Half-yearly report

at 30 June 2018

TABLE OF CONTENTS

GROUP STRUCTURE AND CORPORATE BODIES

Group structure

Parent company

SABAF S.p.A.
Registered and administrative office: **Via dei Carpini 1 - 25035 Ospitaletto (Brescia)**
R.E.A. Brescia 347512
Tax code 03244470179
Share capital € 11,533,450 fully paid in
www.sabaf.it

Subsidiaries and equity interest owned by the Group

Wholly consolidated companies	
Faringosi Hinges S.r.l.	100%
Sabaf do Brasil Ltda.	100%
Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki (Sabaf Turkey)	100%
Sabaf Appliance Components Trading (Kunshan) Co., Ltd. (in liquidation)	100%
Sabaf Appliance Components (Kunshan) Co., Ltd.	100%
Sabaf Immobiliare s.r.l.	100%
A.R.C. s.r.l.	70%
Non-consolidated companies	
Sabaf US Corp.	100%
Handan ARC Burners Co., Ltd.	35%

Corporate bodies

Board of Directors

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

(*) independent directors

Board of Statutory Auditors

Chairman	Alessandra Tronconi
Statutory Auditor	Luisa Anselmi
Statutory Auditor	Mauro Vivenzi

Independent Auditor

EY S.p.A.

INTERIM MANAGEMENT STATEMENT

Introduction
This Half-Yearly Report at 30 June 2018 has been prepared in accordance with Article 154-ter of Legislative Decree 58/1998 and in compliance with the applicable international accounting standards recognised in the European Community and, in particular, IAS 34 - Interim Financial Reporting. The half-year figures at 30 June 2018 and for the six-month period ended on the same date were audited by EY S.p.A., the half-year figures at 30 June 2017 and for the six-month period ended on the same date were audited by Deloitte & Touche S.p.A. The figures at 31 December 2017 were audited by Deloitte & Touche S.p.A.

The business
The Sabaf Group is one of the world's leading manufacturers of components for gas cooking appliances. Its reference market therefore consists of manufacturers of cookers, hobs and ovens.
Sabaf's product range focuses on the following main lines:

- Gas components, made up of:
    - Valves and thermostats, with or without thermoelectric safety devices: the components that regulate the flow of gas to the burner;
    - Burners: these are the components that, via the mixing of gas with air and combustion of the gas used, produce one or more rings of flame;
    - Accessories: other components that complete the range, aimed particularly at making it possible to light and control the flame.
- Hinges: these components enable the smooth and balanced movement of appliance doors when they are opened or closed.

The Sabaf Group currently has six production plants: Ospitaletto (Brescia), Bareggio (Milan), Campodarsego (Padua), Jundiaì (Brazil), Manisa (Turkey) and Kunshan (China).

Economic performance

Financial highlights

(amounts in €000)	**Q2 2018** (*)	**Q2 2017** (*) (**)	% change	**H1 2018**	**H1 2017**	% change	**FY 2017**
Sales revenue	37,510	40,163	*-6.6%*	76,013	77,236	*-1.6%*	150,223
EBITDA	7,555	9,222	*-18.1%*	15,276	16,782	*-9.0%*	30,955
EBITDA %	***20.1***	***23.0***		***20.1***	***21.7***		
EBIT	4,433	5,995	*-26.1%*	8,984	10,320	*-12.9%*	18,117
EBIT %	***11.8***	***14.9***		***11.8***	***13.4***		
Pre-tax profit	5,112	5,857	*-12.7%*	9,741	10,267	*-5.1%*	17,804
Net Profit	3,873	4,385	*-11.7%*	7,226	7,452	*-3.0%*	14,835

(*) unaudited figures
(**) 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)	Q2 2018 (*)	Q2 2017 (*) (**)	H1 2018	H1 2017
OPERATING REVENUE AND INCOME				
Revenue	37,510	40,163	76,013	77,236
Other income	965	871	1,668	1,581
Total operating revenue and income	**38,475**	**41,034**	**77,681**	**78,817**
OPERATING COSTS				
Materials	(17,711)	(18,160)	(34,555)	(33,039)
Change in inventories	4,047	3,714	6,472	5,195
Services	(8,170)	(7,977)	(16,314)	(15,914)
Personnel costs	(9,249)	(9,410)	(18,273)	(18,417)
Other operating costs	(320)	(319)	(653)	(588)
Costs for capitalised in-house work	483	340	918	728
Total operating costs	**(30,920)**	**(31,812)**	**(62,405)**	**(62,035)**
OPERATING PROFIT BEFORE DEPRECIATION & AMORTISATION, CAPITAL GAINS/LOSSES, AND WRITE- DOWNS/WRITE-BACKS OF NON-CURRENT ASSETS (EBITDA)	**7,555**	**9,222**	**15,276**	**16,782**
Depreciations and amortisation	(3,134)	(3,243)	(6,303)	(6,469)
Capital gains/(losses) on disposals of non-current assets	12	16	11	7
Write-downs/write-backs of non-current assets	0	0	0	0
OPERATING PROFIT (EBIT)	**4,433**	**5,995**	**8,984**	**10,320**
Financial income	31	41	90	129
Financial expenses	(189)	(143)	(405)	(283)
Exchange rate gains and losses	837	(36)	1,072	101
Profits and losses from equity investments	0	0	0	0
PROFIT BEFORE TAXES	**5,112**	**5,857**	**9,741**	**10,267**
Income tax	(1,184)	(1,445)	(2,412)	(2,787)
Minority interests	(55)	(27)	(103)	(28)
NET PROFIT FOR THE PERIOD	**3,873**	**4,385**	**7,226**	**7,452**

(*) unaudited figures
(**) 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

Sales by geographical area

(amounts in €000)	**Q2 2018** (*)	**Q2 2017** (*)	% change	**H1 2018**	**H1 2017**	% change	**FY 2017**
Italy	9,002	9,962	*-9.6%*	18,308	20,978	*-12.7%*	36,523
Western Europe	2,847	2,908	*-2.1%*	6,119	6,012	*+1.8%*	11,678
Eastern Europe	12,128	11,512	*+5.4%*	23,632	21,071	*+12.2%*	42,824
Middle East and Africa	1,582	3,150	*-49.8%*	5,188	6,410	*-19.1%*	13,009
Asia and Oceania	1,690	3,430	*-50.7%*	2,994	5,013	*-40.3%*	10,516
South America	6,297	6,084	*+3.5%*	12,400	11,540	*+7.4%*	22,938
North America and Mexico	3,964	3,117	*+27.2%*	7,372	6,212	*+18.7%*	12,735
Total	**37,510**	**40,163**	*-6.6%*	**76,013**	**77,236**	*-1.6%*	**150,223**

(*) unaudited figures

Sales by product line

(amounts in €000)	**Q2 2018** (*)	**Q2 2017** (*)	% change	**H1 2018**	**H1 2017**	% change	**FY 2017**
Brass valves	1,118	1,940	-42.4%	2,439	3,586	-32.0%	5,991
Light alloy valves	10,335	10,742	-3.8%	20,293	20,390	-0.5%	39,351
Thermostats	1,751	1,946	-10.0%	3,579	4,056	-11.8%	7,376
Standard burners	9,465	10,735	-11.8%	20,175	21,011	-4.0%	41,070
Special burners	6,713	7,426	-9.6%	13,610	13,920	-2.2%	27,184
Accessories	4,035	3,809	+5.9%	7,878	7,558	+4.2%	15,267
Total gas parts	*33,417*	*36,598*	-8.7%	*67,974*	*70,521*	-3.6%	*136,239*
Professional burners	1,430	1,286	+11.2%	2,977	2,401	+24.0%	5,079
Hinges	2,663	2,279	+16.8%	5,062	4,314	+17.3%	8,905
Total	**37,510**	**40,163**	-6.6%	**76,013**	**77,236**	-1.6%	**150,223**

(*) unaudited figures

First half 2018

The Sabaf Group reported revenue of €76 million in the first half of 2018, a decrease of 1.6% versus the figure of €77.2 million in the corresponding period of the previous year. On a like-for-like exchange rate basis, the drop in revenue was 0.5%.

