Part 2

SABAF®

Energy

Energy intended as the warmth of the people at Sabaf - a word with a dual meaning, almost an exhortation to tackle the daily challenges of the market. Because at Sabaf, *"we burn for technology and safety"*.

SABAF®

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 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%**

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[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.

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 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.

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[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

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.

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.

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[5] Proposed dividend

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**

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***

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[6] Excluding Financial assets .

[7] Sum of Inventories, Trade receivables, Tax receivables and Other current receivables

[8] Sum of Inventories, Trade receivables, Tax receivables and Other current receivables

[9] Difference between short-term assets and short-term liabilities

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**

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

(*) 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.

Accountability

We seek to establish an open communication channel with our stakeholders, clearly stating the rationale behind all corporate decisions and respecting their legitimate expectations.

Consolidated Financial Statements at 31 December 2017

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 liquidazione	100%
A.R.C. s.r.l.	70%

Associate companies and equity interest owned by the Group

Handan ARC Burners Co. Ltd.	35%

Board of Directors

Chairman	Giuseppe Saleri
Vice Chairman	Cinzia Saleri
Vice Chairman	Ettore Saleri
Vice Chairman	Roberta Forzanini
Chief Executive Officer	Pietro Iotti
Director	Gianluca Beschi
Director *	Renato Camodeca
Director *	Giuseppe Cavalli
Director *	Fausto Gardoni
Director *	Anna Pendoli
Director *	Nicla Picchi
Director	Alessandro Potestà

Board of Statutory Auditors

Chairman	Antonio Passantino
Statutory Auditor	Luisa Anselmi
Statutory Auditor	Enrico Broli

Independent Auditor

Deloitte & Touche S.p.A.

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* Independent directors

Consolidated statement of financial position

(€/000)	NOTES	31.12.2017	31.12.2016 *
ASSETS			
Non-current assets			
Property, plant and equipment	1	73,069	73,445
Investment property	2	5,697	6,270
Intangible assets	3	9,283	9,077
Equity investments	4	281	306
Non-current financial assets	10	180	0
Non-current receivables	5	196	262
Deferred tax assets	21	5,096	4,781
TOTAL NON-CURRENT ASSETS		**93,802**	**94,141**
Current assets			
Inventories	6	32,929	31,484
Trade receivables	7	42,263	36,842
Tax receivables	8	3,065	3,163
Other current receivables	9	1,057	1,419
Current financial assets	10	67	0
Cash and cash equivalents	11	11,533	12,143
TOTAL CURRENT ASSETS		**90,914**	**85,051**
Assets held for sale		**0**	**0**
TOTAL ASSETS		**184,716**	**179,192**

SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	12	11,533	11,533
Retained earnings, other reserves		87,227	90,471
Profit for the year		14,835	8,994
Total equity interest of the Parent Company		*113,595*	*110,998*
Minority interests		*1,460*	*1,379*
TOTAL SHAREHOLDERS' EQUITY		**115,055**	**112,377**
Non-current liabilities			
Loans	14	17,760	18,892
Other financial liabilities	15	1,943	1,762
Post-employment benefit and retirement reserves	16	2,845	3,086
Provisions for risks and charges	17	385	434
Deferred tax liabilities	21	804	870
TOTAL NON-CURRENT LIABILITIES		**23,737**	**25,044**
Current liabilities			
Loans	14	17,288	14,612
Other financial liabilities	15	75	335
Trade payables	18	19,975	18,977
Tax payables	19	1,095	1,190
Other payables	20	7,491	6,657
TOTAL CURRENT LIABILITIES		**45,924**	**41,771**
Liabilities held for sale		**0**	**0**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**184,716**	**179,192**

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* 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

(€/000)	NOTE	2017	2016 *
INCOME STATEMENT COMPONENTS			
Operating revenue and income			
Revenue	**23**	150,223	130,978
Other income	**24**	3,361	2,819
TOTAL OPERATING REVENUE AND INCOME		**153,584**	**133,797**
Operating costs			
Materials	**25**	(59,794)	(47,346)
Change in inventories		2,380	(754)
Services	**26**	(30,227)	(27,983)
Payroll costs	**27**	(35,328)	(32,112)
Other operating costs	**28**	(1,134)	(1,078)
Costs for capitalised in-house work		1,474	841
TOTAL OPERATING COSTS		**(122,629)**	**(108,432)**
OPERATING PROFIT BEFORE DEPRECIATION AND AMORTISATION, CAPITAL GAINS/LOSSES, AND WRITE-DOWNS/WRITE-BACKS OF NON-CURRENT ASSETS		**30,955**	**25,365**
Depreciations and amortisation	**1, 2, 3**	(12,826)	(12,882)
Capital gains on disposals of non-current assets		(12)	18
EBIT		**18,117**	**12,501**
Financial income		214	101
Financial expenses	**29**	(804)	(620)
Exchange rate gains and losses	**30**	274	435
Profits and losses from equity investments		3	0
PROFIT BEFORE TAXES		**17,804**	**12,417**
Income tax	**31**	(2,888)	(3,342)
PROFIT FOR THE YEAR		**14,916**	**9,075**
of which: minority interests		**81**	**81**
PROFIT ATTRIBUTABLE TO THE GROUP		**14,835**	**8,994**
EARNINGS PER SHARE (EPS)	**32**		
Base		**1.323 euro**	**0.791 euro**
Diluted		**1.323 euro**	**0.791 euro**

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* 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

(€/000)	2017	2016[3]
PROFIT FOR THE YEAR	**14,916**	**9,075**
Total profits/losses that will not be subsequently reclassified under profit (loss) for the year		
Actuarial post-employment benefit reserve evaluation	82	(41)
Tax effect	(20)	10
	62	**(31)**
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	**(4,806)**	**(340)**
TOTAL OTHER PROFITS/(LOSSES) NET OF TAXES FOR THE YEAR	**(4,744)**	**(371)**
TOTAL PROFIT	**10,172**	**8,704**

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 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
IFRS 3 effect on ARC acquisition								(15)	(15)	83	68
ARC put 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**	**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 Dec 2017					(4,806)	62		14,835	10,091	81	10,172
BALANCE AT 31 DEC 2017	**11,533**	**10,002**	**2,307**	**(4,509)**	**(12,194)**	**(550)**	**92,171**	**14,835**	**113,595**	**1,460**	**115,055**

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* 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 cash flow statement

	2017	2016 *
Cash and cash equivalents at beginning of year	*12,143*	*3,991*
Profit for the year	14,916	9,075
Adjustments for:		
• Depreciation and amortisation	12,826	12,882
• Realised gains	12	(18)
• Net financial income and expenses	590	519
• Income tax	2,888	3,350
Change in post-employment benefit reserve	(189)	(184)
Change in risk provisions	(49)	39
Change in trade receivables	*(5,421)*	*5,107*
Change in inventories	*(1,445)*	*416*
Change in trade payables	*998*	*(1,286)*
Change in net working capital	**(5,868)**	**4,237**
Change in other receivables and payables, deferred tax	1,029	1,268
Payment of taxes	(3,058)	(4,762)
Payment of financial expenses	(532)	(576)
Collection of financial income	214	101
CASH FLOW FROM OPERATIONS	**22,779**	**25,931**
Investments in non-current assets		
• intangible	(860)	(477)
• tangible	(13,604)	(11,465)
• financial	0	5
Disposal of non-current assets	520	175
CASH FLOW ABSORBED BY INVESTMENTS	**(13,944)**	**(11,762)**
Repayment of loans	(16,526)	(33,141)
Raising of loans	17,751	37,321
Short-term financial assets	(247)	69
Purchase of treasury shares	(2,110)	(1,676)
Payment of dividends	(5,384)	(5,467)
CASH FLOW ABSORBED BY FINANCING ACTIVITIES	**(6,516)**	**(2,894)**
A.R.C. acquisition	0	(2,614)
Foreign exchange differences due to translation	(2,929)	(509)
NET FINANCIAL FLOWS FOR THE YEAR	**(610)**	**8,152**
Cash and cash equivalents at end of year (Note 11)	*11,533*	*12,143*
Current financial debt	17,363	14,947
Non-current financial debt	19,703	20,654
NET FINANCIAL DEBT (NOTE 22)	**25,533**	**23,458**

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* 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.

Explanatory Notes

Accounting Standards

STATEMENT OF COMPLIANCE AND BASIS OF PRESENTATION

The consolidated financial statements of the Sabaf Group for the financial year 2017 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 Group assessed that it is a going concern (as defined by paragraphs 25 and 26 of IAS 1), 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 2017 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.

Sabaf U.S. is not consolidated since it is irrelevant for the purposes of the consolidation. Handan A.R.C. Ltd, Chinese company in which the Group holds a 35% share, was measured at cost in that at 31 December 2017 operations are still in the early stages, and therefore the company is considered irrelevant for consolidation purposes.

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) The portion of shareholders' equity and net profit for the period pertaining to minority shareholders is posted in specific items of the balance sheet and income statement.

INFORMATION RELATED TO IFRS 3

Upon completion of the valuation of the assets and liabilities of A.R.C. at the acquisition date, pursuant to IFRS 3, previously considered provisional, the temporary figures of the tangible assets acquired recorded at the time in the consolidated financial statements at the date of first consolidation (30 June 2016) were increased by € 410,000, subsequent to a technical analysis carried out by experts on plants, machinery and equipment to identify their fair value. Furthermore, provisions for deferred tax liabilities were increased by € 114,000 in order to record the relevant tax effect. The Group has used the option provided by IFRS 3 in order to finalise the allocation within 12 months from the purchase date given that the technical analysis on plants, machinery and equipment was not previously complete and available.

Final goodwill of € 1,770,000 reflects the net change of € 296,000 described above, net of the allocation made to minority interests (€ 89,000), during the measurement period to the temporary values of tangible assets and deferred tax liabilities. At 31 December 2017, goodwill was tested for impairment, as described in detail in Note 3 below.

As required by IFRS 3, the comparative financial statements at 31 December 2016 have been restated to retrospectively take into account the effects resulting from the higher value of the assets acquired (€ 381,000) and the related tax effect (€ 106,000), as well as the reduction in goodwill (€ 207,000).

This entry resulted in a reduction in 2016 consolidated net income and consolidated shareholders' equity of € 21,000, of which € 15,000 owned by the Group.

	ORIGINAL VALUES ACQUIRED ASSETS/LIABILITIES	MEASUREMENT AT FAIR VALUE	FAIR VALUE ACQUIRED ASSETS/LIABILITIES
NON-CURRENT ASSETS			
Property, plant and equipment and intangible assets	303	410	713
Financial fixed assets	107		107
Non-current receivables and deferred tax assets	145		145
CURRENT ASSETS			
Inventories	891		891
Trade receivables	1,525		1,525
Other receivables	234		234
Cash and cash equivalents	2,186		2,186
TOTAL ASSETS	**5,391**	**410**	**5,801**
NON-CURRENT LIABILITIES			
Post-employment benefit reserve	(238)		(238)
Deferred tax liabilities reserve	-	(114)	(114)
CURRENT LIABILITIES			
Trade payables	(813)		(813)
Sundry payables	(308)		(308)
TOTAL LIABILITIES	**(1,359)**	**(114)**	**(1,473)**
FAIR VALUE OF NET ASSETS ACQUIRED	**4,032**	**296**	**4,328**
- % pertaining to Sabaf (70%) (a)	2,823	207	3,030
Total cost of acquisition (b)	4,800		4,800
Goodwill deriving from acquisition (b-a) (Note 3)	1,977	(207)	1,770
Acquired cash and cash equivalents (c)	2,186		2,186
Total cash outlay (b-c)	2,614		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 statements of each foreign entity are 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 31.12.17	AVERAGE EXCHANGE RATE 2017	EXCHANGE RATE IN EFFECT AT 31.12.16	AVERAGE EXCHANGE RATE 2016
Brazilian real	3.9729	3.6048	3.4305	3.8576
Turkish lira	4.5464	4.1207	3.7072	3.3435
Chinese renminbi	7.8044	7.6289	7.3202	7.3512

RECONCILIATION BETWEEN PARENT COMPANY AND CONSOLIDATED SHAREHOLDERS' EQUITY AND NET PROFIT FOR THE YEAR

	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 consolidated equity investments' carrying value	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**

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 2017, 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 plant	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.

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* 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.

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 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 as 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, amendments and interpretations applicable from 1 January 2017

- Amendment to **IAS 7** ***"Disclosure Initiative"*** (published on 29 January 2016). 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.
- Amendment to **IAS 12** ***"Recognition of Deferred Tax Assets for Unrealised Losses"*** (published on 19 January 2016). The aim of the document is to provide some clarification on the recognition of deferred tax assets on unrealised losses in the measurement of financial assets in the "Available for Sale" category upon

the occurrence of certain circumstances and on the estimate of taxable income for future years.

The application of these amendments did not have any effect on the Group's consolidated financial statements.

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 2017

- 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. The amendments to IFRS 15, Clarifications to IFRS 15 - Revenue from Contracts with Customers, were approved by the European Union on 6 November 2017. On the basis of the analyses carried out, the directors expect that the application of IFRS 15 will have a minor impact on the amounts recorded as 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 IASB project designed to replace IAS 39:
  - introduces new methods for the classification and measurement of financial assets and liabilities (together with the measurement of non-substantial changes in financial liabilities);
  - with reference to the impairment model, the new standard requires that the estimate of credit losses be made on the basis of the expected losses model (and not on the basis of the incurred losses model used by IAS 39) using supportable information available without unreasonable effort or expense that include historical, current and future figures;
  - introduces a new hedge accounting model (increase in the types of transactions eligible for hedge accounting, changes in the method of recognition of forward contracts and options when included in a hedge accounting report, changes in efficacy tests).

  The new standard must be applied by financial statements from 1 January 2018 onwards.

  On the basis of the analyses carried out, the directors expect that the application of IFRS 9 will have a minor impact on the amounts and on the related disclosures in the Group's consolidated financial statements.

- Standard **IFRS 16 – *Leases*** (published on 13 January 2016), which will replace 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 already applied IFRS 15 - *Revenue from Contracts with Customers*.

  The directors not expect that the application of IFRS 16 can have a significant impact on the amounts and on the relevant disclosures in the Group's consolidated financial statements. However, it is not possible to provide a reasonable estimate of the effects until the Group has completed a detailed analysis of the related contracts.

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

On the reference 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.

- Amendment to **IFRS 2 *"Classification and measurement of share-based payment transactions"*** (published on 20 June 2016), which contains some clarification on the recording of the effects of vesting conditions in the presence of cash-settled share-based payments, on the classification of share-based payments with net settlement characteristics and on the recording of amendments under the terms and conditions of a share-based payment that change their classification from cash-settled to equity-settled. The amendments apply from 1 January 2018. The directors do not expect a significant effect on the Group's consolidated financial statements through the adoption of these changes.

- Document ***"Annual Improvements to IFRSs: 2014-2016 Cycle"***, published on 8 December 2016 (including IFRS 1 First-Time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters, IAS 28 Investments in Associates and Joint Ventures – Measuring investees at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice, IFRS 12 Disclosure of Interests in Other Entities – Clarification of the scope of the Standard) which partially integrate the existing standards. Most of the amendments apply from 1 January 2018. The directors do not expect a significant effect on the Group's consolidated financial statements through the adoption of these amendments.

- **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.

- 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. These amendments are applicable from 1 January 2018. The directors do not expect a significant effect on the Group's consolidated financial statements through the adoption of these changes.

- On 7 June 2017, IASB published the clarification document **IFRIC 23 –** ***Uncertainty over Income Tax Treatments.*** The document deals with uncertainties about the tax treatment of income taxes. The document requires that uncertainties in determining deferred tax assets and liabilities be reflected in the financial statements only when it is probable that the entity will pay or recover the amount in question. Moreover, the document does not contain any new disclosure requirement but emphasises that an entity will have to determine whether it will be necessary to disclose information on management considerations and on the uncertainty relating to tax accounting in accordance with IAS 1. The new interpretation applies from 1 January 2019, but early application is permitted.

- Amendment to **IFRS 9** "***Prepayment*** Features with Negative Compensation (published on 12 October 2017). This document specifies the instruments that envisage early repayment that could comply with the "SPPI" test even if the "reasonable additional compensation" to be paid in the event of early repayment is a "negative compensation" for the lender. The amendment applies from 1 January 2019, 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 28** ***"Long-term Interests in Associates and Joint Ventures"*** (published on 12 October 2017)". This document clarifies the need to apply IFRS 9, including the requirements of impairment, to other long-term interests in associate companies and joint ventures that are not accounted for under the equity method. The amendment applies from 1 January 2019, 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.

- Document ***"Annual Improvements to IFRSs 2015-2017 Cycle",*** published on 12 December 2017 (including IFRS 3 Business Combinations and IFRS 11 Joint Arrangements – Remeasurement of previously held interest in a joint operation, IAS 12 Income Taxes – Income tax consequences of payments on financial instruments classified as equity, IAS 23 Borrowing costs Disclosure of Interests in Other Entities – Borrowing costs eligible for capitalisation) which implements changes to some standards as part of the annual process of improving them. The amendments apply from 1 January 2019 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.

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 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 the scope of consolidation	-	1,745	584	-	2,329
Reclassifications	1	875	177	(1,476)	(423)
Forex differences	(52)	657	430	86	1,121
AT 31 DECEMBER 2016	**51,268**	**185,148**	**40,303**	**1,770**	**278,489**
Increases	1,589	7,050	2,487	2,782	13,908
Disposals	-	(1,002)	(538)	-	(1,540)
Reclassifications	118	587	192	(1,201)	(304)
Forex differences	(914)	(1,900)	(626)	(29)	(3,469)
AT 31 DECEMBER 2017	**52,061**	**189,883**	**41,818**	**3,322**	**287,084**
ACCUMULATED DEPRECIATIONS					
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	-	1,174	492	-	1,666
Reclassifications	5	40	21	-	66
Forex differences	59	588	306	-	953
AT 31 DECEMBER 2016	**16,976**	**152,756**	**35,312**	**-**	**205,044**
Depreciations for the year	1,459	8,047	2,260	-	11,766
Eliminations for disposals	-	(800)	(479)	-	(1,279)
Reclassifications	5	41	30	-	76
Forex differences	(156)	(1,002)	(434)	-	(1,592)
AT 31 DECEMBER 2017	**18,284**	**159,042**	**36,689**	**-**	**214,015**
NET CARRYING VALUE					
AT 31 DECEMBER 2017	**33,777**	**30,841**	**5,129**	**3,322**	**73,069**
AT 31 DECEMBER 2016	**34,292**	**32,392**	**4,991**	**1,770**	**73,445**

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[1] 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.

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

	31.12.2017	31.12.2016	CHANGE
Land	6,877	6,688	189
Industrial buildings	26,900	27,604	(704)
TOTAL	**33,777**	**34,292**	**(515)**

The net carrying value of industrial property includes an amount of € 2,125,000 (€ 2,211,000 at 31 December 2016) relating to industrial buildings held under finance leases.

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.
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 2017, 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 2015	**13,136**
Increases	-
Disposals	-
AT 31 DECEMBER 2016	**13,136**
Increases	-
Disposals	(199)
AT 31 DECEMBER 2017	**12,937**

ACCUMULATED DEPRECIATIONS	
AT 31 DECEMBER 2015	**6,424**
Depreciations for the year	442
Eliminations for disposals	-
AT 31 DECEMBER 2016	**6,866**
Depreciations for the year	436
Eliminations for disposals	(62)
AT 31 DECEMBER 2017	**7,240**

NET CARRYING VALUE	
AT 31 DECEMBER 2017	**5,697**
AT 31 DECEMBER 2016	**6,270**

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 2017, 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 2015	**9,008**	**6,231**	**4,685**	**799**	**20,723**
Increases	-	155	314	18	487
Change in the scope of consolidation	1,770	13	-	19	1,802
Reclassifications	-	62	(44)	(30)	(12)
Decreases	-	-	-	(15)	(15)
Forex differences	-	6	-	-	6
AT 31 DECEMBER 2016	**10,778**	**6,467**	**4,955**	**791**	**22,991**
Increases	-	420	496	23	939
Reclassifications	-	-	(79)	-	(79)
Decreases	-	(14)	-	(13)	(27)
Forex differences	-	(14)	-	(8)	(22)
AT 31 DECEMBER 2017	**10,778**	**6,859**	**5,372**	**793**	**23,802**

	GOODWILL	PATENTS, SOFTWARE AND KNOW-HOW	DEVELOPMENT COSTS	OTHER INTANGIBLE ASSETS	TOTAL
AMORTISATION/WRITE-DOWNS					
AT 31 DECEMBER 2015	**4,563**	**5,732**	**2,347**	**556**	**13,198**
Amortisation for the year	-	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**
Amortisation for the year	-	272	342	22	636
Decreases	-	(14)	-	-	(14)
Forex differences	-	(9)	-	(8)	(17)
AT 31 DECEMBER 2017	**4,563**	**6,254**	**3,041**	**661**	**14,519**

	GOODWILL	PATENTS, SOFTWARE AND KNOW-HOW	DEVELOPMENT COSTS	OTHER INTANGIBLE ASSETS	TOTAL
NET CARRYING VALUE					
AT 31 DECEMBER 2017	**6,215**	**605**	**2,331**	**132**	**9,283**
AT 31 DECEMBER 2016	**6,215**	**462**	**2,256**	**144**	**9,077**

Goodwill

Goodwill recognised at 31 December 2017 is allocated:

- to "Hinges" (CGU) cash generating units of € 4.445 million;
- to the "Professional burners" CGU of € 1.770 million[2].

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 2017, the Hinges CGU achieved very positive and better results, in terms of sales and profitability, both compared to the previous year and compared to the budget. The 2018-2022 forward plan, drafted at the beginning of 2018, envisages a further increase in sales. Profitability is expected to decline in 2018, following the devaluation of the dollar (the currency in which more than 40% of sales are denominated) and the increase in the price of steel, before gradually recovering in subsequent years. At 31 December 2017, 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 2018 to 2022 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 9.18% (7.76% in the impairment test conducted while preparing the consolidated financial statements at 31 December 2016) 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 € 12.680 million, compared with a carrying value of the assets allocated to the Hinges unit of € 7.427 million; consequently, the value recorded for goodwill at 31 December 2017 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%
8.18%	13,890	14,312	14,765	15,254	15,782
8.68%	12,902	13,263	13,649	14,063	14,508
9.18%	12,036	12,348	12,680	13,035	13,414
9.68%	11,272	11,543	11,831	12,138	12,464
10.18%	10,592	10,830	11,081	11,348	11,631

Goodwill allocated to the Professional burners CGU

At 31 December 2017, 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 drafted at the beginning of 2018. Cash flows for the 2018-2022 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 6.90% (5.79% in the impairment test conducted while preparing the consolidated financial statements at 31 December 2016) and a growth rate (g) of 1.50%.

The recoverable value calculated on the basis of the above-mentioned assumptions and valuation techniques is € 11.345 million, compared with a carrying value of the assets allocated to the Professional burners unit of € 4.409 million (including minority interests); consequently, the value recorded for goodwill at 31 December 2017 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%
5.90%	12,794	13,396	14,066	14,816	15,663
6.40%	11,549	12,033	12,566	13,156	13,814
6.90%	10,516	10,917	11,345	11,820	12,343
7.40%	9,646	9,975	10,333	10,721	11,146
7.90%	8,903	9,180	9,479	9,802	10,153

Patents, software and know-how

Software investments include the implementation of a production scheduler and the application development of the Group management system (SAP).

Development costs

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

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[2] Figure 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.

4. EQUITY INVESTMENTS

	31.12.2016	DISPOSALS	31.12.2017
Sabaf US	139	-	139
ARC Handan Burners Co.	101	-	101
Other equity investments	66	(25)	40
TOTAL	**306**	**(25)**	**281**

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; production of the first pre-series began in 2017.

5. NON-CURRENT RECEIVABLES

	31.12.2017	31.12.2016	CHANGE
Tax receivables	153	225	(72)
Guarantee deposits	43	37	6
TOTAL	**196**	**262**	**(66)**

Tax receivables relate to indirect taxes expected to be recovered after 31 December 2018.

6. INVENTORIES

	31.12.2017	31.12.2016	CHANGE
Commodities	11,459	9,740	1,719
Semi-processed goods	11,180	10,893	287
Finished products	13,448	13,308	140
Obsoloscence provision	(3,158)	(2,457)	(701)
TOTAL	**32,929**	**31,484**	**1,445**

The value of final inventories at 31 December 2017 increased compared to the end of the previous year to meet the higher volumes of activity. The obsolescence provision is mainly allocated for hedging the obsolescence risk, quantified on the basis of specific analyses carried out at the end of the year on slow-moving and non-moving products.

7. TRADE RECEIVABLES

	31.12.2017	31.12.2016	CHANGE
Total trade receivables	43,002	37,576	5,426
Bad debt provision	(739)	(734)	(5)
NET TOTAL	**42,263**	**36,842**	**5,421**

Trade receivables at 31 December 2017 were higher than at the end of 2016 subsequent to higher sales. There were no significant changes in payment terms agreed with customers.

At 31 December 2017, trade receivables included balances totalling USD 6,826,000, booked at the EUR/USD exchange rate in effect on 31 December 2017, i.e. 1.1993. The amount of trade receivables recognised in the financial statements includes approximately € 28.2 million of insured receivables (€ 22.4 million at 31 December 2016).
The bad debt provision was adjusted to the better estimate of the credit risk at the end of the reporting period.

	31.12.2017	31.12.2016	CHANGE
Current receivables (not past due)	38,282	32,616	5,666
Outstanding up to 30 days	2,802	3,296	(494)
Outstanding from 30 to 60 days	868	218	650
Outstanding from 60 to 90 days	594	136	458
Outstanding for more than 90 days	456	1,310	(854)
TOTAL	**43,002**	**37,576**	**5,426**

8. TAX RECEIVABLES

	31.12.2017	31.12.2016	CHANGE
For income tax	1,998	2,186	(188)
For VAT and other sales taxes	682	533	149
Other tax credits	385	444	(59)
TOTAL	**3,065**	**3,163**	**(98)**

The income tax receivables derives for € 1,153,000 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 an application for a refund was presented and, for the residual part, to the payments on account on 2017 income, for the part exceeding the tax to be paid.

