SABAF GROUP

REPORT ON OPERATIONS

Business and Financial situation of the Group

(€/000)	**2016**	**%**	**2015**	**%**	2016-2015 change	% change
Sales revenue	130,978	100%	138,003	100%	(7,025)	-5.1%
EBITDA	25,365	19.4%	26,172	19.0%	(807)	-3.1%
EBIT	12,530	9.6%	14,091	10.2%	(1,561)	-11.1%
Pre-tax profit	12,446	9.5%	13,473	9.8%	(1,027)	-7.6%
Net Profit	9,009	6.9%	8,998	6.5%	11	+0.1%
Basic earnings per share (€)	0.792		0.781		0.011	+1.4%
Diluted earnings per share (€)	0.792		0.781		0.011	+1.4%

In 2016, the Sabaf Group booked a 5.1% drop in sales; taking into consideration the same scope of consolidation, they decreased by 6.7%. Despite the drop in sales volumes, the Group managed to maintain satisfactory income-related performances and to achieve a % EBITDA better than 2015: 2016 EBITDA was equal to 19.4% of sales, compared with 19% in 2015, whereas, due to the greater impact of amortisation/depreciation, EBIT stood at 9.6% of sales compared with 10.2% in 2015. Net profit of 2016, equal to € 9 million, was mainly unchanged in absolute terms, whereas in percentage terms it reached 6.9% of sales (6.5% in 2015).

The subdivision of sales revenues by product line is shown in the table below:

SALES BY PRODUCT LINE

(€/000)	**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 and other revenues	12,613	*9.6%*	13,577	*9.8%*	-7.1%
Total gas parts	*120,265*	*91.8%*	*130,057*	*94.3%*	-7.5%
Professional burners	2,289	*1.8%*	0	*0.0%*	n/a
Hinges	8,424	*6.4%*	7,946	*5.7%*	+6.0%
Total	**130,978**	***100.0%***	**138,003**	***100.0%***	**-5.1%**

The families of more mature products (brass valves and thermostats) were those most affected by the downturn because mainly intended for markets (North Africa and Middle East) that experienced a year of crisis. Burners suffered a moderate fall whereas in 2016 the increase in sales of hinges was still confirmed, thanks to the consolidation of important supply contracts and to the increased importance of the new special models.

The geographical breakdown of revenues is shown below:

SALES BY GEOGRAPHICAL AREA

(€/000)	**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 crisis in the Middle Eastern and African markets (mainly Egypt), related exclusively to external factors (such as low oil price and shortage of strong currency), resulted in a drop in direct sales of more than € 5 million and 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.

Average sales prices in 2016 were around 1.5% lower compared with 2015.

The average effective purchase prices of the main raw materials (brass, aluminium alloys and steel) decreased allowing a 0.9% savings in sales. Consumption (purchases plus change in inventories) as a percentage of sales was 36.7% in 2016, compared with 38.7% in 2015; the deviation was also affected by the different mix of products sold.

The impact of labour cost on sales increased from 23.6% to 24.5% due to the increased impact of overhead costs.

Operating cash flow (net profit plus depreciation and amortisation) stood at € 21.9 million, equivalent to 16.7% of sales (€ 21.2 million and 15.3%, respectively in 2015).

The impact of net financial expenses on sales remained very low (0.5% compared with 0.4% in 2015), due to the low level of debt and low interest rates.

The 2016 tax rate was 26.9% (33.2% in 2015) and benefited from tax incentives on investment of € 0.4 million.

The Group's statement of financial position, reclassified based on financial criteria, is illustrated below:

(€/000)	**31/12/2016**	**31/12/2015**
Non-current assets	*93,967*	*92,797*
Short-term assets [1]	72,908	75,370
Short-term liabilities[2]	(26,824)	(27,207)
Working capital[3]	*46,084*	*48,163*
Short-term financial assets	*0*	*69*
Provisions for risks and charges, Post-employment benefits, deferred taxes	*(4,284)*	*(4,081)*
Net invested capital	**135,767**	**136,948**
Short-term net financial position	(2,804)	(19,520)
Medium/long-term net financial position	(20,654)	(6,388)
Net financial debt	**(23,458)**	**(25,908)**
Shareholders' equity	**112,309**	**111,040**

Cash flows for the financial year are summarised in the table below:

(€/000)	**2016**	**2015**
Opening liquidity	*3,991*	*3,675*
Operating cash flow	*25,931*	*19,131*
Cash flow from investments	*(11,762)*	*(12,079)*
Free cash flow	14,169	7,052
Cash flow from financing activities	(2,894)	(5,392)
A.R.C. acquisition	(2,614)	0
Foreign exchange differences due to translation	(509)	(1,344)
Cash flow for the period	8,152	316
Closing liquidity	*12,143*	*3,991*

Net financial debt and liquidity shown in the tables above are defined in compliance with the net financial position detailed in Note 22 of the consolidated financial statements, as required by CONSOB memorandum of 28 July 2006.

At 31 December 2016, working capital stood at € 46.1 million compared with € 48.2 million at the end of the 2015: its impact on sales was 35.2% (34.9% in 2015).
Also to take advantage of interest rates at historical lows, during the financial year, the Group

1 Sum of Inventories, Trade receivables, Tax receivables and Other current receivables
2 Sum of Trade payables, Tax payables and Other liabilities
3 Difference between short-term assets and short-term liabilities

reformulated the average duration of its loans, entering into unsecured loan agreements totalling € 19.8 million repayable in 5 years and reducing the short-term bank exposure.

At 31 December 2016, the short-term financial position was negative by just € 2.8 million, so the Group considered the liquidity risk negligible.

In 2016, the Sabaf Group made net investments of € 11.8 million. 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.
The controlling share of A.R.C. s.r.l. was also acquired by investing € 4.8 million (€ 2.6 million net of the financial position of the acquired company). The purposes of this transaction are closely examined in the next paragraph of this report.

The free cash flow (operating cash flow less investments) was € 14.2 and benefited from an improved trend in working capital compared with € 7.1 million in 2015.

During the financial year, the Group paid out dividends of € 5.5 million and purchased treasury shares for € 1.7 million; the net financial debt was € 23.5 million, versus € 25.9 million in 31 December 2015.

Shareholders' equity totalled € 112.3 million at 31 December 2016; the ratio between the net financial debt and the shareholders' equity was 0.21 versus 0.23 in 2015.

Economic and financial indicators

	2016	**2015**
ROCE (return on capital employed)	9.2%	10.3%
Dividends per share (€)	0.48[4]	0.48
Net debt/equity ratio	21%	23%
Market capitalisation (31/12)/equity ratio	1.07	1.19
Change in sales	-5.1%	+1.2%

Please refer to the introductory part of the Annual Report for a detailed examination of other key performance indicators.

4 proposed dividend

The acquisition of A.R.C.

In June 2016, the Group acquired the controlling share (70%) of A.R.C. s.r.l., leading company in the production of burners for professional cooking. The transaction allowed the Sabaf Group to enter into a new sector, contiguous with the traditional sector of components for household gas cooking appliances, and to enhance the consolidated international presence of the Group. Loris Gasparini, holding a 30% share in A.R.C., will manage the company as chief executive officer for a period of 5 years, at the end of which, a call option in favour of Sabaf for the residual 30% of the share capital and at the same time a put option in favour of Loris Gasparini can be exercised.
A.R.C., which was consolidated starting from 1 July 2016, ended the 2016 financial year with sales of € 5.1 million (€ 4.4 million in 2015), EBITDA of € 1.1 million (€ 0.9 million in 2015) and a net profit of € 0.7 million (€ 0.6 million in 2015).

Risk factors related to the segment in which the Group operates

Risks related to the overall conditions of the economy and trend in demand
The Group's financial position, results and cash flows are affected by several factors, such as gross domestic product, consumer and business confidence, interest rate trend, the cost of raw materials, the unemployment rate and the ease of access to credit.
The protracted nature of the European crisis, which has become systematic over the years, has had an impact on the transformation of the white goods industry, the sector in which the Sabaf group operates. Indeed, the continuous contraction of demand on mature markets has been accompanied by a further concentration of end markets, a steady increase of sales volumes in emerging markets and, finally, tougher competition, phenomena that require aggressive policies in setting sales prices.
To cope with this situation, the Group aims to retain and reinforce its leadership position wherever possible through:

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

Commodity price volatility risk
The Group uses metals and alloys in its production processes, chiefly brass, aluminium alloys and steel. The sales prices of products are generally renegotiated semi-annually or annually; as a result, Group companies may not be able to immediately pass on to customers changes in the prices of commodities that occur during the year, which has an impact on profitability. 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.
At the date of this report, the Sabaf Group has already fixed purchase prices for about 50% of its expected requirement for aluminium, steel and brass for 2017.
Any further increase in the price of commodities not hedged could have negative effects on expected profits.

