31 December 2015	**4,445**	**499**	**2,338**	**243**	**7,525**

Goodwill

Goodwill recognised at 31 December 2016 is allocated:

- to “Hinges” (CGU) cash generating units of € 4.445 million;
- to the “Professional burners” CGU of € 1.977 million. This allocation, which derives from the acquisition of the equity investment in A.R.C. s.r.l. carried out during the financial year, is to be considered temporary for the moment, in that, in accordance with IFRS 3 revised, the evaluation of assets, liabilities and contingent liabilities at fair value at the date of acquisition will become final no later than 12 months from the date of acquisition.

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 allocated to the Hinges CGU

In the course of 2016, the Hinges CGU achieved better results, both in terms of sales development and profitability, which turned out to be greater than the budget. The 2017-2021 forward plan, drafted at the end of 2016, plans a further gradual improvement of sales and the maintaining of profitability, to be considered as durably acquired also in a future perspective. At 31 December 2016, the Group tested the carrying value of its CGU Hinges for impairment, determining its recoverable value, considered to be equivalent to its usable value, by discounting expected future cash flow in the forward plan drafted by the management. Cash flows for the period from 2017 to 2021 were augmented by the so-called terminal value, which expresses the operating flows that the CGU is expected to generate from the sixth year to infinity and determined based on the perpetual income. The value of use was calculated based on a discount rate (WACC) of 7.76% (8.45% in the impairment test conducted while preparing the consolidated financial statements at 31 December 2015) and a growth rate (g) of 1.50%, which is in line with historical data.

The recoverable value calculated on the basis of the above-mentioned assumptions and valuation techniques is € 12,851 million, compared with a carrying value of the assets allocated to the Hinges unit of € 7,279 million; consequently, the value recorded for goodwill at 31 December 2016 was deemed recoverable.

Sensitivity analysis

The table below shows the changes in recoverable value depending on changes in the WACC discount rate and growth factor g:

(€/000)					
			growth rate		
discount rate	**1.00%**	**1.25%**	**1.50%**	**1.75%**	**2.00%**
6.76%	14,247	14,779	15,363	16,004	16,713
7.26%	13,077	13,518	13,998	14,520	15,093
7.76%	12,081	12,451	12,851	13,284	13,754
8.26%	11,222	11,536	11,874	12,237	12,629
8.76%	10,474	10,743	11,031	11,340	11,671

Goodwill allocated to the Professional burners CGU

At 31 December 2016, the Group tested the carrying value of its Professional burners CGU for impairment, determining its recoverable value, considered to be equivalent to its usable value, by discounting expected future cash flow in the forward plan prepared during the acquisition of the equity investment in A.R.C. and adjusted at the end of 2016 on the basis of further elements known. Cash flows for the 2017-2019 period were augmented by the so-called terminal value, which expresses the operating flows that the CGU is expected to generate from the fourth year to infinity and determined based on the perpetual income. The value of use was calculated based on a discount rate (WACC) of 5.79% and a growth rate (g) of 1.50%.

The recoverable value calculated on the basis of the above-mentioned assumptions and valuation techniques is € 7,396 million, compared with a carrying value of the assets allocated to the Professional burners unit of € 3,246 million (including minority interests);

consequently, the value recorded for goodwill at 31 December 2016 was deemed recoverable.

Sensitivity analysis
The table below shows the changes in recoverable value depending on changes in the WACC discount rate and growth factor g:

(€/000)					
	growth rate				
discount rate	**1.00%**	**1.25%**	**1.50%**	**1.75%**	**2.00%**
4.79%	8,517	9,103	9,778	10,565	11,492
5.29%	7,472	7,922	8,431	9,011	9,680
5.79%	6,645	7,000	7,396	7,842	8,346
6.29%	5,974	6,261	6,578	6,929	7,322
6.79%	5,419	5,655	5,913	6,197	6,511

Patents, software and know-how
Software investments include the application development of the Group's management system (SAP) and CAD development.

Development costs
The main investments in the year relate to the development of new products, including special burners in brass and personalised burners for some customers (research and development activities conducted over the year are set out in the Report on Operations).

4. EQUITY INVESTMENTS

	31/12/2015	**Change in scope of consolidation**	**Other changes**	**31/12/2016**
Sabaf US	139	-	-	139
ARC Handan Burners Co.	-	101	-	101
Other equity investments	65	6	(5)	66
Total	**204**	**107**	**(5)**	**306**

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 built at the end of 2015, in which A.R.C. s.r.l. holds 50% (therefore, the Group's share is 35%). The aim of Handan ARC Burners is to produce and market in China burners for professional cooking; the first machineries were installed during 2016 and the start of production is expected for the beginning of 2017.

5. NON-CURRENT RECEIVABLES

	31/12/2016	31/12/2015	Change
Tax receivables	225	395	(170)
Guarantee deposits	37	35	2
Other	-	2	(2)
Total	**262**	**432**	**(170)**

Tax receivables relate to indirect taxes expected to be recovered after 2017.

6. INVENTORIES

	31/12/2016	31/12/2015	Change
Commodities	9,740	10,407	(667)
Semi-processed goods	10,893	10,564	329
Finished products	13,308	12,155	1,153
Obsolescence provision	(2,457)	(2,117)	(340)
Total	**31,484**	**31,009**	**475**

The value of final inventories at 31 December 2016 remained substantially unchanged compared with the end of the previous year. The obsolescence provision reflects the improved estimate of the obsolescence risk, based on specific analyses conducted at the end of the year on slow-moving and non-moving products.