Other tax receivables mainly refer to receivables in respect of indirect Brazilian and Turkish taxes.

9. OTHER CURRENT RECEIVABLES

	31.12.2017	31.12.2016	CHANGE
Credits to be received from suppliers	360	706	(346)
Advances to suppliers	155	168	(13)
Other	542	545	(3)
TOTAL	**1,057**	**1,419**	**(362)**

At 31 December 2017, credits to be received from suppliers included € 248,000 related to the relief due to the parent company as an energy-intensive business (so-called "energy-intensive bonuses") for the years 2016 and 2017. "Energy-intensive bonuses" due for the years 2014 and 2015 were regularly collected during 2017.

10. CURRENT FINANCIAL ASSETS

	31.12.2017		31.12.2016	
	current	non current	current	non current
Escrow bank accounts	60	180	-	-
Derivative instruments on interest rates	7	-	-	-
TOTAL	**67**	**180**	**0**	**0**

The item Derivative instruments on interest rates refers to the positive fair value of an IRS hedging rate risks of an unsecured loan pending, for a notional amount of approximately € 4 million and expiry until 31 December 2021. Financial income was recognised in the income statement with a balancing entry.

11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents, which amounted to € 11,533,000 at 31 December 2017 (€ 12,143,000 at 31 December 2016) consisted of bank current account balances of approximately € 11 million and sight deposits of approximately € 0.5 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 148,630 treasury shares at an average unit price of € 14.20; there have been no sales.

At 31 December 2017, the parent company Sabaf S.p.A. held 381,769 treasury shares, equal to 3.31% of share capital (233,139 treasury shares at 31 December 2016), reported in the financial statements as an adjustment to shareholders' equity at a unit value of € 11.81 (the market value at year-end was € 19.91).

There were 11,151,681 outstanding shares at 31 December 2017 (11,300,311 at 31 December 2016).

14. LOANS

	31.12.2017		31.12.2016	
	current	non current	current	non current
Property leasing	149	1,462	145	1,611
Unsecured loans	5,982	16,298	6,656	17,281
Short-term bank loans	9,477	-	7,802	-
Advances on bank receipts or invoices	1,678	-	2	-
Interest payable	2	-	7	-
TOTAL	**17,288**	**17,760**	**14,612**	**18,892**

To manage interest rate risk, unsecured loans are either fixed-rate or hedged by IRS. Two of the outstanding unsecured loans, amounting to € 9 million at 31 December 2017, have 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

both widely observed at 31 December 2017.

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 1.4 million Turkish lira.

Note 35 provides information on financial risks, pursuant to IFRS 7.

15. OTHER FINANCIAL LIABILITIES

	31.12.2017		31.12.2016	
	current	non current	current	non current
Option on minorities	-	1,763	-	1,522
Payables to A.R.C. shareholders	60	180	60	240
Currency derivatives	-	-	238	-
Derivative instruments on interest rates	15	-	37	-
TOTAL	**75**	**1,943**	**335**	**1,762**

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 recording of a liability corresponding to the estimated redemption value, expected at the time of any exercise of the option: to this end, a financial liability of € 1.522 million was recognised in the consolidated financial statements at 31 December 2016. At 31 December 2017, the Group revalued the outlay estimate, based on the expected results of A.R.C. at 31 December 2020 in accordance with the business plan of the subsidiary prepared at the beginning of 2018. The recalculation of the fair value, in compliance with IAS 39, led to an increase of € 241,000 in the liability; financial expenses were recognised as a balancing entry (Note 29).

The payable to the A.R.C. shareholders of € 240,000 at 31 December 2017 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 4 years, in accordance with contractual agreements and guarantees issued by the sellers.

Other financial liabilities also include the negative fair value of two IRSs hedging rate risks of unsecured loans pending, for residual notional amounts of approximately € 5.4 million and expiry until 31 December 2021. Financial expenses in the same amount were recognised in the income statement.

16. POST-EMPLOYMENT BENEFIT AND RETIREMENT RESERVES

	31.12.2017	31.12.2016	CHANGE
Post-employment benefit reserve	2,720	2,961	(241)
Retirement reserve	125	125	-
TOTAL	**2,845**	**3,086**	**(241)**

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. 2017	31.12.2016
Discount rate	1.15%	1.15%
Inflation	1.80%	1.75%

DEMOGRAPHIC THEORY	31.12. 2017	31.12.2016
Mortality rate	ISTAT 2016 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 2017	Pursuant to legislation in force on 31 december 2016

17. PROVISIONS FOR RISKS AND CHARGES

	31.12.2016	PROVISIONS	UTILISATION	RELEASE OF EXCESS PORTION	EXCHANGE RATE DIFFERENCES	31.12.2017
Reserve for agents' indemnities	231	15	(15)	(21)	-	210
Product guarantee fund	60	11	(11)	-	-	60
Reserve for legal risks	143	-	(7)	-	(21)	115
TOTAL	**434**	**26**	**(33)**	**(21)**	**(21)**	**385**

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 provisions for risks, which represent the estimate of future payments made based on historical experience, have not been discounted because the effect is considered negligible.

18. TRADE PAYABLES

	31.12.2017	31.12.2016	CHANGE
TOTAL	**19,975**	**18,977**	**998**

Average payment terms did not change versus the previous year. At 31 December 2017, there were no overdue payables of a significant amount and the Group did not receive any injunctions for overdue payables.

19. TAX PAYABLES

	31.12.2017	31.12.2016	CHANGE
For income tax	240	361	(121)
Withholding taxes	656	788	(132)
Other tax payables	199	41	158
TOTAL	**1,095**	**1,190**	**(95)**

20. OTHER CURRENT PAYABLES

	31.12.2017	31.12.2016	CHANGE
To employees	4,552	3,965	587
To social security institutions	2,304	2,139	165
To agents	195	268	(73)
Advances from customers	94	181	(87)
Other current payables	346	104	242
TOTAL	**7,491**	**6,657**	**834**

At the beginning of 2018, payables due to employees and social security institutions were paid in accordance with the scheduled expiry dates.

21. DEFERRED TAX ASSETS AND LIABILITIES

	31.12.2017	31.12.2016
Deferred tax assets	5,096	4,781
Deferred tax liabilities	(804)	(870)
NET POSITION	**4,293**	**3,911**

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 2016	**(83)**	**1,062**	**67**	**1,771**	**595**	**210**	**289**	**3,911**
To the income statement	(37)	105	(64)	-	159	(2)	423	584
To shareholders' equity	-	-	-	-	-	(19)	-	(19)
Forex differences	-	(17)	-	-	(125)	-	(41)	(183)
AT 31 DECEMBER 2017	**(120)**	**1,150**	**3**	**1,771**	**629**	**189**	**671**	**4,293**

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:

		31.12.2017	31.12.2016	CHANGE
A.	Cash (Note 11)	14	12	2
B.	Positive balances of unrestricted bank accounts (Note 11)	11,009	8,376	2,633
C.	Other cash equivalents	510	3,755	(3,245)
D.	**LIQUIDITY (A+B+C)**	**11,533**	**12,143**	**(610)**
E.	Current bank payables (Note 14)	11,157	7,811	3,346
F.	Current portion of non-current debt (Note 14)	6,131	6,801	(670)
G.	Other current financial payables (Note 15)	75	335	(260)
H.	**CURRENT FINANCIAL DEBT (E+F+G)**	**17,363**	**14,947**	**2,416**
I.	**NET CURRENT FINANCIAL DEBT (H-D)**	**5,830**	**2,804**	**3,026**
J.	Non-current bank payables (Note 14)	16,298	17,281	(983)
K.	Other non-current financial payables (Note 14)	3,405	3,373	32
L.	**NON-CURRENT FINANCIAL DEBT (J+K)**	**19,703**	**20,654**	**(951)**
M.	**NET FINANCIAL DEBT (I+L)**	**25,533**	**23,458**	**2,075**

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 2017, sales revenues totalled € 150,223,000, up by € 19,245,000 (+14.7%) compared with 2016. Taking into consideration the same scope of consolidation, revenue increased by 12.9%.

Revenue by product family

	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	15,267	*10.2%*	12,613	*9.6%*	+21.0%
Household gas parts	136,239	*90.7%*	120,265	*91.8%*	+13.3%
Professional gas parts	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%**

Revenue by geographical area

	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%**

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 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.

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 on average 0.8% lower compared with 2016.

24. OTHER INCOME

	2017	2016	CHANGE
Sale of trimmings	2,261	1,684	577
Contingent income	311	146	165
Rental income	89	85	4
Use of provisions for risks and charges	36	67	(31)
Other income	664	837	(173)
TOTAL	**3,361**	**2,819**	**542**

The increase in income from the sale of trimmings is directly related to higher production volumes and to the increase in the price of raw materials.

25. MATERIALS

	2017	2016	CHANGE
Commodities and outsourced components	54,179	42,540	11,639
Consumables	5,615	4,806	809
TOTAL	**59,794**	**47,346**	**12,448**

In 2017, the effective purchase prices of the main raw materials (aluminium alloys, steel and brass) 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.

26. COSTS FOR SERVICES

	2017	2016	CHANGE
Outsourced processing	9,779	8,435	1,344
Natural gas and power	4,485	4,622	(137)
Maintenance	4,474	4,071	403
Transport	2,221	1,848	373
Advisory services	2,106	1,639	467
Directors' fees	1,084	1,181	(97)
Travel expenses and allowances	715	693	22
Commissions	637	648	(11)
Insurance	537	675	(138)
Canteen	394	395	(1)
Temporary agency workers	199	125	74
Other costs	3,596	3,651	(55)
TOTAL	**30,227**	**27,983**	**2,244**

The higher costs for outsourced processing were related to the increase in production volumes in Italy. The reduction in energy costs is due to the recognition of the "energy-intensive bonuses" for 2016 and 2017 for a total of € 248,000, which was not recognised in the 2016 financial statements because the collectability was uncertain at the end of the reporting period. 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 (€ 568,000), sales (€ 343,000) and legal, administrative and general (€ 1,195,000) services.

27. PAYROLL COSTS

	2017	2016	CHANGE
Salaries and wages	23,987	22,284	1,703
Social Security costs	7,585	7,088	497
Temporary agency workers	1,910	1,216	694
Post-employment benefit reserve and other costs	1,846	1,524	322
TOTAL	**35,328**	**32,112**	**3,216**

The average Group headcount in 2017 was 760 employees compared to 755 in 2016. The average number of temporary staff was 60 in 2017 (40 in 2016).
During the financial year, the Group made only negligible use of the solidarity contract and temporary lay-off scheme, whereas in 2016 these institutions, used in periods characterised by low production requirements, made it possible to save personnel costs of € 689,000.

28. OTHER OPERATING COSTS

	2017	2016	CHANGE
Non-income taxes	539	488	51
Other operating expenses	331	205	126
Contingent liabilities	145	69	76
Losses and write-downs of trade receivables	93	189	(96)
Provisions for risks	11	127	(116)
Other provisions	15	-	15
TOTAL	**1,134**	**1,078**	**56**

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

29. FINANCIAL EXPENSES

	2017	2016	CHANGE
Interest paid to banks	260	243	17
Interest paid on finance lease contracts	19	22	(3)
IRS spreads payable	10	37	(27)
Banking expenses	240	263	(23)
Adjustment to the fair value of the ARC option (Note 15)	241	-	241
Other financial expense	34	55	(22)
TOTAL	**804**	**620**	**183**

30. EXCHANGE RATE GAINS AND LOSSES

In 2017, the Group reported net foreign exchange gains of € 274,000, versus net gains of € 435,000 in 2016.

31. INCOME TAXES

	2017	2016	CHANGE
Current taxes	3,836	3,454	382
Deferred tax liabilities	(452)	73	(525)
Taxes related to previous financial years	(496)	(176)	(320)
TOTAL	**2,888**	**3,351**	**(463)**

The current income taxes include the IRES of € 2,448,000, the IRAP of € 545,000 and foreign income taxes of € 843,000 (€ 2,078,000, € 452,000 and € 924,000 respectively in 2016).

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:

	2017	2016
Theoretical income tax	4,272	3,280
Permanent tax differences	172	202
Taxes related to previous financial years	91	(138)
Tax effect from different foreign tax rates	5	(109)
Effect of non-recoverable tax losses	172	162
"Patent box" tax benefit	(1,151)	-
"Super ammortamento" tax benefit	(179)	-
Tax incentives for investments in Turkey	(950)	(408)
Other differences	10	(71)
Income taxes booked in the accounts, excluding IRAP and withholding taxes (current and deferred)	**2,442**	**2,918**
IRAP (current and deferred)	446	433
TOTAL	**2,888**	**3,351**

Theoretical taxes were calculated applying the current corporate income tax (IRES) rate, i.e. 24% (27.50% in 2016), to the pre-tax result.

Following the prior agreement signed with the Revenue Agency, in 2017 the Group recognised the tax benefit relating to the Patent Box for the three-year period 2015 to 2017, for a total of € 1,324,000 (€ 1,151,000 for IRES and € 173,000 for IRAP), of which € 772,000 for 2015 and 2016 (Note 38) and € 552,000 for 2017.

In 2018, the Group also recognised € 950,000 in tax benefits deriving from investments made in Turkey, of which € 582,000 deriving from investments made in previous years for which access to the incentive was only established in 2017 (Note 38).

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 2017.ì

32. EARNINGS PER SHARE

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

EARNINGS	2017	2016
	(€/000)	(€/000)
Profit for the year	14,835	8,994

NUMBER OF SHARES	2017	2016
Weighted average number of ordinary shares for determining basic earnings per share	11,208,062	11,376,320
Dilutive effect from potential ordinary shares	-	-
Weighted average number of ordinary shares for determining diluted earnings per share	11,208,062	11,376,320

EARNINGS PER SHARE (€)	2017	2016
Basic earnings per share	1.323	0.791
Diluted earnings per share	1.323	0.791

Basic earnings per share are calculated on the average number of outstanding shares minus treasury shares, equal to 325,388 in 2017 (157,130 in 2016). Diluted earnings per share are calculated taking into account any shares approved but not yet subscribed, of which there were none in 2017 and 2016.

33. DIVIDENDS

On 31 May 2017, shareholders were paid an ordinary dividend of € 0.48 per share (total dividends of € 5,384,000).
The Directors have recommended payment of a dividend of € 0.55 per share this year. This dividend is subject to approval of shareholders in the annual Shareholders' Meeting and was not included under liabilities in these financial statements.
The dividend proposed is scheduled for payment on 30 May 2018 (ex-date 28 May and record date 29 May).

34. INFORMATION BY BUSINESS SEGMENT

Below is the information by business segment for 2017 and 2016.

	2017 FY			2016 FY		
	Gas parts (household and professional)	Hinges	TOTAL	Gas parts (household and professional)	Hinges	TOTAL
Sales	141,280	8,943	**150,223**	122,636	8,342	**130,978**
Ebit	16,974	1,143	**18,117**	11,643	887	**12,530**

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.

FINANCIAL ASSETS	31.12.2017	31.12.2016
Amortised cost		
• Cash and cash equivalents	11,533	12,143
• Escrow bank deposits	240	-
• Trade receivables and other receivables	43,516	38,523
Income statement fair value		
• Derivative to hedge cash flows	7	-

FINANCIAL LIABILITIES	31.12.2017	31.12.2016
Amortised cost		
• Loans	35,048	33,504
• Other financial liabilities	240	300
• Trade payables	19,975	18,977
Income statement fair value		
• ARC put option	1,763	1,522
• Derivative to hedge cash flows	15	275

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 65% 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 14% of total revenue in 2017, while purchases in dollars represented 4% of total revenue. During the year, operations in dollars were partially hedged through forward sales contracts; no currency derivatives were pending at 31 December 2017.

Sensitivity analysis

With reference to financial assets and liabilities in US dollars at 31 December 2017, a hypothetical and immediate revaluation of 10% of the euro against the dollar would have led to a loss of € 475,000.

Interest rate risk management

At 31 December 2017, gross financial debt of the Group was at a floating rate for approximately 35% and at a fixed rate for approximately 65%; 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 2017, three interest rate swap (IRS) contracts totalling € 9.4 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 2017, the fixed-rate portion amounted to approximately 90% of the total financial debt. The derivative contracts were not designated as a cash flow hedge and were therefore recognised using the "fair value in the income statement" method.

Sensitivity analysis

At 31 December 2017, the sensitivity analysis concerned financial leases and the floating rate portion of the short-term financial debt. The Group is not exposed to interest rate risk as regards medium/long-term bank debt, since the floating rate of loans has been transformed into a fixed rate by means of the interest rate swap contracts in place.

With reference to financial assets and liabilities at variable rate at 31 December 2017 and 31 December 2016, 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:

	31.12.2017	31.12.2016
	FINANCIAL EXPENSES	FINANCIAL EXPENSES
Increase of 100 base points	31	20
Decrease of 100 base points	(31)	-

Commodity price risk management

A significant portion of the Group's purchase costs is represented by brass 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 2017 and 2016, 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 2017 of 22%, net financial debt / EBITDA of 0.82) 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 2017 and 31 December 2016:

AT 31 DECEMBER 2017						
	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	11,157	11,157	11,157	0	-	-
Unsecured loans	22,280	22,676	1,537	4,612	16,527	-
Finance leases	1,611	1,818	47	141	754	876
Payables to ARC shareholders	240	240	-	60	180	-
ARC option	1,763	1,763	-	-	1,763	-
TOTAL FINANCIAL PAYABLES	**37,051**	**37,654**	**12,741**	**4,813**	**19,224**	**876**
Trade payables	19,975	19,975	19,021	954	-	-
TOTAL	**57,026**	**57,629**	**31,762**	**5,767**	**19,224**	**876**

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	1,709	5,129	17,550	-
Finance leases	1,756	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**

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 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 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 2017, by hierarchical level of fair value assessment.

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Other financial assets (derivatives on interest rates)	-	7	-	7
Other financial liabilities (derivatives on interest rates)	-	(15)	-	(15)
Other financial liabilities (ARC put option)	-	-	(1,763)	(1,763)
TOTAL LIABILITIES	**0**	**(8)**	**(1,763)**	**(1,771)**

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 2017	GIUSEPPE SALERI S.A.P.A.	NON-CONSOLIDATED SUBSIDIARIES	OTHER RELATED PARTIES	TOTAL RELATED PARTIES	IMPACT ON THE TOTAL
Trade receivables	42,263	-	299	-	299	0.71%
Tax receivables	3,065	1,158	-	-	1,158	37.78%
Trade payables	19,976		-	2	2	0.01%

	TOTAL 2016	GIUSEPPE SALERI S.A.P.A.	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%

Impact of related-party transactions on income statement accounts

	TOTAL 2017	GIUSEPPE SALERI S.A.P.A.	NON-CONSOLIDATED SUBSIDIARIES	OTHER RELATED PARTIES	TOTAL RELATED PARTIES	IMPACT ON THE TOTAL
Other income	3,361	10	-	-	10	0.30%
Services	(30,227)	-	(167)	(20)	(187)	0.62%

	TOTALE 2016	GIUSEPPE SALERI S.A.P.A.	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%

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

- administration services provided by Sabaf S.p.A. to Giuseppe Saleri S.a.p.A.;
- transactions as part of the domestic tax consolidation scheme until 2016, which generated the receivables shown in the tables.

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 2017 Report on Remuneration for this information.

37. SHARE-BASED PAYMENTS

At 31 December 2017, 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, the following section describes and comments on significant non-recurring events, the consequences of which are reflected in the economic, equity and financial results for the year:

	SHAREHOLDERS' EQUITY ATTRIBUTABLE TO THE GROUP	PROFIT ATTRIBUTABLE TO THE GROUP	NET FINANCIAL DEBT	CASH FLOWS
Financial statement values (A)	**113,595**	**14,835**	**25,533**	**(610)**
Recognition of "Patent box" tax benefit related to 2015 and 2016	(772)	(772)	-	-
Recognition of tax incentives for investments in Turkey carried out in previous financial years	(592)	(592)	-	-
FINANCIAL STATEMENT NOTIONAL VALUE (A+B)	**112,231**	**13,471**	**25,533**	**(610)**

As described in Note 31, in these consolidated financial statements, the Group recognised:
- the tax benefit relating to the Patent Box for the three-year period 2015 to 2017;
- the tax benefit on investments made in Turkey, against which a tax credit was recognised.
The tax benefits relating to previous years are considered non-recurring and are therefore shown in the table above.

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 2017.

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 € 5,145,000 (€ 5,510,000 at 31 December 2016).

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)	€ 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
E-mail: info@sabaf.it
Website: *www.sabaf.it*

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

APPENDIX

Information pursuant to 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 2017 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 2017 FINANCIAL YEAR
Audit	Deloitte & Touche S.p.A.	Parent company	57
	Deloitte & Touche S.p.A.	Italian subsidiaries	30
	Deloitte network	Sabaf do Brasil	27
	Deloitte network	Sabaf Turkey	21
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	3 (3)
TOTAL			**155**

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(1) Signing of Unified Tax Return, IRAP and 770 forms
(2) Auditing procedures agreement relating to interim management reports, auditing of statements and training activities
(3) Tax assistance regarding transfer pricing

SABAF®

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

in accordance with Article 154 bis of Italian Legislative Decree 58/98

Pietro Iotti, 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

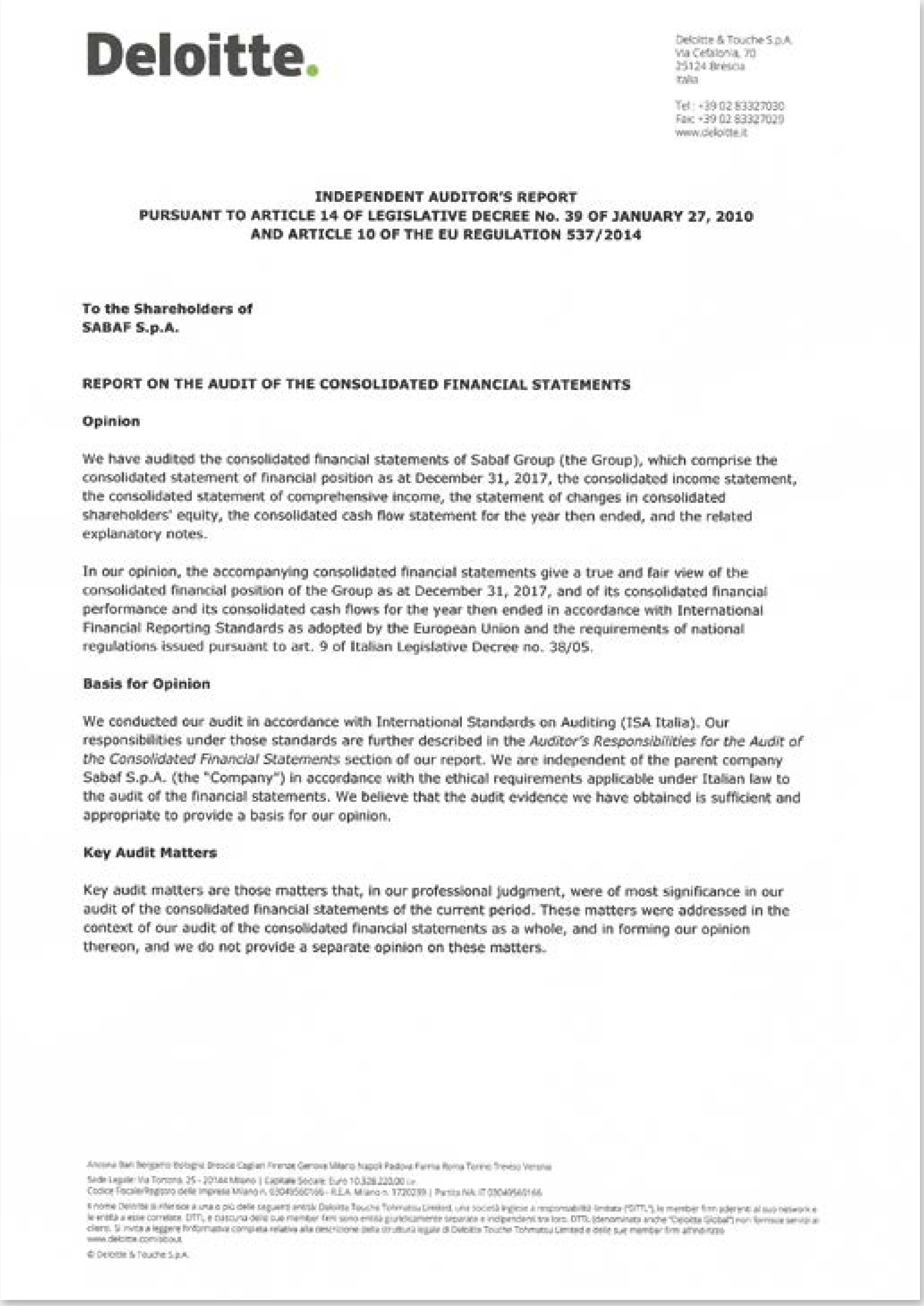
of the administrative and accounting procedures for the formation of the consolidated financial statements during the 2017 financial year.

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, 26 March 2018

Chief Executive Officer	**The Financial Reporting Officer**
Pietro Iotti	Gianluca Beschi



Deloitte.

Deloitte & Touche S.p.A.
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INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010 AND ARTICLE 10 OF THE EU REGULATION 537/2014

To the Shareholders of
SABAF S.p.A.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Sabaf Group (the Group), which comprise the consolidated statement of financial position as at December 31, 2017, the consolidated income statement, the consolidated statement of comprehensive income, the statement of changes in consolidated shareholders' equity, the consolidated cash flow statement for the year then ended, and the related explanatory notes.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the parent company Sabaf S.p.A. (the "Company") in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Deloitte.

