

INTERIM MANAGEMENT STATEMENT

AT 31 DECEMBER 2018



SABAF S.p.A.

Via dei Carpini, 1 – OSPITALETTO (BS) ITALY

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

www.sabaf.it

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Group structure

Parent company

SABAF S.p.A.

Subsidiaries and equity interest owned by the Group

Wholly consolidated companies

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

Non-consolidated companies

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

Board of Directors

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

(*) independent directors

Board of Statutory Auditors

Chairman	Alessandra Tronconi
Statutory Auditor	Luisa Anselmi
Statutory Auditor	Mauro Vivenzi

Consolidated statement of financial position

(€/000)	31/12/2018	30/09/2018	31/12/2017
ASSETS			
NON-CURRENT ASSETS			
Property, plant, and equipment	70,765	70,272	73,069
Investment property	4,403	5,361	5,697
Intangible assets	39,054	29,540	9,283
Equity investments	380	281	281
Financial assets	120	120	180
Non-current receivables	188	324	196
Deferred tax assets	6,040	4,947	5,096
Total non-current assets	120,950	110,845	93,802
CURRENT ASSETS			
Inventories	39,179	39,308	32,929
Trade receivables	46,932	48,104	42,263
Tax receivables	3,043	2,146	3,065
Other current receivables	1,534	1,904	1,057
Financial assets	3,511	3,521	67
Cash and cash equivalents	13,426	18,405	11,533
Total current assets	107,625	113,388	90,914
ASSETS HELD FOR SALE	0	0	0
TOTAL ASSETS	228,575	224,233	184,716
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	11,533	11,533	11,533
Retained earnings, other reserves	90,555	84,374	87,227
Net profit for the period	15,614	12,370	14,835
<i>Total equity interest of the Parent Company</i>	<i>117,702</i>	<i>108,277</i>	<i>113,595</i>
<i>Minority interests</i>	<i>1,644</i>	<i>1,582</i>	<i>1,460</i>
Total shareholders' equity	119,346	109,859	115,055
NON-CURRENT LIABILITIES			
Loans	42,406	47,007	17,760
Other financial liabilities	1,938	1,883	1,943
Post-employment benefit and retirement reserves	2,632	2,680	2,845
Provisions for risks and charges	725	1,298	385
Deferred tax liabilities	3,030	854	804
Total non-current liabilities	50,731	53,722	23,737
CURRENT LIABILITIES			
Loans	18,435	16,957	17,288
Other financial liabilities	7,682	9,324	75
Trade payables	21,215	23,168	19,975
Tax payables	3,566	3,520	1,095
Other payables	7,600	7,683	7,491
Total current liabilities	58,498	60,652	45,924
LIABILITIES HELD FOR SALE	0	0	0
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	228,575	224,233	184,716