For more information, see Note 35 of the consolidated financial statements as regards disclosure for the purposes of IFRS 7.

Exchange rate fluctuation risk
The Sabaf Group operates primarily in euro. However, transactions also take place in other currencies, such as the U.S. dollar, the Brazilian real, the Turkish lira and the Chinese renminbi. Since sales in US dollars accounted for about 16% of consolidated sales, the possible depreciation against the euro and the real could lead to a loss in competitiveness on the markets in which sales are made in that currency (mainly South and North America).
At 31 December 2016, the Group had forward sales contracts for a total of 7.5 million dollars, maturing until 31 December 2017. The Administration and Finance Department constantly monitors forex exposure, the trend in exchange rates and the operational management of related activities.
For more information, see Note 35 of the consolidated financial statements as regards disclosure for the purposes of IFRS 7.

Risks associated with product responsibility
Sabaf products carry a high intrinsic risk in terms of safety. The Group's great attention to product quality and safety has made it possible to avoid incidents caused by product defects. Despite this, it is not possible to automatically exclude incidents of this nature.
In order to transfer the risk of third-party liability damage arising from malfunctioning of its products, Sabaf has signed insurance policies with a deductible of up to € 10 million per individual claim.

Protection of product exclusivity
There is a risk that some Group products, although patented, will be copied by competitors; the opening up of trade in countries in which it is difficult to enforce industrial patent rights exposes the Group to a greater risk of protection of its own products. Sabaf's business model therefore bases the protection of product exclusivity mainly on design capacity and the internal production of special machines used in manufacturing processes, which result from its unique know-how that competitors would find difficult to replicate.
In any case, Sabaf has structured processes in place to manage innovation and protect intellectual property. In addition, the Group periodically monitors the patent strategies adopted/to be adopted based on the assessments of cost/opportunity.

Sales concentration risks
The Group is characterised by a strong concentration in its sales, with 50% arising from revenue achieved with its ten biggest customers. Relations with customers are usually stable and over long periods, albeit usually regulated by agreements of less than one year, which can be renewed and with no guaranteed minimum levels.
At the date of this report, there was no reason for the Group to foresee the loss of any significant customers in the coming months.

Trade receivable risk
The high concentration of sales to a small number of customers, described in the previous section, generates a concentration of the respective trade receivables, with a resulting increase in the negative impact on economic and financial results in the event of insolvency of a customer. In particular, given the structural difficulties of the household appliance sector in

mature markets, it is possible that situations of financial difficulty and insolvency among customers could arise.
The risk is constantly monitored through the preliminary assessment of customers and checks that agreed payment terms are met. There is a credit insurance policy covering approximately 70% of the credit risk. A further portion is partly guaranteed through letters of credit issued by major banks in favour of customers. The remainder of the receivable risk is covered by a bad debt provision considered appropriate.
For more information, see Note 35 of the consolidated financial statements, as regards disclosure for the purposes of IFRS 7.

Risks related to the presence in Turkey and risk of instability in emerging countries
Today, Turkey represents the main production hub of household appliances at the European level. The strong competitiveness of the local industry attracted heavy foreign investments and favoured the growth of important local situations that are gaining a position of increasing importance on the international scenario. In this context, the Sabaf Group started a factory in Turkey at the end of 2012 where it realises today more than 10% of total production. The Turkish market represented in 2016 22% of total sales of the Group (a significant share of Sabaf components are assembled by customers on finished products then exported from Turkey). The recent social and political tensions in Turkey had no effect on the activities of the Sabaf Group, which continued normally. On the other hand, in consideration of the strategic importance of this Country for the sector and for the Group, the management assessed the risks that could arise from the impossibility to operate in Turkey as a result of dramatic events, even if considered unlikely today. In particular, we note that all the products made in Turkey today can be manufactured also in Italy, albeit at higher costs, in such a way as to ensure in this way the continuity of supplies to customers.