Impairment test on goodwill

Description of key audit matter

The consolidated financial statements of the Sabaf Group as at December 31, 2017 report goodwill of Euro 6,215 thousand (3.4% of consolidated assets). Based on the Group's strategic and organisational decisions, the goodwill has been allocated to the "Hinges" cash generating unit (hereinafter, also "CGU") in the amount of Euro 4,445 thousand and to the "Professional Burners" CGU in the amount of Euro 1,770 thousand. Impairment tests have been performed by comparing the recoverable amount of the CGU with carrying amount, which takes account of both the goodwill and the other tangible and intangible assets allocated to the CGU. The impairment test was set up by Management which considers recoverable amount as value in use, determining the value of the assets based on their ability to generate future cash flows.

The impairment process carried out by the Management is complex since it includes several assumptions regarding the forecasted future cash flows from CGUs, the definition of an appropriate discount rate (WACC) and of a long-term growth rate (g-rate). In order to determine the recoverable amounts, the Group took into account cash flows as reported in the 2018-2022 forward plan, drafted at the beginning of 2018.

The assumptions on forecast cash flows are affected by future expectations on exogenous variables, among which the most relevant are the market evolution, in term of volumes and values and the discount rates.

Considering the relevant value of assets accounted for within the financial statements, and the subjectivity of estimates used to determine future cash flows, as well as the variables described above, we considered the impairment test to be a key audit matter for Sabaf Group consolidated financial statements.

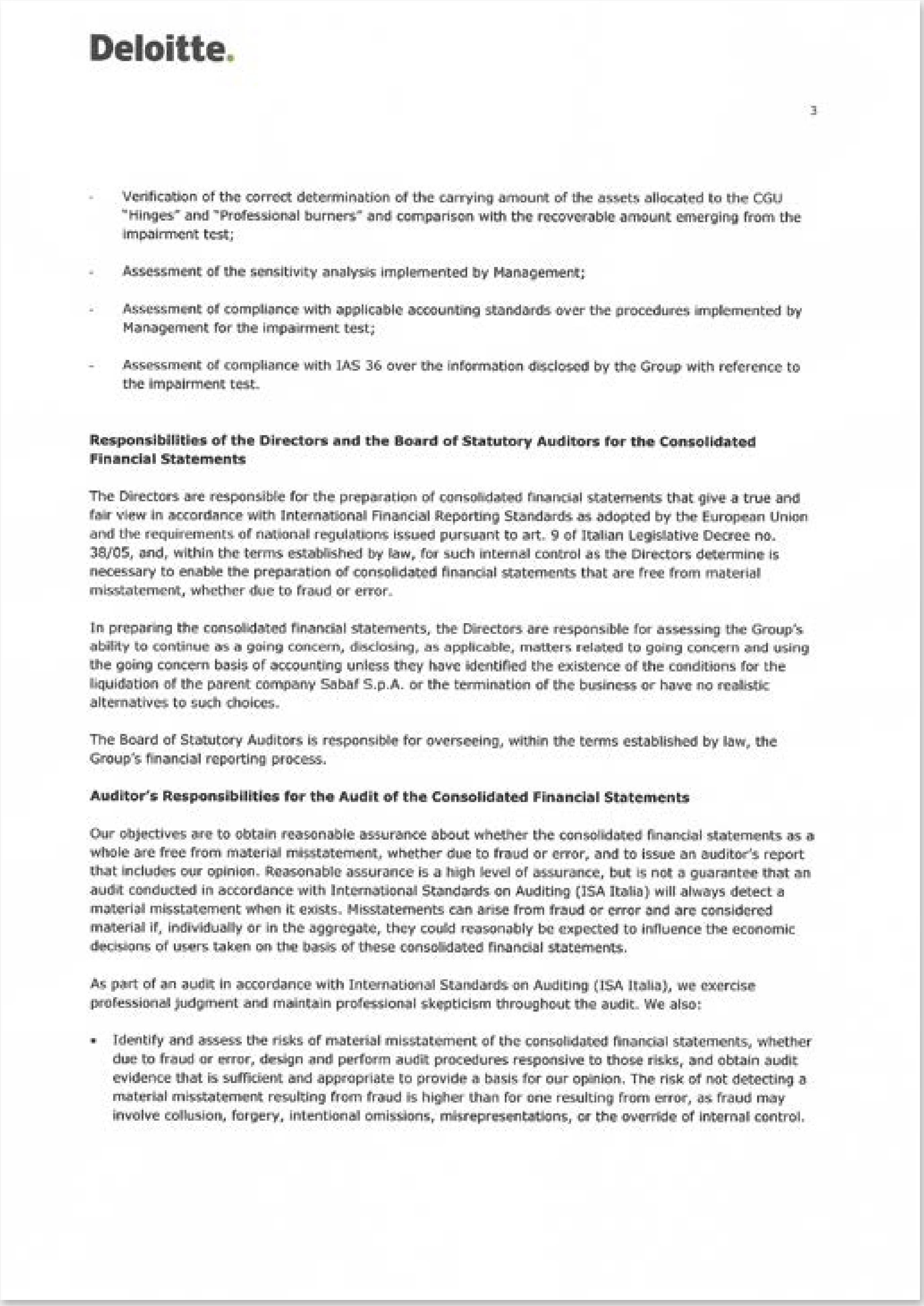
The paragraphs "Use of estimates" and in particular the section "Goodwill" of the paragraph "Intangible assets", within the explanatory notes report information on the impairment test, including the sensitivity analysis, which shows the effects of variations of the key variables used in implementing the impairment test.

Audit procedures

We first examined how the Management determined the value in use of the CGUs, taking into account procedures and assumptions on which the impairment test is based.

In particular, we carried out the following procedures, with assistance of experts of our network:

- observation and understanding of relevant controls carried out by the Group on the implementation of the impairment test;
- Assessment of the reasonableness of main assumptions used to forecast cash flows, also through analysis of sector-based data (for example national demand, estimates on GDP growth) and collection of other relevant information for us obtained by the Management;
- Analysis of actual values, compared with the original plans, in order to understand the nature of variations and the reliability of the budgeting process;
- Assessment of the reasonableness of the discount rate (WACC) and the growth rate (g-rate);
- Assessment of mathematical accuracy of the model used to determine the value in use of CGUs;



- Verification of the correct determination of the carrying amount of the assets allocated to the CGU "Hinges" and "Professional burners" and comparison with the recoverable amount emerging from the impairment test;
- Assessment of the sensitivity analysis implemented by Management;
- Assessment of compliance with applicable accounting standards over the procedures implemented by Management for the impairment test;
- Assessment of compliance with IAS 36 over the information disclosed by the Group with reference to the impairment test.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05, and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the parent company Sabaf S.p.A. or the termination of the business or have no realistic alternatives to such choices.

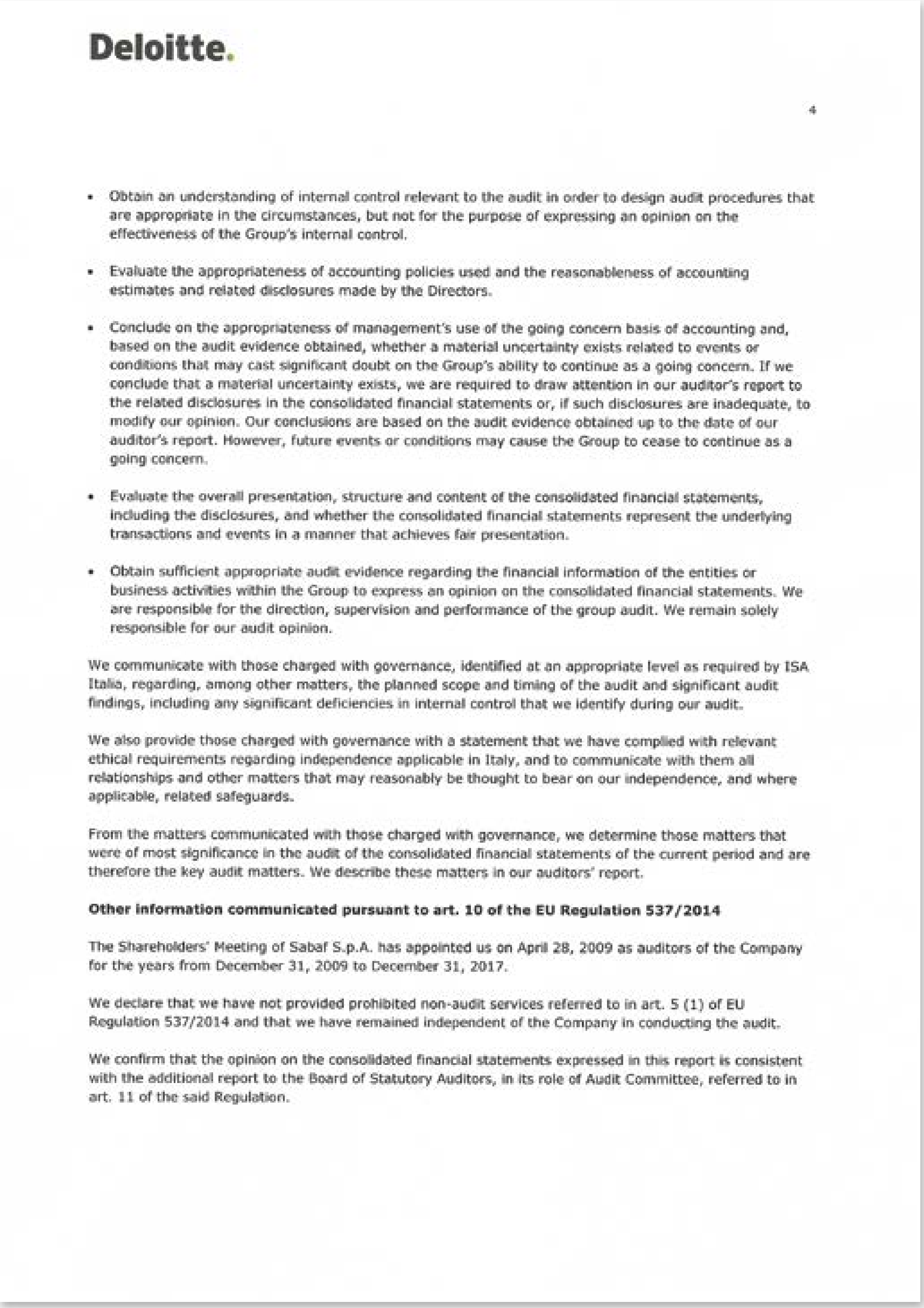
The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

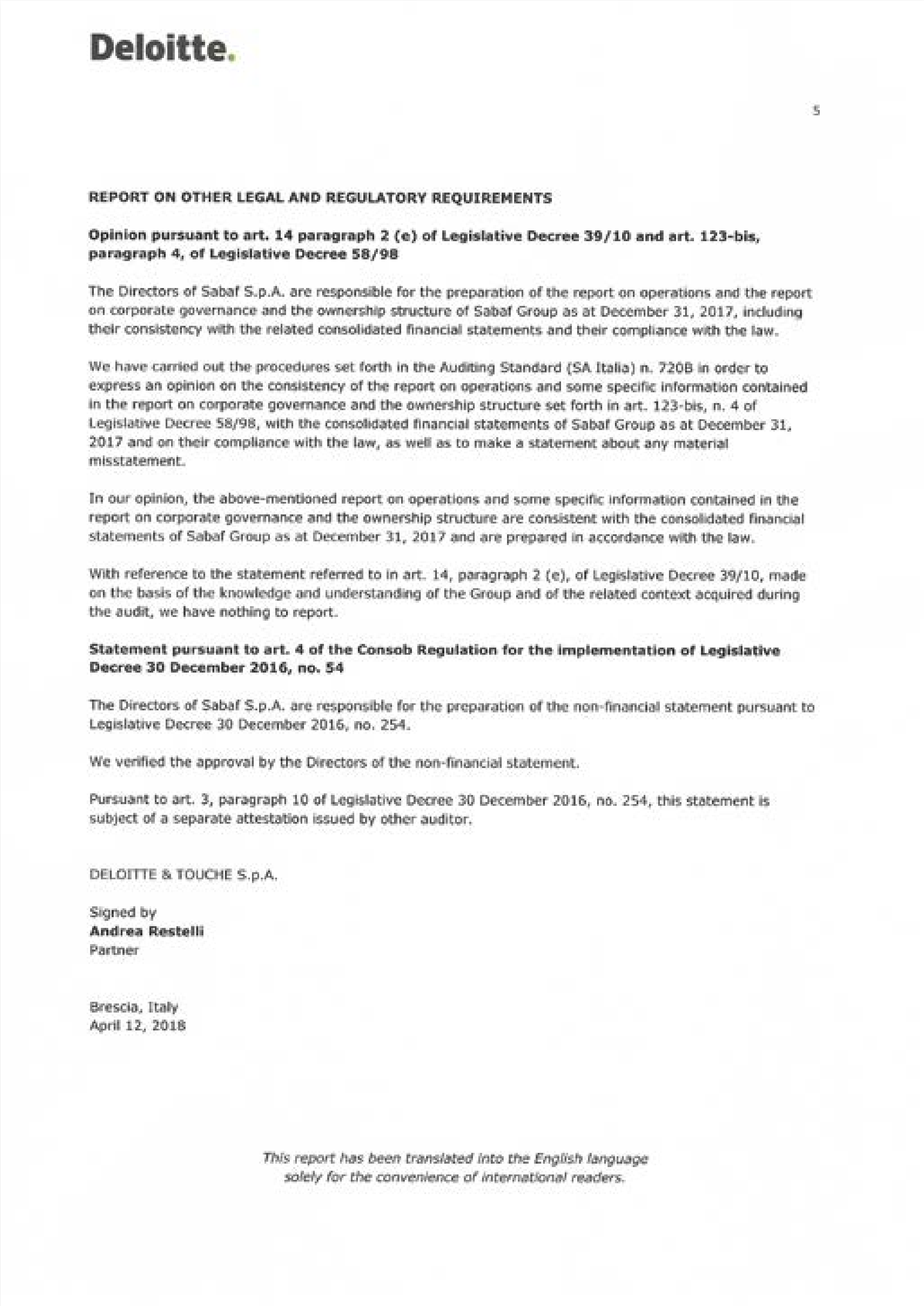
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of Sabaf S.p.A. has appointed us on April 28, 2009 as auditors of the Company for the years from December 31, 2009 to December 31, 2017.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.



Deloitte.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14 paragraph 2 (e) of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of Sabaf S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and the ownership structure of Sabaf Group as at December 31, 2017, including their consistency with the related consolidated financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and the ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98, with the consolidated financial statements of Sabaf Group as at December 31, 2017 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and the ownership structure are consistent with the consolidated financial statements of Sabaf Group as at December 31, 2017 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the Group and of the related context acquired during the audit, we have nothing to report.

Statement pursuant to art. 4 of the Consob Regulation for the implementation of Legislative Decree 30 December 2016, no. 54

The Directors of Sabaf S.p.A. are responsible for the preparation of the non-financial statement pursuant to Legislative Decree 30 December 2016, no. 254.

We verified the approval by the Directors of the non-financial statement.

Pursuant to art. 3, paragraph 10 of Legislative Decree 30 December 2016, no. 254, this statement is subject of a separate attestation issued by other auditor.

DELOITTE & TOUCHE S.p.A.

Signed by
Andrea Restelli
Partner

Brescia, Italy
April 12, 2018

This report has been translated into the English language solely for the convenience of international readers.

Social

A major company like ours sets out to serve as a point of reference for society as a whole: we are committed to establishing a responsible and sustainable relationship with the local communities in which we operate.

Separate financial statements at 31 december 2017

Corporate bodies

Board of Directors

Chairman	Giuseppe Saleri
Vice Chairman	Cinzia Saleri
Vice Chairman	Ettore Saleri
Vice Chairman	Roberta Forzanini
Chief Executive Officer	Pietro Iotti
Director	Gianluca Beschi
Director *	Renato Camodeca
Director *	Giuseppe Cavalli
Director *	Fausto Gardoni
Director *	Anna Pendoli
Director *	Nicla Picchi
Director	Alessandro Potestà

Board of Statutory Auditors

Chairman	Antonio Passantino
Statutory Auditor	Luisa Anselmi
Statutory Auditor	Enrico Broli

Independent Auditor

Deloitte & Touche S.p.A.

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* Independent directors

Statement of financial position

(IN €)	NOTES	31.12.2017	31.12.2016
ASSETS			
Non-current assets			
Property, plant and equipment	1	31,610,510	31,092,204
Investment property	2	1,453,564	1,645,412
Intangible assets	3	3,370,260	3,095,000
Equity investments	4	49,451,811	50,098,459
Non-current financial assets	5	1,847,639	2,137,353
- of which from related parties	36	*1,667,639*	*1,897,353*
Non-current receivables		19,871	11,621
Deferred tax assets	21	3,455,483	3,315,263
TOTAL NON-CURRENT ASSETS		**91,209,138**	**91,395,312**
Current assets			
Inventories	6	24,768,927	23,492,840
Trade receivables	7	31,154,012	27,465,436
- of which from related parties	36	*1,208,883*	*1,191,581*
Tax receivables	8	2,229,708	2,477,294
- of which from related parties	36	*1,083,666*	*1,083,666*
Other current receivables	9	721,529	1,039,324
Current financial assets	10	1,067,429	1,060,000
- of which from related parties	36	*1,000,000*	*1,000,000*
Cash and cash equivalents	11	2,696,664	1,796,980
TOTAL CURRENT ASSETS		**62,638,269**	**57,331,874**
Assets held for sale		**0**	**0**
TOTAL ASSETS		**153,847,407**	**148,727,186**

SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	12	11,533,450	11,533,450
Retained earnings, other reserves		72,552,367	77,530,764
Profit for the year		8,001,327	2,459,688
TOTAL SHAREHOLDERS' EQUITY		**92,087,144**	**91,523,902**
Non-current liabilities			
Loans	14	16,297,969	17,281,379
Other financial liabilities	15	180,000	240,000
Post-employment benefit and retirement reserves	16	2,199,523	2,435,538
Provisions for risks and charges	17	369,482	322,979
Deferred tax liabilities	21	67,983	129,289
TOTAL NON-CURRENT LIABILITIES		**19,114,957**	**20,409,185**
Current liabilities			
Loans	14	18,927,558	14,054,604
- of which from related parties	36	*2,100,000*	*0*
Other financial liabilities	15	74,849	298,161
Trade payables	18	16,569,390	16,010,381
- of which from related parties	36	*509,631*	*104,142*
Tax payables	19	623,013	641,944
Other payables	20	6,450,496	5,789,009
TOTAL CURRENT LIABILITIES		**42,645,306**	**36,794,099**
Liabilities held for sale		**0**	**0**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**153,847,407**	**148,727,186**

Income statement

(IN €)	NOTES	2017	2016
INCOME STATEMENT COMPONENTS			
Operating revenue and income			
Revenue	**23**	115,687,029	101,523,407
- of which from related parties	***36***	*10,238,606*	*6,680,209*
Other income	**24**	2,647,542	2,278,649
TOTAL OPERATING REVENUE AND INCOME		**118,334,571**	**103,802,056**
Operating costs			
Materials	**25**	(46,554,625)	(36,875,454)
Change in inventories		1,276,087	(1,182,000)
Services	**26**	(27,603,637)	(26,031,824)
- of which by related parties	***36***	*(3,966,399)*	*(4,151,074)*
Payroll costs	**27**	(28,734,310)	(26,382,450)
Other operating costs	**28**	(715,296)	(647,178)
Costs for capitalised in-house work		1,474,322	841,526
TOTAL OPERATING COSTS		**(100,857,459)**	**(90,277,380)**
OPERATING PROFIT BEFORE DEPRECIATION AND AMORTISATION, CAPITAL GAINS/LOSSES, WRITE-DOWNS/WRITE-BACKS OF NON-CURRENT ASSETS		**17,477,112**	**13,524,676**
Depreciations and amortisation	**1,2,3**	(8,843,617)	(9,020,829)
Capital gains/(losses) on disposals of non-current assets		97,873	87,113
Write-downs/write-backs of non-current assets	**29**	(681,628)	(521,021)
- of which by related parties	***36***	*(681,628)*	*(521,021)*
EBIT		**8,049,740**	**4,069,939**
Financial income		88,754	84,559
Financial expenses	**30**	(482,136)	(512,872)
Exchange rate gains and losses	**31**	(88,145)	(48,356)
Profits and losses from equity investments	**32**	1,503,354	0
PROFIT BEFORE TAXES		**9,071,567**	**3,593,270**
Income tax	**33**	(1,070,240)	(1,133,582)
PROFIT FOR THE YEAR		**8,001,327**	**2,459,688**

Comprehensive income statement

(IN €)	2017	2016
PROFIT FOR THE YEAR	**8,001,327**	**2,459,688**
Total profits/losses that will not be subsequently reclassified under profit (loss) for the year		
• Actuarial post-employment benefit reserve evaluation	73,372	(35,894)
• Tax effect	(17,609)	8,615
Total other profits/(losses) net of taxes for the year	**55,763**	**(27,279)**
TOTAL PROFIT	**8,057,090**	**2,432,409**

Statement of changes in shareholders' equity

(€/000)	Share Capital	Share premium reserve	Legal reserve	Treasury shares	Actuarial post-employment benefit reserve evaluation	Other reserves	Profit for the year	Total shareholders' equity
BALANCE AT 31 DEC 2015	**11,533**	**10,002**	**2,307**	**(723)**	**(506)**	**67,979**	**5,642**	**96,234**
Allocation of 2015 profit								
• dividends paid out							(5,467)	(5,467)
• to reserve						175	(175)	
Purchase of treasury shares				(1,676)				(1,676)
Total profit at 31 Dec 2016					(27)		2,460	2,433
BALANCE AT 31 DEC 2016	**11,533**	**10,002**	**2,307**	**(2,399)**	**(533)**	**68,154**	**2,460**	**91,524**
2017 dividend payment						(2,924)	(2,460)	(5,384)
Purchase of treasury shares				(2,110)				(2,110)
Total profit at 31 Dec 2017					56		8,001	8,057
TOTAL PROFIT AT 31 DEC 2017	**11,533**	**10,002**	**2,307**	**(4,509)**	**(477)**	**65,230**	**8,001**	**92,087**

Cash flow Statement

(€/000)	2017 FY	2016 FY
Cash and cash equivalents at beginning of year	**1,797**	**1,090**
Profit for the year	8,001	2,460
Adjustments for:		
• Depreciation and amortisation	8,844	9,021
• Realised gains	(98)	(87)
• Write-downs/write-backs of non-current assets	622	521
• Profits and losses from equity investments	(1,503)	
• Net financial income and expenses	393	428
• Non-monetary foreign exchange differences	23	(60)
• Income tax	1,070	1,133
Change in post-employment benefit reserve	(263)	(131)
Change in risk provisions	47	(3)
Change in trade receivables	*(3,689)*	*5,405*
Change in inventories	*(1,276)*	*1,182*
Change in trade payables	*559*	*(2,192)*
Change in net working capital	**(4,406)**	**4,395**
Change in other receivables and payables, deferred tax	830	367
Payment of taxes	(847)	(2450)
Payment of financial expenses	(456)	(474)
Collection of financial income	89	85
CASH FLOW FROM OPERATIONS	**12,554**	**15,205**
Investments in non-current assets		
• intangible	(1,099)	(735)
• tangible	(8,670)	(7,298)
• financial	-	(4,800)
Disposal of non-current assets	449	242
CASH FLOW ABSORBED BY INVESTMENTS	**(9,319)**	**(12,591)**
Repayment of loans	(10,607)	(19,077)
Raising of loans	14,273	24,243
Change in financial assets	(7)	69
Sale of treasury shares	(2,110)	(1,675)
Payment of dividends	(5,384)	(5,467)
Collection of dividends	1,500	-
CASH FLOW ABSORBED BY FINANCING ACTIVITIES	**(2,335)**	**(1,907)**
TOTAL FINANCIAL FLOWS	**900**	**707**
Cash and cash equivalents at end of year (Note 11)	**2,697**	**1,797**
Net current financial debt	15,239	11,496
Non-current financial debt	16,478	17,521
NET FINANCIAL DEBT (NOTE 22)	**31,717**	**29,017**

Explanatory notes

Accounting standards

STATEMENT OF COMPLIANCE AND BASIS OF PRESENTATION

The separate financial statements of Sabaf S.p.A. for the financial year 2017 have been prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Union. Reference to IFRS also includes all current International Accounting Standards (IAS).
The separate financial statements are drawn up in euro, which is the currency in the economy in which the Company operates. The income statement, the comprehensive income statement and the statement of financial position schedules are prepared in euro, while the cash flow statement, the statement of changes in shareholders' equity and the values reported in the explanatory notes are in thousands of euro.
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 assessed that it is a going concern (as defined by paragraphs 25 and 26 of IAS 1), also due to the strong competitive position, high profitability and solidity of the financial structure.
Sabaf S.p.A., as the Parent Company, also prepared the consolidated financial statements of the Sabaf Group at 31 December 2017.

FINANCIAL STATEMENTS

The Company 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 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 Company's capital, business and financial status.

ACCOUNTING POLICIES

The accounting standards and policies applied for the preparation of the separate financial statements at 31 December 2017, 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 plant	10
Specific plant and machinery	6 - 10
Equipment	4
Furniture	8
Electronic equipment	5
Vehicles and other transport means	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.

Investment property

Investment property is valued at cost, including revaluations undertaken in the past based on monetary revaluation rules or pursuant to company mergers.
The depreciation is calculated based on the estimated useful life, 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 of the cash-generating unit) is increased to the new value stemming 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.

Intangible assets

As established by IAS 38, 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.

Equity investments and non-current receivables

Equity investments not classified as held for sale are booked at cost, reduced for impairment.
Non-current receivables are stated at their presumed realisable value.

Impairment of value

At each end of the reporting period, Sabaf S.p.A. reviews the carrying value of its property, plant and equipment, intangible assets and equity investments 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 the recoverable value individually, the Company 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 Company prepares operating cash flow forecasts based on the most recent budgets approved by the Boards of Directors of the investees, draws up four-year forecasts and determines the terminal value (current value of perpetual income), which expresses the medium and long term operating flows in the specific sector.
Furthermore, the Company checks the recoverable value of its investees at least once a year when the separate financial statements are prepared.
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) is increased to the new value stemming 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.