Consolidated Income Statement

	Q4 2018		Q4 2017		12M 2018		12M 2017	
<i>(€/000)</i>								
INCOME STATEMENT COMPONENTS								
OPERATING REVENUE AND INCOME								
Revenue	36,201	100.0%	37,446	100.0%	150,642	100.0%	150,223	100.0%
Other income	901	2.5%	843	2.3%	3,369	2.2%	3,361	2.2%
Total operating revenue and income	37,102	102.5%	38,289	102.3%	154,011	102.2%	153,584	102.2%
OPERATING COSTS								
Materials	(13,725)	-37.9%	(12,264)	-32.8%	(62,447)	-41.5%	(59,794)	-39.8%
Change in inventories	(1,060)	-2.9%	(3,580)	-9.6%	4,603	3.1%	2,380	1.6%
Services	(7,598)	-21.0%	(7,046)	-18.8%	(31,297)	-20.8%	(30,227)	-20.1%
Payroll costs	(8,496)	-23.5%	(8,653)	-23.1%	(34,840)	-23.1%	(35,328)	-23.5%
Other operating costs	376	1.0%	(313)	-0.8%	(1,670)	-1.1%	(1,134)	-0.8%
Costs for capitalised in-house work	448	1.2%	422	1.1%	1,599	1.1%	1,474	1.0%
Total operating costs	(30,055)	-83.0%	(31,434)	-83.9%	(124,052)	-82.3%	(122,629)	-81.6%
OPERATING PROFIT BEFORE DEPRECIATION & AMORTISATION, CAPITAL GAINS/LOSSES, AND WRITE-DOWNS/WRITE-BACKS OF NON-CURRENT ASSETS (EBITDA)								
	7,047	19.5%	6,855	18.3%	29,959	19.9%	30,955	20.6%
Depreciations and amortisation	(3,368)	-9.3%	(3,162)	-8.4%	(12,728)	-8.4%	(12,826)	-8.5%
Capital gains/(losses) on disposals of non-current assets	16	0.0%	1	0.0%	28	0.0%	(12)	0.0%
Write-downs/write-backs of non-current assets	(850)	-2.3%	0	0.0%	(850)	-0.6%	0	0.0%
OPERATING PROFIT (EBIT)	2,845	7.9%	3,694	9.9%	16,409	10.9%	18,117	12.1%
Financial income	148	0.4%	62	0.2%	373	0.2%	214	0.1%
Financial expenses	(458)	-1.3%	(380)	-1.0%	(1,206)	-0.8%	(804)	-0.5%
Exchange rate gains and losses	1,609	4.4%	182	0.5%	5,384	3.6%	274	0.2%
Profits and losses from equity investments	0	0.0%	0	0.0%	0	0.0%	3	0.0%
PROFIT BEFORE TAXES	4,144	11.4%	3,558	9.5%	20,960	13.9%	17,804	11.9%
Income tax	(838)	-2.3%	1,064	2.8%	(5,162)	-3.4%	(2,888)	-1.9%
NET PROFIT FOR THE PERIOD	3,306	9.1%	4,622	12.3%	15,798	10.5%	14,916	9.9%
of which:								
Profit attributable to minority interests	62	0.2%	16	0.0%	184	0.1%	81	0.1%
PROFIT ATTRIBUTABLE TO THE GROUP	3,244	9.0%	4,606	12.3%	15,614	10.4%	14,835	9.9%

Consolidated statement of comprehensive income

<i>(€/000)</i>	Q4 2018	Q4 2017	12M 2018	12M 2017
NET PROFIT FOR THE PERIOD	3,306	4,622	15,798	14,916
<i>Total profits/losses that will not be subsequently restated under profit (loss) for the period:</i>				
Actuarial post-employment benefit reserve evaluation	32	82	32	82
Tax effect	(8)	(20)	(8)	(20)
	24	62	24	62
<i>Total profits/losses that will be subsequently reclassified under profit (loss) for the period:</i>				
Forex differences due to translation of financial statements in foreign currencies	5,784	(1,866)	(3,940)	(4,806)
Total other profits/(losses) net of taxes for the year	5,808	(1,804)	(3,916)	(4,744)
TOTAL PROFIT	9,114	2,818	11,882	10,172

Statement of changes in consolidated shareholders' equity

<i>(€/000)</i>	Share capital	Share premium reserve	Legal reserve	Treasury shares	Translation reserve	Updated post-employment benefit reserve	Other reserves	Profit for the year	Total Group shareholders' equity	Minority interests	Total shareholders' equity
Balance at 31 December 2016 (*)	11,533	10,002	2,307	(2,399)	(7,388)	(612)	88,561	8,994	110,998	1,379	112,377
Allocation of 2016 profit											
- 2016 Dividends paid out								(5,384)	(5,384)		(5,384)
- Carried forward							3,610	(3,610)	0		0
Purchase of treasury shares				(2,110)					(2,110)		(2,110)
Total profit at 31 December 2017					(4,806)	62		14,835	10,091	81	10,172
Balance at 31 December 2017	11,533	10,002	2,307	(4,509)	(12,194)	(550)	92,171	14,835	113,595	1,460	115,055
Allocation of 2017 profit											
- 2017 Dividends paid out								(6,071)	(6,071)		(6,071)
- Carried forward							8,764	(8,764)	0		0
Purchase of treasury shares				(2,359)					(2,359)		(2,359)
Other movements							839		839		839
Total profit at 31 December 2018					(3,940)	24		15,614	11,698	184	11,882
Balance at 31 December 2018	11,533	10,002	2,307	(6,868)	(16,134)	(526)	101,774	15,614	117,702	1,644	119,346

