SABAF GROUP

REPORT ON OPERATIONS

Business and Financial situation of the Group[1]

(€/000)	**2017**	**%**	**2016**	**%**	2017-2016 change	% change
Sales revenue	150,223	100%	130,978	100%	19,245	+14.7%
EBITDA	30,955	20.6%	25,365	19.4%	5,590	+22.0%
EBIT	18,117	12.1%	12,501	9.5%	5,616	+44.9%
Pre-tax profit	17,804	11.9%	12,417	9.5%	5,387	+43.4%
Profit attributable to the Group	14,835	9.9%	8,994	6.9%	5,841	+64.9%
Basic earnings per share (€)	1.323		0.791		0.531	+67.0%
Diluted earnings per share (€)	1.323		0.791		0.531	+67.0%

In 2017, the Sabaf Group reported sales revenue of € 150.2 million, an increase of 14.7% versus the figure of € 131 million 2016; taking into consideration the same scope of consolidation, sales increased by 12.9%. In 2017, the increase in sales was accompanied by a more than proportional improvement in profitability: 2017 EBITDA amounted to € 31 million, equivalent to 20.6% of sales, compared to € 25.4 million (19.4% of sales) in 2016, EBIT reached € 18.1 million, equivalent to 12.1% of sales, compared to € 12.5 million (9.5%) in 2016. Net profit of 2017, equal to € 14.8 million (9.9% of sales), is 64.9% higher than the € 9 million of 2016.

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

(€/000)	**2017**	*%*	**2016**	*%*	% change
Brass valves	5,991	*4.0%*	9,007	*6.9%*	-33.5%
Light alloy valves	39,351	*26.2%*	32,393	*24.7%*	+21.5%
Thermostats	7,376	*4.9%*	7,699	*5.9%*	-4.2%
Standard burners	41,070	*27.3%*	37,338	*28.5%*	+10.0%
Special burners	27,184	*18.1%*	21,215	*16.2%*	+28.1%
Accessories and other revenues	15,267	*10.2%*	12,613	*9.6%*	+21.0%
Total gas parts	*136,239*	*90.7%*	*120,265*	*91.8%*	*+13.3%*
Professional burners	*5,079*	*3.4%*	2,289	*1.8%*	*+121.9%*
Hinges	*8,905*	*5.9%*	8,424	*6.4%*	*+5.7%*
Total	**150,223**	***100%***	**130,978**	***100%***	**+14.7%**

An analysis of sales by product category shows the strong growth of special burners, the family where product innovation has been strongest in recent years. The trend in sales of light alloy

1 2016 figures, shown for comparative purposes in this section, were recalculated pursuant to IFRS 3, in order to retrospectively take into account the effects resulting from the fair value measurement of A.R.C's assets and liabilities, at the acquisition date previously considered provisional.

valves, which have now almost completely replaced brass valves, was also very positive. All other product lines also recorded good growth rates, with the exception of thermostats.

The geographical breakdown of revenues is shown below:

(€/000)	**2017**	%	**2016**	%	% change
Italy	36,523	*24.3%*	36,365	*27.8%*	+0.4%
Western Europe	11,678	*7.8%*	8,553	*6.5%*	+36.5%
Eastern Europe	42,824	*28.5%*	34,123	*26.1%*	+25.5%
Middle East and Africa	13,009	*8.6%*	11,698	*8.9%*	+11.2%
Asia and Oceania	10,516	*7.0%*	8,088	*6.2%*	+30.0%
South America	22,938	*15.3%*	20,847	*15.9%*	+10.0%
North America and Mexico	12,735	*8.5%*	11,304	*8.6%*	+12.7%
Total	**150,223**	***100%***	**130,978**	*100%*	**+14.7%**

In 2017, all markets recorded double-digit growth rates; Italy, where sales remained stable after years of decline due to the sharp reduction in the production of domestic appliances, is an exception. Very positive sales growth rates have been recorded in other European markets, where Sabaf is consolidating its leadership. The Middle East market showed a strong recovery compared to 2016; Asia, North and South America confirmed a positive underlying trend.