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. Advance payments obtained with regard to the sale of trade receivables are recognised under current loans.

Current and non-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 as 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 Company 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 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 Company's business is exposed to financial risks relating to changes in exchange rates, commodity prices and interest rates. The Company may decide to use derivative financial instruments to hedge these risks.
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 Company'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 Company'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 that emerge from the taxable base of an asset or liability and its book value.
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 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 in a specific reserve 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.

Use of estimates

Preparation of the separate financial statements 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 at the end of the reporting period. Actual results might differ from these estimates.
Estimates are used to measure tangible and intangible assets and investments subject to impairment testing, as described earlier, as well as to measure the ability to recover prepaid tax assets, provisions for bad debts, for inventory obsolescence, depreciation and amortisation, asset write-downs, employee benefits, taxes, other provisions and reserves.
Specifically:

Recoverability of value of tangible and intangible assets and investments
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 an effect on liabilities for pension benefits.

Income tax
Determining liabilities for Company 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 Company 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, amendments and interpretations applicable from 1 January 2017

- Amendment to **IAS 7** ***"Disclosure Initiative"*** (published on 29 January 2016). 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.

- Amendment to **IAS 12** ***"Recognition of Deferred Tax Assets for Unrealised Losses"*** (published on 19 January 2016). The aim of the document is to provide some clarification on the recognition of deferred tax assets on unrealised losses in the measurement of financial assets in the "Available for Sale" category upon the occurrence of certain circumstances and on the estimate of taxable income for future years.

The adoption of these amendments did not have any effect on the Company's separate financial statements.

IFRS and IFRIC accounting standards, amendments and interpretations approved by the European Union, not yet universally applicable and not adopted early by the Company at 31 December 2017

- 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. The amendments to IFRS 15, Clarifications to IFRS 15 - Revenue from Contracts with Customers, were approved by the European Union on 6 November 2017.

On the basis of the analyses carried out, the directors expect that the application of IFRS 15 will have a minor impact on the amounts recorded as revenues and on the related disclosures in the Company's separate financial statements.

- Final version of **IFRS 9 – *Financial Instruments*** (published on 24 July 2014). The document includes the results of the IASB project designed to replace **IAS 39**:
  - introduces new methods for the classification and measurement of financial assets and liabilities (together with the measurement of non-substantial changes in financial liabilities);
  - with reference to the impairment model, the new standard requires that the estimate of credit losses be made on the basis of the expected losses model (and not on the basis of the incurred losses model used by IAS 39) using supportable information available without unreasonable effort or expense that include historical, current and future figures;
  - introduces a new hedge accounting model (increase in the types of transactions eligible for hedge accounting, changes in the method of recognition of forward contracts and options when included in a hedge accounting report, changes in efficacy tests).

  The new standard must be applied by financial statements from 1 January 2018 onwards.

On the basis of the analyses carried out, the directors expect that the application of **IFRS 9** will have a minor impact on the amounts and on the related disclosures in the Company's separate financial statements.

- Standard **IFRS 16 – *Leases*** (published on 13 January 2016), which will replace 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 already applied **IFRS 15** - ***Revenue from Contracts with Customers***.

The directors expect that the application of **IFRS 16** can have a significant impact on the amounts and on the relevant disclosures in the Company's separate statements. However, it is not possible to provide a reasonable estimate of the effects until the Company has completed a detailed analysis of the related contracts.

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

On the reference date of these separate 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.

- Amendment to **IFRS 2** "***Classification and measurement of share-based payment transactions***" (published on 20 June 2016), which contains some clarification on the recording of the effects of vesting conditions in the presence of cash-settled share-based payments, on the classification of share-based payments with net settlement characteristics and on the recording of amendments under the terms and conditions of a share-based payment that change their classification from cash-settled to equity-settled. The amendments apply from 1 January 2018. The directors do not expect a significant effect on the Company's separate financial statements through the adoption of these changes.

- Document "Annual Improvements to **IFRSs**: 2014-2016 Cycle", published on 8 December 2016 (including **IFRS 1** ***First-Time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters, IAS 28 Investments in Associates and Joint Ventures – Measuring investees at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice***, **IFRS 12** ***Disclosure of Interests in Other Entities – Clarification of the scope of the Standard***) which partially integrate the existing standards. Most of the amendments apply from 1 January 2018. The directors do not expect a significant effect on the Company's separate financial statements through the adoption of these amendments.

- **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.

- 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. These amendments are applicable from 1 January 2018. The directors do not expect a significant effect on the Company's separate financial statements through the adoption of these changes.

- On 7 June 2017, **IASB** published the clarification document **IFRIC 23** ***– Uncertainty over Income Tax Treatments***. The document deals with uncertainties about the tax treatment of income taxes. The document requires that uncertainties in determining deferred tax assets and liabilities be reflected in the financial statements only when it is probable that the entity will pay or recover the amount in question. Moreover, the document does not contain any new disclosure requirement but emphasises that an entity will have to determine whether it will be necessary to disclose information on management considerations and on the uncertainty relating to tax accounting in accordance with IAS 1. The new interpretation applies from 1 January 2019, but early application is permitted.

- Amendment to **IFRS 9** ***"Prepayment Features with Negative Compensation*** (published on 12 October 2017). This document specifies the instruments that envisage early repayment that could comply with the "SPPI" test even if the "reasonable additional compensation" to be paid in the event of early repayment is a "negative compensation" for the lender. The amendment applies from 1 January 2019, but early application is permitted. The directors do not expect a significant effect on the Company's separate financial statements through the adoption of these changes.

- Amendment to **IAS 28** ***"Long-term Interests in Associates and Joint Ventures"*** (published on 12 October 2017)". This document clarifies the need to apply IFRS 9, including the requirements of impairment, to other long-term interests in associate companies and joint ventures that are not accounted for under the equity method. The amendment applies from 1 January 2019, but early application is permitted. The directors do not expect a significant effect on the Company's separate financial statements through the adoption of these changes.

- Document "Annual Improvements to **IFRSs** 2015-2017 Cycle", published on 12 December 2017 (including **IFRS 3** ***Business Combinations*** and **IFRS 11** ***Joint Arrangements – Remeasurement of previously held interest in a joint operation***, **IAS 12** ***Income Taxes – Income tax consequences of payments on financial instruments classified as equity***, **IAS 23** ***Borrowing costs Disclosure of Interests in Other Entities – Borrowing costs eligible for capitalisation***) which implements changes to some standards as part of the annual process of improving them. The amendments apply from 1 January 2019 but early application is permitted. The directors do not expect a significant effect on the Company's separate financial statements through the adoption of these changes.

Comments on the main items of the statement of financial position

1. PROPERTY, PLANT AND EQUIPMENT

	Property	Plant and equipment	Other assets	Assets under construction	Total
COST					
AT 31 DECEMBER 2015	**6,275**	**155,364**	**30,574**	**1,672**	**193,885**
Increases	53	5,325	1,462	758	7,598
Disposals	(1)	(2,982)	(236)	-	(3,219)
Reclassification	-	684	19	(1,003)	(300)
AT 31 DECEMBER 2016	**6,327**	**158,391**	**31,819**	**1,427**	**197,964**
Increases	56	5,347	1,770	1,785	8,958
Disposals	-	(721)	(430)	(33)	(1,184)
Reclassification	18	551	59	(883)	(255)
AT 31 DECEMBER 2017	**6,401**	**163,568**	**33,218**	**2,296**	**205,483**
ACCUMULATED DEPRECIATION					
AT 31 DECEMBER 2015	**2,711**	**131,920**	**27,314**	**-**	**161,945**
Depreciations for the year	176	6,200	1,702	-	8,078
Eliminations for disposals	-	(2,973)	(178)	-	(3,151)
AT 31 DECEMBER 2016	**2,887**	**135,147**	**28,838**	**-**	**166,872**
Depreciations for the year	177	6,221	1,521	-	7,920
Eliminations for disposals	-	(525)	(395)	-	(920)
AT 31 DECEMBER 2017	**3,064**	**140,843**	**29,965**	**-**	**173,872**
NET CARRYING VALUE					
AT 31 DECEMBER 2017	**3,337**	**22,725**	**3,253**	**2,296**	**31,611**
AT 31 DECEMBER 2016	**3,440**	**23,244**	**2,981**	**1,427**	**31,092**

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

	31.12.2017	31.12.2016	CHANGE
Land	1,291	1,291	-
Industrial buildings	2,046	2,149	(103)
TOTAL	**3,337**	**3,440**	**(103)**

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. Investments in maintenance and replacement, so that production equipment is kept constantly up to date and efficient, are systematic.
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 2017, the Company 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 2015	**6,675**
Increases	-
Disposals	-
AT 31 DECEMBER 2016	**6,675**
Increases	-
Disposals	-
AT 31 DECEMBER 2017	**6,675**

ACCUMULATED DEPRECIATIONS	
AT 31 DECEMBER 2015	**4,838**
Depreciations for the year	192
AT 31 DECEMBER 2016	**5,030**
Depreciations for the year	191
AT 31 DECEMBER 2017	**5,221**

NET CARRYING VALUE	
AT 31 DECEMBER 2017	**1,454**
AT 31 DECEMBER 2016	**1,645**

This item includes non-operating buildings owned by the Group. During the year this item did not undergo any changes except for depreciations for the year.

At 31 December 2017, the Company 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

	Patents, know-how and software	Development costs	Other intangible assets	Total
COST				
AT 31 DECEMBER 2015	**6,113**	**4,676**	**1,807**	**12,596**
Increases	108	313	53	474
Reclassifications	54	(87)	207	174
Decreases	-	-	-	-
AT 31 DECEMBER 2016	**6,275**	**4,902**	**2,067**	**13,244**
Increases	243	441	161	845
Reclassifications	99		155	254
Decreases	(14)	(79)	(14)	(107)
AT 31 DECEMBER 2017	**6,603**	**5,264**	**2,369**	**14,236**
AMORTISATION AND WRITE-DOWNS				
AT 31 DECEMBER 2015	**5,619**	**2,347**	**1,432**	**9,398**
Amortisation	254	350	147	751
Decreases	-	-	-	-
AT 31 DECEMBER 2016	**5,873**	**2,697**	**1,579**	**10,149**
Amortisation	242	341	148	731
Decreases	(14)	-	-	(14)
AT 31 DECEMBER 2017	**6,101**	**3,038**	**1,727**	**10,866**
NET CARRYING VALUE				
AT 31 DECEMBER 2017	**502**	**2,226**	**642**	**3,370**
AT 31 DECEMBER 2016	**402**	**2,205**	**488**	**3,095**

Intangible assets have a finite useful life and, as a result, are amortised throughout their life. The main investments in the year relate to the development of new products, mainly related to the expansion of the range of burners (research and development activities carried out during the financial year are set out in the Report on Operations). Software investments include the implementation of a production scheduler and the application development of the Group management system (SAP). Other intangible assets refer, in the main, to improvements to third-party leased assets.

At 31 December 2017, the Company found no endogenous or exogenous indicators of impairment of its intangible assets. As a result, the value of property, plant and equipment was not submitted to impairment testing.

4. EQUITY INVESTMENTS

	31.12.2017	31.12.2016	CHANGE
In subsidiaries	49,417	50,039	(622)
Other equity investments	34	59	(25)
TOTAL	**49,451**	**50,098**	**(647)**

The change in equity investments in subsidiaries is broken down in the table below:

	SABAF IMMOBILIARE	FARINGOSI HINGES	SABAF DO BRASIL	SABAF U.S.	SABAF APPLIANCE COMPONENTS (CHINA)	SABAF A.C. TRADING (CHINA)	SABAF TURKEY	A.R.C. S.R.L.	TOTAL
HISTORICAL COST									
AT 31 DECEMBER 2015	13,475	10,329	8,469	139	4,400	200	12,005	0	49,017
Purchase of equity investments	-	-	-	-	-	-	-	4,800	4,800
AT 31 DECEMBER 2016	13,475	10,329	8,469	139	4,400	200	12,005	4,800	53,817
Purchase of equity investments	-	-	-	-	-	-	-	-	0
AT 31 DECEMBER 2017	13,475	10,329	8,469	139	4,400	200	12,005	4,800	53,817
PROVISION FOR WRITE-DOWNS									
AT 31 DECEMBER 2015	0	0	0	0	3,257	0	0	0	3,257
Write-downs (Note 28)	-	-	-	-	521	-	-	-	521
AT 31 DECEMBER 2016	0	0	0	0	3,778	0	0	0	3,778
Write-downs (Note 28)	-	-	-	-	622	-	-	-	622
AT 31 DECEMBER 2017	0	0	0	0	4,400	0	0	0	4,400
NET CARRYING VALUE									
AT 31 DECEMBER 2017	13,475	10,329	8,469	139	0	200	12,005	4,800	49,417
AT 31 DECEMBER 2016	13,475	10,329	8,469	139	622	200	12,005	4,800	50,039
PORTION OF SHAREHOLDERS' EQUITY (CALCULATED IN COMPLIANCE WITH IFRS)									
AT 31 DECEMBER 2017	30,061	6,248	10,409	(79)	(60)	251	16,449	3,200	66,479
AT 31 DECEMBER 2016	30,027	5,546	10,628	(25)	683	266	14,805	3,025	64,955
DIFFERENCE BETWEEN SHAREHOLDERS' EQUITY AND CARRYING VALUE									
AT 31 DECEMBER 2017	16,586	(4,081)	1,940	(218)	(60)	51	4,444	(1,600)	17,062
AT 31 DECEMBER 2016	16,552	(4,783)	2,159	(164)	61	66	2,800	(1,775)	14,916

Faringosi Hinges s.r.l

In 2017, the Faringosi Hinges achieved very positive and better results, in terms of sales and profitability, both compared to the previous year and compared to the budget. The 2018-2022 forward plan, drafted at the beginning of 2018, envisages a further increase in sales. Profitability is expected to decline in 2018, following the devaluation of the dollar (the currency in which more than 40% of sales are denominated) and the increase in the price of steel, before gradually recovering in subsequent years. At 31 December 2017, Sabaf S.p.A. tested the carrying value of the equity investment for impairment, determining its recoverable value, considered to be equivalent to its usable value plus available liquidity, by discounting expected future cash flows in the forward plan drafted by the management. Cash flows for the period from 2018 to 2022 were augmented by the so-called terminal value, which expresses the operating flows that the investee 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 9.18% (7.76% in the impairment test conducted while drafting the separate financial statements at 31 December 2016) 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 € 12.279 million, compared with a carrying value of the equity investment of € 10.329 million; consequently, the value recorded for equity investment at 31 December 2017 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%
8.18%	13,466	13,888	14,341	14,830	15,358
8.68%	12,490	12,851	13,237	13,651	14,096
9.18%	11,635	11,847	12,279	12,634	13,013
9.68%	10,882	11,154	11,442	11,748	12,074
10.18%	10,213	10,451	10,703	10,969	11,252

Sabaf do Brasil

In 2017, Sabaf do Brasil continued to obtain positive results, which improved compared with 2016. The decrease in shareholders' equity (converted into euros at the end-of-year exchange rate) is entirely attributable to the devaluation of the Brazilian real.

Sabaf U.S.

The subsidiary Sabaf U.S. operates as a commercial support for North America.
The difference between the carrying value and the shareholders' equity of the investee is attributable to the non-durable losses taking into consideration expected development on the North American market.

Sabaf Appliance Components

Sabaf Appliance Components (Kunshan) Co., Ltd. has been producing burners for the Chinese market since 2015. Furthermore, the company has performed the function as distributor on the Chinese market of Sabaf products manufactured in Italy and Turkey. Low production volumes have enabled the company to reach the break-even point in 2017. At 31 December 2017, the value of the equity investment decreased by € 622,000, zeroing the value of shareholders' equity at the end of the year, in that the loss was considered permanent.

Sabaf Appliance Components Trading

Sabaf Appliance Components Trading (Kunshan) Co., Ltd., was founded during 2012 in order to perform the function as distributor. During 2015, this activity was centralised at Sabaf Appliance Components; however, the company went into liquidation; the process of liquidation will end in 2018.

Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki (Sabaf Turchia)

Sabaf Turkey achieved extremely satisfactory results in 2017 as well. The conversion into euro of the shareholders' equity at the end of the financial year was affected by the strong devaluation of the Turkish lira at the end of 2017; however, the shareholders' equity remains higher than the carrying value of the equity investment.

A.R.C. s.r.l.

In June 2016, the Company 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 Sabaf 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 Sabaf Group.

At 31 December 2017, the Company tested the carrying value of the equity investment for impairment, determining its recoverable value, considered to be equivalent to its usable value plus available liquidity, by discounting expected future cash flows in the forward plan drafted at the beginning of 2018. Cash flows for the period from 2018 to 2022 were augmented by the so-called terminal value, which expresses the operating flows that the investee 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 6.90% (5.79% in the impairment test carried out while drafting the separate financial statements at 31 December 2016) and a growth rate (g) of 1.50%, in line with last year.

The portion pertaining to Sabaf S.p.A. of the recoverable value calculated on the basis of the above-mentioned assumptions and valuation techniques is € 8.746 million (70% of total recoverable value, equal to € 12.495 million), compared with a carrying value of the equity investment of € 4.8 million; consequently, the carrying value recorded for equity investment at 31 December 2017 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%
5.90%	13,929	14,531	15,201	15,951	16,798
6.40%	12,692	13,176	13,709	14,299	14,957
6.90%	11,667	12,063	12,495	12,970	13,493
7.40%	10,804	11,133	11,490	11,879	12,303
7.90%	10,067	10,345	10,643	10,967	11,317

As part of the acquisition of 70% of A.R.C. S.r.l., Sabaf S.p.A. 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.

The option for the purchase of the residual 30% of A.R.C. represents a derivative instrument; since the exercise price defined by contract was considered representative of the fair value of the portion that can be potentially acquired, no value was recorded in the separate financial statements ended 31 December 2017.

5. NON-CURRENT FINANCIAL ASSETS

	31.12.2017	31.12.2016	CHANGE
Financial receivables from subsidiaries	1,668	1,897	(229)
Escrow bank account	180	240	(60)
TOTAL	**1,848**	**2,137**	**(289)**

At 31 December 2017 and at 31 December 2016, financial receivables from subsidiaries consist of an interest-bearing loan of USD 2 million, granted to the subsidiary Sabaf do Brasil with the aim of optimising the Group's exposure to foreign exchange rate risk and whose maturity, originally expected for 31 March 2017, was postponed to 14 March 2019.

As part of the acquisition of 70% of A.R.C., Sabaf S.p.A. deposited in an escrow account the total amount of € 300,000. This amount was deducted from the consideration agreed to guarantee the commitments assumed by the sellers and will be released in favour of the sellers at constant rates in 4 years (Note 15). At 31 December 2017, the portion due beyond 12 months amounted to € 180,000.

6. INVENTORIES

	31.12.2017	31.12.2016	CHANGE
Commodities	8,795	7,455	1,340
Semi-processed goods	9,115	9,310	(195)
Finished products	8,789	8,773	16
Obsolescence provision	(1,930)	(2,045)	115
TOTAL	**24,769**	**23,493**	**1,276**

The value of final inventories at 31 December 2017 increased compared to the end of the previous year to meet the higher volumes of activity. The obsolescence provision is mainly allocated for hedging the obsolescence risk, quantified on the basis of specific analyses carried out at the end of the year on slow-moving and non-moving products, and refers to raw materials for € 453,000, semi-finished products for € 536,000 and finished products for € 941,000.

7. TRADE RECEIVABLES

	31.12.2017	31.12.2016	CHANGE
Total trade receivables	31,754	28,065	3,689
Bad debt provision	(600)	(600)	0
NET TOTAL	**31,154**	**27,465**	**3,689**

At 31 December 2017, trade receivables included balances totalling USD 3,656,000, booked at the EUR/USD exchange rate in effect on 31 December 2017, i.e. 1.1993. The amount of trade receivables recognised in the financial statements includes approximately € 22 million of insured receivables (€ 14 million at 31 December 2016).

The bad debt provision is considered adequate to cover the credit risk at the end of the reporting period, unchanged from the previous year.

Trade receivables at 31 December 2017 were higher than at the end of 2016 subsequent to higher sales. There were no significant changes in average payment terms agreed with customers.

	31.12.2017	31.12.2016	CHANGE
Current receivables (not past due)	28,591	24,378	4,213
Outstanding up to 30 days	1,524	2,242	(718)
Outstanding from 31 to 60 days	754	184	570
Outstanding from 61 to 90 days	519	64	455
Outstanding for more than 90 days	366	1,197	(831)
TOTAL	**31,754**	**28,065**	**3,689**

8. TAX RECEIVABLES

	31.12.2017	31.12.2016	CHANGE
For income tax	1,644	2,075	(431)
For VAT and other sales taxes	586	402	184
TOTAL	**2,230**	**2,477**	**(247)**

The income tax receivables derives for € 1,153,000 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 an application for a refund was presented and, for the residual part, to the payments on account on 2017 income, for the part exceeding the tax to be paid.

9. OTHER CURRENT RECEIVABLES

	31.12.2017	31.12.2016	CHANGE
Credits to be received from suppliers	351	678	(327)
Advances to suppliers	28	54	(26)
Due from INAIL	21	58	(37)
Other	322	249	73
TOTAL	**722**	**1,039**	**(317)**

At 31 December 2017, credits to be received from suppliers included € 248,000 related to the relief due to the Company as an energy-intensive business (so-called "energy-intensive bonuses") for the years 2016 and 2017. "Energy-intensive bonuses" due for the years 2014 and 2015 were regularly collected during 2017.

10. CURRENT FINANCIAL ASSETS

	31.12.2017	31.12.2016	CHANGE
Financial receivables from subsidiaries	1,000	1,000	-
Escrow bank account (Note 5)	60	60	-
Interest rates derivatives	7	-	7
TOTAL	**1,067**	**1,060**	**7**

At 31 December 2017 and at 31 December 2016, financial receivables from subsidiaries consist of an interest-bearing loan of € 1 million to Sabaf Appliance Components Co., Ltd. to support the Chinese subsidiary's working capital. The loan has a term of 12 months and was renewed in December 2017 for the same period. The receivable is considered recoverable in that the Chinese subsidiary is expected to generate sufficient cash flows to repay this loan in future years.

11. CASH AND CASH EQUIVALENTS

The item Cash and cash equivalents, equal to € 2,697,000 at 31 December 2017 (€ 1,797,000 at 31 December 2016) refers almost exclusively to bank current account balances.

12. SHARE CAPITAL

At 31 December 2017, the 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 148,630 treasury shares at an average unit price of € 14.20; there have been no sales.
At 31 December 2017, the Company held 381,769 treasury shares, equal to 3.31% of share capital (233,139 treasury shares at 31 December 2016), reported in the financial statements as an adjustment to shareholders' equity at a unit value of € 11.81 (the market value at year-end was € 19.91). There were 11,151,681 outstanding shares at 31 December 2017 (11,300,311 at 31 December 2016).

14. LOANS

	31.12.2017		31.12.2016	
	current	non current	current	non current
Unsecured loans	5,982	16,298	6,656	17,281
Short-term bank loans	10,846	-	7,397	-
Sabaf Turkey loan	2,100	-	-	-
Advances on bank receipts or invoices	-	-	2	-
TOTAL	**18,928**	**16,298**	**14,055**	**17,281**

During the financial year, the Company signed an unsecured loan totalling € 5 million repayable in five years in quarterly fixed instalments, at a fixed rate of 1.02%.
Two of the outstanding unsecured loans amounting to € 9 million at 31 December 2017 have 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 2017.

All outstanding bank loans are denominated in euro, with the exception of a short-term loan of USD 2 million.
As part of the Group's financial management, in 2017 a loan agreement was also signed with the Turkish subsidiary for a total amount of € 2,100,000, expiring on 21 September 2018.
Note 36 provides information on financial risks, pursuant to IFRS 7.

15. OTHER FINANCIAL LIABILITIES

	31.12.2017		31.12.2016	
	current	non current	current	non current
Payables to A.R.C. shareholders	60	180	60	240
Currency derivatives	-	-	201	-
Derivative instruments on interest rates	15	-	37	-
TOTAL	**75**	**180**	**298**	**240**

The payable to the A.R.C. shareholders of € 240,000 at 31 December 2017 is related to the part of the price still to be paid to the sellers, which was deposited on an escrow account (Note 5) and will be released in favour of the sellers at constant rates in 4 years, in accordance with contractual agreements and guarantees issued by the sellers.

Other financial liabilities also include the negative fair value of two IRSs hedging rate risks of unsecured loans pending, for residual notional amounts of approximately € 5.4 million and expiry until 31 December 2021. Financial expenses in the same amount were recognised in the income statement.

16. POST-EMPLOYMENT BENEFIT RESERVE

	31.12.2017	31.12.2016	CHANGE
Post-employment benefit reserve	2,200	2,436	(236)
TOTAL	**2,200**	**2,436**	**(236)**

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

	31.12.2017	31.12.2016
Discount rate	1.15%	1.15%
Inflation	1.80%	1.75%

Demographic theory

	31.12.2017	31.12.2016
Mortality rate	ISTAT 2016 M/F	ISTAT 2010 M/F
Disability rate	INPS 1998 M/F	INPS 1998 M/F
Staff turnover	6%	6%
Advance payouts	5% per year	5% per year
Retirement age	pursuant to legislation in force on 31 December 2017	pursuant to legislation in force on 31 December 2016

17. PROVISIONS FOR RISKS AND CHARGES

	31.12.2016	PROVISIONS	UTILISATION	RELEASE OF EXCESS	31.12.2017
Reserve for agents' indemnities	213	15	(11)	(18)	199
Product guarantee fund	60	11	(11)	-	60
Provision for risks on equity investments	-	60	-	-	60
Reserve for legal risks	50	-	-	-	50
TOTAL	**323**	**86**	**(22)**	**(18)**	**369**

The reserve for agents' indemnities covers amounts payable to agents if the Company terminates the agency relationship.

The product guarantee fund covers the risk of returns or charges by customers for products already sold.

The provision for risks on equity investments was set-aside to cover future outlays to restore the shareholders' equity of the Chinese subsidiary Sabaf Appliance Components, which was negative at 31 December 2017.