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

Consolidated statement of cash flows

(€/000)	Q4 2018	Q4 2017	12M 2018	12M 2017
<i>Cash and cash equivalents at beginning of period</i>	18,405	6,348	11,533	12,143
Net profit/(loss) for the period	3,306	4,622	15,798	14,916
Adjustments for:				
- Depreciation and amortisation for the period	3,368	3,162	12,728	12,826
- Write-downs of non-current assets	850	0	850	0
- Realised gains/losses	(16)	(1)	(28)	12
- Financial income and expenses	310	318	833	590
- IFRS 2 measurement stock grant plan	128	0	321	0
- Income tax	838	(1,064)	5,162	2,888
Payment of post-employment benefit reserve	(55)	(96)	(241)	(189)
Change in risk provisions	(573)	(3)	340	(49)
<i>Change in trade receivables</i>	<i>1,172</i>	<i>1,780</i>	<i>(3,003)</i>	<i>(5,421)</i>
<i>Change in inventories</i>	<i>129</i>	<i>3,790</i>	<i>(4,374)</i>	<i>(1,445)</i>
<i>Change in trade payables</i>	<i>(1,953)</i>	<i>(3,610)</i>	<i>556</i>	<i>998</i>
Change in net working capital	(652)	1,960	(6,821)	(5,868)
Change in other receivables and payables, deferred tax liabilities	3,223	(153)	2,537	1,029
Payment of taxes	(3,406)	(1,714)	(4,860)	(3,058)
Payment of financial expenses	(451)	(126)	(1,178)	(532)
Collection of financial income	148	62	373	214
Cash flow from operations	7,018	6,967	25,814	22,779
Net investments	(2,931)	(3,350)	(11,467)	(13,944)
Repayment of loans	(11,465)	(5,723)	(19,579)	(16,526)
New loans	6,754	8,533	52,972	17,751
Change in financial assets	10	111	(3,384)	(247)
Purchase/sale of treasury shares	(273)	(113)	(2,359)	(2,110)
Payment of dividends	0	0	(6,071)	(5,384)
Cash flow from financing activities	(4,974)	2,808	21,579	(6,516)
Okida acquisition	(1,195)	0	(24,077)	0
Foreign exchange differences	(2,897)	(1,240)	(9,956)	(2,929)
Net cash flows for the period	(4,979)	5,185	1,893	(610)
<i>Cash and cash equivalents at end of period</i>	13,426	11,533	13,426	11,533
Current financial debt	22,606	17,363	22,606	17,363
Non-current financial debt	44,344	19,703	44,344	19,703
Net financial debt	53,524	25,533	53,524	25,533

Consolidated net financial position

<i>(€/000)</i>	31/12/2018	30/09/2018	31/12/2017
A. Cash	19	15	14
B. Positive balances of unrestricted bank accounts	7,067	18,081	11,009
C. Other cash equivalents	6,340	309	510
D. Liquidity (A+B+C)	13,426	18,405	11,533
E. Current financial receivables	3,511	3,521	-
F. Current bank payables	7,233	8,150	11,157
G. Current portion of non-current debt	10,741	8,595	6,131
H. Other current financial payables	8,143	9,536	75
I. Current financial debt (F+G+H)	26,117	26,281	17,363
J. Net current financial debt (I-E-D)	9,180	4,355	5,830
K. Non-current bank payables	41,097	45,660	16,298
L. Other non-current financial payables	3,247	3,230	3,405
M. Non-current financial debt (K+L)	44,344	48,890	19,703
N. Net financial debt (J+M)	53,524	53,245	25,533

Explanatory notes

Accounting standards and scope of consolidation

The Interim Management Statement of the Sabaf Group at 31 December 2018 was prepared in pursuance of the Italian Stock-exchange regulations that establish the publication of interim management statements as one of the requirements for maintaining a listing in the STAR segment of the MTA (Electronic Stock Market).