Trend in demand was uneven in the various markets in which the Group operates. In Turkey, the main reference market, Sabaf further strengthened its market share, thereby more than offsetting the weakness of the market. In Italy, customers showed a marked slowdown compared to the first half of 2017; in Asia and in the Middle East and North Africa, the Group also recorded lower sales. On the other hand, in North and South America, the Group is continuing to consolidate the growth of recent years.

An analysis of sales by product category shows a slight weakness in household gas parts, whereas hinges and professional burners recorded double-digit growth rates.

Average sale prices were down by 0.4% versus the first half of 2017, whereas the purchase costs of the main raw materials (aluminium, steel and brass) and energy recorded a general increase, with a negative effect of approximately €1 million (equal to 1.3% of sales).

The negative impact of exchange rates, sales prices and purchasing costs was partially offset by further improvements in production efficiency: the EBITDA of the first half of 2018 came at €15.3 million (20.1% of sales, 9% lower than €16.8 million of the same period of 2017, when it was 21.7% of sales) and EBIT was €9 million (11.8% of sales, down by 12.9% on €10.3 million of the first half of 2017) Pre-tax profit amounted to €9.7 million in the first half of 2018 versus the figure of €10.3 million in the corresponding period of the previous year, and net profit was €7.2 million, €7.5 million in the corresponding period of the previous year, down by 3%).

Second quarter 2018

Sales in the second quarter of 2018 amounted to €37.5 million, down by 6.6% compared to €40.2 million in Q2 2017 (-5.9% on a like-for-like exchange rate basis). The decline is due to the slowdown in demand in Italy and the limited contribution of sales in Asia and the Middle East, partially offset by an excellent performance in North America (+27%) and positive signs in Eastern Europe and South America.

The drop in revenue and the increase in purchase costs had an impact on profitability: second-quarter EBITDA was €7.6 million, equivalent to 20.1% of sales (-18.1% versus €9.2 million in the second quarter of 2017, when it was 23% of sales), and EBIT was €4.4 million, equivalent to 11.8% of sales (-26.1% versus €6 million in the second quarter of 2017, when it was 14.9% of sales). Net profit for the period was €3.9 million, compared to €4.4 million for the second quarter of 2017 (+11.7%).

Financial position

(€/000)	**30/06/2018**	**31/12/2017**	**30/06/2017**
Non-current assets	*92,451*	*93,802*	*93,962*
Short-term assets[1]	91,740	79,314	88,806
Short-term liabilities[2]	(35,084)	(28,561)	(35,435)
Net working capital[3]	*56,656*	*50,753*	*53,371*
Provisions for risks and charges, deferred taxes and employee severance pay reserve	*(3,949)*	*(4,034)*	*(4,318)*
Net invested capital	**145,158**	**140,588**	**143,015**
Short-term net financial position	(10,427)	(5,763)	(13,671)
Medium/long-term net financial position	(24,333)	(19,703)	(18,022)
Net financial debt	**(34,760)**	**(25,466)**	**(31,693)**
Group shareholders' equity	**108,835**	**113,595**	**109,915**
Third-party shareholders' equity	**1,563**	**1,460**	**1,407**

At 30 June 2018, the Group had consolidated shareholders' equity owned by the Group of €108.8 million and net debt of €34.8 million (compared with €31.7 million at 30 June 2017 and €25.5 million at 31 December 2017), after having paid dividends of €6.1 million and purchased treasury shares of €2.1 million.

Investments in the first half of the year amounted to €6.6 million (€7 million in the first half of 2017); the largest investments were used for the automation of the production lines for light alloy valves and the increase in production capacity in Turkey.

Net working capital was €56.7 million at 30 June 2018, versus €53.4 million at 30 June 2017 and €50.8 million at the end of 2017. The increase compared with the end of 2017 is attributable to the different seasonal trend. The impact of the net working capital on sales is 37.3% (33.8% at the end of 2017).

Intra-group and related-party transactions

Transactions with related parties, including intra-group transactions, have not been qualified as atypical or unusual, as they fall under the normal course of Group operations. These transactions are regulated at arm's length conditions.

Related-party transactions other than intra-group transactions are described in the Explanatory Notes to the half-yearly condensed consolidated financial statements, which also show to what extent related- party transactions affected financial statement items.

[1] Sum of Inventories, Trade receivables, Tax receivables and Other current receivables
[2] Sum of Trade payables, Tax payables and Other liabilities
[3] difference between short-term Assets and short-term Liabilities

Risk factors related to the segment in which the Group operates and main risks and uncertainties for the remainder of 2018

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 in favour of growth in emerging Countries, characterised by different sales conditions and 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 its leadership position wherever possible through:

- development of new products characterised by superior performance compared with 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 Group created a production plant in Turkey in 2012 that realises today 10% of total production. The Turkish market represents more than 25% of the Group's total sales; moreover, sales to customers based in Turkey are largely for finished products sent to foreign markets, so the Sabaf Group's results are only partially affected by the trend in domestic demand.
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. The management carefully assessed the social, economical and political risks deriving from operating in Turkey, also on the occasion of the next acquisition of Okida, described in the paragraph "Significant events after the end of the first half".

More generally, the Group is exposed to risks related to (political, economic, tax, regulatory) instability in some emerging countries where it produces or sells. Any embargoes or major political or economic instability, or changes in the regulatory and/or local law systems, or new tariffs or taxes imposed could negatively affect a portion of Group sales and the related profitability.

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

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

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.

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, which has an impact on profitability. The Group protects itself from the risk of changes in the price of brass and aluminium with supply contracts signed with suppliers for delivery up to twelve months in advance or, alternatively, with derivative financial instruments.
  The Sabaf Group has already fixed purchase prices to cover more than 50% of production needs until the end of 2018 for aluminium alloys, brass and steel. Based on the contracts concluded and current market prices, the Group expects purchase costs in the second half of 2017 to be around €0.3 million higher than in the same period of the previous year.
- **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 accounted for about 14% of consolidated sales, the possible depreciation against the euro and the real could affect profitability and lead to a loss in competitiveness on the markets in which sales are made in that currency (mainly South and North America). At 30 June 2018, the Group has derivative contracts to hedge the risk of the euro/dollar exchange rate for a total notional amount of USD 2.4 million, maturing on 31 December 2017.
- **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. The risk is partially transferred to third parties by credit insurance, or partially guaranteed through the request for letters of credit issued by leading banks for customers. The remainder of the receivable risk is covered in the financial statements by a bad debt provision.

The context in which the Sabaf Group operates is characterised by further risk factors, such as product competition, loss of business opportunities in the Chinese market and protection of product exclusivity, which are described in the Management Report at 31 December 2017 and for which the profile did not change substantially during the first half of 2018.

Significant events after the end of the first half

On 16 July 2018, Sabaf announced the signing of a binding contract for the acquisition of 100% of the company Okida Elektronik, a leader in Turkey in the design, manufacture and sale of electronic control boards, controls, timers, display units and power units for ovens, hoods, vacuum cleaners, refrigerators and freezers. The acquisition of Okida, which in 2017 generated sales of €12.5 million, represents the first step towards the implementation of the Business Plan, in line with the strategy of expanding the range of products in components for household appliances and the acquisition of e-skills.
The closing of the acquisition is expected by September.

Outlook for the current year

Even in July and August, the trend in demand appears to be different in the various markets in which the Group operates. A phase of weakness is confirmed in Italy, while encouraging signs of recovery are coming from the Middle East and Asia. North and South America confirm the progress already registered in the first half of the year. Albeit visibility in the second half of the year is still partial, taking into consideration the same scope of consolidation - excluding the contribution expected from the acquisition of Okida - for the entire 2018 financial year, the Group expects to achieve sales in line with 2017 and an operating profitability (% EBITDA) of around 20% (the previous forecast indicated an increase in revenue of between 3% and 5% compared to 2017 and an operating profitability 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 the forecasts.