The reserve for legal risks is allocated for disputes of a modest size.

The provisions booked to the provisions for risks, which represent the estimate of future payments made based on historical experience, have not been discounted because the effect is considered negligible.

18. TRADE PAYABLES

	31.12.2017	31.12.2016	CHANGE
TOTAL	**16,569**	**16,010**	**559**

Average payment terms did not change versus the previous year. The amount of trade payables in currencies other than the euro is not significant. At 31 December 2017, there were no overdue payables of a significant amount and the Company did not receive any injunctions for overdue payables.

19. TAX PAYABLES

	31.12.2017	31.12.2016	CHANGE
To inland revenue for IRPEF tax deductions	569	642	(73)
Other tax payables	54	-	54
TOTAL	**623**	**642**	**(19)**

20. OTHER CURRENT PAYABLES

	31.12.2017	31.12.2016	CHANGE
To employees	3,931	3,472	459
To social security institutions	2,063	1,937	126
Advances from customers	64	108	(44)
To agents	165	241	(76)
Other current payables	227	31	196
TOTAL	**6,450**	**5,789**	**661**

At the beginning of 2018, payables due to employees and social security institutions were paid in accordance with the scheduled expiry dates.

21. DEFERRED TAX ASSETS AND LIABILITIES

	31.12.2017	31.12.2016
Deferred tax assets	3,455	3,315
Deferred tax liabilities	(68)	(129)
NET POSITION	**3,387**	**3,186**

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

	Amortisation and leasing	Provisions and value adjustments	Fair value of derivative instruments	Goodwill	Actuarial post-employment benefit reserve evaluation	Other temporary differences	TOTAL
AT 31 DECEMBER 2015	**353**	**793**	**(19)**	**1,771**	**170**	**67**	**3,135**
To the income statement	40	(23)	76	-	-	(50)	43
To shareholders' equity	-	-	-	-	8	-	8
AT 31 DECEMBER 2016	**393**	**770**	**57**	**1,771**	**178**	**17**	**3,186**
To the income statement	(46)	149	(55)	-	(2)	172	218
To shareholders' equity	-	-	-	-	(17)	-	(17)
AT 31 DECEMBER 2017	**347**	**919**	**2**	**1,771**	**159**	**189**	**3,387**

Deferred tax assets relating to goodwill refer to the exemption of the value of the 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.

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:

		31.12.2017	31.12.2016	CHANGE
A.	Cash (Note 11)	5	4	1
B.	Positive balances of unrestricted bank accounts (Note 11)	2,692	1,793	899
C.	Other cash equivalents	-	-	-
D.	**LIQUIDITY (A+B+C)**	**2,697**	**1,797**	**900**
E.	**CURRENT FINANCIAL RECEIVABLES**	**1,067**	**1,060**	**7**
F.	Current bank payables (Note 14)	12,946	7,399	5,547
G.	Current portion of non-current debt (Note 14)	5,982	6,656	(674)
H.	Other current financial payables (Note 15)	75	298	(223)
I.	**CURRENT FINANCIAL DEBT (F+G+H)**	**19,003**	**14,353**	**4,650**
J.	**NET CURRENT FINANCIAL POSITION (I-D-E)**	**15,239**	**11,496**	**3,743**
K.	Non-current bank payables (Note 14)	16,298	17,281	(983)
L.	Other non-current financial payables	180	240	(60)
M.	**NON-CURRENT FINANCIAL DEBT (K+L)**	**16,478**	**17,521**	**(1,043)**
N.	**NET FINANCIAL DEBT (J+M)**	**31,717**	**29,017**	**2,700**

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

Comments on key income statement items

23. REVENUE

In 2017, sales revenues totalled € 115,687,000, up by € 14,164,000 (+14%) compared with 2016.

Revenue by geographical area

	2017	%	2016	%	% CHANGE
Italy	29,587	25.6%	31,431	30.9%	-5.9%
Western Europe	8,920	7.7%	6,868	6.8%	+29.9%
Eastern Europe and Turkey	35,655	30.8%	27,365	26.9%	+30.3%
Asia and Oceania (excluding Middle East)	9,570	8.3%	7,064	7.0%	+35.5%
Central and South America	11,331	9.8%	10,373	10.2%	+9.2%
Middle East and Africa	12,703	11.0%	11,254	11.1%	+12.9%
North America and Mexico	7,921	6.8%	7,168	7.1%	+10.5%
TOTAL	**115,687**	**100%**	**101,523**	**100%**	**+14.0%**

Revenue by product family

	2017	%	2016	%	% CHANGE
Brass valves	5,992	5.2%	9,002	8.9%	-33.4%
Light alloy valves	39,219	33.9%	32,406	31.9%	+21.0%
Thermostats	7,365	6.4%	7,690	7.6%	-4.2%
TOTAL VALVES AND THERMOSTATS	**52,576**	**45.4%**	**49,098**	**48.4%**	**7.1%**
Standard burners	25,127	21.7%	21,483	21.2%	+17.0%
Special burners	24,136	20.9%	19,438	19.1%	+24.2%
TOTAL BURNERS	**49,263**	**42.6%**	**40,921**	**40.3%**	**+20.4%**
Accessories and other revenues	***13,848***	***11.9%***	***11,504***	***11.3%***	***+20.4%***
TOTAL	**115,687**	**100%**	**101,523**	**100.0%**	**+14.0%**

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 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.

In 2017, all markets recorded double-digit growth rates; Italy, where sales are slightly down 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 on average 0.7% lower compared with 2016.

24. OTHER INCOME

	2017	2016	CHANGE
Sale of trimmings	1,457	958	499
Services to subsidiaries	378	154	224
Contingent income	97	136	(39)
Rental income	89	85	4
Use of provisions for risks and charges	39	88	(49)
Services to parent company	10	10	-
Other income	578	848	(270)
TOTAL	**2,648**	**2,279**	**369**

The increase in income from the sale of trimmings is directly related to higher production volumes and to the increase in the price of raw materials.
Services to subsidiaries and to the parent company refer to administrative, commercial and technical services within the scope of the Group.
Other income includes the charge to customers for sharing the development and industrialisation of new products.

25. MATERIALS

	2017	2016	CHANGE
Commodities and outsourced components	42,973	33,692	9,281
Consumables	3,582	3,183	399
TOTAL	**46,555**	**36,875**	**9,680**

In 2017, the effective purchase prices of the main raw materials (aluminium alloys, steel and brass) were on average higher than in 2016, with a negative impact of 0.8% of sales. Consumption (purchases plus change in inventories) as a percentage of sales was 41.3% in 2017, compared with 37.5% in 2016.

26. COSTS FOR SERVICES

	2017	2016	CHANGE
Outsourced processing	8,681	7,587	1,094
Property rental	3,974	3,995	(21)
Electricity and natural gas	3,314	3,526	(212)
Maintenance	3,296	2,813	483
Advisory services	1,676	1,377	299
Transport and export expenses	1,408	1,134	274
Directors' fees	881	1,061	(180)
Insurance	444	562	(118)
Commissions	533	545	(12)
Travel expenses and allowances	550	478	72
Waste disposal	358	352	6
Canteen	296	282	14
Temporary agency workers	180	99	81
Other costs	2,013	2,221	(208)
TOTAL	**27,604**	**26,032**	**1,572**

The higher costs for outsourced processing were related to the increase in production volumes in Italy. The reduction in energy costs is due to the recognition of "energy-intensive bonuses" for 2016 and 2017 for a total of € 248,000, of which € 78,000 relating to the "2016 energy-intensive bonuses" which was not recognised in the 2016 financial statements because the collectability was uncertain at the end of the reporting period. The increase in maintenance costs was due to activities in progress for the ongoing adaptation of plants, machinery and equipment. 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 (€ 414,000), sales (€ 342,000) and legal, administrative and general (€ 920,000) services.

27. PAYROLL COSTS

	2017	2016	CHANGE
Salaries and wages	19,540	18,322	1,218
Social Security costs	6,249	5,959	290
Temporary agency workers	1,477	845	632
Post-employment benefit reserve and other costs	1,468	1,256	212
TOTAL	**28,734**	**26,382**	**2,352**

Average of the Company headcount in 2017 totalled 514 employees (394 blue-collars, 110 white-collars and supervisors, 10 managers), compared with 543 in 2016 (424 blue-collars, 110 white-collars and supervisors, 9 managers). The average number of temporary staff, with supply contract, was 42 in 2017 (26 in 2016).

During the financial year, the Company made only negligible use of the solidarity contract and temporary lay-off scheme, whereas in 2016 these institutions, used in periods characterised by low production requirements, made it possible to save personnel costs of € 689,000.

28. OTHER OPERATING COSTS

	2017	2016	CHANGE
Losses and write-downs of trade receivables	49	171	(122)
Non-income related taxes and duties	238	181	57
Contingent liabilities	138	56	82
Provisions for risks	26	85	(59)
Other operating expenses	264	154	110
TOTAL	**715**	**647**	**68**

Non-income taxes mainly include IMU, TASI and the tax for the disposal of urban solid waste. Provisions for risks and other provisions relate to sums set aside for the risks described in Note 17.

29. WRITE-DOWNS/WRITE-BACKS OF NON-CURRENT ASSETS

	2017	2016	CHANGE
Write-down of Sabaf Appliance Components	(622)	(521)	(101)
Allocation to risk provisions on equity investments	(60)	-	(60)
TOTAL	**(682)**	**(521)**	**(161)**

The write-down of the equity investment in Sabaf Appliance Components and the allocation to the relevant provision are commented on in Note 4 and 17, to which reference is made.

30. FINANCIAL EXPENSES

	2017	2016	CHANGE
Interest paid to banks	244	241	3
Banking expenses	209	229	(20)
Other financial expense	29	43	(14)
TOTAL	**482**	**513**	**(31)**

31. EXCHANGE RATE GAINS AND LOSSES

During the 2017 financial year, the Company reported net foreign exchange losses of € 88,000 (net loss of € 48,000 in 2016).

32. PROFITS AND LOSSES FROM EQUITY INVESTMENTS

	2017	2016	CHANGE
Dividends received from Sabaf Immobiliare	1,500	-	1,500
Other profits from equity investments	3	-	3
TOTAL	**1,503**	**-**	**1,503**

33. INCOME TAX

	2017	2016	CHANGE
Current taxes	1,791	1,314	477
Deferred tax assets and liabilities	(219)	(43)	(176)
Taxes related to previous financial years	(502)	(137)	(365)
TOTAL	**1,070**	**1,134**	**(64)**

Current taxes include IRES of € 1,436,000 and IRAP of € 355,000 (€ 1,034,000 and € 280,000 respectively in 2016).

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:

	2017	2016
Theoretical income tax	2,177	988
Permanent tax differences	(133)	4
Taxes related to previous financial years	88	(131)
"Patent box" tax effect	(1,151)	
"Superammortamento" tax benefit	(179)	-
Other differences	9	7
IRES (CURRENT AND DEFERRED)	**811**	**868**
IRAP (current and deferred)	259	266
TOTAL	**1,070**	**1,134**

Theoretical taxes were calculated applying the current corporate income tax (IRES) rate, i.e. 24% (27.50% in 2016), 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.

Following the prior agreement signed with the Revenue Agency, in 2017 the Company recognised the tax benefit relating to the Patent Box for the three-year period 2015 to 2017, for a total of € 1,324,000 (€ 1,151,000 for IRES and € 173,000 for IRAP), of which € 772,000 for 2015 and 2016 (Note 38) and € 552,000 for 2017.

No significant tax disputes were pending at 31 December 2017.

34. DIVIDENDS

On 31 May 2017, shareholders were paid an ordinary dividend of € 0.48 per share (total dividends of € 5,384,000).
The Directors have recommended payment of a dividend of € 0.55 per share this year. This dividend is subject to approval of shareholders in the annual Shareholders' Meeting and was not included under liabilities in these financial statements.
The dividend proposed is scheduled for payment on 30 May 2018 (ex-date 28 May and record date 29 May).

35. SEGMENT REPORTING

Within the Sabaf Group, the Company operates exclusively in the gas parts segment for household cooking. The information in the consolidated financial statements is divided between the various segments in which the Group operates.

36. 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.

	31.12.2017	31.12.2016
FINANCIAL ASSETS		
Income statement fair value		
• Derivative cash flow hedges (on currency)	7	-
AMORTISED COST		
• Cash and cash equivalents	2,697	1,797
• Trade receivables and other receivables	31,876	28,505
• Non-current loans	1,668	1,897
• Current loans	1,000	1,000
• Other financial assets	240	300
FINANCIAL LIABILITIES		
Income statement fair value		
• Derivative cash flow hedges (on currency)	-	201
• Derivative cash flow hedges (on interest rates)	15	37
AMORTISED COST		
• Loans	35,226	31,336
• Other financial liabilities	240	300
• Trade payables	16,569	16,010

The Company 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 Company operations.

It is part of Sabaf'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 Company 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 70% 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 main exchange rate to which the Company is exposed is the euro/USD in relation to sales made in dollars (mainly in North America) and, to a lesser extent, to some purchases (mainly from Asian manufacturers). Sales in US dollars represented 12% of total revenue in 2017, while purchases in dollars represented 5% of total revenue. During the year, operations in dollars were partially hedged through forward sales contracts; no currency derivatives were pending at 31 December 2017.

Sensitivity analysis

With reference to financial assets and liabilities in US dollars at 31 December 2017, a hypothetical and immediate revaluation of 10% of the euro against the dollar would have led to a loss of € 210,000.

Interest rate risk management

At 31 December 2017, gross financial debt of the Company was at a floating rate for approximately 35% and at a fixed rate for approximately 65%; to reach an optimum mix of floating and fixed rates in the structure of the loans, the Company also used derivative financial instruments. At 31 December 2017, three interest rate swap (IRS) contracts totalling € 9.4 million were in place, mirrored in mortgages with the same residual debt, through which the Company transformed the floating rate of the mortgages into fixed rate. Considering the IRS in place, at the end of 2017, the fixed-rate portion amounted to approximately 90% of the total financial debt. The derivative contracts were not designated as a cash flow hedge and were therefore recognised using the "fair value in the income statement" method.

Sensitivity analysis

At 31 December 2017, the sensitivity analysis concerned financial leases and the floating rate portion of the short-term financial debt. The Company is not exposed to interest rate risk with regard to medium/long-term bank debt, since the floating rate of loans has been transformed into a fixed rate through the interest rate swap contracts in place.

With reference to financial assets and liabilities at variable rate at 31 December 2017 and 31 December 2016, 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:

	31.12.2017	31.12.2016
	FINANCIAL EXPENSES	FINANCIAL EXPENSES
Increase of 100 base points	31	20
Decrease of 100 base points	(31)	-

Commodity price risk management

A significant portion of the purchase costs of the company is represented by brass and aluminium alloys. Sales prices of products are generally renegotiated annually; as a result, the Company is unable to immediately pass on to customers any changes in the prices of commodities during the year. The Company 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 2017 and 2016, the Company 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 2017 of 34%, net financial debt / EBITDA of 1.81) 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 2017 and 31 December 2016:

AT 31 DECEMBER 2017

	Carrying value	Contractual financial flows	Within 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years
Unsecured loans	22,280	22,676	1,537	4,612	16,527	-
Short-term bank loans	10,846	10,846	10,846	-	-	-
Short-term Sabaf Turkey loan	2,100	2,118	-	2,118	-	-
Payables to ARC shareholders	240	240	-	60	180	-
TOTAL FINANCIAL PAYABLES	**35,466**	**35,862**	**12,383**	**6,772**	**16,707**	**0**
Trade payables	16,569	16,569	15,615	954	-	-
TOTAL	**52,035**	**52,431**	**27,998**	**7,726**	**16,707**	**0**

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
Unsecured loans	23,937	24,388	1,709	5,129	17,550	-
Short-term bank loans	7,399	7,399	5,399	2,000	-	-
Payables to ARC shareholders	300	300	-	60	240	-
TOTAL FINANCIAL PAYABLES	**31,636**	**32,087**	**7,108**	**7,189**	**17,790**	**0**
Trade payables	16,010	16,010	15,373	637	-	-
TOTAL	**47,646**	**48,097**	**22,481**	**7,826**	**17,790**	**0**

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 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 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 2017, by hierarchical level of fair value assessment.

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Other financial assets (derivatives on interest rates)	-	7	-	7
Other financial liabilities (derivatives on interest rates)	-	(15)	-	(15)
Option on minorities A.R.C.	-	-	-	-
TOTAL ASSETS AND LIABILITIES AT FAIR VALUE	**0**	**(8)**	**0**	**(8)**

37. RELATIONS BETWEEN GROUP COMPANIES AND WITH RELATED PARTIES

The table below illustrates the impact of all transactions between Sabaf S.p.A. and other related parties on the balance sheet and income statement items and related parties, with the exception of the directors' fees, auditors and key management personnel which is stated in the Report on Remuneration.

Impact of related-party transactions or positions on statement of financial position items

	TOTAL 2017	SUBSIDIARIES	GIUSEPPE SALERI SAPA	OTHER RELATED PARTIES	TOTAL RELATED PARTIES	IMPACT ON THE TOTAL
Non-current financial assets	1,848	1,668	-	-	1,668	90.26%
Trade receivables	31,154	1,209	-	-	1,209	3.88%
Tax receivables	2,230	-	1,084	-	1,084	48.60%
Current financial assets	1,785	1,000	-	-	1,000	56.02%
Trade payables	16,573	510	-	2	512	3.09%
Current financial payables	2,100	2,100	-	-	2,100	100%

	TOTAL 2016	SUBSIDIARIES	GIUSEPPE SALERI SAPA	OTHER RELATED PARTIES	TOTAL RELATED PARTIES	IMPACT ON THE TOTAL
Non-current financial assets	2,137	1,897	-	-	1,897	88.77%
Trade receivables	27,465	1,192	-	-	1,192	4.34%
Tax receivables	2,477	-	1,084	-	1,084	43.76%
Current financial assets	1,060	1,000	-	-	1,000	94.34%
Trade payables	16,010	104	-	2	106	0.66%

Impact of related-party transactions on income statement accounts

	TOTAL 2017	SUBSIDIARIES	GIUSEPPE SALERI SAPA	OTHER RELATED PARTIES	TOTAL RELATED PARTIES	IMPACT ON THE TOTAL
Revenue	115,687	10,239	-	-	10,239	8.85%
Other income	2,648	414	10	-	424	16%
Materials	36,556	1,548	-	-	1,548	4.24%
Services	27,602	3,966	-	20	3,987	14.44%
Capital gains on non-current assets	98	97	-	-	97	99.58%
Write-downs of non-current assets	682	682	-	-	682	100%
Financial income	89	80	-	-	80	89.89%
Financial expenses	482	2	-	-	2	0.46%

	TOTAL 2016	SUBSIDIARIES	GIUSEPPE SALERI SAPA	OTHER RELATED PARTIES	TOTAL RELATED PARTIES	IMPACT ON THE TOTAL
Revenue	101,523	6,680	-	-	6,680	6.58%
Other income	2,279	399	10	-	409	17.95%
Materials	36,895	916	-	-	916	2.48%
Services	26,032	4,129	-	22	4,151	15.95%
Capital gains on non-current assets	87	66	-	-	66	75.86%
Write-downs of non-current assets	521	521	-	-	521	100%
Financial income	85	82	-	-	82	96.47%

Relations with subsidiaries mainly consist of:

- trade relations, relating to the purchase and sale of semi-processed goods or finished products with Sabaf do Brasil, Faringosi Hinges, Sabaf Turkey and Sabaf Kunshan Trading;
- sales of machinery to Sabaf Brasile and Sabaf Turkey, which generated the capital gains highlighted;
- rental of property from Sabaf Immobiliare;
- intra-group loans;
- group VAT settlement.

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

- administration services provided by Sabaf S.p.A. to Giuseppe Saleri S.a.p.A.;
- transactions as part of the domestic tax consolidation scheme until 2016, which generated the receivables shown in the tables.

Related-party transactions are regulated by specific contracts regulated at arm's length conditions.

38. SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

Pursuant to CONSOB memorandum of 28 July 2006, the following section describes and comments on significant non-recurring events, the consequences of which are reflected in the economic, equity and financial results for the year:

	Shareholders' equity	Net Profit	Net financial debt	Cash flows
FINANCIAL STATEMENT VALUES (A)	**92,087**	**8,001**	**31,717**	**900**
Recognition of "Patent box" tax benefit related to 2015 and 2016 (B)	(772)	(772)	-	-
FINANCIAL STATEMENT NOTIONAL VALUE (A+B)	**91,315**	**7,229**	**31,717**	**900**

As described in Note 33, in these separate financial statements the Company recognised the tax benefit relating to the Patent Box for the three-year period 2015 to 2017; the share relating to previous years is considered non-recurring and is therefore shown in the table above.

39. ATYPICAL AND/OR UNUSUAL TRANSACTIONS

Pursuant to CONSOB memorandum of 28 July 2006, the Company declares that no atypical and/or unusual transactions as defined by the CONSOB memorandum were executed during 2017.

40. COMMITMENTS

Guarantees issued

Sabaf S.p.A. also issued sureties to guarantee mortgage loans granted by banks to employees for a total of € 5,145,000 (€ 5,510,000 at 31 December 2016).

41. FEES TO DIRECTORS, STATUTORY AUDITORS AND EXECUTIVES WITH STRATEGIC RESPONSIBILITIES

Fees to directors, statutory auditors and executives with strategic responsibilities are described in the Report on Remuneration that will be presented to the shareholders' meeting called to approve these separate financial statements.

42. SHARE-BASED PAYMENTS

At 31 December 2017, there were no equity-based incentive plans for the Company's directors and employees.

List of investments with additional information required by CONSOB

(Communication Dem76064293 of 28 July 2006)

IN SUBSIDIARIES [1]

Company name	Registered offices	Share capital at 31 December 2017	Shareholders	Ownership %	Shareholders' equity at 31 December 2017	2017 profit (loss)
Faringosi Hinges s.r.l.	Ospitaletto (BS)	€ 90,000	Sabaf S.p.A.	100%	€ 6,248,113	€ 695,664
Sabaf Immobiliare s.r.l.	Ospitaletto (BS)	€ 25,000	Sabaf S.p.A.	100%	€ 23,582,409	€ 1,673,079
Sabaf do Brasil Ltda	Jundiaì (Brazil)	BRL 24,000,000	Sabaf S.p.A.	100%	BRL 41,353,284	BRL 4,894,931
Sabaf US Corp.	Plainfield (USA)	USD 100,000	Sabaf S.p.A.	100%	USD -79,482	USD -53,095
Sabaf Appliance Components (Kunshan) Co., Ltd.	Kunshan (China)	€ 4,400,000	Sabaf S.p.A.	100%	CNY 60,007	CNY -5,275,687
Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki	Manisa (Turkey)	TRY 28,000,000	Sabaf S.p.A.	100%	TRY 72,264,252	TRY 19,621,894
Sabaf Appliance Components Trading (Kunshan) Co., Ltd. in liquidation	Kunshan (China)	€ 200,000	Sabaf S.p.A.	100%	CNY 1,955,552	CNY 5,225
A.R.C. s.r.l.	Campodarsego (PD)	€ 45,000	Sabaf S.p.A.	70%	€ 4,650,017	€ 328,544

Other significant equity investments: None

Origin, possibility of utilisation and availability of reserves

Description	Amount	Possibility of utilisation	Available share	Amount subject to taxation for the company in the case of distribution
CAPITAL RESERVE:				
Share premium reserve	10,002	A, B, C	10,002	0
Revaluation reserve, Law 413/91	42	A, B, C	42	42
Revaluation reserve, Law 342/00	1,592	A, B, C	1,592	1,592
RETAINED EARNINGS:				
Legal reserve	2,307	B	0	0
Other retained earnings	58,876	A, B, C	58,876	0
VALUATION RESERVE:				
Post-employment benefit actuarial reserve	(477)		0	0
TOTAL	**72,342**		**70,512**	**1,634**

KEY
A: for share capital increase
B: to hedge losses

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[1] Values taken from the separate financial statements of subsidiaries, prepared in accordance with locally applicable accounting standards

C: for distribution to shareholders

Statement of revaluations of equity assets at 31 December 2017

		Gross value	Cumulative depreciation	Net value
Investment property	Law 72/1983	137	(137)	0
	1989 merger	516	(450)	66
	Law 413/1991	47	(42)	5
	1994 merger	1,483	(1,046)	437
	Law 342/2000	2,870	(2,368)	502
		5,053	**(4,043)**	**1,010**
Plants and machinery	Law 576/75	205	(205)	0
	Law 72/1983	2,224	(2,224)	0
	1989 merger	6,140	(6,140)	0
	1994 merger	6,820	(6,820)	0
		15,389	**(15,389)**	**0**
Industrial and commercial equipment	Law 72/1983	**161**	**(161)**	**0**
Other assets	Law 72/1983	**50**	**(50)**	**0**
TOTAL		**20,653**	**(19,643)**	**1,010**

GENERAL INFORMATION

Sabaf S.p.A. is a company organised under the legal system of the Republic of Italy.

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

Contacts:
Tel: +39 030 6843001
Fax: +39 030 6848249
E-mail: info@sabaf.it
Website: *www.sabaf.it*

Tax information:
R.E.A. Brescia: 347512
Tax Code: 03244470179
VAT Number: 0178691082

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 2017 for auditing services and for services other than auditing provided by the Independent Auditor. No services were provided by entities belonging to the network.