7. TRADE RECEIVABLES

	31/12/2016	31/12/2015	Change
Total trade receivables	37,576	41,439	(3,863)
Bad debt provision	(734)	(1,014)	280
Net total	**36,842**	**40,425**	**(3,583)**

At 31 December 2016, trade receivables included balances totalling USD 5,658,000, booked at the EUR/USD exchange rate in effect on 31 December 2016, i.e. 1.0541. The amount of trade receivables recognised in the financial statements includes € 1.1 million of receivables assigned without recourse to factoring companies (€ 2.3 million at 31 December 2015) and approximately € 22.4 million in insured receivables (€ 23.5 million at 31 December 2015).
The bad debt provision was adjusted to the better estimate of the credit risk at the end of the reporting period.
The reduction in trade receivables is attributable not only to the decline in sales but also to lower receivables past due compared to the previous year, as shown in the following table:

	31/12/2016	31/12/2015	Change
Current receivables (not past due)	32,616	35,497	(2,881)
Outstanding up to 30 days	3,296	2,498	798
Outstanding from 30 to 60 days	218	570	(352)
Outstanding from 60 to 90 days	136	812	(676)
Outstanding for more than 90 days	1,310	2,062	(752)
Total	**37,576**	**41,439**	**(3,863)**

8. TAX RECEIVABLES

	31/12/2016	31/12/2015	Change
From Giuseppe Saleri SapA for IRES	1,158	1,204	(46)
From inland revenue for income tax	1,028	614	414
From inland revenue for VAT	533	70	463
Other tax receivables	444	601	(157)
Total	**3,163**	**2,489**	**674**

Until the 2015 financial year, 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., acted as the consolidating company. In 2016, the conditions for the preparation of the tax consolidation scheme fell short, which consequently was discontinued.

The receivable from Giuseppe Saleri S.a.p.A. recognised at 31 December 2016 derives from the full deductibility of IRAP from IRES relating to the expenses incurred for employees for the 2006-2011 period (Italian Legislative Decree 201/2011), for which the consolidating company 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 refer to receivables in respect of indirect Brazilian and Turkish taxes.

9. OTHER CURRENT RECEIVABLES

	31/12/2016	31/12/2015	Change
Credits to be received from suppliers	706	865	(159)
Advances to suppliers	168	170	(2)
Other	545	412	133
Total	**1,419**	**1,447**	**(28)**

At 31 December 2016 Credits to be received from suppliers included € 411,000 related to the relief due to the parent company as an energy-intensive business (so-called “energy-intensive bonuses”) for the years 2014 and 2015, of which € 194,000 received at the beginning of 2017.

10. CURRENT FINANCIAL ASSETS

	31/12/2016	31/12/2015	Change
Currency derivatives	-	69	(69)
Total	**0**	**69**	**(69)**

11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents, which amounted to € 12,143,000 at 31 December 2016 (€ 3,991,000 at 31 December 2015) consisted of bank current account balances of approximately € 8.4 million and sight deposits of approximately € 3.7 million.

12. SHARE CAPITAL

The parent company's share capital consists of 11,533,450 shares with a par value of € 1.00 each. The share capital paid in and subscribed did not change during the year.

13. TREASURY SHARES

During the financial year Sabaf S.p.A. acquired 171,061 treasury shares at an average unit price of € 9,794; there have been no sales.
At 31 December 2016, the parent company Sabaf S.p.A. held 233,139 treasury shares, equal to 2.021% of share capital (62,078 treasury shares at 31 December 2015), reported in the financial statements as an adjustment to shareholders' equity at a unit value of € 10,289 (the market value at year-end was € 10.4).
There were 11,300,311 outstanding shares at 31 December 2016 (11,471,372 at 31 December 2015).

14. LOANS

	31/12/2016		31/12/2015	
	Current	Non current	Current	Non current
Property leasing	145	1,611	142	1,756
Property mortgages	-	-	934	-
Unsecured loans	6,656	17,281	2,707	4,632
Short-term bank loans	7,802	-	13,666	-
Advances on bank receipts or invoices	2	-	5,988	-
Interest payable	7	-	43	-
Total	**14,612**	**18,892**	**23,480**	**6,388**

During the financial year, the Group reformulated the average duration of its loans, entering into 4 unsecured loan agreements totalling € 19.8 million repayable in five years in quarterly fixed instalments, with rates ranging from 0.60% to 1%.
Only one of the outstanding unsecured loans of € 5 million at 31 December 2016 has covenants, defined with reference to the consolidated financial statements at the end of the reporting period, as specified below:

- Commitment to maintain a ratio of net financial position to shareholders' equity of less than 1
- Commitment to maintain a ratio of net financial position to EBITDA of less than 2

widely observed at 31 December 2016.
All outstanding bank loans are denominated in euro, with the exception of a short-term loan of USD 2 million and a short-term loan of 1.5 million Turkish lira.
Note 35 provides information on financial risks, pursuant to IFRS 7.