For the Board of Directors
The Chairman
Giuseppe Saleri

Ospitaletto, 2 August 2018

HALF-YEARLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AT 30 JUNE 2018

Consolidated statement of financial position

(€/000)	**Notes:**	**30/06/2018**	**31/12/2017**
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	**1**	72,041	73,069
Investment property	**2**	5,469	5,697
Intangible assets	**3**	9,266	9,283
Equity investments	**4**	281	281
Financial assets	**10**	120	180
Non-current receivables	**5**	309	196
Deferred tax assets	**22**	4,965	5,096
Total non-current assets		**92,451**	**93,802**
CURRENT ASSETS			
Inventories	**6**	38,293	32,929
Trade receivables	**7**	49,084	42,263
Tax receivables	**8**	2,792	3,065
Other current receivables	**9**	1,571	1,057
Financial assets	**10**	68	67
Cash and cash equivalents	**11**	7,204	11,533
Total current assets		**99,012**	**90,914**
ASSETS HELD FOR SALE		**0**	**0**
TOTAL ASSETS		**191,463**	**184,716**
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	**12**	11,533	11,533
Retained earnings, other reserves	**13**	90,076	87,227
Profit (loss) for the year		7,226	14,835
Total equity interest of the Parent Company		*108,835*	*113,595*
Minority interests		*1,563*	*1,460*
Total shareholders' equity		**110,398**	**115,055**
NON-CURRENT LIABILITIES			
Loans	**14**	22,450	17,760
Other financial liabilities	**15**	1,883	1,943
Post-employment benefit and retirement reserves	**16**	2,684	2,845
Provisions for risks and charges	**17**	398	385
Deferred tax liabilities	**22**	867	804
Total non-current liabilities		**28,282**	**23,737**
CURRENT LIABILITIES			
Loans	**14**	17,521	17,288
Other financial liabilities	**21**	178	75
Trade payables	**18**	25,083	19,975
Tax payables	**19**	2,353	1,095
Other payables	**20**	7,648	7,491
Total current liabilities		**52,783**	**45,924**
LIABILITIES HELD FOR SALE		**0**	**0**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**191,463**	**184,716**

Consolidated income statement

(€/000)	Notes:	H1 2018	H1 2017
OPERATING REVENUE AND INCOME			
Revenue	**23**	76,013	77,236
Other income	**24**	1,668	1,581
Total operating revenue and income		**77,681**	**78,817**
OPERATING COSTS			
Materials	**25**	(34,555)	(33,039)
Change in inventories		6,472	5,195
Services	**26**	(16,314)	(15,914)
Personnel costs	**27**	(18,273)	(18,417)
Other operating costs	**28**	(653)	(588)
Costs for capitalised in-house work		918	728
Total operating costs		**(62,405)**	**(62,035)**
OPERATING PROFIT BEFORE DEPRECIATION & AMORTISATION, CAPITAL GAINS/LOSSES, AND WRITE- DOWNS/WRITE-BACKS OF NON-CURRENT ASSETS (EBITDA)		**15,276**	**16,782**
Depreciations and amortisation		(6,303)	(6,469)
Capital gains/(losses) on disposals of non-current assets		11	7
Write-downs/write-backs of non-current assets		0	0
OPERATING PROFIT (EBIT)		**8,984**	**10,320**
Financial income		90	129
Financial expenses	**29**	(405)	(283)
Exchange rate gains and losses	**30**	1,072	101
Profits and losses from equity investments		0	0
PROFIT BEFORE TAXES		**9,741**	**10,267**
Income tax	**31**	(2,412)	(2,787)
PROFIT FOR THE YEAR		**7,329**	**7,480**
of which			
Minority interests		103	28
GROUP PROFIT		**7,226**	**7,452**

(in €)			
Basic earnings per share	**32**	**0.653**	**0.663**
Diluted earnings per share	**32**	**0.653**	**0.663**

Consolidated statement of comprehensive income

(€/000)	**H1 2018**	**H1 2017**
NET PROFIT FOR THE PERIOD	**7,329**	**7,480**
Total profit/losses that will be subsequently reclassified under profit (loss) for the period:		
Forex differences due to translation of financial statements in foreign currencies	(3,894)	(2,214)
Tax effect	0	0
Total other profits/(losses) net of taxes for the year	**(3,894)**	**(2,214)**
TOTAL PROFIT	**3,435**	**5,266**

Consolidated cash flow statement

	H1 2018	H1 2017
Cash and cash equivalents at beginning of period	***11,533***	***12,143***
Net profit/(loss) for the period	7,329	7,452
Adjustments for:		
- Depreciation and amortisation for the period	6,303	6,469
- Realised gains/losses	(11)	(7)
- Financial income and expenses	315	154
- IFRS 2 measurement stock grant plan	65	
- Income tax	2,412	2,787
Change in post-employment benefit reserve	(161)	(17)
Change in risk provisions	13	14
Change in trade receivables	*(6,821)*	*(12,271)*
Change in inventories	*(5,364)*	*(4,562)*
Change in trade payables	*5,108*	*6,845*
Change in net working capital	(7,077)	(9,988)
Change in other receivables and payables, deferred tax liabilities	(571)	1,019
Payment of taxes	(586)	(1,206)
Payment of financial expenses	(405)	(271)
Collection of financial income	90	129
Cash flows from operations	**7,716**	**6,535**
Investments in non-current assets		
- intangible	(316)	(377)
- tangible	(6,341)	(6,782)
- financial	0	0
Disposal of non-current assets	25	123
Cash flows from investment activities	**(6,632)**	**(7,036)**
Repayment of loans	(10,378)	(6,003)
New loans	15,342	7,876
Change in financial assets	59	(373)
Purchase of treasury shares	(2,086)	(937)
Payment of dividends	(6,071)	(5,384)
Cash flows from financing activities	**(3,134)**	**(4,821)**
Foreign exchange differences	(2,279)	(1,233)
Net cash flows for the period	**(4,329)**	**(6,555)**
Cash and cash equivalents at end of period	***7,204***	***5,588***
Current financial debt	17,631	19,452
Non-current financial debt	24,333	18,022
Net financial debt	***34,760***	***31,886***

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 December 2016(*)	**11,533**	**10,002**	**2,307**	**(2,399)**	**(7,388)**	**(612)**	**88,561**	**8,994**	**110,998**	**1,379**	**112,377**
Allocation of 2016 profit											
- dividends paid out								(5,384)	(5,384)		(5,384)
- carried forward							3,610	(3,610)			
Purchase of treasury shares				(937)					(937)		(937)
Total profit H1 2017					(2,214)			7,452	5,238	28	5,266
Balance at 30 June 2017	**11,533**	**10,002**	**2,307**	**(3,336)**	**(9,602)**	**(612)**	**92,171**	**7,452**	**109,915**	**1,407**	**111,322**
Purchase of treasury shares				(1,173)					(1,173)		(1,173)
Total profit at 31 December 2017					(2,592)	62		7,383	4,853	53	4,906
Balance at 31 December 2017	**11,533**	**10,002**	**2,307**	**(4,509)**	**(12,194)**	**(550)**	**92,171**	**14,835**	**113,595**	**1,460**	**115,055**
Allocation of 2017 profit											
- dividends paid out								(6,071)	(6,071)		(6,071)
- carried forward							8,764	(8,764)			
IFRS 2 measurement stock grant plan							65		65		65
Purchase of treasury shares				(2,086)					(2,086)		(2,086)
Total profit H1 2018					(3,894)			7,226	3,332	103	3,435
Balance at 30 June 2018	**11,533**	**10,002**	**2,307**	**(6,595)**	**(16,088)**	**(550)**	**101,000**	**7,226**	**108,835**	**1,563**	**110,398**

(*) 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 (see "Information relating to IFRS 3")

EXPLANATORY NOTES

Basis of presentation and accounting policies used

The half-yearly condensed consolidated financial statements at 30 June 2018 were prepared in accordance with IAS 34 on interim reports. These condensed half-year consolidated financial statements do not include all the information required for the annual financial report and must be read together with the consolidated financial statements for the year ended 31 December 2017. Reference to IFRS also includes all current International Accounting Standards (IAS). They have been prepared in euro, rounding amounts to the nearest thousand, and are compared with the half-yearly and annual consolidated financial statements of the previous year, prepared according to the same standards. They consist of the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the statement of changes in consolidated shareholders' equity, the consolidated statement of cash flows and these explanatory notes.