Average sales prices in 2017 were 0.8% lower compared to 2016.

The effective average purchase prices of the main raw materials (brass, aluminium alloys and steel) were on average higher than in 2016, with a negative impact of 0.9% of sales. Consumption (purchases plus change in inventories) as a percentage of sales was 38.2% in 2017, compared with 36.7% in 2016.

The impact of labour cost on sales decreased from 24.5% to 23.5%, by benefiting from greater automation of production and a lower impact of overhead costs.

Operating cash flow (net profit plus depreciation and amortisation) stood at € 27.7 million, equivalent to 18.5% of sales (€ 22 million and 16.8%, respectively in 2016).

The ratio of net financial expenses to sales remained unchanged at 0.5%.

The tax rate for 2017 was 16.2% (26.9% in 2016) and gained tax benefits of approximately € 2.3 million (mainly related to the patent box and investments made in Turkey), as described in detail in Note 31 to the consolidated financial statements.

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

(€/000)	**31/12/2017**	**31/12/2016**
Non-current assets	*93,802*	*93,967*
Short-term assets[2]	79,314	72,908
Short-term liabilities[3]	(28,561)	(26,824)
Working capital[4]	*50,753*	*46,084*
Short-term financial assets	*67*	*0*
Provisions for risks and charges, Post-employment benefits, deferred taxes	*4,034*	*(4,284)*
Net invested capital	**140,588**	**135,767**
Short-term net financial position	(5,830)	(2,804)
Medium/long-term net financial position	(19,703)	(20,654)
Net financial debt	**(25,533)**	**(23,458)**
Shareholders' equity	**115,055**	**112,309**

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

(€/000)	**2017**	**2016**
Opening liquidity	*12,143*	*3,991*
Operating cash flow	*22,779*	*25,931*
Cash flow from investments	*(13,944)*	*(11,762)*
Free cash flow	8,835	14,169
Cash flow from financing activities	(6,516)	(2,894)
A.R.C. acquisition	-	(2,614)
Foreign exchange differences due to translation	(2,929)	(509)
Cash flow for the period	(610)	8,152
Closing liquidity	*11,533*	*12,143*

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 2017, working capital stood at € 50.8 million compared with € 46.1 million at the end of the 2016: its impact on sales was 33.8% (35.2% in 2016).
Also to take advantage of the low level of interest rates, as from 2016, the Group reformulated

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

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

In 2017, the Sabaf Group made net investments of € 13.9 million. The main investments in the financial year were aimed at automation of the assembly lines for light alloy valves and at the interconnection of production plants with management systems (Industry 4.0). The building in Campodarsego (PD) was acquired, where A.R.C., formerly rented, operates. In Brazil, the factory was expanded, against increased production volumes; while in Turkey all the die-casting machines were robotised. Other investments were made in the production of presses for new burners. Investments in maintenance and replacement, so that production equipment is kept constantly up to date and efficient, are systematic.

Free cash flow (operating cash flow less investments) amounted to € 8.8 million, compared with € 14.2 million in 2016, following a different trend in working capital (in particular, following the increase in sales, trade receivables increased at 31 December 2017).

During the financial year, the Group paid out dividends of € 5.4 million and purchased treasury shares for € 2.1 million; the net financial debt was € 25.5 million, versus € 23.5 million in 31 December 2016.

Shareholders' equity totalled € 115 million at 31 December 2017; the ratio between the net financial debt and the shareholders' equity was 0.22 versus 0.21 in 2016.

Economic and financial indicators

	2017	**2016**
ROCE (return on capital employed)	12.9%	9.2%
Dividends per share (€)	0.55[5]	0.48
Net debt/EBITDA	0.82	0.92
Net debt/equity ratio	22%	21%
Market capitalisation (31/12)/equity ratio	2.00	1.07
Change in sales	+14.7%	-5.1%

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

5 proposed dividend

Risk Factors

The results of the risk identification and assessment process carried out in 2017 showed that the Sabaf Group is exposed to certain risk factors, which can be traced back to the macro-categories described below.