15. OTHER FINANCIAL LIABILITIES

	31/12/2016		**31/12/2015**	
	Current	Non current	Current	Non current
Option on minorities	-	1,522	-	-
Payables to A.RC. shareholders	60	240	-	-
Currency derivatives	238	-	17	-
Derivative instruments on interest rates	37	-	14	-
Total	**335**	**1,762**	**31**	**0**

In June 2016, as part of the acquisition of 70% of A.R.C. S.r.l., Sabaf signed with Loris Gasparini (current minority shareholder by 30% of A.R.C.) an agreement that aimed to regulate Gasparini's right to leave A.R.C. and the interest of Sabaf to acquire 100% of the shares after expiry of the term of five years from the signing of the purchase agreement of 24 June 2016, by signing specific option agreements. Therefore, the agreement envisaged specific option rights to purchase (by Sabaf) and sell (by Gasparini) exercisable as from 24 June 2021, the remaining shares of 30% of A.R.C., with strike prices contractually defined on the basis of final income parameters from A.R.C. at 31 December 2020.

Pursuant to the provisions of IAS 32, the assignment of an option to sell (put option) in the terms described above required the initial recording of a liability corresponding to the estimated redemption value, expected at the time of any exercise of the option: to this end, a non-current financial liability of € 1.522 million was recognised in these consolidated financial statements. Note that, during the subsequent periods until the date the option is exercised, the Group will be obliged to evaluate as and when the outlay estimate and to determine the adjustment to the recorded liability, opting for the application of the fair value measurement criteria in compliance with IAS 39.

The payable to the A.R.C. shareholders of € 300.000 at 31 December 2016 is related to the part of the price still to be paid to the sellers, which was deposited on an escrow account and will be released in favour of the sellers at constant rates in 5 years, in accordance with contractual agreements and guarantees issued by the sellers.

Other financial liabilities also included:
- the negative fair value of term sales contracts totalling USD 7.5 million at an exchange rate of 1.104 agreed with regard to the foreign exchange rate risk described in Note 35. Exchange rate losses of the same amount were recorded in the income statement;

- the negative fair value of IRS hedging rate risks of unsecured loans pending, for a notional amount of approximately € 13 million and expiry until 31 December 2021. Exchange rate losses in the same amount were recognised in the income statement.

16. POST-EMPLOYMENT BENEFIT AND RETIREMENT RESERVES

	31/12/2016	31/12/2015	Change
Post-employment benefit reserve	2,961	2,914	47
Retirement reserve	125	-	125
Total	**3,086**	**2,914**	**172**

Following the revision of IAS 19 - Employee benefits, from 1 January 2013 all actuarial gains or losses are recorded immediately in the comprehensive income statement ("Other comprehensive income") under the item "Actuarial income and losses".

Post-employment benefits are calculated as follows:

Financial assumptions

	31/12/2016	*31/12/2015*
Discount rate	1.15%	1.60%
Inflation	1.75%	2.00%

Demographic theory

	31/12/2016	*31/12/2015*
Mortality rate	ISTAT 2010 M/F	ISTAT 2010 M/F
Disability rate	INPS 1998 M/F	INPS 1998 M/F
Staff turnover	3% - 6%	3% - 6%
Advance payouts	5% - 7% per year	5% - 7% per year
Retirement age	pursuant to legislation in force on 31 December 2016	pursuant to legislation in force on 31 December 2015

17. PROVISIONS FOR RISKS AND CHARGES

	31/12/2015	Provisions	Utilisation	Release of excess portion	Exchange rate differences	31/12/2016
Reserve for agents' indemnities	297	-	-	(66)	-	231
Product guarantee fund	60	35	(35)	-	-	60
Reserve for legal risks	38	100	(10)	-	15	143
Total	**395**	**135**	**(45)**	**(66)**	**15**	**434**

The reserve for agents' indemnities covers amounts payable to agents if the Group terminates the agency relationship.
The product guarantee fund covers the risk of returns or charges by customers for

products already sold. The fund was adjusted at the end of the year, on the basis of analyses conducted and past experience.
The reserve for legal risks, set aside for moderate disputes, was adjusted to reflect the outstanding disputes.
The provisions booked to the provision for risks, which represent the estimate of future payments made based on historical experience, have not been time-discounted because the effect is considered negligible.

18. TRADE PAYABLES

	31/12/2016	31/12/2015	Change
Total	**18,977**	**19,450**	**(473)**

Average payment terms did not change versus the previous year. At 31 December 2016, there were no overdue payables of a significant amount and the Group did not receive any injunctions for overdue payables.

19. TAX PAYABLES

	31/12/2016	31/12/2015	Change
To Giuseppe Saleri SapA for income tax	-	157	(157)
To inland revenue for income tax	361	-	361
Withholding taxes	788	844	(56)
Other tax payables	41	218	(177)
Total	**1,190**	**1,219**	**(29)**

20. OTHER CURRENT PAYABLES

	31/12/2016	31/12/2015	Change
To employees	3,965	4,032	(67)
To social security institutions	2,139	2,022	117
To agents	268	317	(49)
Advances from customers	181	103	78
Other current payables	104	64	40
Total	**6,657**	**6,538**	**119**

At the beginning of 2017, payables due to employees and social security institutions were paid in accordance with the scheduled expiry dates.