The consolidation policies, criteria for converting items in foreign currencies, the accounting principles and policies are the same as those used for preparing the financial statements at 31 December 2017, to which reference should be made for additional information, with the exception of the adoption as of 1 January 2018 of the new standards and amendments described below. The Group has not early adopted any new standards, interpretations or amendments issued but not yet in force.

New accounting standards

Accounting standards, amendments and IFRS interpretations applicable from 1 January 2018

- **IFRS 9 – *Financial Instruments***. In July 2014, the IAS issued its final IFRS 9 replacing IAS 39 and all previous versions of IFRS 9. The standard was approved by the European Union in November 2016 and is effective for financial years beginning on or after 1 January 2018. IFRS 9 brings together all aspects relating to the recognition of financial instruments: Classification and Measurement, Impairment and Hedge Accounting.
  The adoption of IFRS 9 did not have a significant impact on the Group's financial statements and did not entail the need to record adjustments to the consolidated statement of financial position at the date of initial application of the standard.
  Classification and measurement
  The Group did not have a significant impact on its financial statements as a result of the application of the classification and measurement requirements envisaged by IFRS 9. Loans, like trade receivables, are held for collection at the contractual due dates and are expected to generate cash flows represented solely by collections of principal and interest.
  Impairment
  The Group has not recorded any adjustments to the consolidated statement of financial position at the date of initial application of the standard. In particular, with reference to trade receivables, the Group considered its policy of bad debt provision consistent with the Standard.
  Hedge accounting
  The Group does not use hedge accounting for hedging instruments.

- **IFRS 15 – *Revenue from Contracts with Customers.*** In May 2014, the IAS issued IFRS 15, a new revenue recognition standard that replaces IAS 18 and IAS 11 and was supplemented with further clarifications and guidance in 2016. The standard is applicable to the preparation of the financial statements for the financial years starting from 1 January 2018 and introduced a new five-stage model that applies to contracts with customers. IFRS 15 requires the recognition of revenue for an amount that reflects the consideration to which the entity believes it is entitled in exchange for the transfer of goods or services to the customer.
  The application of the new standard and the relative interpretations has not had significant effects on the Group's consolidated financial statements, either from the point of view of classification or of determining quantities. In particular, the application of IFRS 15 had no impact on contracts with customers, in which the sale of Sabaf products is the only obligation ("at a point in time"), since revenues are recognised at the time when control of the activity is transferred to the customer, according to the terms of return defined with the customer. The guarantees provided for in the contracts are of a general nature and not extended and, consequently, the Group believes that they will continue to be accounted for in accordance with IAS 37. Finally, with regard to the income from participating in the production of presses and equipment, in line with

previous years, the Group will continue to allocate these revenues over the useful life of the projects, which is generally 10 years.

- Document **"*Annual Improvements to IFRSs: 2014-2016 Cycle*"**. The provisions issued concern 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. The provisions were approved by the European Union in February 2018 and are applicable in the preparation of the financial statements for financial years beginning on or after 1 January 2018, with reference to the amendments to IAS 28 and IFRS 1, as from 1 January 2017, with reference to the amendments to IFRS 12. The adoption of the provisions by the Group did not entail any changes in accounting policies or retrospective adjustments.

- **IFRIC 22 *Interpretation "Foreign Currency Transactions and Advance Consideration*"**. The interpretation was endorsed by the European Union in March 2018 and is applicable from 1 January 2018. 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. The adoption of the interpretation by the Group did not entail any changes in accounting policies or retrospective adjustments.

- Amendment to **IAS 40 "*Transfers of Investment Property*".** These amendments clarify the transfers of a property to, or from, investment property. In particular, an entity must reclassify a property among, or from, investment property only when there is evidence that there was a change in the intended use of the property. This change must refer to a specific event that happened and must not be limited to a change of intention by the Management of an entity. The interpretation was endorsed by the European Union in March 2018 and is applicable from 1 January 2018. The adoption of the amendments by the Group did not entail any changes in accounting policies or retrospective adjustments.

- Amendment to **IFRS 2 *"Classification and measurement of share-based payment transactions"***, 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 interpretation was endorsed by the European Union in February 2018 and is applicable from 1 January 2018. The adoption of the amendments by the Group did not entail any changes in accounting policies or retrospective adjustments.

IFRS and IFRIC accounting standard, amendments approved by the European Union, not yet universally applicable and not adopted early by the Group at 30 June 2018

- 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.

- Amendment to **IFRS 9 "*Prepayment Features with Negative Compensation*.** 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 interpretation was endorsed by the European Union in March 2018 and is applicable from 1 January 2019 (early application is also permitted). The directors do not expect a significant effect on the Group's consolidated financial statements through the adoption of these changes.

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.

- 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 **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.
- Amendment to **IAS 19 *"Plan Amendment, Curtailment or Settlement".*** The amendments clarify how pension costs are determined when a change occurs in a defined benefit plan. The amendments will be effective for the preparation of the financial statements for financial years beginning on or after 1 January 2019, unless they are postponed subsequent to their approval by the European Union.
- **IFRS 17 *"Insurance Contracts".*** A new accounting standard for the recognition of insurance contracts that will replace IFRS 4. The new standard will be effective for the preparation of the financial statements for financial years beginning on or after 1 January 2021, unless they are postponed subsequent to their approval by the European Union.

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, which records all changes in Other overall earnings (losses) during the year, generated by transactions other than those conducted with shareholders and based on specific IAS/IFRS standards;
- 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 30 June 2018 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.

Control is the power to determine, directly or indirectly, the financial and management policies of an entity so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control begins until the date on which control ceases.

Sabaf US Corp. 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 30 June 2018 operations are still in their embryonic 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 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.
c) Payable/receivable and cost/revenue items between consolidated companies and profits/losses arising from intercompany transactions are eliminated.
d) If minority shareholders exist, the portion of shareholders' equity and net profit for the period pertaining to them is posted in specific items of the consolidated statement of financial position and income statement.

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

Separate financial statements of each company belonging to the Group are prepared in the currency of the country in which that company operates (functional currency). For the purposes of the consolidated financial statements, the financial statement of each foreign entity is expressed in euro, which is the Group's functional currency and the reporting currency for the consolidated financial statements.
The 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 period.
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 statements of financial position of the foreign subsidiaries, prepared in local currency, are shown in the following table:

Description of currency	Exchange rate in effect at 30/06/2018	Average exchange rate 01/01/2018 - 30/06/2018	Exchange rate in effect at 31/12/2017	Average exchange rate 01/01/2017 - 30/06/2017
Brazilian real	4.4876	4.1416	3.9729	3.4418
Turkish lira	5.3385	4.9573	4.5464	3.9391
Chinese renminbi	7.7170	7.7085	7.8044	7.4448

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.

Use of estimates

The preparation of the half-yearly financial statements and notes in accordance with IFRS requires the Directors to make estimates and assumptions that affect the values of revenues, costs, assets and liabilities of the half-yearly financial statements and the disclosures on contingent assets and liabilities at 30 June 2018. In the event that in future these estimates and assumptions, which are based on the Di- rectors' best assessments, should deviate from actual circumstances, they will be amended appropriately at the time the circumstances change. Estimates and assumptions are regularly reviewed and the effects of each change immediately reflected in the income statement.

