

INTERIM MANAGEMENT STATEMENT

AT 31 MARCH 2018



SABAF S.p.A.

Via dei Carpini, 1 – OSPITALETTO (BS) ITALY

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

www.sabaf.it

Table of Contents

Group structure and corporate officers	3
Consolidated statement of financial position	4
Consolidated income statement	5
Consolidated statement of comprehensive income	6
Statement of changes in consolidated shareholders' equity	7
Consolidated statement of cash flows	8
Consolidated net financial position	9
Explanatory notes	10
Statement of the Financial Reporting Officer	13

Group structure

Parent company

SABAF S.p.A.

Subsidiaries and equity interest owned by the Group

Wholly consolidated companies

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

Non-consolidated companies

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

Board of Directors

Chairman	Giuseppe Saleri
Vice Chairman (*)	Nicla Picchi
Chief Executive Officer	Pietro Iotti
Director	Gianluca Beschi
Director	Claudio Bulgarelli
Director (*)	Renato Camodeca
Director	Alessandro Potestà
Director (*)	Daniela Toscani
Director (*)	Stefania Triva
(*) independent directors	

Board of Statutory Auditors

Chairman	Alessandra Tronconi
Statutory Auditor	Luisa Anselmi
Statutory Auditor	Mauro Vivenzi

Consolidated statement of financial position

(€/000)	31/03/2018	31/12/2017	31/03/2017 (*)
ASSETS			
NON-CURRENT ASSETS			
Property, plant, and equipment	72,493	73,069	73,077
Investment property	5,553	5,697	6,160
Intangible assets	9,263	9,283	9,051
Equity investments	281	281	306
Non-current financial assets	180	180	240
Non-current receivables	221	196	280
Deferred tax assets	4,848	5,096	4,861
Total non-current assets	92,839	93,802	93,975
CURRENT ASSETS			
Inventories	35,130	32,929	32,844
Trade receivables	46,092	42,263	42,470
Tax receivables	2,604	3,065	1,815
Other current receivables	1,675	1,057	1,496
Current financial assets	72	67	68
Cash and cash equivalents	12,899	11,533	11,082
Total current assets	98,472	90,914	89,775
ASSETS HELD FOR SALE	0	0	0
TOTAL ASSETS	191,311	184,716	183,750
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	11,533	11,533	11,533
Retained earnings, other reserves	98,740	87,227	98,129
Net profit for the period	3,353	14,835	3,067
<i>Total equity interest of the Parent Company</i>	<i>113,626</i>	<i>113,595</i>	<i>112,729</i>
<i>Minority interests</i>	<i>1,508</i>	<i>1,460</i>	<i>1,380</i>
Total shareholders' equity	115,124	115,055	114,109
NON-CURRENT LIABILITIES			
Loans	24,988	17,760	17,607
Other financial liabilities	1,943	1,943	1,762
Post-employment benefit and retirement reserves	2,872	2,845	2,979
Provisions for risks and charges	441	385	423
Deferred tax liabilities	797	804	846
Total non-current liabilities	31,041	23,737	23,617
CURRENT LIABILITIES			
Loans	12,354	17,288	16,050
Other financial liabilities	129	75	203
Trade payables	23,837	19,975	21,581
Tax payables	1,460	1,095	1,341
Other payables	7,356	7,491	6,849
Total current liabilities	45,136	45,924	46,024
LIABILITIES HELD FOR SALE	0	0	0
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	191,311	184,716	183,750

(*) 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.