21. DEFERRED TAX ASSETS AND LIABILITIES

	31/12/2016	31/12/2015
Deferred tax assets	4,781	4,887
Deferred tax liabilities	(764)	(772)
Net position	**4,017**	**4,115**

The table below analyses the nature of the temporary differences that determine the recognition of deferred tax liabilities and assets and their movements during the year and the previous year.

	Depreciation and amortisation and leasing	Provisions and value adjustments	Fair value of derivative instruments	Goodwill	Tax incentives	Actuarial post-employment benefit reserve evaluation	Other temporary differences	Total
At 31 December 2015	**(26)**	**1,014**	**(14)**	**1,771**	**843**	**200**	**327**	**4,115**
To the income statement	48	6	81	-	(141)	-	(31)	(37)
To shareholders' equity	-	-	-	-	-	10	-	10
Forex differences	1	20	-	-	(107)	-	(7)	(93)
Change in scope of consolidation	-	22	-	-	-	-	-	22
At 31 December 2016	**23**	**1,062**	**67**	**1,771**	**595**	**210**	**289**	**4,017**

Deferred tax assets relating to goodwill, equal to € 1,771,000, refer to the exemption of the value of the equity investment in Faringosi Hinges s.r.l. made in 2011 pursuant to Italian law Decree 98/2011. The future tax benefit can be made in ten annual portions starting in 2018.
Deferred tax assets relating to tax incentives are commensurate to investments made in Turkey, for which the Group benefited from reduced taxation recognised on income generated in Turkey.

22. NET FINANCIAL POSITION

As required by the CONSOB memorandum of 28 July 2006, we disclose that the Company's net financial position is as follows:

		31/12/2016	31/12/2015	Change
A.	Cash (Note 11)	12	11	1
B.	Positive balances of unrestricted bank accounts (Note 11)	8,376	3,822	4,554
C.	Other cash equivalents	3,755	158	3,597
D.	**Liquidity (A+B+C)**	**12,143**	**3,991**	**8,152**
E.	Current bank payables (Note 14)	7,811	19,697	(11,886)
F.	Current portion of non-current debt (Note 14)	6,801	3,783	3,018
G.	Other current financial payables (Note 15)	335	31	304
H.	**Current financial debt (E+F+G)**	**14,947**	**23,511**	**(8,564)**
I.	**Net current financial debt (H-D)**	**2,804**	**19,520**	**(16,716)**
J.	Non-current bank payables (Note 14)	17,281	4,632	12,649
K.	Other non-current financial payables (Note 14)	3,373	1,756	1,617
L.	**Non-current financial debt (J+K)**	**20,654**	**6,388**	**14,266**
M.	**Net financial debt (I+L)**	**23,458**	**25,908**	**(2,450)**

The consolidated cash flow statement shows changes in cash and cash equivalents (letter D of this schedule).

Comments on key income statement items

23. REVENUE

In 2016, sales revenues totalled € 130,978,000, down by € 7,025,000 (-5.1%) compared with 2015. Taking into consideration the same scope of consolidation (i.e. excluding the contribution of A.R.C.), the drop in revenues was 6.7%.

Revenue by product family

	2016	%	2015	%	% change
Brass valves	9,007	*6.9%*	12,689	*9.2%*	-29.0%
Light alloy valves	32,393	*24.7%*	33,784	*24.5%*	-4.1%
Thermostats	7,699	*5.9%*	10,596	*7.7%*	-27.3%
Standard burners	37,338	*28.5%*	37,789	*27.4%*	-1.2%
Special burners	21,215	*16.2%*	21,622	*15.7%*	-1.9%
Accessories	12,613	*9.6%*	13,577	*9.8%*	-7.1%
Household gas parts	*120,265*	*91.8%*	*130,057*	*94.3%*	-7.5%
Professional gas parts	2,289	*1.8%*	0	*0.0%*	n/a
Hinges	8,424	*6.4%*	7,946	*5.7%*	+6.0%
Total	**130,978**	***100%***	**138,003**	***100%***	**-5.1%**

Revenues by geographical area

	2016	%	2015	%	% change
Italy	36,365	*27.8%*	41,244	*29.9%*	-11.8%
Western Europe	8,553	*6.5%*	7,438	*5.4%*	+15.0%
Eastern Europe	34,123	*26.1%*	35,125	*25.5%*	-2.9%
Middle East and Africa	11,698	*8.9%*	16,759	*12.1%*	-30.2%
Asia and Oceania	8,088	*6.2%*	7,019	*5.0%*	+15.2%
South America	20,847	*15.9%*	20,815	*15.1%*	+0.2%
North America and Mexico	11,304	*8.6%*	9,603	*7.0%*	+17.7%
Total	**130,978**	***100%***	**138,003**	***100%***	**-5.1%**

The 2016 sales performance was negatively affected by the crisis of the Middle East and African markets (mainly Egypt), which recorded a downturn in direct sales of more than € 5 million. The crisis in the Middle Eastern and African markets (mainly Egypt) also affected the sales of the Group in Italy, since our Italian customers are strong exporters to the Middle East. The positive trend of the other international markets, most notably the steady growth in North America, only partially offset the decline in sales in the Middle East, Africa and Italy.
The analysis by product family shows a sharp decline in more mature products (brass valves and thermostats), mainly intended for markets in crisis. A good increase in sales of hinges was confirmed also in 2016, thanks to the positive trend of the North American market and to the launch of new supply contracts.
Average sales prices in 2016 were around 1.5% lower compared with 2015.