40% of Sabaf Group sales are made on markets outside Europe. Furthermore, products sold in Italy can be exported by customers in international markets, making the percentage of sales earned directly and indirectly from emerging economies more significant.
The Group's main markets outside Europe include North Africa, the Middle East and South America. Any embargoes or major political or economic instability, or changes in the regulatory and/or local law systems, or new tariffs or taxes imposed in the future could affect a portion of Group sales and the related profitability.
To combat this risk, the Group has adopted a policy of diversifying investments at international level, setting different strategic priorities that, as well as business opportunities, also consider the different associated risk profiles. In addition, the Group monitors the economic and social performance of the target countries, also through a local network, in order to make strategic and investment decisions fully aware of the exposure to associated risks.

Risks related to growth through acquisitions
The strategy of the Group also provides for the possibility of growth through acquisitions, also in related sectors; the acquisition of control of A.R.C. during 2016 represented a step in that direction. The directors are aware that growth through acquisitions entails specific risk profiles, both during assessment and in the integration process. To this end, the Group intends to develop instruments for the construction of business cases and tools for analysing and supporting the integration processes.

<u>Risks relating to the loss of key staff and expertise and the difficulty of replacing them</u>
Group results depend to a large extent on the work of executive directors and management. The loss of a key staff member for the Group without an adequate replacement and the inability to attract new resources could have negative effects on the future of the Group and on the quality of financial and economic results. To mitigate this risk, the Group has launched policies to strengthen the most critical internal organisational structures and loyalty schemes, including the signing of non-competition agreements with key figures.
On 23 January 2017, the Chief Executive Officer Alberto Bartoli resigned effective as from the date of the Shareholders' Meeting scheduled for 27 April 2017, for strictly personal reasons. The Board of Directors entrusted the Remuneration and Nomination Committee with the task of outlining the professional profile fit for holding the position of Chief Executive Officer to continue the strategy, aimed at pursuing a long-term sustainable growth in the segment of gas cooking components and in related segments. The Board will place on the agenda of the next Shareholders' Meeting the appointment of a director to replace Bartoli.

Research and Development

The most important research and development projects conducted in 2016 were as follows:

Burners
- three series of brass burners were developed for North America;
- a special series of personalised burners was carried out in co-design with a leading North American customer;
- an economical burner with a flat cover was developed to meet the marketing needs of a major Brazilian customer;
- a new burner cup was industrialised for the Brazilian market and its flame-spreader was developed;
- a new version of the high-efficiency double ring burner was developed for the Chinese market (Tower Plus);
- a new line of burners was developed based on the Series II, with burner head in aluminium and brass for the up-market and semi-professional sector;
- an oven burner with an economical nozzle holder was designed.

Valves
- the range of light alloy safety valve for kitchens was expanded by introducing also a version with an electric grill control;
- the technical and economic feasibility for a new series of square ramp simple valves was studied for the US market;
- within the organisation of production, the total traceability on the finished product (part ID through data matrix) was implemented on the first product line (valves with flame failure device for floors), which ensures the possibility of tracing for each part produced all the data relating to the tests carried out during the process. In the medium term, the Group intends to extend this system to other product lines.
- interventions in the process aimed at increasing productivity and automation continued, for both the processing and assembly stages;

Hinges

- different solutions were developed for the application of soft opening/closing hidden cam hinge for oven doors with a damping unit fitted in the oven, customising them according to customer requirements;
- two different types of motorisation for oven doors were developed, one with an electromechanical system and the other with magnetic linear motor.

The improvement in production processes continued throughout the Group, accompanied by the development and internal production of machinery, tools and presses.

Development costs to the tune of € 314,000 were capitalised, as all the conditions set by international accounting standards were met; in other cases, they were charged to the income statement.

Integrated sustainability and reporting

Since 2005, Sabaf has drawn up an Annual Report on its economic, social and environmental sustainability performance. In 2005, this was a pioneering and almost experimental move, but today the trend suggests that integrated reporting unquestionably represents best practice.
With reference to Italian Legislative Decree no. 254 of 30 December 2016, which implemented directive 2014/95/EU on reporting obligations on non-financial information for the 2017 financial year, the Group is considering the need to establish or update existing policies and procedures for the preparation of the information required. Moreover, the Group already provides in the Annual Report almost all of the information required by the new regulations.