It should also be noted that certain valuation processes, particularly the more complex ones such as the determination of any impairment losses of non-current assets, are generally carried out in full only for the preparation of the annual financial statements, when all information that could be necessary is available, except in cases in which impairment indicators require an immediate valuation of any impairment losses.

Finally, it should be noted that the actuarial valuation of the post-employment benefit reserve is not conducted for the purpose of preparing the interim financial statements, but only for the annual financial statements, since the resulting effects on the statement of financial position and the comprehensive income statement are not considered to be significant.

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 2017	**52,061**	**189,883**	**41,818**	**3,322**	**287,084**
Increases	149	3,255	884	2,078	**6,366**
Reclassifications		1,385	84	(1,483)	**(14)**
Disposals		(44)	(59)		**(103)**
Forex differences	(622)	(1,446)	(505)	(116)	**(2,689)**
At 30 June 2018	**51,588**	**193,033**	**42,222**	**3,801**	**290,644**
Accumulated depreciations					
At 31 December 2017	**18,284**	**159,042**	**36,689**	**-**	**214,015**
Increases	740	4,092	1,097		**5,929**
Reclassifications					
Disposals		(44)	(53)		**(97)**
Forex differences	(121)	(795)	(328)		**(1,244)**
At 30 June 2018	**18,903**	**162,295**	**37,405**	**-**	**218,603**
Carrying value					
At 31 December 2017	**33,777**	**30,841**	**5,129**	**3,322**	**73,069**
At 30 June 2018	**32,685**	**30,738**	**4,817**	**3,801**	**72,041**

The carrying value of the item "Property" is made up as follows:

	30/06/2018	**31/12/2017**	**Change**
Land	6,738	6,877	(139)
Industrial buildings	25,947	26,900	(953)
Total	**32,685**	**33,777**	**(1,092)**

During the half-year period, the largest investments were used for the automation of the production lines for light alloy valves and the increase in production capacity in Turkey. Investments in maintenance and replacement, so that production equipment is kept up to date and remains efficient, are ongoing

Internal and external indicators which would necessitate an impairment test on property, plant and equipment, with reference to these half-yearly financial statements were not identified.

2. INVESTMENT PROPERTY

Cost	
At 31 December 2017	**12,937**
Increases	
Disposals	(19)
At 30 June 2018	**12,918**

Cumulative depreciations and write-downs	
At 31 December 2017	**7,240**
Depreciations for the period	211
Eliminations for disposals	(2)
At 30 June 2018	**7,449**

Carrying value	
At 31 December 2017	**5,697**
At 30 June 2018	**5,469**

This item includes non-operating buildings owned by the Group: these are mainly properties for residential use, located in Ospitaletto near Sabaf's headquarters, held for rental or sale. The carrying value is considered to be in line with the presumed realisable value.

3. INTANGIBLE ASSETS

	Goodwill	Patents, software and know-how	Development costs	Other intangible assets	Total
Cost					
At 31 December 2017	**10,778**	**6,859**	**5,372**	**793**	**23,802**
Increases		88	225	10	323
Reclassifications			(4)		(4)
Forex differences		(15)			(15)
At 30 June 2018	**10,778**	**6,932**	**5,593**	**803**	**24,106**
Accumulated amortisation					
At 31 December 2017	**4,563**	**6,254**	**3,041**	**661**	**14,519**
Increases		136	181	10	327
Reclassifications					
Forex differences		(7)		1	(6)
At 30 June 2018	**4,563**	**6,383**	**3,222**	**672**	**14,840**
Carrying value					
At 31 December 2017	**6,215**	**605**	**2,331**	**132**	**9,283**
At 30 June 2018	**6,215**	**549**	**2,371**	**131**	**9,266**

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.

The goodwill booked in the financial statements:

- for €4.45 million arises from the acquisition of Faringosi Hinges S.r.l. and was subsequently allocated to the "Hinges" cash generating unit.

- for €1.77 arises from the acquisition of A.R.C. S.r.l. and was subsequently allocated to the cash generating unit "Professional burners".

The Group did not identify any impairment indicators in the first half of 2018, i.e. signs that tangible and intangible assets including goodwill relating to the CGU "Hinges" and "Professional burners" may have suffered an impairment loss. As a result, at 30 June 2018, it was not necessary to perform an impairment test based on an updated business plan.
Other intangible fixed assets have a finite useful life and, as a result, are amortised throughout their life. The useful life of projects for which development costs are capitalised is estimated to be 10 years.
The increase in development costs mainly includes the costs for the design of new models of special burners.

Internal and external indicators that would necessitate an impairment test on intangible assets, other than goodwill, with reference to these half-yearly financial statements were not identified.

4. EQUITY INVESTMENTS

	31/12/2017	Changes	30/06/2018
Sabaf U.S.	139	-	139
Handan ARC Burners Co.	101	-	101
Other equity investments	40	-	40
Total	**281**	**-**	**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

	30/06/2018	31/12/2017	Change
Tax receivables	266	153	113
Guarantee deposits	43	43	-
Total	**309**	**196**	**113**

Tax receivables relate to indirect taxes expected to be recovered after 30 June 2019.

6. INVENTORIES

	30/06/2018	31/12/2017	Change
Raw Materials	12,925	11,459	1,466
Semi-processed goods	11,889	11,180	709
Finished products	16,697	13,448	3,249
Provision for inventory write-downs	(3,218)	(3,158)	(60)
Total	**38,293**	**32,929**	**5,364**

The value of inventories at 30 June 2018 was higher than at the end of 2017, subsequent to the different seasonal trend. The increase in finished product inventories is also due to the fact that some sales, planned for the end of the first half, were postponed to the third quarter of 2018. The impact of inventories on sales is 25.2%, compared with 24% at the end of 2017.

At 30 June 2018, the inventory obsolescence provision was adjusted based on an improved estimate of the obsolescence risk, measured by analysing slow and non-moving inventory.

7. TRADE RECEIVABLES

	30/06/2018	31/12/2017	Change
Total trade receivables	49,922	43,002	6,920
Bad debt provision	(838)	(739)	(99)
Net total	**49,084**	**42,263**	**6,821**

The amount of trade receivables at 30 June 2018 increased compared to the balance at the end of 2017 due to the different seasonality and delays in payment by some customers. There were no significant changes in average payment terms agreed with clients. At 30 June 2018, receivables overdue by more than 90 days totalled €1,086,000 (€191,000 at 31 December 2017).

At 30 June 2018, trade receivables included balances of some USD 7.8 million, posted at the €/USD exchange rate at the end of the period, i.e. 1.1658.

8. TAX RECEIVABLES

	30/06/2018	31/12/2017	Change
For income tax	1,785	1,998	(213)
For VAT and other sales taxes	894	682	212
Other tax credits	113	385	(272)
Total	**2,792**	**3,065**	**(273)**

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 balance of income tax for 2017, 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

	30/06/2018	31/12/2017	Change
Advances to suppliers	252	360	(108)
Credits to be received from suppliers	369	155	214
Other receivables, accrued income and prepaid expenses	950	542	408
Total	**1,571**	**1,057**	**514**

Credits to be received from suppliers for €171,000, include the energy subsidy due to companies that consume a large amount of energy (so-called “energy-intensive bonuses”) for 2017. “Energy-intensive bonuses” due for the years 2014, 2015 and 2016 were regularly collected during 2017 and 2018.

10. FINANCIAL ASSETS

	30/06/2018		31/12/2017	
	Current	**Non current**	**Current**	**Non current**
Restricted bank accounts	60	120	60	180
Derivative instruments on interest rates	8	-	7	-
Total	**68**	**120**	**67**	**180**

At 30 June 2018, 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 € 3.6 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 €7,204,000 at 30 June 2018 (€11,533,000 at 31 December 2017) consisted of bank current account balances of €6,949,000 (€11 million at 31 December 2017) and investments in mutual funds with immediate liquidity of €255,000 (€0.5 million at 31 December 2017). Changes in the net financial position are analysed in the cash flow statement.