Risks of external environment
Risks deriving from the external context in which Sabaf operates, which could have a negative impact on the economic and financial sustainability of the business in the medium/long-term. The most significant risks in this category are related to general economic conditions, trend in demand and product competition, in addition to the risks related to Sabaf's presence in Turkey and, more generally, to instability of the emerging countries in which the Group operates.

Strategic risks
Strategic risks that could negatively impact Sabaf's short to medium term performance, including, for example: the loss of business opportunities in the Chinese market, risks related to the growth through acquisitions strategy and the protection of product exclusivity.

Legal and compliance risks
Risks related to Sabaf's contractual liabilities and compliance with the laws and regulations applicable to the Group, including: Legislative Decree 231/2001, Law 262/2005, HSE regulations, regulations applicable to listed companies, tax regulations, labour regulations.

Operational risks
Risks of suffering losses due to inadequate or malfunctioning processes, human resources and information systems. This category includes financial risks (e.g. losses deriving from the volatility of the price of raw materials used by the Group in its production processes, from fluctuations in exchange rates or from the management of trade receivables), risks related to production processes (e.g. product liability), organisational risks (e.g. loss of key staff and expertise and the difficulty of replacing them, resistance to change by the organisation), risks related to purchases (e.g. relations with suppliers and contractors) and Information Technology risks.

The main risks are described in detail below as well as the relevant risk management actions that are currently being implemented.

Performance of the sector
The Group's financial position, results and cash flows are affected by several factors related to the performance of the sector, including:

- general macro-economic performance: the household appliance market is affected by macro-economic 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;
- concentration of the end markets: as a result of mergers and acquisitions, customers have acquired bargaining power;
- stagnation of demand in mature markets (i.e. Europe) in favour of growth in emerging Countries, characterised by different sales conditions and by a more unstable macro-economic environment;
- increasing competition, which in some cases imposes aggressive pricing policies.

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

- development of new products characterised by superior performance compared with current market standards, and tailored to the needs of the customer;
- diversification of commercial investments in growing and emerging markets with local commercial and productive investments;
- 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;
- strengthening of business relations with the main players in the sector;
- adoption of a diversification strategy and entry into new segments / business sectors.

Instability of Emerging countries in which the Group operates

Turkey represents the main production hub of household appliances at the European level; over the years, local industry attracted heavy foreign investments and favoured the growth of important manufacturers. In this context, the Sabaf created a production plant in Turkey in 2012 that realises today the 10% of total Group production. The Turkish market represents more than 25% of the Group's total sales. The social and political tensions in Turkey over the last few years had no effect on the activities of the Sabaf Group, which continued normally. In consideration of the strategic importance of this Country, the management assessed the risks that could arise from the impossibility to operate in Turkey. We highlight that all the products made in Turkey today can be manufactured also in Italy, albeit at higher costs, to ensure in this way the continuity of supplies to customers.
More generally, the Group is exposed to risks related to (political, economic, tax, regulatory) instability in some emerging countries where it produces or sells. Any embargoes or major political or economic instability, or changes in the regulatory and/or local law systems, or new tariffs or taxes imposed could negatively affect a portion of Group sales and the related profitability.

Sabaf has taken the following measures to mitigate the above risk factors:

- diversifying investments at international level, setting different strategic priorities that, in addition to business opportunities, also consider the different associated risk profiles;
- monitoring of the economic and social performance of the target countries, also through a local network of agents and collaborators;
- timely assessment of (potential) impacts of any business interruption on the markets of Emerging countries;
- adoption of contractual sales conditions that protect the Group (e.g.: advance payments and payments through letters of credit from major banks).

Product competition

The Sabaf Group's business model focuses on the production of gas cooking components (valves and burners); therefore, there is the risk of not correctly assessing the threats and opportunities deriving from the competition of alternative products (alternative solutions to gas cooking, such as induction), with the consequence of not adequately making use of any market opportunities and/or suffering from negative impacts on margins and turnover.