24. OTHER INCOME

	2016	2015	Change
Sale of trimmings	1,684	2,822	(1,138)
Contingent income	146	263	(117)
Rental income	85	117	(32)
Use of provisions for risks and charges	67	69	(2)
Other income	837	487	350
Total	**2,819**	**3,758**	**(939)**

Lower revenues from the sale of trimmings were determined by a revision of production processes, which allowed to increase their re-utilisation as an alternative to sales.

25. MATERIALS

	2016	2015	Change
Commodities and outsourced components	42,540	49,431	(6,891)
Consumables	4,806	4,935	(129)
Total	**47,346**	**54,366**	**(7,020)**

In 2016, the effective purchase prices of the main raw materials (aluminium alloys, steel and brass) were on average lower than in 2015, allowing a saving of 0.9% of sales. Consumption (purchases plus change in inventories) as a percentage of sales was 36.7% in 2016, compared with 38.7% in 2015.

26. COSTS FOR SERVICES

	2016	2015	Change
Outsourced processing	8,435	9,823	(1,388)
Natural gas and power	4,622	4,902	(280)
Maintenance	4,071	3,556	515
Transport	1,848	2,059	(211)
Advisory services	1,639	1,670	(31)
Directors' fees	1,181	1,101	80
Travel expenses and allowances	693	884	(191)
Insurance	675	506	169
Commissions	648	651	(3)
Canteen	395	430	(35)
Temporary agency workers	125	164	(39)
Other costs	3,651	4,013	(362)
Total	**27,983**	**29,759**	**(1,776)**

The lower costs for outsourced processing were related to lower production volumes in Italy. The increase in maintenance costs was due to activities in progress for the ongoing adaptation of plants, machinery and equipment at the premises of all the factories of the Group. Other costs included expenses for the registration of patents, waste disposal, cleaning, leasing third-party assets and other minor charges.

Costs for advisory services related to technical (€ 437,000), sales (€ 375,000) and legal, administrative and general (€ 827,000) services.

27. PERSONNEL COSTS

	2016	2015	Change
Salaries and wages	22,284	21,974	310
Social Security costs	7,088	7,110	(22)
Temporary agency workers	1,216	1,340	(124)
Post-employment benefit reserve and other costs	1,524	2,102	(578)
Total	**32,112**	**32,526**	**(414)**

Average Group headcount in 2016 totalled 755 employees (588 blue-collars, 153 white-collars and supervisors, 14 managers), compared with 748 in 2015 (590 blue-collars, 145 white-collars and supervisors, 13 managers). The average number of temporary staff was 40 in 2016 (72 in 2015).
During the financial year, the Group made use of the temporary lay-off scheme in periods characterised by low production requirements: this allowed savings in personnel costs of € 689,000 (€ 333,000 in 2015).

28. OTHER OPERATING COSTS

	2016	2015	Change
Non-income taxes	488	498	(10)
Other operating expenses	205	127	78
Contingent liabilities	69	163	(94)
Losses and write-downs of trade receivables	189	356	(167)
Provisions for risks	127	18	109
Other provisions	-	31	(31)
Total	**1,078**	**1,193**	**(115)**

Non-income taxes chiefly relate to property tax.
Provisions refer to the allocations to the reserves described in Note 17.

29. FINANCIAL EXPENSES

	2016	2015	Change
Interest paid to banks	243	260	(17)
Interest paid on finance lease contracts	22	29	(7)
IRS spreads payable	37	14	23
Banking expenses	264	237	27
Other financial expense	55	55	0
Total	**621**	**595**	**26**

30. EXCHANGE RATE GAINS AND LOSSES

In 2016, the Group reported net foreign exchange gains of € 435,000, versus net losses of € 89,000 in 2015.

31. INCOME TAXES

	2016	2015	Change
Current taxes	3,454	3,935	(481)
Deferred tax liabilities	73	611	(538)
Balance of previous FY	(176)	(71)	(105)
Total	**3,351**	**4,475**	**(1,124)**

The current income taxes include the IRES of € 2,078,000, the IRAP of € 452,000 and foreign income taxes of € 924,000 (€ 2,616,000, € 1,177,000 and € 538,000 respectively in 2015).

Reconciliation between the tax burden booked in the financial statements and the theoretical tax burden calculated according to the statutory tax rates currently in force in Italy is shown in the following table:

	2016	2015
Theoretical income taxes	3,280	3,705
Permanent tax differences	202	51
Taxes related to previous years	(138)	(44)
Tax effect from different foreign tax rates	(109)	(114)
Effect of non-recoverable tax losses	162	149
Booking of tax incentives for investments in Turkey	(408)	(165)
Adjustment of the deferred taxation for a change in the IRES rate	-	425
Other differences	(71)	(55)
Income taxes booked in the accounts, excluding IRAP and withholding taxes (current and deferred)	**2,918**	**3,952**
IRAP (current and deferred)	433	523
Total	**3,351**	**4,475**

Theoretical taxes were calculated applying the current corporate income tax (IRES) rate, i.e. 27.50%, to the pre-tax result. IRAP is not taken into account for the purpose of reconciliation because, as it is a tax with a different assessment basis from pre-tax profit, it would generate distorting effects.