12. SHARE CAPITAL

Sabaf S.p.A.'s share capital at 30 June 2018 consists of 11,533,450 shares with a par value of €1.00 each and has not changed compared with 31 December 2017.

13. TREASURY SHARES AND OTHER RESERVES

In the course of the first half year of 2018, 112,670 treasury shares were acquired at an average unit price of €18.518, while they have not been sold.
At 30 June 2018, Sabaf S.p.A. held 494,439 treasury shares (4.287% of the share capital), reported in the financial statements as an adjustment to shareholders' equity at a unit value of €13,339.
There were 11,039,011 outstanding shares at 30 June 2018 (11,151,681 at 31 December 2017).

Items "Retained earnings, other reserves" of €90,236,000 included, at 30 June 2018, the stock grant reserve of €65 thousand, which included the measurement at 30 June 2018 of fair value of rights assigned to receive shares of the Parent Company.
For details of the Stock Grant Plan, refer to Note 36.

14. LOANS

	30/06/2018		31/12/2017	
	Current	Non current	Current	Non current
Property leasing	151	1,386	149	1,462
Unsecured loans	7,987	21,064	5,982	16,298
Short-term bank loans	6,216	-	9,477	-
Advances on bank receipts or invoices	3,140	-	1,678	-
Interest payable	27	-	2	-
Total	**17,521**	**22,450**	**17,288**	**17,760**

Changes in loans over the first half of the year are shown in the cash flow statement. During the half year, two new medium/long-term loans were taken out, each for an amount of €5 million, repayable in 5 years. To manage interest rate risk, unsecured loans are either fixed-rate or hedged by IRS. These loans are not conditional on contractual clauses (covenants). Short-term loans of up to three months have been renewed as part of ordinary cash flow management activities.
Two of the outstanding unsecured loans of €8 million at 30 June 2018 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.

At 31 December 2017, covenants were widely observed.

15. OTHER FINANCIAL LIABILITIES

	30/06/2018		31/12/2017	
	Current	**Non current**	**Current**	**Non current**
Option on minorities	-	1,763	-	1,763
Payables to A.R.C.'s shareholders	60	120	60	180
Currency derivatives	77	-	-	-
Derivative instruments on interest rates	41	-	15	-
Total	**178**	**1,883**	**75**	**1,943**

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

Pursuant to the provisions of IAS 32, the assignment of an option to sell (put option) in the terms described above required the initial recognition 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. At 30 June 2018, this amount remained unchanged compared to 31 December 2017 in that no indicators requiring adjustment of the valuation emerged during the first half of the year.

The payables to A.R.C.'s shareholders, equivalent to €180,000 at 30 June 2018, are related to the part of the price not yet liquidated to the vendors, which is deposited on an escrow account and will be released for the benefit of vendors on a straight-line basis until 2021, in accordance with the contractual agreements and the guarantees given by the vendors.

The Group uses derivative financial instruments, both on exchange and on interest rates. At 30 June 2018 the Group has in place four interest rate swap (IRS) contracts for amounts and maturities coinciding with four unsecured loans that are being amortised, whose residual value at 30 June 2018 is €13.029 million. The contracts have not been designated as capital flow hedges and are therefore at their fair value through profit and loss, and recognised in the items "Financial assets" or "Other financial liabilities".

16. POST-EMPLOYMENT BENEFIT AND RETIREMENT RESERVES

	30/06/2018	31/12/2017	Change
Post-employment benefit reserve	2,684	2,720	(36)
Retirement reserve	-	125	(125)
Total	**2,684**	**2,845**	**(161)**

17. PROVISIONS FOR RISKS AND CHARGES

	31/12/2017	Provisions	Utilisation	Release of excess portion	Forex differences	30/06/2018
Reserve for agents' indemnities	210	36	(8)	-	-	238
Product guarantee fund	60	-	(8)	-	-	52
Reserve for legal risks	115	-	(7)	-	-	108
Total	**385**	**36**	**(23)**	**-**	**-**	**398**

The reserve for agents' indemnities covers amounts payable to agents if the Group terminates the agency relationship.
The product guarantee fund covers expenses to be incurred for servicing products during the warranty period.
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

	30/06/2018	31/12/2017	Change
Total	**25,083**	**19,975**	**5,108**

The increase in trade payables compared to the end of 2017 reflects the different seasonal trend. The payment terms did not change.

At 30 June 2018, there were no overdue payables of a significant amount and the Group did not receive any injunctions for overdue payables.

19. TAX PAYABLES

	30/06/2018	31/12/2017	Change
Income tax payables	1,814	240	1,574
Withholding taxes	448	656	(208)
Other tax payables	91	199	(108)
Total	**2,353**	**1,095**	**1,258**

The increase in income tax payables compared with the end of the half-year was due to the corporate income tax (IRES) payment dates, requiring payments on account in July and November and payment of the balance in July of the following year.

20. OTHER CURRENT PAYABLES

	30/06/2018	31/12/2017	Change
To employees	4,931	4,552	379
To social security institutions	1,949	2,304	(355)
To agents	237	195	42
Advances from customers	188	94	94
Other current payables, accrued and deferred	343	346	(3)
Total	**7,648**	**7,491**	**157**

At 30 June 2018, payables due to employees included amounts for the thirteenth month's pay and for holidays accrued but not taken.

21. NET FINANCIAL POSITION

		30/06/2018	31/12/2017	Change
A.	Cash	15	14	1
B.	Positive balances of unrestricted bank accounts	6,949	11,009	(4,060)
C.	Other cash equivalents	240	510	(270)
D.	**Liquidity (A+B+C)**	**7,204**	**11,533**	**(4,329)**
E.	**Current financial receivables**	**68**	**-**	**68**
F.	Current bank payables	9,383	11,157	(1,774)
G.	Current portion of non-current debt	8,138	6,131	2,007
H.	Other current financial payables	178	75	103
I.	**Current financial debt (F+G+H)**	**17,699**	**17,363**	**336**
J.	**Net current financial debt (I-E-D)**	**10,427**	**5,830**	**4,597**
K.	Non-current bank payables	21,064	16,298	4,767
L.	Other non-current financial payables	3,269	3,405	(136)
M.	**Non-current financial debt (K+L)**	**24,333**	**19,703**	**4,631**
N.	**Net financial debt (J+M)**	**34,760**	**25,533**	**9,228**

The change in cash and cash equivalents (letter D. of the net financial position table) is shown in the Cash Flow Statement.

22. DEFERRED TAX ASSETS AND LIABILITIES

	30/06/2018	31/12/2017	Change
Deferred tax assets	4,965	5,096	(131)
Deferred tax liabilities	(867)	(804)	(63)
Net position	**4,098**	**4,292**	**(194)**

Below are the main elements comprising deferred tax assets and liabilities and their changes during the period:

	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 2017	**(120)**	**1,150**	**3**	**1,771**	**629**	**189**	**671**	**4,292**
To the income statement	52	133	6	-	(119)	-	(136)	(64)
Forex differences	-	(14)	-	-	(85)	-	(32)	(131)
At 30 June 2018	**(68)**	**1,269**	**9**	**1,771**	**425**	**189**	**503**	**4,098**

Tax assets relating to goodwill, amounting to €1,771,000, refer to the redemption of the value of the investment in Faringosi Hinges s.r.l. made in 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.

Comments on key income statement items

23. REVENUE

In the first half of 2018, revenue from sales and services totalled €76,013,000, down by 1.58% versus €77,236,000 in the same period in 2017. For comments on changes in revenues and a detailed analysis of revenues by product family and geographical area, please see the Report on Operations.