In recent years, the Group has launched a number of projects aimed at analysing the opportunities and threats related to competition of alternative products, other than gas cooking, including:

- analysing the possibilities for expansion in the induction hob market, with a focus on technical and commercial feasibility analyses;
- development of new gas cooking components able to satisfy the needs that lead some consumers (especially Western consumers) to prefer induction (aesthetic factors, practicality and ease of cleaning, technological integration);
- evaluation of M&A operations, also in sectors adjacent to the traditional Sabaf sector.

Loss of business opportunities in the Chinese market

With a production of over 20 million hobs per year, China is one of the world's most important markets. After many years of commercial presence only, in 2015 Sabaf started the on-site production of a special burner for the Chinese market.
However, there is a risk that Sabaf's investments in the opening of its Chinese headquarters and the start of production will not generate - at least in the short/medium term - an adequate economic return.

To support the development of the Group's Chinese subsidiary and to ensure the economic return on the investments made, Sabaf is carrying out the following actions:

- developing a strategic/operational plan suitable for using growth opportunities offered by the local market;
- continuing to develop product lines in accordance with the needs of the Chinese market and in compliance with local regulations;
- adopting and maintaining a quality-price mix in line with the expectations of potential local customers.

Growth through acquisitions

The strategic plan developed by the Group's management includes, among other things, the possibility of growth through acquisitions, also in related sectors. This strategic choice involves specific risk profiles for Sabaf, due to:

- incorrect assessment of the target companies / incorrect assessment of risks and opportunities for a possible acquisition;
- delays or difficulties in integration.

The Group adopted solutions and instruments to mitigate the above risks, such as:

- definition of guidelines / requirements necessary for the identification of target companies;
- creation of an internal work team, dedicated to the identification and evaluation of potential targets;
- development of guidelines, processes and tools to support the assessment of M&As and subsequent integration activities.

Protection of product exclusivity

Sabaf’s business model based the protection of product exclusivity mainly on design capacity and the internal production of special machines used in manufacturing processes, thanks to its unique know-how that competitors would find difficult to replicate.

There is a risk that some Group products, although patented, will be copied by competitors. Exposure to this risk increased as a result of the opening up of trade in countries where it is difficult to enforce industrial patent rights.

Sabaf developed and maintained a structured model to manage innovation and protect intellectual property. Moreover, the Group periodically monitors the patent strategies adopted/to be adopted based on the assessments of cost/opportunity.

Financial risks

The Sabaf Group is exposed to a series of financial risks, due to:

- **Commodity price volatility**: Sabaf uses metals and alloys in its production processes, the prices of which are generally negotiated 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, with an impact on profitability.
- **Exchange rate fluctuation**: the Group carries out transactions 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. In particular, since sales in US dollars represents about the 14% 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).
- **Trade receivable**: the high concentration of sales on a small number of customers generates a concentration of the respective trade receivables, with a resulting increase in the negative impact on economic and financial results in the event of insolvency of any one of them. 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.

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

Research and Development

The most important research and development projects conducted in 2017 were as follows:

Burners

- three models of customised burners are being developed for North America;
- a small triple ring burner was developed for South America;
- a custom burner was developed for a major Brazilian customer;
- innovative technical solutions that make it easier for users to clean burners are being tested;

Valves

- a safety valve was developed for regulating the oven;
- a project is underway to create a multiposition valve;

Hinges

- the development of the motorisation of hinges inside the oven doors and related electronic control of door opening and closing was completed;
- a dishwasher hinge was developed, equipped with a sliding system for sliding the panel;

- a damping unit fitted in the oven was developed for application on microwave ovens;
- a hinge and a high performance roller holder were developed for applications on professional systems.

In addition to the integrations between production plants and management systems (industry 4.0) mentioned above, studies were launched for the electronic labelling of packages and for the automation of internal logistics. 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 € 496,000 were capitalised, as all the conditions set by international accounting standards were met; in other cases, they were charged to the income statement.