(€/000)	Party providing the service	Fees pertaining to the 2017 financial year
Audit	Deloitte & Touche S.p.A.	57
Certification services	Deloitte & Touche S.p.A.	2 *(1)*
Other services	Deloitte & Touche S.p.A.	14 *(2)*
TOTAL		**73**

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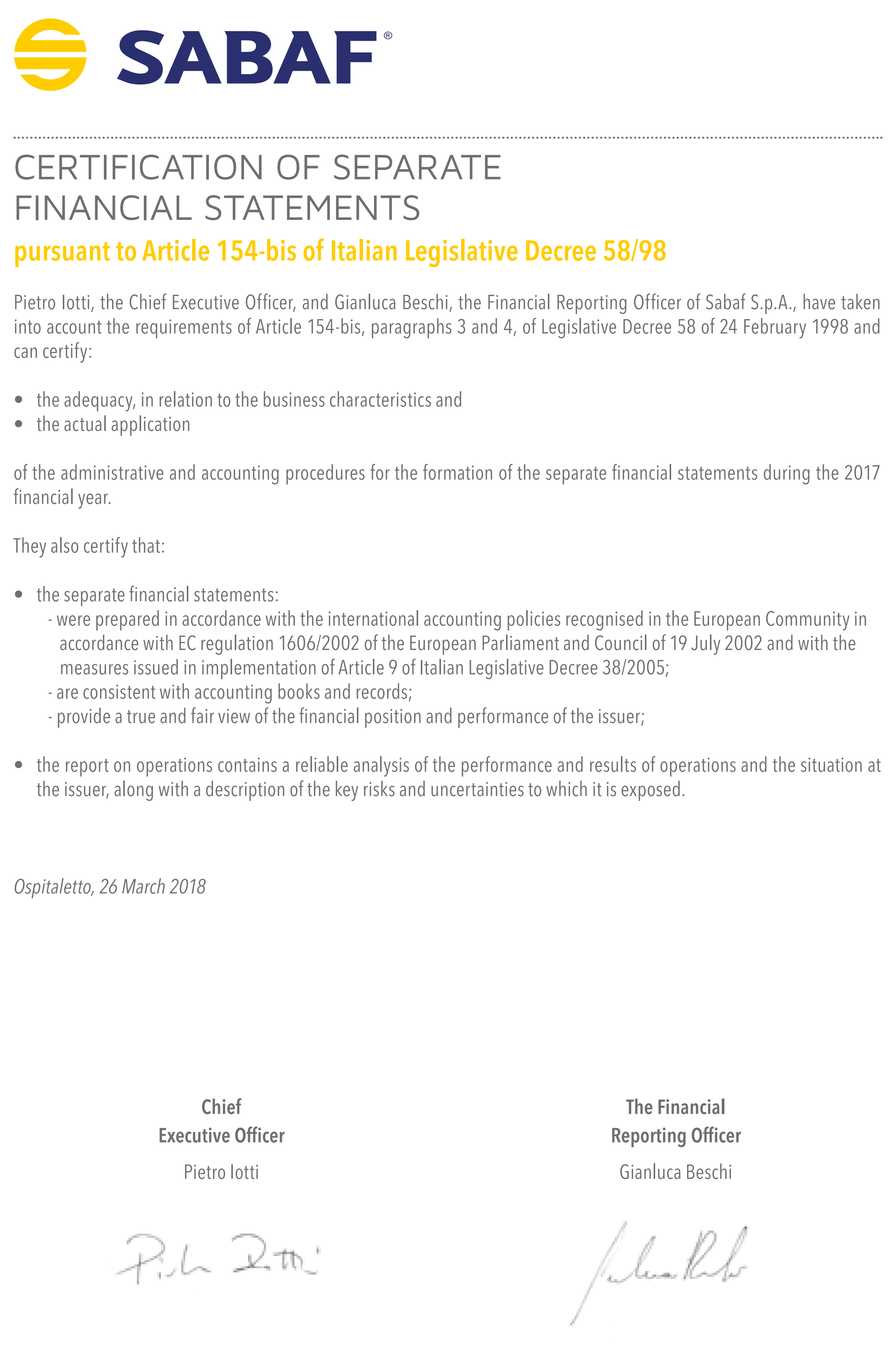
(1) Signing of Unified Tax Return, IRAP and 770 form

(2) Auditing procedures agreement relating to interim management reports, auditing of statements and training activities



CERTIFICATION OF SEPARATE FINANCIAL STATEMENTS

pursuant to Article 154-bis of Italian Legislative Decree 58/98

Pietro Iotti, 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

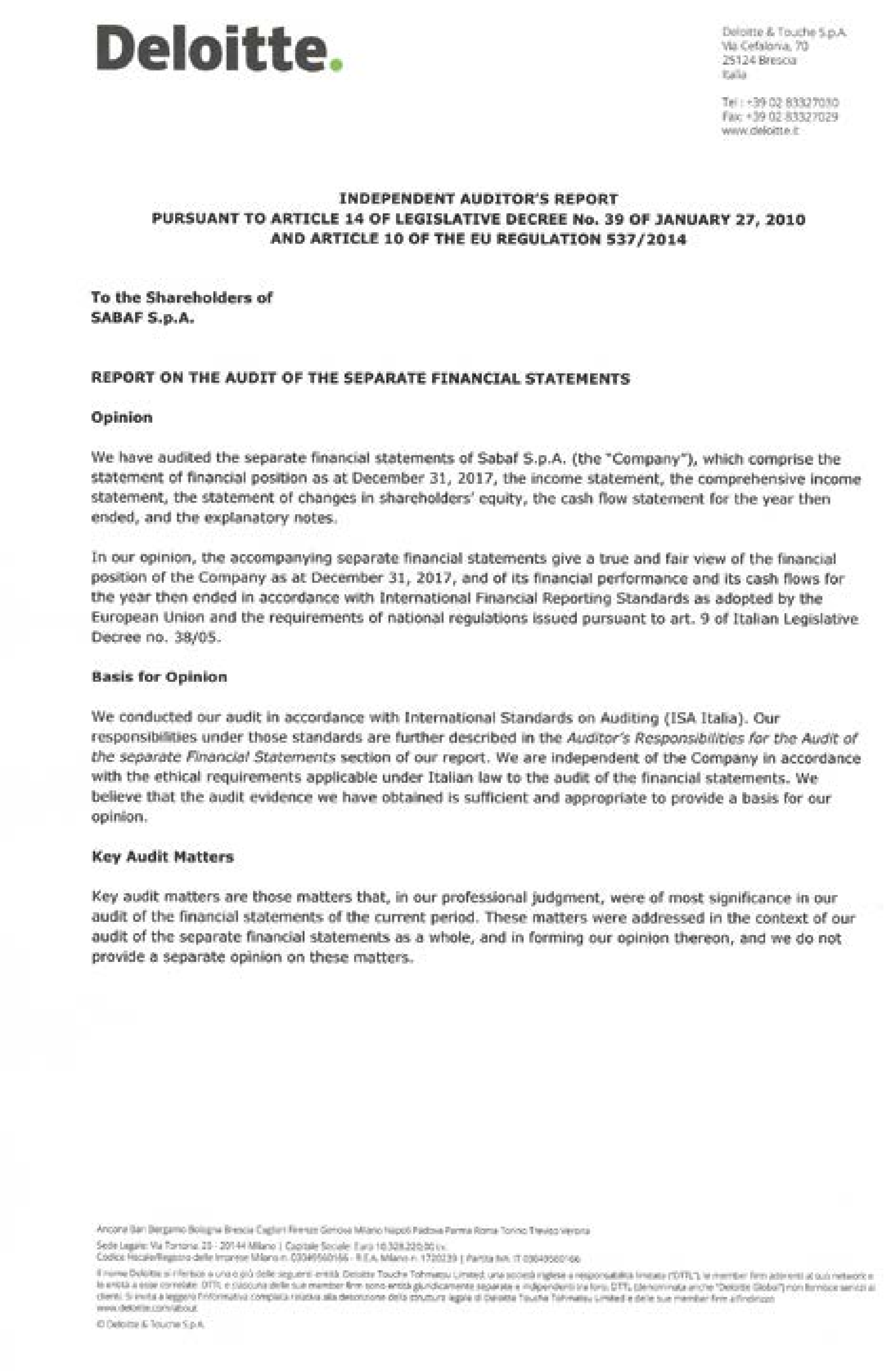
of the administrative and accounting procedures for the formation of the separate financial statements during the 2017 financial year.

They also certify that:

- the separate 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 financial position and performance of the issuer;
- the report on operations contains a reliable analysis of the performance and results of operations and the situation at the issuer, along with a description of the key risks and uncertainties to which it is exposed.

Ospitaletto, 26 March 2018

Chief Executive Officer	**The Financial Reporting Officer**
Pietro Iotti	Gianluca Beschi



Deloitte.

Deloitte & Touche S.p.A.
Via Cefalonia, 70
25124 Brescia
Italia

Tel: +39 02 83327030
Fax: +39 02 83327029
www.deloitte.it

INDEPENDENT AUDITOR'S REPORT PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010 AND ARTICLE 10 OF THE EU REGULATION 537/2014

To the Shareholders of
SABAF S.p.A.

REPORT ON THE AUDIT OF THE SEPARATE FINANCIAL STATEMENTS

Opinion

We have audited the separate financial statements of Sabaf S.p.A. (the "Company"), which comprise the statement of financial position as at December 31, 2017, the income statement, the comprehensive income statement, the statement of changes in shareholders' equity, the cash flow statement for the year then ended, and the explanatory notes.

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of the Company as at December 31, 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

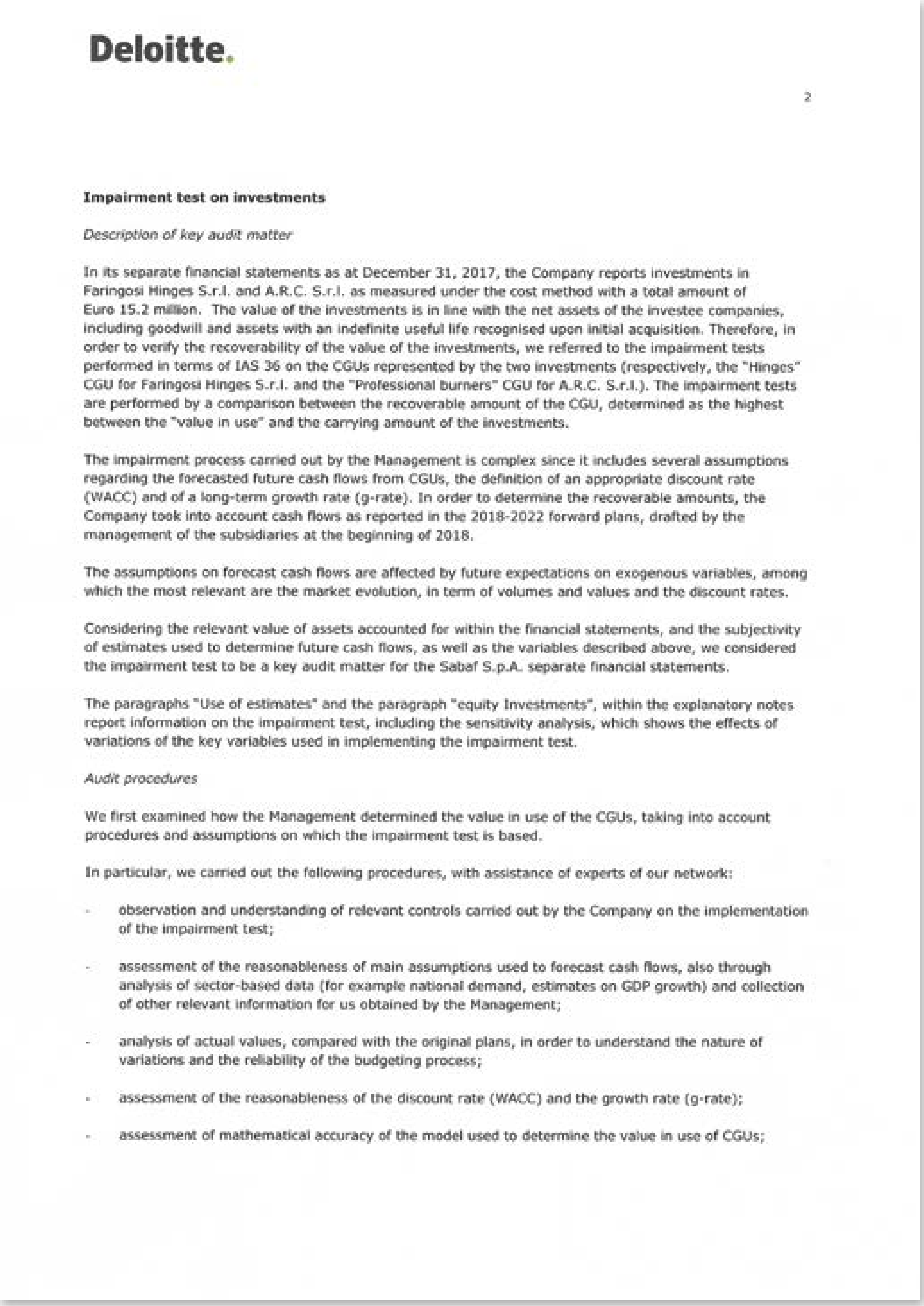
Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the separate Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Roma Torino Treviso Verona



Deloitte.

Impairment test on investments

Description of key audit matter

In its separate financial statements as at December 31, 2017, the Company reports investments in Faringosi Hinges S.r.l. and A.R.C. S.r.l. as measured under the cost method with a total amount of Euro 15.2 million. The value of the investments is in line with the net assets of the investee companies, including goodwill and assets with an indefinite useful life recognised upon initial acquisition. Therefore, in order to verify the recoverability of the value of the investments, we referred to the impairment tests performed in terms of IAS 36 on the CGUs represented by the two investments (respectively, the "Hinges" CGU for Faringosi Hinges S.r.l. and the "Professional burners" CGU for A.R.C. S.r.l.). The impairment tests are performed by a comparison between the recoverable amount of the CGU, determined as the highest between the "value in use" and the carrying amount of the investments.

The impairment process carried out by the Management is complex since it includes several assumptions regarding the forecasted future cash flows from CGUs, the definition of an appropriate discount rate (WACC) and of a long-term growth rate (g-rate). In order to determine the recoverable amounts, the Company took into account cash flows as reported in the 2018-2022 forward plans, drafted by the management of the subsidiaries at the beginning of 2018.

The assumptions on forecast cash flows are affected by future expectations on exogenous variables, among which the most relevant are the market evolution, in term of volumes and values and the discount rates.

Considering the relevant value of assets accounted for within the financial statements, and the subjectivity of estimates used to determine future cash flows, as well as the variables described above, we considered the impairment test to be a key audit matter for the Sabaf S.p.A. separate financial statements.

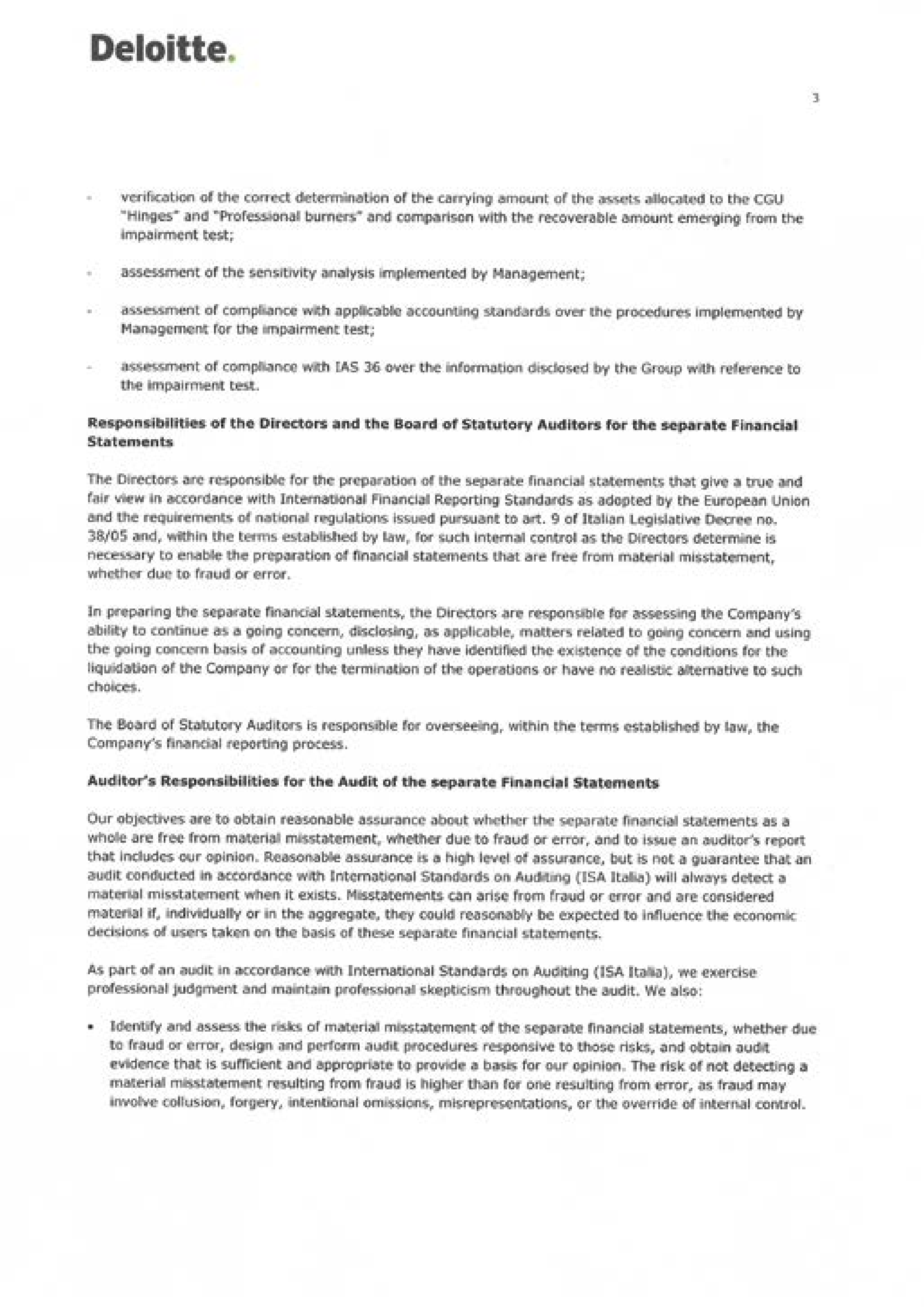
The paragraphs "Use of estimates" and the paragraph "equity Investments", within the explanatory notes report information on the impairment test, including the sensitivity analysis, which shows the effects of variations of the key variables used in implementing the impairment test.

Audit procedures

We first examined how the Management determined the value in use of the CGUs, taking into account procedures and assumptions on which the impairment test is based.

In particular, we carried out the following procedures, with assistance of experts of our network:

- observation and understanding of relevant controls carried out by the Company on the implementation of the impairment test;
- assessment of the reasonableness of main assumptions used to forecast cash flows, also through analysis of sector-based data (for example national demand, estimates on GDP growth) and collection of other relevant information for us obtained by the Management;
- analysis of actual values, compared with the original plans, in order to understand the nature of variations and the reliability of the budgeting process;
- assessment of the reasonableness of the discount rate (WACC) and the growth rate (g-rate);
- assessment of mathematical accuracy of the model used to determine the value in use of CGUs;



- verification of the correct determination of the carrying amount of the assets allocated to the CGU "Hinges" and "Professional burners" and comparison with the recoverable amount emerging from the impairment test;
- assessment of the sensitivity analysis implemented by Management;
- assessment of compliance with applicable accounting standards over the procedures implemented by Management for the impairment test;
- assessment of compliance with IAS 36 over the information disclosed by the Group with reference to the impairment test.

Responsibilities of the Directors and the Board of Statutory Auditors for the separate Financial Statements

The Directors are responsible for the preparation of the separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or for the termination of the operations or have no realistic alternative to such choices.

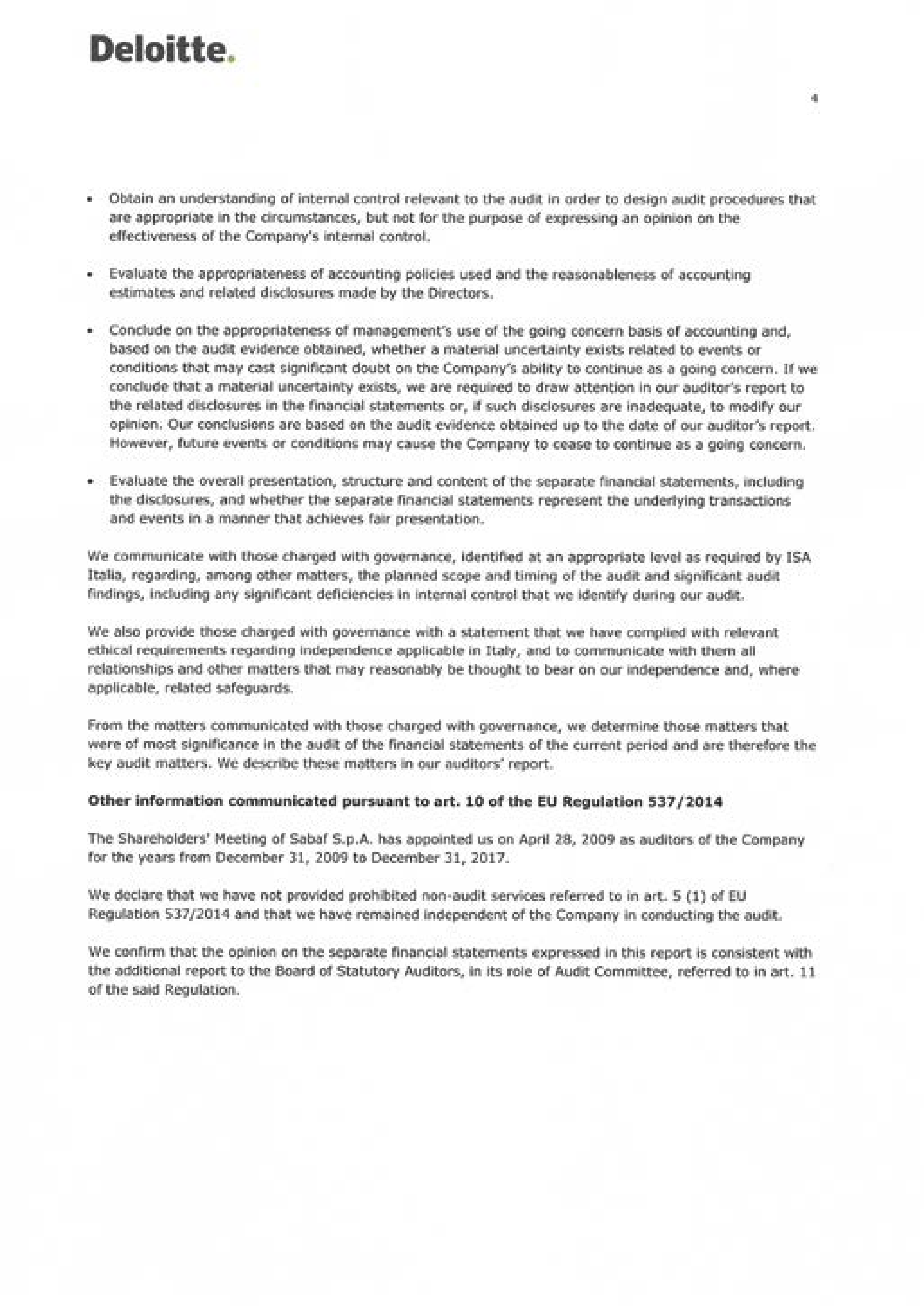
The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of Sabaf S.p.A. has appointed us on April 28, 2009 as auditors of the Company for the years from December 31, 2009 to December 31, 2017.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the separate financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

Deloitte.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14, paragraph 2 (e), of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of Sabaf S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure of Sabaf S.p.A. as at December 31, 2017, including their consistency with the related separate financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98 with the separate financial statements of Sabaf S.p.A. as at December 31, 2017 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and information contained in the report on corporate governance and ownership structure are consistent with the separate financial statements of Sabaf S.p.A. as at December 31, 2017 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the entity and of the related context acquired during the audit, we have nothing to report.

DELOITTE & TOUCHE S.p.A.

Signed by
Andrea Restelli
Partner

Brescia, Italy
April 12, 2018

This report has been translated into the English language solely for the convenience of international readers.

SABAF S.P.A.

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING OF SABAF S.P.A.

in accordance with Art. 2429, 2nd paragraph of the Italian Civil Code and Art. 153 of Italian Legislative Decree no. 58/1998

Dear Shareholders,

We hereby report to you on the supervisory activity performed during the 2017 financial year.
This report is prepared in accordance with Art. 2429, 2nd paragraph of the Italian Civil Code and Art. 153 of Italian Legislative Decree no. 58/1998, in light of the CONSOB recommendations, the Rules of Behaviour of the Board of Statutory Auditors of listed companies issued by CNDCEC and the indications contained in the Corporate Governance Code of Borsa Italiana, which applies to your Company.
We note below the activity carried out.

1. Supervisory activity on compliance with the law and the bylaws and respect of the principles of correct administration

During the 2017 financial year, the Board of Statutory Auditors met on seven occasions and attended nine meetings of the Board of Directors, five meetings of the Control and Risk Committee, two meetings of the Company's Control Bodies (Board of Statutory Auditors, Control and Risk Committee, Supervisory Body, Financial Reporting Officer, Head of the Internal Audit Function, Independent Auditing Company) and a meeting of the Remuneration and Nomination Committee.
During the Board of Directors' meetings, the Board of Statutory Auditors obtained information on the general management performance, on its outlook, as well as on the most significant economic, financial and capital operations performed by the Company and by its subsidiaries.
In that regard, it is noted that, during 2017:

- we have not identified or received information on any atypical and/or unusual operations performed with third parties, with related parties or within the group. That fact is also confirmed by the Directors in their management report;
- during the financial year, there were no other transactions of particular significance for which specific information to shareholders is required in addition to that already emerging from the Separate financial statements and the management report, to which reference should be made;
- intra-group and related-party transactions are ordinary transactions of reduced significance compared to the group's activity as a whole and are adequately described by the directors in note no. 37 of the Separate Financial Statements and in note no. 36 of the Consolidated Financial Statements to which the management report refers. The Board of Statutory Auditors believes that the conditions under which those operations were concluded are congruous and compliant with the Company's interests;
- the Board of Statutory Auditors issued the opinions required by law and also expressed its favourable opinion with reference to the work plan prepared by the Head of the Internal Audit Function.