24. OTHER INCOME

	H1 2018	H1 2017	Change
Sale of trimmings and raw materials	1,349	1,129	220
Rental income	44	43	1
Contingent income	37	89	(52)
Release of reserve for risks	8	15	(7)
Other income	230	305	(75)
Total	**1,668**	**1,581**	**87**

25. MATERIALS

	H1 2018	H1 2017	Change
Commodities and outsourced components	31,272	30,175	1,097
Consumables	3,283	2,864	419
Total	**34,555**	**33,039**	**1,516**

The effective average purchase prices of the main raw materials (aluminium, steel and brass) recorded a general increase, with a negative effect of approximately €1 million (equal to 1.3% of sales).

Consumption (purchases plus change in inventories) as a percentage of sales was 36.4% in the first half, compared with 36.1% in the first half of 2017.

26. COSTS FOR SERVICES

	H1 2018	H1 2017	Change
Outsourced processing	5,633	5,275	358
Natural gas and electricity	2,423	2,497	(74)
Maintenance	2,317	2,355	(38)
Advisory services	1,169	1,067	102
Transport and export expenses	1,121	1,086	35
Travel expenses and allowances	462	409	53
Directors' fees	373	518	(145)
Commissions	306	274	32
Insurance	298	295	3
Waste disposal	270	247	23
Canteen	209	207	2
Use of temporary agency workers	114	99	15
Other costs	1,619	1,585	34
Total	**16,314**	**15,914**	**400**

The increase in costs for services compared to the first half of 2017 mainly concerns higher costs for outsourced processing related to the increase of production volumes, which also required an increased use of outsourcing for some stages of production, and higher costs for advisory services. Other costs include registering of patents, leasing of third-party assets, cleaning and other minor items.

27. PERSONNEL COSTS

	H1 2018	H1 2017	Change
Salaries and wages	12,308	12,630	(322)
Social Security costs	3,909	3,974	(65)
Severance Indemnity and supplementary pension	698	727	(29)
Temporary agency workers	1,090	939	151
Stock grant plan	65	-	65
Other costs	203	147	56
Total	**18,273**	**18,417**	**(144)**

The average Group headcount in the first half of 2018 was 768 employees (594 blue-collars, 159 white-collars and supervisors, and 15 managers) compared to 754 in the first half of 2017. The average number of temporary workers was 88, compared with 72 in the same period of 2017. During the period, the Group did not use the temporary unemployment fund.
The item "Stock Grant Plan" of €65 thousand, included the measurement at 30 June 2018 of the fair value of rights assigned to receive shares of the Parent Company. For details of the Stock Grant Plan, refer to Note 36.

28. OTHER OPERATING COSTS

	H1 2018	H1 2017	Change
Bad debt provision	106	63	43
Non-income related taxes and duties	244	250	(6)
Contingent liabilities	68	59	9
Provisions for risks	36	47	(11)
Other operating costs	199	169	30
Total	**653**	**588**	**65**

29. FINANCIAL EXPENSES

	H1 2018	H1 2017	Change
Interest paid to banks	172	146	26
Interest paid on finance lease contracts	9	10	(1)
Financial expenses on derivative financial instruments	77	-	77
Banking expenses	121	109	12
Other financial expense	26	18	8
Total	**405**	**283**	**122**

30. EXCHANGE RATE GAINS AND LOSSES

In the first half of 2018, the Group reported net foreign exchange gains of €1,072,000 (versus net gains of €101,000 in the same period of 2017), following the depreciation of the Turkish lira and the Brazilian real against the Euro and the dollar.

31. INCOME TAX

	H1 2018	H1 2017	Change
Current taxes	2,444	2,487	(43)
Deferred tax liabilities	(32)	235	(267)
Balance of previous FYs	0	65	(65)
Total	**2,412**	**2,787**	**(375)**

Income tax is calculated in a precise manner, in the same way as taxes are calculated when drafting the annual financial statements.
In the first half of 2018, the impact of current taxes as a share of the pre-tax profit (tax-rate) is 24.7%, compared with 27.1% in the first half of 2017. The decrease in the tax rate was due to the tax benefits related to the investments made in Italy ("super amortisation" and "hyper amortisation") and Turkey, as well as to the tax benefit related to the Patent Box.

32. EARNINGS PER SHARE

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

Earnings

	H1 2018	H1 2017
	(€/000)	*(€/000)*
Net profit for the period	7,226	7,452

Number of shares

	H1 2018	H1 2017
Weighted average number of ordinary shares for determining basic earnings per share	11,072,688	11,235,368
Dilutive effect from potential ordinary shares	0	0
Weighted average number of ordinary shares for determining diluted earnings per share	11,072,688	11,235,368

	H1 2018	H1 2017
	Euro	*Euro*
Basic earnings per share	0.653	0.663
Diluted earnings per share	0.653	0.663

The number of shares for measuring the earnings per share was calculated net of the average number of shares in the portfolio.

33. DIVIDENDS

On 31 May 2018, shareholders were paid a dividend of €0.55 per share (total dividends of €6,071,000); a unitary dividend equal to €0.48 per share was paid in 2017.

34. INFORMATION BY BUSINESS SEGMENT

Below is the information by business segment for the first half of 2018 and 2017.

First half 2018

	Gas parts (household and professional)	Hinges	Total
Sales	70,954	5,059	**76,013**
Ebit	8,285	699	**8,984**

First half 2017

	Gas parts (household and professional)	Hinges	Total
Sales	72,945	4,291	**77,236**
Ebit	9,827	493	**10,320**

35. RELATED-PARTY TRANSACTIONS

Transactions between Sabaf S.p.A. and its consolidated subsidiaries have been eliminated from the consolidated financial statements and are not addressed in these notes. The table below illustrates the impact of all transactions between the Group and other related parties on the statement of financial position and income statement.

Impact of related-party transactions or positions on items in the statement of financial position at 30 June 2018.

	Total financial statement item	Parent company	Non-consolidated subsidiaries	Other related parties	Total related parties	Impact on the total
Trade receivables	49,084	-	124	-	124	0.25%
Tax receivables	2,792	1,158	-	-	1,158	41.48%
Trade payables	25,083	-	129	2	131	0.52%

Impact of related-party transactions or positions on items in the statement of financial position at 30 June 2017.

	Total financial statement item	Parent company	Non-consolidated subsidiaries	Other related parties	Total related parties	Impact on the total
Trade receivables	49,113	-	139	-	139	0.28%
Tax receivables	2,177	1,158	-	-	1,158	53.16%

Impact of related-party transactions or positions on income statement items at 30 June 2018

	Total financial statement item	Parent company	Non-consolidated subsidiaries	Other related parties	Total related parties	Impact on the total
Other income	1,668	35	-	-	35	2.10%
Services	16,314	-	129	9	138	0.85%

Impact of related-party transactions or positions on income statement items at 30 June 2017

	Total financial statement item	Parent company	Non-consolidated subsidiaries	Other related parties	Total related parties	Impact on the total
Other income	1,581	5	-	-	5	0.32%
Services	15,914	-	92	-	92	0.58%

Relations with the parent company Giuseppe Saleri S.a.p.A., consist of administration services provided by Sabaf S.p.A. to the parent company and, until 2015, in tax consolidation relations, which generated the receivable shown in the table and commented in Note 8.
Transactions with non-consolidated subsidiaries were solely of a commercial nature.
All transactions are regulated by specific contracts regulated at arm’s length conditions.

36. SHARE-BASED PAYMENTS

Stock grant plan

In order to adopt a medium and long-term incentive instrument for directors and employees of the Sabaf Group, on the proposal of the Remuneration and Nomination Committee, the Board of Directors prepared a specific free allocation plan of shares (the "Plan") with the characteristics described below.
The Plan was approved by the Shareholders' Meeting on 8 May 2018 and the related Regulations by the Board of Directors on 15 May 2018.

Purpose of the plan

The Plan aims to promote and pursue the involvement of the beneficiaries whose activities are considered relevant for the implementation of the contents and the achievement of the objectives set out in the Business Plan, foster loyalty development and motivation of managers, by increasing their entrepreneurial approach as well as align the interests of management with those of the Company's shareholders more closely, with a view to encouraging the achievement of significant results in the economic and asset growth of the Company.