Non-financial statement

Starting from 2017, the Sabaf Group publishes the consolidated non-financial statement required by Legislative Decree no. 54/2016 in a report separate from this Management Report. The consolidated non-financial statement provides all the information needed to ensure understanding of the Group's activities, performance, results and impact, with particular reference to environmental, social and personnel issues, respect for human rights and the fight against active and passive corruption, which are relevant considering the Group's activities and characteristics.
The consolidated non-financial statement is included in the same file in which the management report, the consolidated financial statements, the separate financial statements of the parent company Sabaf S.p.A. and the remuneration report are published.
It should be noted that since 2005, the Sabaf Group has drawn up an Annual Report on its economic, social and environmental sustainability performance.

Personnel

In 2017, 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 all other information, please refer to the Non-Financial Statement.

Environment

In 2017 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 all other information, please refer to the Non-Financial Statement.

Corporate Governance

For a complete description of the corporate governance system of the Sabaf Group, see the report on corporate governance and on the 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 on 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 offices held, 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 on the ownership structure, which should be reviewed for reference.

Personal data protection
With reference to Legislative Decree 196 of 30 June 2003, in 2017 the Group continued its work to ensure compliance with current regulations. Compliance with the GDPR Regulation is in progress and will enter into force in May 2018.

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 2017.

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

Management and coordination
Sabaf S.p.A. is not subject to management and coordination by other companies.
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 37 of the separate financial statements of Sabaf S.p.A.

Significant events after year-end and business outlook

The start of 2018 shows a moderate increase in sales compared to the same period of 2017. After a year characterised by a growth rate that is clearly higher than the average trend of recent years and despite the still challenging competitive scenario, the Group estimates that revenues for the entire financial year 2018 will increase ranging from 3% to 5% compared to 2017. The Group also believes that the adjustment of sales prices and further improvements in operating efficiency will enable it to balance the negative impacts associated with the weakening of the dollar and the rise in commodity prices, and therefore estimates operating profitability (EBITDA%) to be in line with 2017.

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

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

(€/000)	**2017**	**2016**	**Change**	**% change**
Sales revenue	115,687	101,523	14,164	+14.0%
EBITDA	17,477	13,525	3,952	+29.2%
EBIT	8,050	4,070	3,980	+97.8%
Pre-tax profit (EBT)	9,072	3,593	5,479	+152.5%
Net Profit	8,001	2,460	5,541	+225.2%

The reclassification of the statement of financial position based on financial criteria is illustrated below:

(€/000)	**31/12/2017**	**31/12/2016**
Non-current assets [6]	*89,361*	*89,258*
Non-current financial assets	*1,848*	*2,137*
Short-term assets[7]	58,875	54,475
Short-term liabilities[8]	(23,643)	(22,441)
Working capital[9]	*35,232*	*32,034*
Provisions for risks and charges, Post-employment benefits, deferred taxes	*(2,637)*	*(2,888)*
Net invested capital	**123,804**	**120,541**
Short-term net financial position	(15,239)	(11,496)
Medium/long-term net financial position	(16,478)	(17,521)
Net financial position	**(31,717)**	**(29,017)**
Shareholders' equity	**92,087**	**91,524**

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

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

(€/000)	**2017**	**2016**
Opening liquidity	***1,797***	***1,090***
Operating cash flow	*12,554*	*15,205*
Cash flow from investments	*(9,319)*	*(12,591)*
Free cash flow	3,235	2,614
Cash flow from financing activities	(2,335)	(1,907)
Cash flow for the period	900	707
Closing liquidity	***2,697***	***1,797***

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 2017 financial year ended with an increase in sales of 14% compared with 2016. The product family of valves and thermostats was weaker, while sales of burners recorded a very positive trend. In particular, note the strong growth of special burners, the family where product innovation has been strongest in recent years. The increase in sales had a positive impact on gross operating profitability: EBITDA was € 17.5 million, or 15.1% of sales (€ 13.5 million in 2016, or 13.3%).