Personnel

The Sabaf Group had 754 employees at 31 December 2016 (759 at 31 December 2015). In 2016, the Sabaf Group suffered no on-the-job deaths or serious accidents that led to serious or very serious injuries to staff for which the Group was definitively held responsible, nor was it held responsible for occupational illnesses of employees or former employees, or causes of mobbing. For more information, see the “Sabaf and employees” section of the Annual Report.

Environment

In 2016 there was no:

- damage caused to the environment for which the Group was held definitively responsible;
- definitive fines or penalties imposed on the Group for environmental crimes or damage.

For more information, see the “Sabaf and employees” section of the Annual Report.

Corporate Governance

For a complete description of the corporate governance system of the Sabaf Group, see the report on corporate governance and ownership structure, available in the Investor Relations section of the company website.

Internal Control System on Financial Reporting

The internal control system on financial reporting is described in detail in the report on corporate governance and ownership structure.
With reference to the "conditions for listing shares of parent companies set up and regulated by the law of states not belonging to the European Union" pursuant to articles 36 and 39 of the Market Regulations, the Company and its subsidiaries have administrative and accounting systems that can provide the public with the accounting situations prepared for drafting the

consolidated report of the companies that fall within the scope of this regulation and can regularly supply management and the auditors of the Parent Company with the data necessary for drafting the consolidated financial statements. The Sabaf Group has also set up an effective information flow to the independent auditor and continuous information on the composition of the company officers of the subsidiaries, together with information on the roles covered, and requires the systematic and centralised gathering and regular updates of the formal documents relating to the articles of association and granting of powers to company officers. The conditions exist as required by article 36, letters a), b) and c) of the Market Regulations issued by CONSOB. In the course of the financial year, no acquisitions were made of companies in countries not belonging to the European Union which, considered independently, would have a significant relevance for the purposes of the regulation in question.

Model 231
The Organisation, Management and Control Model, adopted pursuant to Legislative Decree 231/2001, is described in the report on company governance and ownership structure, which should be reviewed for reference.

Personal data protection
With reference to Legislative Decree 196 of 30 June 2003, in 2016 the Group continued its work to ensure compliance with current regulations.

Derivative financial instruments
For the comments on this item, please see Note 35 of the consolidated financial statements.

Atypical or unusual transactions
Sabaf Group companies did not execute any unusual or atypical transactions in 2016.

Secondary offices
Neither Sabaf S.p.A. nor its subsidiaries have secondary operating offices.

Management and coordination
Although Sabaf S.p.A. is actually controlled by the parent company, Giuseppe Saleri S.a.p.A., it is not subject to management and co-ordination of the parent company, since the Board of Directors of Sabaf S.p.A. enjoys complete operating autonomy and does not have to justify its actions to the parent company, except at the annual Shareholders' Meeting held to approve the separate financial statements and, obviously, in the event of violation of the law and/or the Articles of Association. It should also be noted that the Articles of Association of the parent company explain that it does not exercise management and coordination activities with regard to Sabaf S.p.A.
Sabaf S.p.A. exercises management and coordination activities over its Italian subsidiaries, Faringosi Hinges s.r.l., Sabaf Immobiliare s.r.l. and A.R.C. s.r.l.

Intra-group transaction and related-party transactions
The relationships between the Group companies, including those with the parent company, are regulated under market conditions, as well as the relationships with related parties, defined in accordance with the accounting standard IAS 24. The details of the intra-group transactions and other related-party transactions are given in Note 36 of the consolidated financial statements and in Note 36 of the separate financial statements of Sabaf S.p.A.

Tax consolidation scheme

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.

Significant events after year-end and business outlook

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

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

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

Business and financial situation of Sabaf S.p.A.