Consolidated Income Statement

	Q1 2018		Q1 2017 (*)		12M 2017	
<i>(€/000)</i>						
INCOME STATEMENT COMPONENTS						
OPERATING REVENUE AND INCOME						
Revenue	38,503	100.0%	37,073	100.0%	150,223	100.0%
Other income	703	1.8%	710	1.9%	3,361	2.2%
Total operating revenue and income	39,206	101.8%	37,783	101.9%	153,584	102.2%
OPERATING COSTS						
Materials	(16,844)	-43.7%	(14,879)	-40.1%	(59,794)	-39.8%
Change in inventories	2,425	6.3%	1,481	4.0%	2,380	1.6%
Services	(8,144)	-21.2%	(7,937)	-21.4%	(30,227)	-20.1%
Personnel costs	(9,024)	-23.4%	(9,007)	-24.3%	(35,328)	-23.5%
Other operating costs	(333)	-0.9%	(269)	-0.7%	(1,134)	-0.8%
Costs for capitalised in-house work	435	1.1%	388	1.0%	1,474	1.0%
Total operating costs	(31,485)	-81.8%	(30,223)	-81.5%	(122,629)	-81.6%
OPERATING PROFIT BEFORE DEPRECIATION & AMORTISATION, CAPITAL GAINS/LOSSES, AND WRITE-DOWNS/WRITE-BACKS OF NON-CURRENT ASSETS (EBITDA)						
	7,721	20.1%	7,560	20.4%	30,955	20.6%
Depreciations and amortisation	(3,169)	-8.2%	(3,226)	-8.7%	(12,826)	-8.5%
Capital gains/(losses) on disposals of non-current assets	(1)	0.0%	(9)	0.0%	(12)	0.0%
OPERATING PROFIT (EBIT)						
	4,551	11.8%	4,325	11.7%	18,117	12.1%
Financial income	59	0.2%	88	0.2%	214	0.1%
Financial expenses	(216)	-0.6%	(140)	-0.4%	(804)	-0.5%
Exchange rate gains and losses	235	0.6%	137	0.4%	274	0.2%
Profits and losses from equity investments	0	0.0%	0	0.0%	3	0.0%
PROFIT BEFORE TAXES						
	4,629	12.0%	4,410	11.9%	17,804	11.9%
Income taxes	(1,228)	-3.2%	(1,342)	-3.6%	(2,888)	-1.9%
NET PROFIT FOR THE PERIOD						
	3,401	8.8%	3,068	8.3%	14,916	9.9%
Minority interests	48	0.1%	1	0.0%	81	0.1%
PROFIT ATTRIBUTABLE TO THE GROUP						
	3,353	8.7%	3,067	8.3%	14,835	9.9%

(*) 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.

Consolidated statement of comprehensive income

<i>(€/000)</i>	Q1 2018	Q1 2017 (*)	12M 2017
NET PROFIT FOR THE PERIOD	3,353	3,067	14,916
<i>Total profits/losses that will not be subsequently restated under profit (loss) for the period:</i>			
Actuarial post-employment benefit reserve evaluation	0	0	82
Tax effect	0	0	(20)
	0	0	62
<i>Overall earnings/losses that will be subsequently restated under profit (loss) for the period:</i>			
Forex differences due to translation of financial statements in foreign currencies	(1,556)	(531)	(4,806)
Total other profits/(losses) net of taxes for the year	(1,556)	(531)	(4,744)
TOTAL PROFIT	1,797	2,536	10,172

(*) 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.

Statement of changes in consolidated shareholders' equity

<i>(€/000)</i>	Share capital	Share premium reserve	Legal reserve	Treasury shares	Translation reserve	Updated post-employment benefit reserve	Other reserves	Profit for the year	Total Group shareholders' equity	Minority interests	Total shareholders' equity
Balance at 31 December 2016 (*)	11,533	10,002	2,307	(2,399)	(7,388)	(612)	88,561	8,994	110,998	1,379	112,377
Allocation of 2016 profit											
- dividends paid out								(5,384)	(5,384)		(5,384)
- carried forward							3,610	(3,610)	0		0
Purchase of treasury shares				(2,110)					(2,110)		(2,110)
Total profit at 31 December 2017					(4,806)	62		14,835	10,091	81	10,172
Balance at 31 December 2017	11,533	10,002	2,307	(4,509)	(12,194)	(550)	92,171	14,835	113,595	1,460	115,055
Retained earnings FY 2017							14,835	(14,835)	0		0
Purchase of treasury shares				(1,766)					(1,766)		(1,766)
Total profit at 31 March 2018					(1,556)			3,353	1,797	48	1,845
Balance as at 31 March 2018	11,533	10,002	2,307	(6,275)	(13,750)	(550)	107,006	3,353	113,626	1,508	115,134

(*) 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.