No significant tax disputes were pending at 31 December 2016.

32. EARNINGS PER SHARE

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

Earnings

	2016	2015
	(€/000)	*(€/000)*
Profit for the year	9,009	8,998

Number of shares

	2016	2015
Weighted average number of ordinary shares for determining basic earnings per share	11,376,320	11,523,219
Dilutive effect from potential ordinary shares	-	-
Weighted average number of ordinary shares for determining diluted earnings per share	11,376,320	11,523,219

Earnings per share (€)

	2016	2015
Basic earnings per share	0.792	0.781
Diluted earnings per share	0.792	0.781

Basic earnings per share are calculated on the average number of outstanding shares minus treasury shares, equal to 157,130 in 2016 (10,231 in 2015).
Diluted earnings per share are calculated taking into account any shares approved but not yet subscribed, of which there were none in 2016 and 2015.

33. DIVIDENDS

On 25 May 2016, shareholders were paid an ordinary dividend of € 0.48 per share (total dividends of € 5,467,000).
The Directors have recommended payment of an unchanged dividend of € 0.48 per share this year. This dividend is subject to approval of shareholders in the annual Shareholders' Meeting and was not included under liabilities.
The dividend proposed is scheduled for payment on 31 May 2017 (ex-date 29 May and record date 30 May).

34. INFORMATION BY BUSINESS SEGMENT

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

	2016 FY			2015 FY		
	Gas parts (household and professional)	**Hinges**	**Total**	**Gas parts (household and professional)**	**Hinges**	**Total**
Sales	122,636	8,342	**130,978**	130,048	7,955	**138,003**
Ebit	11,643	887	**12,530**	13,493	598	**14,091**

35. INFORMATION ON FINANCIAL RISK

Categories of financial instruments

In accordance with IFRS 7, a breakdown of the financial instruments is shown below, among the categories set forth in IAS 39.

	31/12/2016	31/12/2015
Financial assets		
Amortised cost		
Cash and cash equivalents	12,143	3,991
Trade receivables and other receivables	38,261	41,872
Income statement fair value		
Derivative to hedge cash flows	-	69
Financial liabilities		
Amortised cost		
Loans	33,504	29,868
Other financial liabilities	1,822	-
Trade payables	18,977	19,450
Income statement fair value		
Derivative to hedge cash flows	275	31

The Group is exposed to financial risks related to its operations, mainly:

- credit risk, with special reference to normal trade relations with customers;
- market risk, relating to the volatility of prices of commodities, foreign exchange and interest rates;
- liquidity risk, which can be expressed by the inability to find financial resources necessary to ensure Group operations.

It is part of the Sabaf Group's policies to hedge exposure to changes in prices and in fluctuations in exchange and interest rates via derivative financial instruments. Hedging is done using forward contracts, options or combinations of these instruments. Generally speaking, the maximum duration covered by such hedging does not exceed 18 months. The Group does not enter into speculative transactions. When the derivatives used for hedging purposes meet the necessary requisites, hedge accounting rules are followed.

Credit risk management

Trade receivables involve producers of domestic appliances, multinational groups and smaller manufacturers in a few or single markets. The Company assesses the creditworthiness of all its customers at the start of supply and systemically on at least an annual basis. After this assessment, each customer is assigned a credit limit.
A credit insurance policy is in place, which guarantees cover for approximately 60% of trade receivables.
Credit risk relating to customers operating in emerging economies is generally attenuated by the expectation of revenue through letters of credit.

Forex risk management

The key currencies other than the euro to which the Group is exposed are the US dollar, the Brazilian real and the Turkish lira, in relation to sales made in dollars (chiefly on some Asian and American markets) and the production units in Brazil and Turkey. Sales in US dollars represented 16% of total revenue in 2016, while purchases in dollars represented 2% of total revenue. Transactions in dollars were partly hedged by these derivative financial instruments: at 31 December 2016, the Group had in place forward sales contracts for a total of 7,500,000 dollars, maturing on 31 December 2017.

Sensitivity analysis
With reference to financial assets and liabilities in US dollars at 31 December 2016, a hypothetical and immediate revaluation of 10% of the euro against the dollar would have led to a loss of € 331,000, without considering the pending forward sale contracts.

Interest rate risk management
At 31 December 2016, gross financial debt of the Group was at a floating rate for approximately 70% and at a fixed rate for approximately 30%; to reach an optimum mix of floating and fixed rates in the structure of the loans, the Group also used derivative financial instruments. At 31 December 2016, three interest rate swap (IRS) contracts totalling € 13 million were in place, mirrored in mortgages with the same residual debt, through which the Group transformed the floating rate of the mortgages into fixed rate. Considering the IRS in place, at the end of 2016, the fixed-rate portion amounted to approximately 70% of the total financial debt. The derivative contracts were not designated as a cash flow hedge and were therefore recognised using the "income statement fair value" method.