EBIT of 2017 was € 8.1 million, or 7% of sales (€ 4.1 million in 2016, or 4%).

The impact of the labour costs on sales decreased from 26% to 24.8%.
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.

In 2017, unlike in the previous year, the Company received dividends of € 1.5 million from the subsidiary Sabaf Immobiliare and recognised the tax benefit related to the Patent Box for the three-year period 2015 to 2017, totalling € 1.3 million, as described in detail in Note 33 to the separate financial statements. The actual tax burden related to 2017 was 11.8% (31.5% in 2016).

Net profit was € 8 million, or 6.9% of sales (€ 2.5 million in 2016, or 2.4%).

Operating cash flow (net profit plus depreciation and amortisation) decreased from €11.5 million to €16.8 million, with an impact on sales of 14.6% (compared to 11.3% in 2016).

In 2017, Sabaf S.p.A. invested over € 8 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 interconnection of production plants with management systems (Industry 4.0). Other investments were made in the production of presses for new burners, while investments were made systematically to maintain a constantly updated and fully efficient machinery fleet.

At 31 December 2017, working capital stood at € 35 million compared with € 32 million in the previous year: its percentage impact on sales stood at 30.5% from 31.6% at the end of 2016.

Self-financing generated by operating cash flow was € 12.6 million, compared with € 15.2 million in 2016.

The net financial debt was € 31.7 million, compared with € 29 million in 31 December 2016.

At the end of the year, the shareholders' equity amounted to € 92.1 million, compared with € 91.5 million in 2016. The net financial debt/shareholders' equity ratio was 34%, 32% at the end of 2016.

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 2017 financial year and Group shareholders' equity at 31 December 2017 with the same values of the parent company Sabaf S.p.A. is given below:

	31/12/2017		31/12/2016(*)	
Description	Profit for the year	Shareholders' equity	Profit for the year	Shareholders' equity
Profit and shareholders' equity of parent company Sabaf S.p.A.	**8,001**	**92,087**	**2,460**	**91,524**
Equity and consolidated company results	7,971	67,929	6,175	66,276
Elimination of the carrying value of consolidated equity investments	682	(48,596)	521	(49,900)
Goodwill	0	6,215	0	6,215
Put option on A.R.C. minorities	(241)	(1,763)	0	(1,522)
IFRS 3 effect on A.R.C. acquisition	0	0	(21)	275
Intercompany eliminations	(1,497)	(817)	(60)	(491)
Minority interests	(81)	(1,460)	(81)	(1,379)
Profit and shareholders' equity attributable to the Group	**14,835**	**113,595**	**8,994**	**110,998**

(*) figures recalculated pursuant to IFRS 3, in order to retrospectively take into account the effects resulting from the fair value measurement of A.R.C's assets and liabilities, at the acquisition date previously considered provisional.

Use of the longer time limit for calling the shareholders' meeting

Pursuant to the second paragraph of Article 2364 of the Italian Civil Code, in consideration of the need to consolidate the financial statements of Group companies and to prepare all supporting documentation, the directors intend to use the longer time limits granted to companies required to prepare the consolidated financial statements for calling the ordinary shareholders' meeting to approve the 2017 financial statements. The shareholders' meeting must also resolve on the election of the members of the administration and control bodies and must therefore be convened at least 40 days in advance pursuant to Article 125-*bis* of the TUF. The

Shareholders' Meeting is convened on a single date for 8 May 2018.

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 2017 with the proposal to allocate the profit for the year of € 8,001,327 as follows:

- a dividend of € 0.55 per share to be paid to shareholders as from 30 May 2018 (ex-date 28 May 2018 and record date 29 May 2018). With regard to treasury shares, we invite you to allocate an amount corresponding to the dividend on the shares held in portfolio on the ex-date to the Extraordinary Reserve;
- the remainder is allocated to the Extraordinary Reserve.

Ospitaletto, 26 March 2018
The Board of Directors