Consolidated statement of cash flows

<i>(€/000)</i>	Q1 2018	Q1 2017 (*)	12M 2017
<i>Cash and cash equivalents at beginning of period</i>	11,533	12,143	12,143
Net profit/(loss) for the period	3,401	3,068	14,916
Adjustments for:			
- Depreciation and amortisation for the period	3,169	3,226	12,826
- Realised gains/losses	1	9	12
- Financial income and expenses	157	52	590
- Income tax	1,228	1,342	2,888
Payment of post-employment benefit reserve	(31)	(116)	(189)
Change in risk provisions	107	(11)	(49)
<i>Change in trade receivables</i>	<i>(3,829)</i>	<i>(5,628)</i>	<i>(5,421)</i>
<i>Change in inventories</i>	<i>(2,201)</i>	<i>(1,360)</i>	<i>(1,445)</i>
<i>Change in trade payables</i>	<i>3,862</i>	<i>2,604</i>	<i>998</i>
Change in net working capital	(2,168)	(4,384)	(5,868)
Change in other receivables and payables, deferred tax liabilities	(683)	325	1,029
Payment of taxes	(254)	(175)	(3,058)
Payment of financial expenses	(209)	(131)	(532)
Collection of financial income	59	88	214
Cash flow from operations	4,777	3,293	22,779
Net investments	(2,975)	(2,929)	(13,944)
Repayment of loans	(7,720)	(3,350)	(16,526)
New loans	10,066	3,371	17,751
Change in financial assets	(5)	(308)	(247)
Purchase of treasury shares	(1,766)	(805)	(2,110)
Payment of dividends	0	0	(5,384)
Cash flow from financing activities	575	(1,092)	(6,516)
Foreign exchange differences	(1,011)	(333)	(2,929)
Net financial flows for the period	1,366	(1,061)	(610)
<i>Cash and cash equivalents at end of period</i>	12,899	11,082	11,533
Current financial debt	12,411	16,253	17,363
Non-current financial debt	26,931	19,369	19,703
Net financial debt	26,433	24,540	25,533

(*) 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.

Consolidated net financial position

<i>(€/000)</i>	31/03/2018	31/12/2017	31/03/2017
A. Cash	14	14	11
B. Positive balances of unrestricted bank accounts	12,327	11,009	7,931
C. Other cash equivalents	558	510	3,140
D. Liquidity (A+B+C)	12,899	11,533	11,082
E. Current financial receivables	72	0	0
F. Current bank payables	4,732	11,157	9,657
G. Current portion of non-current debt	7,622	6,131	6,393
H. Other current financial payables	129	75	203
I. Current financial debt (F+G+H)	12,483	17,363	16,253
J. Net current financial debt (I-E-D)	(488)	5,830	5,171
K. Non-current bank payables	23,564	16,298	16,033
L. Other non-current financial payables	3,367	3,405	3,336
M. Non-current financial debt (K+L)	26,931	19,703	19,369
N. Net financial debt (J+M)	26,443	25,533	24,540

Explanatory notes

Accounting standards and area of consolidation

The Interim Management Statement of the Sabaf Group at 31 March 2018 is prepared in compliance with the Stock Exchange (Borsa) Regulation that establishes, among the requirements for maintaining the listing on the STAR segment of the MTA, the publication of interim management reports.

This report, drafted in continuity with the past, does not contain the information required in accordance with IAS 34.

Accounting standards and policies are the same as those adopted for preparation of the consolidated financial statements at 31 December 2017, which should be consulted for reference. All the amounts contained in the statements included in this Interim Management Statement are expressed in thousands of euro.

We also draw attention to the following points:

- The Interim Management Statement was prepared according to the “discrete method of accounting” whereby the quarter in question is treated as a separate financial period. This means that the quarterly income statement reflects the ordinary and non-recurring items pertaining to the period on an accruals basis;
- the financial statements used in the consolidation process are those prepared by the subsidiaries for the period ended 31 March 2018, adjusted to comply with Group accounting policies, where necessary;
- the parent company, Sabaf S.p.A., and the subsidiaries Faringosi-Hinges S.r.l., Sabaf Immobiliare S.r.l., A.R.C. S.r.l., Sabaf do Brasil Ltda, Sabaf Turkey, Sabaf Appliance Components Trading (Kunshan) Co. Ltd (in liquidation) and Sabaf Appliance Components (Kunshan) Co. Ltd have been consolidated on a 100% line-by-line basis;
- the companies Sabaf US Corp. and Handan ARC Burners Co., Ltd. were not consolidated as they are irrelevant for the purposes of the consolidation;
- As required by IFRS 3, figures at 31 March 2017, shown for comparative purposes in this interim management statement, were restated 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;
- the scope of consolidation did not change compared to 31 December 2017.

The Interim Management Statement at 31 March 2018 has not been independently audited.