In conclusion, based upon the activity carried out, we have not identified any violations of the law and/or the bylaws or any manifestly imprudent or risky operations or operations in potential conflict of interest, in contrast with the resolutions passed by the shareholders' meeting or such as to compromise the integrity of the company's assets.

2. Supervisory activity on the adequacy of the organisational structure and the internal control system

The Board of Statutory Auditors supervised the existence of an adequate **organisational structure** in relation to the company's dimensions.
In that regard, it is noted that the Company has for some time now adopted an Organisation Model compliant with the provisions of Italian Legislative Decree 231/2001, which is regularly updated.
During the financial year, the Board of Statutory Auditors maintained a constant information flow with the Supervisory Body.
The information acquired has not identified any critical issues with regard to the correct implementation of the organisation model that must be highlighted in this report.
With reference to the adequacy of the **internal control system**, the Board of Statutory Auditors expresses its positive assessment and acknowledges that there are no findings to be reported to the Shareholders' Meeting.
The sources of information on which the Board of Statutory Auditors was able to base its assessment are as follows:

- periodic meetings with the Company assigned the Internal Audit Function and with the Representative of that Function. During those meetings, the Board of Statutory Auditors had the opportunity to assess the activity carried out and its results. In that regard, it is noted that the Company itself performs the Internal Audit Function also with reference to the strategic subsidiaries;
- periodic meetings with the Independent Auditing Company;
- the report of the Head of the Internal Audit Function on the Internal Control and Risk Management System, examined during the meeting of the Control and Risk Committee held on 6 February 2018;
- attendance at meetings of the Control and Risk Committee;
- the report of the Control and Risk Committee to the Board of Directors on the activities carried out;
- meetings with the Financial Reporting Officer;
- examination of the company procedures, therein including those provided within the Organisation Model adopted by Sabaf (and by the subsidiary Faringosi Hinges S.r.l.) in application of Italian Legislative Decree 231/2001 and those established by the Financial Reporting Officer in charge of preparing the corporate accounting documents, in accordance with Italian Law 262/2005.

3. Supervisory activity on the adequacy of the administrative and accounting system and the auditing activity

The Board of Statutory Auditors monitored the adequacy of the administrative and accounting system and its reliability in providing a fair presentation of operational transactions by:

- obtaining information from the Financial Reporting Officer;
- examining the procedures in support of the administration function;
- periodic meetings with the Company assigned the Internal Audit Function and with the Representative of that Function;
- meetings and periodic reports of the Independent Auditing Company.

Based upon the gathered information, no findings have emerged.

The Chief Executive Officer and the Financial Reporting Officer have certified with a specific report attached to the 2017 financial statements:

- the adequacy and effective application of the administrative and accounting procedures for preparing the financial statements;
- the conformity of the financial statements to the international accounting standards and their correspondence to the records of the accounting ledgers and deeds as well as their suitability to provide a true and accurate representation of the Company's financial position, the results of the operations and of the cash flows.

A similar declaration has been made with reference to the consolidated financial statements.

The **external audit** was entrusted, by resolution of the shareholders' meeting dated 28 April 2009, to Deloitte & Touche S.p.A. for the period 2009/2017.

During the financial year, the Board of Statutory Auditors held periodic meetings with representatives of the Independent Auditing Company during which no significant data and information emerged that requires a mention in this report.

The procedures adopted in relation to the work plan submitted by the Independent Auditing Company have been examined. We have also received the technical information requested in relation to the accounting standards applied, as well as the accounts representation criteria of the most significant economic, capital and financial facts.

It is also noted that the Independent Auditing Company submitted to the Board of Statutory Auditors on 12 April 2018 the additional report required by Art. 11 of Regulation (EU) no. 537/2014, which illustrates the results of the external audit and provides the other information required by the Regulation, including the declaration of independence required by Art. 6, paragraph 2, letter a).

We note that the report does not reveal any significant shortcomings in the internal control system for financial reporting and in the Company's accounting system.

As required by Art. 19, first paragraph, letter (a) of Legislative Decree No. 39/2010, this report will be sent to the Board of Directors of the Company.

The Board of Statutory Auditors confirms that in the financial year just ended and up to today's date no critical profile has emerged in relation to the independence of the Independent Auditing Company.

It is also acknowledged that the appendix to the Consolidated and Separate Financial Statements indicates the fees for the year for services rendered by the Independent Auditing Company. As can be seen from the table, no services (other than the audit) prohibited pursuant to Art. 5, par. 1, of Regulation (EU) 537/2014 were rendered.

It is also acknowledged that, with the approval of the 2017 Financial Statements, the nine-year mandate of the Independent Auditing Company Deloitte & Touche S.p.a. expires.

As envisaged by Art. 16 of Regulation (EU) no. 537/2014, the Board of Statutory Auditors, in its role as Internal Control and Audit Committee, submitted to the Board of Directors a reasoned recommendation containing the name of two Independent Auditing Companies who are suitable to replace the one that expires, expressing preference for one of them.

This recommendation was developed following a detailed selection procedure that was carried out in compliance with the provisions contained in the Regulation itself.

Finally, it is acknowledged that the supervisory activity described in this paragraph and in the paragraph above has allowed the Board of Statutory Auditors to fulfil its internal control and external audit committee function, pursuant to Art. 19 of Legislative Decree 39/2010, with respect to which it has no findings to report.

4. Proposals in relation to the separate Financial Statements and the consolidated Financial Statements, their approval and the matters under the remit of the Board of Statutory Auditors

The Company prepared the 2017 financial statements in accordance with international accounting standards (IAS/IFRS).

The separate Financial Statements show a financial year profit of € 8,001,327 (€ 2,459,688 in 2016) and a shareholders' equity of € 92,087,144 (€ 91,523,902 in 2016).

Those financial statements were audited by the Company Deloitte & Touche Spa, which issued its report dated 12 April 2018 without findings or information requests.

The financial statements, together with the management report, were made available to us within the time limits prescribed by the law and we have no particular comments to report.

The Company has also prepared the 2017 consolidated financial statements of the Sabaf Spa Group.

The consolidated financial statements show a profit for the year of € 14,916 thousand (€ 9,009 thousand in 2016 - before adjustments pursuant to IFRS 3) and a shareholders' equity of € 115,055 thousand (€ 112,309 thousand in 2016 - before adjustments pursuant to IFRS 3).

Those financial statements have also been subject to statutory audit by Deloitte & Touche Spa, which issued its report on 12 April 2018 without findings or information requests.

It is also acknowledged that the Independent Auditing Company expressed, in the reports mentioned above, a positive opinion with regard to consistency with the financial statements and compliance with the law with reference:

- to the management report;
- to the information referred to in Art. 123-bis, paragraph 4, Legislative Decree 58/98 contained in the Report on Corporate Governance and Ownership Structure.

Insofar as the Board of Statutory Auditors is responsible, we supervised the general layout of the separate financial statements and the consolidated financial statements, verifying their compliance with the law and the relevant accounting standards.

In particular, the results of the impairment test carried out in accordance with IAS 36 on the individual CGUs that coincide with the two equity investments were evaluated ("Hinges" CGU for Faringosi Hinges S.r.l. and "Professional burners" CGU for A.R.C. S.r.l.).

In particular, it is noted that the test was carried out - for the purposes of the separate financial statements - to assess the impairment of the value of investments and - for the purposes of the consolidated financial statements - to assess the impairment of the related goodwill values.

In this regard, it is noted that the Independent Auditing Company, in its reports, accurately described the audit procedures carried out with reference to the impairment tests, as "key aspects of the audit" and to which, therefore, the Board of Statutory Auditors refers.

Finally, we acknowledge that no derogations have been made from the accounting standards adopted.

5. Methods of concrete implementation of the corporate governance rules

Your Company has accepted the Corporate Governance Code approved by the Corporate Governance Committee of listed companies.

In the annual Report on Corporate Governance and Ownership Structures, prepared in accordance with Art. 123 bis of Italian Legislative Decree 58/1998, the Board of Directors acknowledges the acceptance of the Corporate Governance Code and the methods of concrete implementation of the corporate governance rules adopted by the Company, in accordance with Art. 123 bis, 2nd paragraph, letter a).

During the financial year, the Board of Statutory Auditors supervised the methods of concrete application of the corporate governance rules adopted by the Company and, in that regard, it believes that they have been effectively and correctly applied.

Insofar as we are aware, we inform you of the following:

- the Board of Directors has checked the continued existence of the requirements of independence for the directors qualified as such upon their appointment. The Board of Statutory Auditors has checked the correct application of the assessment criteria and procedures adopted by the Board;
- we have performed the self-assessment of the requirement of independence for the members of the Board of Statutory Auditors, as required by the Corporate Governance Code, both initially, after appointment and later, on an annual basis (most recently during the meeting held on 08 March 2018), with methods compliant with those adopted by the directors;
- we complied with the provisions of the regulations for the management and processing of confidential and privileged corporate information.

6. Supervisory activity on relationships with Subsidiaries and parent companies

The Board of Statutory Auditors supervised the adequacy of the instructions given by the Company to the subsidiaries, in accordance with Art. 114, 2nd Paragraph of Italian Legislative Decree 58/1998.

In that regard, it is noted that the Company, by way of the Managing Director, the Administration, Finance and Control Director and the other executives with strategic responsibilities, performs constant control over the operations of the subsidiaries, also due to the use, by the same, of a common accounting and management system (SAP), which is constantly accessible to management of the parent company.

Periodic meetings with the management and the company in charge of Internal Audit did not reveal any critical elements to be reported in this report.

Finally, we acknowledged that to date no communications have been received from the Control Bodies of the Subsidiaries and/or parent companies containing findings to be noted in this report.

7. Supervisory activity over operations with related parties

In relation to the provisions of Art. 2391 bis of the Italian Civil Code, we acknowledge that the Board has adopted a procedure for the regulation of Related-Party Transactions, whose main objective is to define the guidelines and criteria for identifying Related-Party Transactions and setting out roles, responsibilities and operating methods so as to guarantee, for such transactions, adequate information transparency and the related procedural and substantial correctness.

That procedure was prepared in compliance with what was established by the Consob Regulation on Related Parties (no. 17221 dated 12 March 2010 as amended and supplemented).

The Board of Statutory Auditors supervised the effective application of the rules by the Company and it has no comments in that regard.

8. Supervisory activity on compliance with the provisions of Articles 3 and 4 of Legislative Decree No. 254/2016 (consolidated non-financial statement)

In accordance with Legislative Decree no. 254/2016, the Board of Directors of your Company prepared the "Consolidated non-financial statement".

We remind you that, in accordance with the provisions of the Decree, this Statement "to the extent necessary to ensure understanding of the company's activities, performance, results and impact, covers 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”.

We acknowledge that the Independent Auditing Company KPMG S.p.a., in charge pursuant to Art. 3, paragraph 10, of the Decree, today issued the certificate provided for therein, confirming that, on the basis of the work carried out, no elements have been brought to the attention of the auditor that would suggest that the Consolidated Non-Financial Statement has not been drawn up in all significant aspects in compliance with the requirements of articles 3 and 4 of the decree and the adopted reference standards (GRI – G4).

The Board of Statutory Auditors supervised compliance with the provisions of Legislative Decree 254/2016 and has no observations to make on this subject in this report.

Conclusions

During the supervisory activity carried out during the financial year, no omissions, censurable facts, irregularities or circumstances that require reporting to the Supervisory Authority or a mention herein were identified.

It is also acknowledged that the Board of Statutory Auditors has not received reports in accordance with Art. 2408 of the Italian Civil Code, nor has it become aware of cases and/or lawsuits to be noted in this report.

With regard to the above, the Board of Statutory Auditors expresses a favourable opinion on the approval of the separate financial statements and the proposal for the allocation of net income for the year made by the Board of Directors.

Ospitaletto, 13 April 2018

Chairman of the Board of Statutory Auditors
Antonio Passantino

Statutory Auditor
Enrico Broli

Statutory Auditor
Luisa Anselmi


E

Enviroment

We are committed to raising awareness among our staff on environmental issues, contributing constructively to sustainability and environmental protection.

SABAF®

Report on Remuneration

pursuant to Article 123-*ter* of the TUF and Article 84-*quarter* of the Issuers' Regulations

SEZIONE I - REMUNERATION POLICY

Sabaf S.p.A.'s General Remuneration Policy (hereinafter also "remuneration policy"), approved by the Board of Directors on 22 December 2011 and updated on 20 March 2013, 4 August 2015 and 26 September 2017, defines the criteria and guidelines for the remuneration of members of the Board of Directors, Executives with strategic responsibilities and members of the Board of Statutory Auditors.

The remuneration policy was prepared:
- pursuant to Article 6 of the Corporate Governance Code of listed companies, approved in March 2010 and subsequent amendments and supplements;
- in line with Recommendations 2004/913/EC and 2009/385, which were incorporated into law with Article 123-ter of the Consolidated Law on Finance (TUF).

1. Corporate bodies and persons involved in preparing, approving and implementing the remuneration policy

Shareholders' meeting
- Determines the remuneration due to the members of the Board of Directors, including a fixed amount and attendance fees
- Resolves compensation plans based on the allocation of financial instruments with regard to directors and employees
- Gives a non-binding vote on the first section of the Report on Remuneration (Remuneration Policy)

Board of directors
- At the suggestion of the Remuneration and Nomination Committee and subject to the opinion of the Board of Statutory Auditors, determines the fee for Directors holding specific positions
- Defines the remuneration policy of Executives with strategic responsibilities
- After obtaining the opinion of the Remuneration and Nomination Committee, resolves to sign Non-competition agreements with regard to the Chief Executive Officer and to executives
- At the suggestion of the Remuneration and Nomination Committee, defines incentive plans based on short- and long-term variable remuneration to be assigned to the Chief Executive Officer and to the Executives with strategic responsibilities
- At the suggestion of the Chief Executive Officer, defines the incentive plans based on short-term variable remuneration for company Management and other employees
- At the suggestion of the Remuneration and Nomination Committee, resolves to assign non-monetary benefits to executives
- Makes proposals to the Shareholders' Meeting on compensation plans based on the allocation of financial instruments with regard to directors and employees
- Prepares the Report on Remuneration pursuant to Article 123-ter of the Consolidated Law on Finance and Article 84-quarter of the Issuers' Regulations

No independent experts or advisors contributed to the preparation of the policy, nor were the remuneration policies of other companies used for reference purposes. The Board of Directors is responsible for properly implementing the remuneration policy.

Remuneration and nomination committee
- Makes proposals to the Board of Directors, in the absence of the persons directly concerned, for remuneration of the Chief Executive Officer and Directors holding specific positions
- Examines, with the support of the Human Resources Department, the policy for the remuneration of executives, with a special attention to Executives with strategic responsibilities
- Makes suggestions and proposals to the Board of Directors concerning the setting of targets on which the annual variable component and long-term incentives for the Chief Executive Officer and Executives with strategic responsibilities should be dependent, in order to ensure alignment with shareholders' long-term interests and the company's strategy
- Assesses the level of achievement of the short- and long-term variable incentive targets of Directors and executives
- Prepares the proposals to the Board of Directors of compensation plans based on financial instruments
- Assesses the adequacy, actual application and consistency of the remuneration policy, also with reference to the actual company performance, making suggestions and proposals for change
- Follows the development of the regulatory framework of reference and best market practices on remuneration, getting inspired by them for formulating the remuneration policy and identifying aspects for improving the Report on Remuneration

The Remuneration and Nomination Committee currently in office comprises four non-executive members, the majority of them independent (Fausto Gardoni, Giuseppe Cavalli, Renato Camodeca and Alessandro Potestà), with the knowledge and experience in accounting, finance and remuneration policies that is deemed adequate by the Board of Directors.

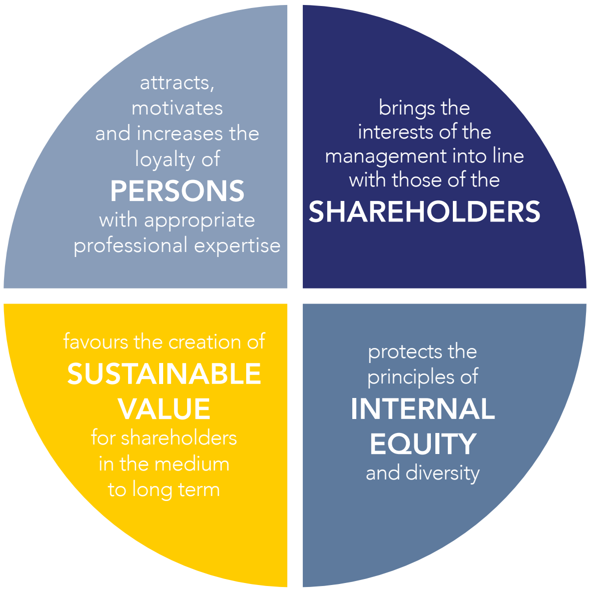
Board of statutory auditors
- The Board of Statutory Auditors expresses the opinions required by the regulations in force on proposals for remuneration of Directors holding specific positions
- The Board of Statutory Auditors, i.e. the Chairman of the Board of Statutory Auditors or another Statutory Auditor designated by him/her can attend the meetings of the Remuneration and Nomination Committee

Human resources department
Actually enacts what is decided upon by the Board.

2. Purpose of the remuneration policy

The Company's intention is that the Remuneration Policy:

- Ensures the competitiveness of the company on the labour market and attracts, motivates and increases the loyalty of persons with appropriate professional expertise
- Protects the principles of internal equity and diversity
- Brings the interests of the management into line with those of the shareholders
- Favours the creation of sustainable value for shareholders in the medium to long term, and maintains an appropriate level of competitiveness for the company in the sector in which it operates



3. Remuneration policy guidelines and instruments

The definition of a fair and sustainable remuneration package takes into account three main tools:

- Fixed remuneration
- Variable remuneration (short- and medium- to long-term)
- Benefits

Each remuneration component is analysed below.

Fixed annual component

The fixed component of the remuneration of the Directors is such that it is able to attract and motivate individuals with appropriate expertise for the roles entrusted to them within the Board, and is set with reference to the remuneration awarded for the same positions by other listed Italian industrial groups of a similar size.

The Shareholders' Meeting decides on the remuneration of the members of the Board of Directors, including a fixed amount and attendance fees.

With regard to the remuneration for Directors holding special offices, the Board of Directors, at the proposal of the Remuneration and Nomination Committee and subject to the opinion of the Board of Statutory Auditors, determines the additional fixed remuneration.

Directors who sit on committees formed within the Board (Internal Control and Risk Committee, Remuneration and Nomination Committee) are granted remuneration that includes a fixed salary and attendance fees intended to reward the commitment required of them.

Executives with strategic responsibilities are paid a fixed annual remuneration, determined so that it is sufficient in itself to guarantee an appropriate basic salary level, even in the event that the variable components are not paid owing to a failure to reach the targets.

The members of the Board of Statutory Auditors are paid a fixed remuneration, the amount of which is determined by the Shareholders' Meeting, at the time of their appointment.

COMPONENTS OF THE REMUNERATION	CORPORATE OFFICES				
	EXECUTIVE DIRECTORS [1]	NON-EXECUTIVE DIRECTORS	MEMBERS OF COMMITTEES WITHIN THE BOD	EXECUTIVES WITH STRATEGIC RESPONSIBILITIES	STATUTORY AUDITORS
FIXED COMPONENTS	Fixed remuneration for the office of Director Fixed remuneration for Directors holding special positions	Fixed remuneration for the office of Director Attendance fee	Fixed remuneration for Directors members of committees within the BoD Attendance fee	Collective National Contract for Industrial Managers	Fixed remuneration

Short-term variable component (annual)

The Board of Directors, at the suggestion of the Remuneration and Nomination Committee and in accordance with the budget, defines an MBO plan, for the benefit of:

- Executives with strategic responsibilities
- other persons, identified by the Chief Executive Officer, among the managers who report directly to him or who report to the aforementioned managers

This plan sets a common target (Group EBIT, which is considered to be the Group's main indicator of financial performance) and quantifiable and measurable individual targets economic-financial, technical-productive and/or socio-environmental in nature.

The targets of the Chief Executive Officer and of the Executives with strategic responsibilities are decided by the Board of Directors, at the suggestion of the Remuneration and Nomination Committee, in accordance with the budget.

The targets of the other beneficiaries of the incentive plans are defined by the Chief Executive Officer, in accordance with the budget.

Non-executive directors are not granted any variable remuneration.

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[1] Executive Directors: Chairman and Vice Chairmen of the BoD, Chief Executive Officer, Executive Directors

Long-term variable component

At the suggestion of the Remuneration and Nomination Committee, and after obtaining the opinion of the Board of Statutory Auditors, the Board of Directors approves a long-term financial incentive, for the benefit of:

- Chief Executive Officer
- Executives with strategic responsibilities

The long-term financial incentive is dependent on measurable and predetermined performance targets relating to the creation of value for shareholders over the long term and extends over three years coinciding with the mandate of the Board of Directors (2015-2017; 2018-2020; etc.).

The performance targets, set in accordance with the three-year business plan, are proposed by the Remuneration and Nomination Committee to the Board of Directors, as the body responsible for approving the long-term financial incentive.

ANNUAL MBO

RELATED TO THE ANNUAL BUDGET

TARGET

EXECUTIVE DIRECTORS*

EXECUTIVES WITH STRATEGIC RESPONSIBILITIES

OTHER PERSONS IDENTIFIED BY THE CHIEF EXECUTIVE OFFICER

COMMON TARGETS	INDIVIDUAL TARGETS
GROUP EBIT	ECONOMIC/FINANCIAL TECHNICAL AND PRODUCTIVE

LONG TERM INCENTIVES (LTI)

RELATED TO THE THREE-YEAR PLAN

TARGET

CHIEF EXECUTIVE OFFICER

EXECUTIVES WITH STRATEGIC RESPONSIBILITIES

Dependent on predetermined and measurable performance targets relating to the creation of value for shareholders over a long-term horizon and over a time horizon of three years, coinciding with the mandate of the BoD

COMPONENTS OF THE REMUNERATION		CORPORATE OFFICES	
		EXECUTIVE DIRECTORS AND OTHER EXECUTIVES WITH STRATEGIC RESPONSIBILITIES	OTHER PERSONS IDENTIFIED BY THE CEO
VARIABLE COMPONENTS	SHORT-TERM VARIABLE COMPONENT	Annual MBO plan based on achieving a common target and individual targets	Annual MBO plan based on achieving a common target and individual targets
	LONG-TERM VARIABLE COMPONENT	LTI dependent on measurable and predetermined performance targets relating to the creation of value for shareholders over a time horizon of three years	N/A

Non-monetary benefits

- **Third-party civil liability insurance policy:** The Company has taken out a third-party civil liability insurance policy in favour of directors, statutory auditors and executives for unlawful acts committed in the carrying-out of their respective duties, in violation of obligations established by law and the Articles of Association, with the sole exclusion of deliberate intent. The taking-out of this policy is approved by the Shareholders' Meeting.
- **Life insurance policy and cover for medical expenses:** The Company also provides a life insurance policy and cover for medical expenses (FASI) for executives, as established by the Collective National Contract for Industrial Managers; moreover, it has taken out an additional policy to cover medical expenses not covered by FASI reimbursements.
- **Company cars:** At the suggestion of the Remuneration and Nomination Committee, the Board of Directors also assigns company cars to executives.
- **Accommodation costs:** At the suggestion of the Remuneration and Nomination Committee, the Board of Directors can provide for housing to be made available to executives, for the possibility to reimburse the rent of the house or for the temporary reimbursement of the costs of accommodation in a hotel.

Incentives based on financial instruments

Any compensation plans based on the allocation of financial instruments with regard to directors and employees are resolved by the Shareholders' Meeting at the suggestion of the Board of Directors.

Entry bonus

With the aim of attracting highly professional individuals, the Board may decide to give entry bonuses to newly hired executives.

Indemnity against the early termination of employment

There is an agreement for the Chief Executive Officer regulating ex ante the economic part concerning the early termination of the employment relationship.

There are no agreements for other Directors or other Executives with strategic responsibilities regulating *ex ante* the economic part concerning the early termination of the employment relationship. For the end of the relationship for reasons other than just cause or justified reasons provided by the employer, it is the Company's policy to pursue consensual agreements to end the employment relationship, in accordance with legal and contractual obligations.

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* Excluding the Chairman and Vice Chairmen

The Company does not provide directors with benefits subsequent to the end of their mandate.

The Company has entered into Non-competition agreements with the Chief Executive Officer and with certain executives who report to him, the terms of which were approved by the Board of Directors, after obtaining the opinion of the Remuneration and Nomination Committee.

Claw back clauses

As from 2018, the Company established mechanisms for the ex-post adjustment of the variable remuneration component or claw back clauses to demand the return of all or part of the variable components of remuneration paid out (or to withhold deferred sums), which were determined on the basis of data subsequently found to be clearly incorrect.

Remuneration for offices in subsidiaries

Directors and other executives with strategic responsibilities may be paid remuneration – exclusively as a fixed amount – for offices held in subsidiaries. In addition to the approval of the subsidiaries' corporate bodies, this remuneration is subject to the favourable opinion of the Remuneration and Nomination Committee.

COMPONENTS OF THE REMUNERATION		CORPORATE OFFICES			
		EXECUTIVE DIRECTORS	NON-EXECUTIVE DIRECTORS	EXECUTIVES WITH STRATEGIC RESPONSIBILITIES	STATUTORY
Benefits and other components	NON-MONETARY BENEFITS	Third-party liability insurance policy	Third-party liability insurance policy	Third-party liability insurance policy Life insurance policy, policy to cover medical expenses (FASI), policy for supplementary medical expenses Company cars	Third-party liability insurance policy
	OFFICES IN SUBSIDIARIES	Fixed remuneration for offices in subsidiaries	N/A	Fixed remuneration for offices in subsidiaries	N/A
	INDEMNITY AGAINST THE EARLY TERMINATION OF EMPLOYMENT	Remuneration for Non-competition agreement (*only for Chief Executive Officer*)	N/A	Remuneration for Non-competition agreement	N/A

4. Remuneration of the Board of Directors, Chairman and Vice Chairmen of the Board of Directors, Chief Executive Officer, Executives with strategic responsibilities and Board of Statutory Auditors

Remuneration of the board of directors

The Shareholders' Meeting is responsible for determining the annual gross remuneration (maximum amount) due to the Directors, including a fixed amount and attendance fees.