(€/000)	**2016**	**2015**	**Change**	**% change**
Sales revenue	101,523	113,962	(12,439)	-10.9%
EBITDA	13,525	16,123	(2,598)	-16.1%
EBIT	4,070	8,847	(4,777)	-54.0%
Pre-tax profit (EBT)	3,593	8,159	(4,566)	-56.0%
Net Profit	2,460	5,642	(3,182)	-56.4%

The reclassification based on financial criteria is illustrated below:

(€/000)	**31/12/2016**	**31/12/2015**
Non-current assets [5]	*89,258*	*86,088*
Short-term assets[6]	54,475	60,493
Short-term liabilities[7]	(22,441)	(24,932)
Working capital [8]	*32,034*	*35,561*
Financial assets	*3,197*	*2,906*
Provisions for risks and charges, Post-employment benefits, deferred taxes	*(2,888)*	*(3,003)*
Net invested capital	**121,601**	**121,552**
Short-term net financial position	(12,556)	(20,686)
Medium/long-term net financial position	(17,521)	(4,632)
Net financial position	**(30,077)**	**(25,318)**
Shareholders' equity	**91,524**	**96,234**

5Excluding Financial assets
6 Sum of Inventories, Trade receivables, Tax receivables and Other current receivables
7 Sum of Trade payables, Tax payables and Other liabilities
8 Difference between short-term assets and short-term liabilities

Cash flows for the period are summarised in the table below:

(€/000)	**2016**	**2015**
Opening liquidity	***1,090***	***1,366***
Operating cash flow	*15,205*	*14,531*
Cash flow from investments	*(12,591)*	*(9,035)*
Free cash flow	2,614	5,496
Cash flow from financing activities	(1,907)	(5,772)
Cash flow for the period	707	(276)
Closing liquidity	***1,797***	***1,090***

Net financial debt and the net short-term financial position shown in the tables above are defined in compliance with the net financial position detailed in Note 22 of the separate financial statements, as required by the CONSOB memorandum of 28 July 2006.

The 2016 financial year ended with a decrease in sales of 10.9% compared with 2015. The product family of valves and thermostats was weaker, while sales of burners recorded a moderate decline. The reduction in sales had a negative impact on gross operating profitability: EBITDA was € 13.5 million, or 13.3% of sales (€ 16.1 million in 2015, or 14.1%).

EBIT in 2016 was € 4.1 million, or 4% of sales (€ 8.8 million in 2015, or 7.8%), and net profit was € 2.5 million, or 2.4% of sales (€ 5.6 in 2015, or 5%).

The impact of the labour costs on sales increased from 24.5% to 26%.
Net finance expense as a percentage of sales was minimal, at 0.4% (substantially unchanged), given the low level of financial debt and the low interest rates.

Operating cash flow (net profit plus depreciation and amortisation) decreased from €16.9 million to €11.5 million, with an impact on sales of 11.3% (vs. 12.6% in 2015).

In 2016, Sabaf S.p.A. invested over € 7 million in plant and equipment. The main investments in the financial year were aimed at the further automation of production of light alloy valves and maintenance of fleet of machines constantly updated and fully efficient. Moreover, € 4.8 million were invested for the acquisition of the 70% share of A.R.C. s.r.l.

At 31 December 2016, working capital stood at € 32 million compared with € 35.6 million the previous year: its percentage impact on sales stood at 31.6% from 31.2% at the end of 2015.

Self-financing generated by operating cash flow was € 15.2 million, compared with € 14.5 million in 2015, thanks to the increase in working capital.

The net financial debt was € 30.1 million, compared with € 25.3 million on 31 December 2015.

At the end of the year, the shareholders' equity amounted to € 91.5 million, compared with € 96.2 million in 2015. The net financial debt/shareholders' equity ratio was 33%, 26% at the end of 2015.

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

Pursuant to the CONSOB memorandum of 28 July 2006, a reconciliation statement of the result of the 2016 financial year and Group shareholders' equity at 31 December 2016 with the same values of the parent company Sabaf S.p.A. is given below:

		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 the carrying value of consolidated equity investments		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**

Proposal for approval of the separate financial statements and proposed dividend

As we thank our employees, the Board of Statutory Auditors, the Independent Auditor and the supervisory authorities for their invaluable cooperation, we would kindly ask the shareholders to approve the financial statements ended 31 December 2016 with a profit for the year of € 2,459,688.

The Board of Directors proposes to distribute an ordinary dividend of € 0.48 per share to the shareholders, with the exclusion of the treasury shares on the ex-date, by distributing the entire profit for 2016 and, for the residual part, by distributing a portion of the extraordinary reserve. The dividend is scheduled for payment on 31 May 2017 (ex-date 29 May and record date 30 May 2017).

Ospitaletto, 20 March 2017
The Board of Directors