Beneficiaries of the plan

The Plan is intended for persons who hold or will hold key positions in the Company and/or its Subsidiaries, with reference to the implementation of the contents and the achievement of the objectives of the 2018-2020 Business Plan. The Beneficiaries are divided into two groups:

- Cluster 1: Beneficiaries already identified in the Plan or who will be identified by the Board of Directors by 30 June 2018 on the Shareholders' Meeting authority.
- Cluster 2: Beneficiaries who will be identified by the Board of Directors from 1 July 2018 to 30 June 2019 on the Shareholders' Meeting authority.

On 15 May 2018, the Board of Directors identified the Beneficiaries of Cluster 1 of the Plan to whom a total of 185,600 rights have been assigned.

Subject-matter of the plan

The subject-matter of the Plan is the free allocation to the Beneficiaries of a maximum of 370,000 Rights, each of which entitles them to receive free of charge, under the terms and conditions provided for by the Regulations of the Plan, 1 Sabaf S.p.A. Share.
The free allocation of Sabaf S.p.A. shares is conditional, among other things, on the achievement, in whole or in part, with progressiveness, of the business objectives related to the ROI, EBITDA and TSR indicators.

Deadline of the Plan

The Plan expires on 31 December 2022 (or on a different subsequent date set by the Board of Directors).

Fair Value measurement methods

Considering the allocation mechanism described above, it was necessary to measure at fair value the rights assigned to receive shares of the Parent Company.
The main assumptions made at the beginning of the vesting period of the plan are illustrated below:

FAIR VALUE MEASUREMENT METHODS - RIGHTS RELATING TO OBJECTIVES MEASURED IN ROI

	2018	2019	2020	2018- 2020
Share price at the start of the vesting period	19.48	19.48	19.48	19.48
Risk free rate	-	-	-	-
Expected volatility	31%	29%	27%	29%
Dividend yield	2.30	2.30	2.30	2.30
Strike Price	19.48	19.48	19.48	19.48

Total value on ROI	6.83
Rights on ROI	33.40

Fair Value	**2.2**

FAIR VALUE MEASUREMENT METHODS - RIGHTS RELATING TO OBJECTIVES MEASURED IN EBITDA

	2018	2019	2020
Share price at the start of the vesting period	19.48	19.48	19.48
Risk free rate	-	-	-
Expected volatility	31%	29%	27%
Dividend yield	2.30	2.30	2.30
Strike Price	19.48	19.48	19.48

Total value on EBITDA	8.97
Rights on EBITDA	33.30

Fair Value	**2.9**

FAIR VALUE MEASUREMENT METHODS - RIGHTS RELATING TO OBJECTIVES MEASURED ON TSR

	2018	2019	2020
Share price at the start of the vesting period	19.48	19.48	19.48
Risk free rate	-	-	-
Expected volatility	31%	29%	27%
Dividend yield	0.00	0.00	0.00
Strike Price	22.61	25.32	28.34

Total value on ROI	6.00
Rights on ROI	33.30

Fair Value	**2.0**

Fair value per share at initial date of the vesting period	**7.2**

In line with the date on which the beneficiaries became aware of the assignment of the rights and terms of the plan, the grant date was set at 15 May 2018, the accounting impacts of the plan for the first half of 2018 are illustrated in Note 13 and Note 27 of this Report.

37. SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

Pursuant to the CONSOB memorandum of 28 July 2006, the Group declares that no significant non-recurring events or transactions, as defined by the memorandum, took place in the first half of 2018.

38. ATYPICAL AND/OR UNUSUAL TRANSACTIONS

Pursuant to Consob communication of 28 July 2006, the Group declares that no atypical and/or unusual transactions as defined by the Consob communication itself were carried out during the first half of 2018.

39. COMMITMENTS

Guarantees issued
The Sabaf Group has issued sureties to guarantee consumer and mortgage loans granted by Banco di Brescia to Group employees for a total of €4,871,000 (€5,385,000 at 31 December 2017).

SCOPE OF CONSOLIDATION AT 30 JUNE 2018

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

Company name	Registered offices	Share capital	Participating company	ownership %
Parent company				
Sabaf S.p.A.	Ospitaletto (BS) Via dei Carpini, 1	€ 11,533,450		
Subsidiary companies				
Faringosi-Hinges s.r.l.	Ospitaletto (BS) Via Martiri della Libertà, 66	€ 90,000	Sabaf S.p.A.	100%
Sabaf Immobiliare s.r.l.	Ospitaletto (BS) Via Martiri della Libertà, 66	€ 25,000	Sabaf S.p.A.	100%
Sabaf do Brasil Ltda.	Jundiaí - São Paulo (Brazil)	BRL 24,000,000	Sabaf S.p.A.	100%
Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki	Manisa (Turkey)	TRY 28,000,000	Sabaf S.p.A.	100%
Sabaf Appliance Components (Kunshan) Co., Ltd.	Kunshan (China)	€ 200,000	Sabaf S.p.A.	100%
Sabaf Appliance Components (Kunshan) Co., Ltd.	Kunshan (China)	€ 4,400,000	Sabaf S.p.A.	100%
A.R.C. s.r.l.	Campodarsego (PD)	€ 45,000	Sabaf S.p.A.	70%

NON-CONSOLIDATED COMPANIES VALUED AT COST

Company name	Registered offices	Share capital	Participating company	ownership %	holding %
Sabaf US Corp.	Plainfield – Illinois (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%

Certification of the Half-Yearly Condensed Consolidated Financial Statements pursuant to Article 154-bis of Legislative Decree 58/98

Gianluca Beschi, the Financial Reporting Officer of Sabaf S.p.A., has 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 to draft the condensed consolidated interim report in the first half of 2018.

They also certify that:

- the half-yearly condensed consolidated financial statements:
    - have been prepared in accordance with the international accounting standards recognised in the European Community in accordance with EC regulation 1606/2002 of the European Parliament and Council, of 19 July 2002;
    - 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 interim management statement includes a reliable analysis of the important events that occurred in the first six months of the year and their impact on the condensed consolidated interim financial statements, along with a description of the main risks and uncertainties for the six remaining months of the year. The interim management statement also contains a reliable analysis of the information on significant transactions with related parties.

Ospitaletto, 2 August 2018

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

Sabaf S.p.A.

Review report on the half-yearly condensed consolidated financial statements

(Translation from the original Italian text)

EY S.p.A.
Corso Magenta, 29
25121 Brescia

Tel: +39 030 2896111
Fax: +39 030 295437
ey.com

Review report on the half-yearly condensed consolidated financial statements
(Translation from the original Italian text)

To the Shareholders of
Sabaf S.p.A.

Introduction

We have reviewed the half-yearly condensed consolidated financial statements, comprising the statement of financial position, the statement of income, the statement of comprehensive income, the statement of changes in shareholders' equity and cash flows and the related explanatory notes of Sabaf S.p.A. and its subsidiaries (the "Sabaf Group") as of 30 June 2018. The Directors of Sabaf S.p.A. are responsible for the preparation of the half-yearly condensed consolidated financial statements in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these half-yearly condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with review standards recommended by Consob (the Italian Stock Exchange Regulatory Agency) in its Resolution no. 10867 of 31 July 1997. A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the half-yearly condensed consolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the half-yearly condensed consolidated financial statements of Sabaf Group as of June 30, 2018 are not prepared, in all material respects, in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Other matters

The consolidated financial statements for the year ended 31 December 2017 and the half-yearly condensed consolidated financial statements for the half-year period ended 30June 2017 have been respectively audited and reviewed by another auditor who expressed an unqualified opinion on the consolidated financial statements on 12 April 2018 and expressed an unqualified conclusion on the half-yearly condensed consolidated financial statements on 4 August 2017.

Brescia, 3 August 2018

EY S.p.A.
Signed by: Massimo Meloni, Partner

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