The members of the Board are covered by a third-party civil liability insurance policy for unlawful acts committed in the exercise of their respective duties, in violation of obligations established by law and the Articles of Association, with the sole exclusion of deliberate intent. The taking-out of this policy is approved by the Shareholders' Meeting.

Remuneration of the chairman of the board of directors and vice chairmen

Sabaf S.p.A. makes it a practice to appoint as Chairman and Vice Chairmen members of the Saleri family, principal shareholder of the Company through the company Giuseppe Saleri S.a.p.A.. No variable remuneration is paid to these directors, even if executive directors, but only remuneration in addition to those of directors for special offices held.

Remuneration of the chief executive officer

The remuneration of the Chief Executive Officer includes the following components:

- **Fixed remuneration for the office of Director:** the Chief Executive Officer is the recipient of the fixed remuneration for the office of Director (pursuant to Article 2389 paragraph I Italian Civil Code).
- **Third-party civil liability insurance policy:** The Company has taken out a third-party civil liability insurance policy for unlawful acts committed in the carrying-out of their respective duties, in violation of obligations established by law and the Articles of Association, with the sole exclusion of deliberate intent. The taking-out of this policy is approved by the Shareholders' Meeting.
- **Long-term variable component:** the long-term financial incentive is dependent on the achievement of performance targets, proposed by the Remuneration and Nomination Committee to the Board of Directors, and extends over three years, coinciding with the mandate of the Board of Directors At the time of approval, the Board of Directors decides on the maximum amount of the long-term variable component, the methods and timing for its payment.

  If the Chief Executive Officer is also assigned an executive management role within the Sabaf Group, the Board decides on the assignment of the following additional remuneration instruments:

  Fixed annual gross salary: the fixed remuneration is determined so that it is sufficient in itself to guarantee an appropriate basic salary level, even in the event that the variable components are not paid owing to a failure to reach the targets.
- **Non-competition agreement:** assignment of a fixed annual remuneration against the signing of a Non-competition Agreement with the Company.
- **Short-term variable component:** annual incentive, dependent on the achievement of the targets envisaged by the MBO plan, approved by the Board of Directors at the suggestion of the Remuneration and Nomination Committee. On the occasion of the annual approval, the Board of Directors decides on the maximum amount of the annual variable component, the methods and timing for its payment.
- **Benefits:** the benefits envisaged for the management of the Company can be assigned: Life insurance policy and cover for medical expenses, assignment of company car; reimbursement of the rent for the house.

Remuneration of executives with strategic responsibilities

- **Fixed annual gross r**emuneration: Employment relationships with Executives with strategic responsibilities are regulated by the Collective National Contract for Industrial Managers. In this regard, fixed remuneration is determined so that it is sufficient in itself to guarantee an appropriate basic salary level, even in the event that the variable components are not paid owing to a failure to reach the targets.
- **Short- and long-term variable components:** Executives with strategic responsibilities are the recipients of short- and long-term MBO plans (ref. paragraph 3). At the time of approval of short- and long-term incentive plans, the Board of Directors is responsible for setting the maximum amounts of variable remuneration, the methods and timing for the payment of this remuneration.
- **Benefits:** Executives with strategic responsibilities receive the benefits envisaged for the management of the Company (Life insurance policy and cover for medical expenses); assignment of company car) and are covered by an occupational risk policy.

Remuneration of the board of statutory auditors

The amount of remuneration for Statutory Auditors is set by the Shareholders' Meeting, which establishes a fixed amount for the Chairman and the other Statutory Auditors.

The members of the Board are covered by a third-party civil liability insurance policy for unlawful acts committed in the exercise of their respective duties, in violation of obligations established by law and the Articles of Association, with the sole exclusion of deliberate intent. The taking-out of this policy is approved by the Shareholders' Meeting.

SECTION II – REMUNERATION OF THE MEMBERS OF THE BOARD OF DIRECTORS AND THE BOARD OF STATUTORY AUDITORS AND OTHER EXECUTIVES WITH STRATEGIC RESPONSIBILITIES IN 2017

This section, by name of Directors and Statutory Auditors:

- Describes each of the items that make up the remuneration, showing their consistency with the remuneration policy of Sabaf
- Analytically illustrates the remuneration paid in the financial year under review (2017), for any reason and in any form, by the Company or by subsidiaries or affiliates, identifying any components of this remuneration that relate to activities undertaken in previous years to the year under review

The components of the remuneration paid to directors for 2017

The remuneration paid to directors for 2017 consisted of the following components:

- An annual fixed remuneration, approved by the Shareholders' meeting of 5 May 2015 (and subsequently amended by the Shareholders' meeting of 28 April 2016) that the Board of Directors decided to divide, in compliance with the maximum limit of € 995,000 established by the Shareholders' Meeting, as follows:
  - € 15,000 assigned to each director without distinction
  - € 10,000 assigned to each member of the committees set up within the Board itself (Internal Control and Risk Committee and Remuneration and Nomination Committee)
  - Additional remuneration of € 480,000 divided among Directors holding special positions (Chairman and Vice Chairmen) as detailed in the table below
  - Remuneration of € 100,000, decided by the Board of Directors of 3 August 2017, assigned as a one-off indemnity to the director Gianluca Beschi, as remuneration for the office of ad interim Chief Executive Officer held from 27 April to 12 September 2017
  - Remuneration of € 10,000, decided by the Board of Directors of 3 August 2017, assigned to the director Pietro Iotti, appointed by the Shareholders' meeting of 20 July 2017, who was appointed Chief Executive Officer as from 12 September 2017
- An attendance fee of € 1,000, due to non-executive directors only, for every occasion on which they attend Board of Directors' meetings and the meetings of committees formed within the Board

A fixed remuneration component for employment and a fixed remuneration for offices in subsidiaries are paid to executive directors appointed as executives.

With reference to variable components, which are intended only for executive directors (excluding the Chairman and Vice Chairmen), the following is pointed out:

- In relation to the annual variable incentive plan established for 2016, given the failure to reach the assigned targets, no remuneration accrued in the previous financial year and, therefore, no remuneration was paid in 2017
- With reference to the annual incentive plan for 2017, the Director Gianluca Beschi accrued variable remuneration of € 36,128 for the achievement of the targets of the 2017 MBO plan. Its payment is deferred and dependent upon the continuation of the employment relationship. Remuneration was paid to the Chief Executive Officer Pietro Iotti on a pro rata basis as from the date of his appointment
- With reference to the long-term incentive plan, dependent on three-year performance targets (2015-2017), the Director Gianluca Beschi accrued remuneration of € 72,474; this variable component is paid in full following the approval of the 2017 financial statements

There are no incentive plans based on financial instruments outstanding.

On 3 August 2017, the Board of Directors, at the suggestion of the Remuneration and Nomination Committee, decided to grant the Chief Executive Officer and General Manager (Pietro Iotti) a gross all-inclusive indemnity for termination of employment relationship of € 700,000. This amount will be recognised in one of the following cases:

- Failure to renew the three-year office and/or removal without just cause before the expiry of the renewal
- Failure to re-appoint for the period after the renewal, or if the removal of the office takes place without "just cause" after the renewal
- Resignation of the Chief Executive Office, if handed in due to the existence of a "just cause"

Moreover, the Company entered into a Non-competition agreement with the Chief Executive Officer valid for twelve months after termination of the employment relationship, which envisages the payment of an additional component of the annual salary of € 30,000, against the commitment of Pietro Iotti not to work for subjects that carry on/will carry on competing activities in Italy, Spain, Turkey, Brazil and China.

Finally, following the resignation of the Director Alberto Bartoli, in 2017 the conditions for the payment of the consideration related to the Non-competition Agreement of € 290,000 signed with the Company took shape. In 2017, a consideration of € 116,000 (40% of the total) was paid; the payment of the remaining amounts is deferred in two tranches that will be paid in 2018 (€ 58,000, equal to 20% of the total) and in 2019 (€ 116,000, equal to 40% of the total).

Remuneration of Statutory Auditors for 2017

The remuneration paid to the Statutory Auditors for 2017 consists of a fixed remuneration determined by the Shareholders' Meeting of 5 May 2015.

The remuneration of other executives with strategic responsibilities for 2017

The remuneration of other executives with strategic responsibilities (three persons) consists of a fixed remuneration for employment totalling € 384,624, and following variable remuneration:

- With reference to the variable incentive plan (MBO) of 2016, during 2017, remuneration totalling € 33,050 was paid
- With reference to the variable incentive plan (MBO) for 2017, remuneration totalling € 86,462 accrued. Its payment is deferred and dependent upon the continuation of the employment relationship
- With reference to the long-term variable incentive plan, dependent on three-year performance targets (2015-2017), remuneration of € 62,157 accrued for the only executive with strategic responsibilities identified as such before passing the resolution of the three-year plan

Remuneration totalling € 96,500 was also disbursed by subsidiaries.

There are no incentive plans based on financial instruments outstanding.

For a breakdown of the remuneration paid in 2017, please refer to the tables below (Table 1 and Table 2), which contain remuneration paid to Directors and Statutory Auditors, and, at the aggregate level, to other executives with strategic responsibilities, taking into account any office held for a fraction of a year. Remuneration received from subsidiaries and/or affiliates, with the exception of that waived or paid back to the Company, is also indicated separately.

With particular reference to Table 1, the column:

- “Fixed remuneration” shows, for the portion attributable to 2017, the fixed remuneration approved by the Shareholders' meeting (and distributed with resolution of the Board of Directors), including the remuneration received for the carrying-out of special offices (pursuant to Article 2389, paragraph 3, Italian Civil Code); attendance fees as approved by the Board of Directors; employee salaries due for the year gross of social security contributions and income taxes owed by the employee
- "Remuneration for attendance at Committee meetings", shows, for the portion relating to 2017, the remuneration due to directors who attended the meetings of the Committees set up within the Board and the related attendance fees
- “Bonus and other incentives” includes the variable remuneration accrued during the year, for monetary incentive plans. This value corresponds to the sum of the amounts provided in Table 2 in the "Bonus for the year - payable/paid", "Bonus of previous years - payable/paid" and "Other bonuses" columns
- "Non-monetary benefits" shows, according to accrual and tax liability criteria, the value of outstanding insurance policies and the company cars assigned
- "Other remuneration" shows, for the portion attributable to 2017, any other remuneration resulting from other services provided
- “Indemnity for end of office or termination of employment relationship”, shows the indemnities accrued, even if not yet paid, in favour of directors for termination of offices during the financial year in question, with reference to the financial year in which the effective termination of office occurred. Indemnities for Non-competition commitments, which are paid upon termination of office, are also indicated
- "Total" shows the sum of the amounts provided under the previous items

For a breakdown of other items, see attachment 3A, statement 7-bis and 7-ter of Consob Regulation 11971 of 14 May 1999.

Table 2 contains information on monetary incentive plans for members of the administration body and other executives with strategic responsibilities; in particular, it shows:

For the section “Bonus for the year”

- In the column “Payable/Paid”, the bonus accrued for the year for the targets reached during the year and paid or payable because not subject to further conditions (known as upfront fee)
- The column “Deferred” shows the bonus dependent on the targets to be reached during the year but not payable because subject to further conditions (known as deferred bonus)

For the section “Bonus of previous years”

- The column “No longer payable” shows the sum of bonuses deferred in previous years still to be paid at the beginning of the financial year and no longer payable for failure to meet the conditions to which they are subject
- The column “Payable/Paid” shows the sum of bonuses deferred in previous years still to be paid at the beginning of the financial year and paid during the year or payable
- The column “Still deferred” shows the sum of bonuses deferred in previous years still to be paid at the beginning of the financial year and still deferred

Lastly, the column “Other bonuses” shows the bonuses for the year not explicitly included in specific ex ante defined plans.

Finally, pursuant to Article 84-quarter, paragraph four of the Consob Issuers' Regulations, Table 3 shows shareholdings in Sabaf S.p.A. held by directors and executives with strategic responsibilities, as well as their non-separated spouses and dependent children, directly or through subsidiaries, trust companies or third parties, as shown in the shareholder register, communications received and other information acquired from the same parties. This includes all persons who held office during the year, even for only part of the year. The number of shares held is shown by individual director and in aggregate form for executives with strategic responsibilities.

TAB. 1 - Remuneration paid to members of the Board of Directors and Board of Statutory Auditors and other executives with strategic responsibilities in 2017

FIGURES IN EURO

Name and surname	Office	Period of office	Expiry of office	Fixed remuneration	Remuneration for attendance at Committee meetings	Variable remuneration (non equity)		Non-monetary benefits	Other remuneration	Total	Fair Value of equity remuneration	Indemnity for end of office or termination of employment relationship
						Bonus and other incentives	Profit sharing					
BOARD OF DIRECTORS												
Giuseppe Saleri	**Chairman**	**1 Jan - 31 Dec 2017**	**Approval of 2017 financial statements**									
(I) Remuneration at Sabaf S.p.A. (a)				120,000 (a)	0	0	0	0	0	120,000	0	0
(II) Remuneration from subsidiaries and affiliates				8,000	0	0	0	0	0	8,000	0	0
(III) TOTAL				**128,000**	**0**	**0**	**0**	**0**	**0**	**128,000**	**0**	**0**

(a) Of which € 15,000 as Director and € 105,000 as Chairman

Ettore Saleri	**Vice Chairman**	**1 Jan - 31 Dec 2017**	**Approval of 2017 financial statements**									
(I) Remuneration at Sabaf S.p.A. (a)				140,000 (a)	0	0	0	0	0	140,000	0	0
(II) Remuneration from subsidiaries and affiliates				8,000	0	0	0	0	0	8,000	0	0
(III) TOTAL				**148,000**	**0**	**0**	**0**	**0**	**0**	**148,000**	**0**	**0**

(a) Of which € 15,000 as Director and € 125,000 as Chairman

Cinzia Saleri	**Vice Chairman**	**1 Jan - 31 Dec 2017**	**Approval of 2017 financial statements**									
(I) Remuneration at Sabaf S.p.A. (a)				140,000 (a)	0	0	0	0	0	140,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) TOTAL				**140,000**	**0**	**0**	**0**	**0**	**0**	**140,000**	**0**	**0**

(a) Of which € 15,000 as Director and € 125,000 as Vice Chairman

Roberta Forzanini	**Vice Chairman**	**1 Jan - 31 Dec 2017**	**Approval of 2017 financial statements**									
(I) Remuneration at Sabaf S.p.A. (a)				140,000 (a)	0	0	0	0	0	140,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) TOTAL				**140,000**	**0**	**0**	**0**	**0**	**0**	**140,000**	**0**	**0**

(a) Of which € 15,000 as Director and € 125,000 as Vice Chairman

Name and surname	Office	Period of office	Expiry of office	Fixed remuneration	Remuneration for attendance at Committee meetings	Variable remuneration (non equity)		Non-monetary benefits	Other remuneration	Total	Fair Value of equity remuneration	Indemnity for end of office or termination of employment relationship
						Bonus and other incentives	Profit sharing					
Alberto Bartoli	**Chief Executive Officer**	**1 Jan - 27 Apr 2017**	**Approval of 2017 financial statements**									
(I) Remuneration at Sabaf S.p.A (a)				0	0	0	0	0	0	0	0	290,000 (a)
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) TOTAL				**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**290,000**

(a) Remuneration accrued upon termination of office (Non-competition Agreement), paid in three years: 2017, 2018, 2019

Pietro Iotti	**Chief Executive Officer**	**12 Set - 31 Dec 2017**	**Approval of 2017 financial statements**									
(I) Remuneration at Sabaf S.p.A.((a)(b)				93,077 (a)	0	83,333 (b)	0	6,765	0	183,175	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) TOTAL				**93,077**	**0**	**83,333**	**0**	**6,765**	**0**	**183,175**	**0**	**0**

(a) Of which € 10,000 as Director and € 83,077 as General Manager
(b) Of which € 50,000 as entry bonus and € 33,000 paid on a pro rata basis

Gianluca Beschi	**Director**	**1 Jan - 31 Dec 2017**	**Approval of 2017 financial statements**									
(I) Remuneration at Sabaf S.p.A. (a)(b)				259,315 (a)	0	108,602 (b)	0	12,929	0	380,846	0	0
(II) Remuneration from subsidiaries and affiliates				43,000	0	0	0	0	0	43,000	0	0
(III) TOTAL				**302,315**	**0**	**108,602**	**0**	**12,929**	**0**	**423,846**	**0**	**0**

(a) Of which € 15,000 as director, € 100,000 as Chief Executive Officer ad interim, and € 144,315 as Administration, Finance and Control Director
(b) Remuneration accrued in the year with reference to the 2017 MBO plan and Long-term Incentive Plan – for details, please refer to what is shown in Tab. 2

Renato Camodeca	**Director**	**1 Jan - 31 Dec 2017**	**Approval of 2017 financial statements**									
(I) Remuneration at Sabaf S.p.A. (a)(b)				24,000 (a)	27,000 (b)	0	0	0	0	51,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) TOTAL				**24,000**	**27,000**	**0**	**0**	**0**	**0**	**51,000**	**0**	**0**

(a) Of which € 15,000 as director and € 9,000 in board meeting attendance fees
(b) Of which € 20,000 as a member of the Internal Control and Risk Committee and the Remuneration and Nomination Committee (i.e., € 10,000 each) and € 7,000 in Committee meeting attendance fees

Name and surname	Office	Period of office	Expiry of office	Fixed remuneration	Remuneration for attendance at Committee meetings	Variable remuneration (non equity)		Non-monetary benefits	Other remuneration	Total	Fair Value of equity remuneration	Indemnity for end of office or termination of employment relationship
						Bonus and other incentives	Profit sharing					
Giuseppe Cavalli	**Director**	**1 Jan - 31 Dec 2017**	**Approval of 2017 financial statements**									
(I) Remuneration at Sabaf S.p.A. (a)(b)				23,000 (a)	27,000 (b)	0	0	0	0	50,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) TOTAL				**23,000**	**27,000**	**0**	**0**	**0**	**0**	**50,000**	**0**	**0**

(a) Of which € 15,000 as director and € 8,000 in board meeting attendance fees

(b) Of which € 20,000 as a member of the Internal Control and Risk Committee and the Remuneration and Nomination Committee (i.e., € 10,000 each) and € 7,000 in Committee meeting attendance fees

Fausto Gardoni	**Director**	**1 Jan - 31 Dec 2017**	**Approval of 2017 financial statements**									
(I) Remuneration at Sabaf S.p.A. (a)(b)				24,000 (a)	15,000 (b)	0	0	0	0	39,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) TOTAL				**24,000**	**15,000**	**0**	**0**	**0**	**0**	**39,000**	**0**	**0**

(a) Of which € 15,000 as director and € 9,000 in board meeting attendance fees

(b) Of which € 10,000 as a member of the Remuneration and Nomination Committee and € 5,000 in Committee meeting attendance fees

Nicla Picchi	**Director**	**1 Jan - 31 Dec 2017**	**Approval of 2017 financial statements**									
(I) Remuneration at Sabaf S.p.A (a)(b)(c)				22,000 (a)	14,000 (b)	0	0	0	15,000 (c)	51,000	0	0
(II) Remuneration from subsidiaries and affiliates (c)				0	0	0	0	0	5,000 (c)	5,000	0	0
(III) TOTAL				**22,000**	**14,000**	**0**	**0**	**0**	**20,000**	**56,000**	**0**	**0**

(a) Of which € 15,000 as director and € 7,000 in board meeting attendance fees

(b) Of which € 10,000 as a member of the Internal Control and Risk Committee and € 4,000 in Committee meeting attendance fees

(c) Of which € 15,000 as member of the Sabaf S.p.A. Supervisory Body and € 5,000 as member of the Supervisory Body of the subsidiary Faringosi Hinges S.r.l.

Anna Pendoli	**Director**	**1 Jan - 31 Dec 2017**	**Approval of 2017 financial statements**									
(I) Remuneration at Sabaf S.p.A. (a)				23,000 (a)	0	0	0	0	0	23,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) TOTAL				**23,000**	**0**	**0**	**0**	**0**	**0**	**23,000**	**0**	**0**

(a) Of which € 15,000 as director and € 8,000 in board meeting attendance fees

Alessandro Potestà	**Director**	**28 Apr - 31 Dec 2017**	**Approval of 2017 financial statements**									
(I) Remuneration at Sabaf S.p.A. (a)				21,000 (a)	0	0	0	0	0	21,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) TOTAL				**21,000**	**0**	**0**	**0**	**0**	**0**	**21,000**	**0**	**0**

(a) Of which € 15,000 as director and € 6,000 in board meeting attendance fees

Name and surname	Office	Period of office	Expiry of office	Fixed remuneration	Remuneration for attendance at Committee meetings	Variable remuneration (non equity)		Non-monetary benefits	Other remuneration	Total	Fair Value of equity remunera-tion	Indemnity for end of office or termination of employment relationship
						Bonus and other incentives	Profit sharing					
BOARD OF STATUTORY AUDITORS												
Antonio Passantino	**Chairman**	**1 Jan - 31 Dec 2017**	**Approval of 2017 financial statements**									
(I) Remuneration at Sabaf S.p.A.				24,000	0	0	0	0	0	24,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) TOTAL				**24,000**	**0**	**0**	**0**	**0**	**0**	**24,000**	**0**	**0**
Luisa Anselmi	**Chairman**	**1 Jan - 31 Dec 2017**	**Approval of 2017 financial statements**									
(I) Remuneration at Sabaf S.p.A.				16,000	0	0	0	0	0	16,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) TOTAL				**16,000**	**0**	**0**	**0**	**0**	**0**	**16,000**	**0**	**0**
Enrico Broli	**Statutory Auditor**	**1 Jan - 31 Dec 2017**	**Approval of 2017 financial statements**									
(I) Remuneration at Sabaf S.p.A.				16,000	0	0	0	0	0	16,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) TOTAL				**16,000**	**0**	**0**	**0**	**0**	**0**	**16,000**	**0**	**0**

Name and surname	Office	Period of office	Expiry of office	Fixed remuneration	Remuneration for attendance at Committee meetings	Variable remuneration (non equity)		Non-monetary benefits	Other remuneration	Total	Fair Value of equity remunera-tion	Indemnity for end of office or termination of employment relationship
						Bonus and other incentives	Profit sharing					
OTHER EXECUTIVES WITH STRATEGIC RESPONSIBILITIES												
Other executives with strategic responsibilities (3)		**1 Jan - 31 Dec 2017**	n/a									
(I) Remuneration at Sabaf S.p.A. (a)				384,624	0	148,619 (a)	0	39,024	0	572,267	0	0
(II) Remuneration from subsidiaries and affiliates				96,500	0	0	0	0	0	96,500	0	0
(III) TOTAL				**481,124**	**0**	**148,619**	**0**	**39,024**	**0**	**668,767**	**0**	**0**

(a) Remuneration accrued in the year with reference to the 2017 MBO plan and Long-term Incentive Plan – for details, please refer to what is shown in Tab. 2

TAB. 2 - Monetary incentive plans for members of the administration body and other executives with strategic responsibilities

FIGURES IN EURO

Name and surname	Office	Plan	Payable / Paid	Deferred	Deferment period	No longer payable	Payable / Paid	Still deferred	Other bonuses
			Bonus for the year			Bonus of previous years			
Pietro Iotti	**Chief Executive Officer**								
Remuneration at Sabaf S.p.A.		2017 MBO Plan (August 2017)	33,000	0	-	-	-	-	0
TOTAL			**33,000**	**0**	**-**	**0**	**0**	**0**	**0**
Gianluca Beschi	**Executive Director**								
Remuneration at Sabaf S.p.A.		2016 MBO Plan (March 2016)	-	-	-	0	0	0	0
Remuneration at Sabaf S.p.A.		2017 MBO Plan (March 2017)	0	36,128	75% March 18 25% December 18	-	-	-	0
Remuneration at Sabaf S.p.A.		Three-year LTI 2015-2017 (August 2015)	72,474	0	-	-	-	-	0
TOTAL			**72,474**	**36,128**	**-**	**0**	**0**	**0**	**0**
Other executives with strategic responsibilities (3)									
Remuneration at Sabaf S.p.A.		2016 MBO Plan (March 2016)	-	-	-	0	33,050	0	0
Remuneration at Sabaf S.p.A.		2017 MBO Plan (March 2017)	0	86,462	75% March 18 25% December 18	-	-	-	0
Remuneration at Sabaf S.p.A.		Three-year LTI 2015-2017 (August 2015)	62,157	0	-	-	-	-	
TOTAL			**62,157**	**86,462**	**-**	**0**	**33,050**	**0**	**0**

TAB. 3 - Shareholdings of members of the administration and control bodies and other executives with strategic responsibilities

FIGURES IN EURO

Surname and Name	Office	Type of Ownership	Investee Company	No. shares held as at 31 Dec 2016	No. shares acquired	No. shares sold	No. shares held as at 31 Dec 2017
Giuseppe Saleri	Chairman	Indirect through the subsidiary Giuseppe Saleri S.a.p.A.	Sabaf S.p.A.	3,543,313	-	777,000	2,766,313
Roberta Forzanini	Vice Chairman	Direct	Sabaf S.p.A.	1,971	-	1,971	0
Alberto Bartoli (a)	Chief Executive Officer *(holding office until 27 April 2017)*	Direct	Sabaf S.p.A.	7,500	-	-	7,500 (a)
		Indirect through spouse	Sabaf S.p.A.	1,000	-	-	1,000 (a)
Pietro Iotti	Chief Executive Officer *(In office from 1 August 2017)*	Direct	Sabaf S.p.A.	0	10,000	-	10,000
Giuseppe Cavalli	Independent Director	Indirect through spouse	Sabaf S.p.A.	5,000	-	-	5,000
Anna Pendoli	Director	Direct	Sabaf S.p.A.	450,000	-	337,500	112,500
Executives with strategic responsibilities (3)	-	Direct	Sabaf S.p.A.	4,300	-	4,300	0

(a) Data updated to 27 April 2017, date of termination of office

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