Sensitivity analysis
With reference to financial assets and liabilities at variable rate at 31 December 2016 and 31 December 2015, a hypothetical increase (decrease) in the interest rate of 100 base points versus the interest rates in effect at the same date – all other variables being equal - would lead to the following effects:

	31/12/2016	**31/12/2015**
	Financial expenses	Financial expenses
Increase of 100 base points	20	116
Decrease of 100 base points	-	(116)

Commodity price risk management
A significant portion of the Group's acquisitions is represented by brass, steel and aluminium alloys. Sale prices of products are generally renegotiated annually; as a result, the Group is unable to pass on to customers 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. In 2016 and 2015, the Group did not use financial derivatives on commodities. To stabilise the rising costs of commodities, Sabaf preferred to execute transactions on the physical market, fixing prices with suppliers for immediate and deferred delivery.

Liquidity risk management
The Group operates with a low debt ratio (net financial debt / shareholders' equity at 31 December 2016 of 21%, net financial debt / EBITDA of 0.92) and has unused short-term

lines of credit. To minimise the risk of liquidity, the Administration and Finance Department:
- maintains a correct balance of net financial debt, financing investments with capital and with medium to long-term debt.
- verifies systematically that the short-term accrued cash flows (amounts received from customers and other income) are expected to accommodate the deferred cash flows (short-term financial debt, payments to suppliers and other outgoings);
- regularly assesses expected financial needs in order to promptly take any corrective measures.

Below is an analysis by expiration date of financial payables at 31 December 2016 and 31 December 2015:

At 31 December 2016

	Carrying value	Contractual financial flows	Within 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years
Short-term bank loans	7,811	7,811	5,811	2,000	-	-
Unsecured loans	23,937	24,388	1709	5,129	17,550	-
Finance leases	1756	2,007	47	141	754	1,065
Payables to ARC shareholders	300	300	-	60	240	-
ARC option	1,522	1,522	-	-	1,522	-
Total financial payables	**35,326**	**36,028**	**7,567**	**7,330**	**20,066**	**1,065**
Trade payables	18,977	18,977	18,340	637	-	-
Total	**54,303**	**55,005**	**25,907**	**7,967**	**20,066**	**1,065**

At 31 December 2015

	Carrying value	Contractual financial flows	Within 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years
Short-term bank loans	19,697	19,697	17,697	2,000	-	-
Unsecured loans	7,339	7,506	700	2,099	4,707	-
Property mortgages	934	942	-	942	-	-
Finance leases	1898	2195	47	141	754	1,253
Total financial payables	**29,868**	**30,340**	**18,444**	**5,182**	**5,461**	**1,253**
Trade payables	19,450	19,450	18,350	1,100	-	-
Total	**49,318**	**49,790**	**36,794**	**6,282**	**5,461**	**1,253**

The various due dates are based on the period between the end of the reporting period and the contractual expiration date of the commitments, the values indicated in the table correspond to non-discounted cash flows. Cash flows include the shares of principal and interest; for floating rate liabilities, the shares of interest are determined based on the value of the reference parameter at the end of the reporting period and increased by the spread set forth in each contract.

Hierarchical levels of fair value assessment

The revised IFRS 7 requires that financial instruments reported in the statement of financial position at fair value must be classified based on a hierarchy that reflects the significance of the input used in determining the fair value. IFRS 7 makes a distinction between the following levels:

- Level 1 – quotations found on an active market for assets or liabilities subject to assessment;
- Level 2 - input other than prices listed in the previous point, which can be observed (prices) or indirectly (derivatives from prices) on the market;
- Level 3 – input based on observable market data

The following table shows the assets and liabilities valued at fair value at 31 December 2016, by hierarchical level of fair value assessment.

	Level 1	Level 2	Level 3	Total
Other financial liabilities (currency derivatives)	-	238	-	238
Other financial liabilities (derivatives on interest rates)	-	37	-	37
Other financial liabilities (ARC put option)	-	-	1,522	1,522
Total liabilities	**0**	**275**	**1,522**	**1,797**

36. RELATED-PARTY TRANSACTIONS

Transactions between consolidated companies were eliminated from the consolidated financial statements and are not reported in these notes. The table below illustrates the impact of all transactions between the Group and other related parties on the balance sheet and income statement.

Impact of related-party transactions on balance sheet items

	Total 2016	**Parent company**	**Non-consolidated subsidiaries**	**Other related parties**	**Total related parties**	**Impact on the total**
Trade receivables	36,842	-	221	-	221	0.60%
Tax receivables	3,163	1,158	-	-	1,158	36.61%
Trade payables	18,977	-	-	2	2	0.01%

	Total 2015	**Parent company**	**Non-consolidated subsidiaries**	**Other related parties**	**Total related parties**	**Impact on the total**
Trade receivables	40,425	-	39	-	39	0.10%
Tax receivables	2,489	1,204	-	-	1,204	48.37%
Tax payables	1,219	157	-	-	157	12.88%

Impact of related-party transactions on income statement items

	Total 2016	Parent company	Non-consolidated subsidiaries	Other related parties	Total related parties	Impact on the total
Other income	2,819	10	-	-	10	0.35%
Services	(27,983)	-	(181)	(22)	(203)	0.73%

	Total 2015	Parent company	Non-consolidated subsidiaries	Other related parties	Total related parties	Impact on the total
Other income	3,758	10	-	-	10	0.27%
Services	(29,759)	-	(180)	(34)	(214)	0.72%

Transactions with the parent company, Giuseppe Saleri S.a.p.A., comprise:

- administration services provided by Sabaf S.p.A. to the parent company;
- transactions as part of the domestic tax consolidation scheme, which generated the payables and receivables shown in the tables (Note 8).