Sales breakdown by geographical area (Euro x 1000)

	Q1 2018	%	Q1 2017	%	% change		12M 2017	%
Italy	9,306	24.2%	11,016	29.7%	-15.5%		36,523	24.3%
Western Europe	3,272	8.5%	3,104	8.4%	+5.4%		11,678	7.8%
Eastern Europe	11,504	29.9%	9,559	25.8%	+20.3%		42,824	28.5%
Middle East and Africa	3,606	9.4%	3,260	8.8%	+10.6%		13,009	8.6%
Asia and Oceania	1,304	3.4%	1,583	4.3%	-17.6%		10,516	7.0%
South America	6,103	15.8%	5,456	14.7%	+11.9%		22,938	15.3%
North America and Mexico	3,408	8.8%	3,095	8.3%	+10.1%		12,735	8.5%
Total	38,503	100%	37,073	100%	+3.9%		150,223	100%

Sales breakdown by product category (Euro x 1000)

	Q1 2018	%	Q1 2017	%	% change		12M 2017	%
Brass valves	1,321	3.4%	1,646	4.5%	-19.7%		5,991	4.0%
Light alloy valves	9,958	25.9%	9,648	26.0%	+3.2%		39,351	26.2%
Thermostats	1,828	4.7%	2,110	5.7%	-13.4%		7,376	4.9%
Standard burners	10,710	27.8%	10,276	27.7%	+4.2%		41,070	27.3%
Special burners	6,897	17.9%	6,494	17.5%	+6.2%		27,184	18.1%
Accessories	3,843	10.0%	3,749	10.1%	+2.5%		15,267	10.2%
<i>Total gas parts</i>	<i>34,557</i>	<i>89.8%</i>	<i>33,923</i>	<i>91.5%</i>	<i>+1.9%</i>		<i>136,239</i>	<i>90.7%</i>
<i>Professional burners</i>	<i>1,547</i>	<i>4.0%</i>	<i>1,115</i>	<i>3.0%</i>	<i>+38.7%</i>		<i>5,079</i>	<i>3.4%</i>
<i>Hinges</i>	<i>2,399</i>	<i>6.2%</i>	<i>2,035</i>	<i>5.5%</i>	<i>+17.9%</i>		<i>8,905</i>	<i>5.9%</i>
Total	38,503	100%	37,073	100%	+3.9%		150,223	100%

Management Statement

The Sabaf Group recorded sales revenue of €38.5 million in the first quarter of 2018, up 3.9% from €37.1 million in the same quarter of 2017. On a like-for-like exchange rate basis, the increase in revenue would have been 7.1%.

The market that contributed most to growth is Eastern Europe, thanks above all to the further increase in market share that the Group has achieved in Turkey. Double-digit growth was also recorded in the Middle East and Africa, South America and North America, areas in which the Group is consolidating the excellent results of 2017. Italy, on the other hand, shows a slowdown compared to the first quarter of last year. The product families that recorded the most marked improvement were those of special burners, professional burners and hinges.

During the first quarter of 2018, average sales prices were substantially unchanged compared to the same period of the previous year. Despite the negative impact of exchange rates (which weighed on profitability by €0,7 million - 1.8% of sales) and the increase in raw material costs (which had a negative impact on profitability by €0.6 million - 1.6% of sales), the Group maintained more than satisfactory margins: EBITDA for the period was €7.7 million, or 20.1% of sales, up by 2.1% compared to the figure of €7.6 million (20.4% of sales) in the first quarter of 2017. EBIT for the quarter was €4.6 million, or 11.8% of turnover, up by 5.2% compared to €4.3 million in the same period of 2017 (11.7% of turnover). Net profit for the period was €3.4 million, up by 9.3% compared to €3.1 million in the first quarter of 2017.

Net investments for the quarter came to € 3 million (€2.9 million in Q1 2017 and €13.9 million for the whole of 2017), mainly dedicated to the automation of production processes.

At 31 March 2018, the impact of the net working capital on revenue was 34.3% (33.8% at 31 December 2017 and 32.9% at 31 March 2017).

At 31 March 2018, net indebtedness was €26.4 million (€25.5 million at 31 December 2017), after having purchased 95,168 treasury shares (0.82% of the share capital) during the quarter, for a total value of €1.8 million.

Significant non-recurring, atypical and/or unusual transactions

During the first quarter of 2018, the Group did not engage in significant transactions qualifying as non-recurring, atypical and/or unusual, as envisaged by the CONSOB communication of 28 July 2006.

Outlook

The Group estimates that revenues for the entire 2018 financial year will increase ranging from 3% to 5% compared to 2017 and an operating profitability (EBITDA%) 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.

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

The Financial Reporting Officer, Gianluca Beschi, declares that, pursuant to paragraph 2, Article 154-bis of Legislative Decree 58/1998 (Consolidated Finance Act), the accounting information contained in the Interim Management Statement at 31 March 2018 of Sabaf S.p.A. corresponds to the Company's records, books and accounting entries.

Ospitaletto (BS), 15 May 2018

Financial Reporting Officer
Gianluca Beschi