Transactions are regulated by specific contracts regulated at arm's length conditions.
Transactions with non-consolidated subsidiaries were solely of a commercial nature.

Fees to directors, statutory auditors and executives with strategic responsibilities

Please see the 2016 Report on Remuneration for this information.

37. SHARE-BASED PAYMENTS

At 31 December 2016, there were no equity-based incentive plans for the Group's directors and employees.

38. SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

Pursuant to CONSOB memorandum of 28 July 2006, no events or significant non-recurring transactions occurred during 2016.

39. ATYPICAL AND/OR UNUSUAL TRANSACTIONS

Pursuant to CONSOB memorandum of 28 July 2006, the Group declares that no atypical and/or unusual transactions as defined by the CONSOB memorandum were executed during 2016.

40. COMMITMENTS

Guarantees issued

The Sabaf Group has issued sureties to guarantee consumer and mortgage loans granted by banks to Group employees for a total of € 5,510,000 (€ 6,010,000 at 31 December 2015).

41. SCOPE OF CONSOLIDATION AND SIGNIFICANT EQUITY INVESTMENTS

COMPANIES CONSOLIDATED USING THE FULL LINE-BY-LINE CONSOLIDATION METHOD

Company name	Registered offices	Share capital	Shareholders	ownership %
Faringosi-Hinges S.r.l.	Ospitaletto (BS)	EUR 90,000	Sabaf S.p.A.	100%
Sabaf Immobiliare s.r.l.	Ospitaletto (BS)	€ 25,000	Sabaf S.p.A.	100%
Sabaf do Brasil Ltda	Jundiaì (SP, Brazil)	BRL 24,000,000	Sabaf S.p.A.	100%
Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki	Manisa (Turkey)	TRK 28,000,000	Sabaf S.p.A.	100%
Sabaf Appliance Components Trading Ltd.	Kunshan (China)	€ 200,000	Sabaf S.p.A.	100%
Sabaf Appliance Components Ltd.	Kunshan (China)	€ 4,400,000	Sabaf S.p.A.	100%
A.R.C. s.r.l.	Campodarsego (PD) - Italy	€ 45,000	Sabaf S.p.A.	70%

NON-CONSOLIDATED COMPANIES VALUED AT COST

Company name	Registered offices	Share capital	Shareholders	ownership %	holding %
Sabaf US Corp.	Plainfield (USA)	USD 100,000	Sabaf S.p.A.	100%	100%
Handan ARC Burners Co., Ltd.	Handan (China)	RMB 7,000,000	A.R.C. s.r.l.	50%	35%

42. GENERAL INFORMATION ON THE PARENT COMPANY

Registered and administrative office: Via dei Carpini, 1
25035 Ospitaletto (Brescia)

Contacts:
Tel: +39 030 - 6843001
Fax: +39 030 – 6848249
Email: info@sabaf.it
Website: www.sabaf.it

Tax information:
R.E.A. Brescia 347512
Tax Code 03244470179
VAT number 01786910982

Appendix

Information as required by Article 149-*duodecies* of the CONSOB Issuers' Regulation

The following table, prepared pursuant to Article 149-*duodecies* of the CONSOB Issuers' Regulation, shows fees relating to 2016 for auditing and for services other than auditing provided by the Independent Auditor and its network.

(€/000)	Party providing the service	Recipient	Fees pertaining to the 2016 financial year
Audit	Deloitte & Touche S.p.A.	Parent company	57
	Deloitte & Touche S.p.A.	Italian subsidiaries	28
	Deloitte network	Sabaf do Brasil	24
	Deloitte network	Sabaf Turkey	22
Certification services	Deloitte & Touche S.p.A.	Parent company	2(1)
	Deloitte & Touche S.p.A.	Italian subsidiaries	1(1)
Other services	Deloitte & Touche S.p.A.	Parent company	14(2)
	Deloitte network	Sabaf do Brasil	2(3)
Total			*150*

(1) signing of Unified Tax Return, IRAP and 770 forms
(2) audit agreed upon procedures relating to interim management reports, auditing of statements and training activities
(3) tax assistance regarding transfer pricing

Certification of the Consolidated Financial Statements, in accordance with Article 154 bis of Italian Legislative Decree 58/98

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

- the adequacy, in relation to the business characteristics and
- the actual application

of the administrative and accounting procedures for the formation of the consolidated financial statements during the 2016 financial year.

They also certify that:

- the Consolidated financial statements:
  - were prepared in accordance with the international accounting policies recognised in the European Community in accordance with EC regulation 1606/2002 of the European Parliament and Council of 19 July 2002 and with the measures issued in implementation of Article 9 of Italian Legislative Decree 38/2005;
  - are consistent with accounting books and records;
  - provide a true and fair view of the operating results, financial position and cash flows of the issuer and of the companies included in the consolidation;

- the report on operations contains a reliable analysis of the performance and results of operations and the situation of the issuer and the companies included in the scope of consolidation, along with a description of the key risks and uncertainties to which they are exposed.

Ospitaletto, 20 March 2017

Chief Executive Officer
Alberto Bartoli

The Financial Reporting Officer
Gianluca Beschi