This report does not contain the information required in accordance with IAS 34.

Accounting standards and policies are the same as those adopted for preparation of the consolidated financial statements at 31 December 2017, which should be consulted for reference, with the exception of the new IFRS 9 and IFRS 15, which came into force on 1 January 2018 and the effects of which were pointed out in the half-yearly report at 30 June 2018. All the amounts contained in the statements included in this Interim Management Statement are expressed in thousands of euro.

We also draw attention to the following points:

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

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

Okida Elektronik acquisition - Information related to IFRS 3

Okida Elektronik, company active in the design and production of electronic components for household appliances, was consolidated as from 4 September 2018, the date on which the Group acquired control of the company. Therefore, at 31 December 2018, the financial data and the results of operations of Okida were consolidated only for the period for which the Group held control (4 September - 30 September 2018).

At 31 December 2018, the Group carried out the evaluation of Okida in accordance with IFRS 3 revised, recognising the fair value of assets, liabilities and contingent liabilities at the acquisition date. The evaluation carried out in this Interim Management Statement is to be considered temporary, in that, in accordance with IFRS 3 revised, the evaluation becomes final within 12 months from the acquisition date.

The effects of this operation are shown in the following table:

	Original values at 04/09/2018	Fair value of assets and liabilities acquired
Assets		
Property, plant and equipment and intangible assets	146	146
Intangible assets	409	9,047
Inventories	1,876	1,876
Trade receivables	1,666	1,666
Other receivables	236	236
Cash and cash equivalents	4,680	4,680
Total assets	9,013	17,651
Liabilities		
Provisions for risks and charges	-	(269)
Deferred tax liabilities	-	(1,753)
Trade payables	(684)	(684)
Other payables	(814)	(814)
Total liabilities	(1,498)	(3,520)
Fair value of net assets acquired (a)	7,515	14,131
Total cost of acquisition (b)		28,757
Residual goodwill deriving from acquisition (b-a)		14,626
Acquired cash and cash equivalents (c)		4,680
Total cash outlay (b-c)		24,077

Sales breakdown by geographical area (Euro x 1000)

<i>(amounts in €000)</i>	Q4 2018	Q4 2017	% change	12M 2018	12M 2017	% change
Italy	7,090	8,399	-15.6%	31,579	36,523	-13.5%
Western Europe	3,324	2,996	+10.9%	12,337	11,678	+5.6%
Eastern Europe	11,818	10,912	+8.3%	46,301	42,824	+8.1%
Middle East and Africa	2,169	3,483	-37.7%	12,303	13,009	-5.4%
Asia and Oceania	2,080	2,540	-18.1%	7,590	10,516	-27.8%
South America	5,937	6,022	-1.4%	25,461	22,938	+11.0%
North America and Mexico	3,783	3,094	+22.3%	15,071	12,735	+18.3%
Total	36,201	37,446	-3.3%	150,642	150,223	+0.3%

Sales breakdown by product category (Euro x 1000)

<i>(amounts in €000)</i>	Q4 2018	Q4 2017	% change	12M 2018	12M 2017	% change
Brass valves	962	1,086	-11.5%	4,327	5,991	-27.8%
Light alloy valves	8,409	9,890	-15.0%	37,615	39,351	-4.4%
Thermostats	1,172	1,823	-35.7%	6,521	7,376	-11.6%
Standard burners	8,796	10,373	-15.2%	39,368	41,070	-4.1%
Special burners	6,491	6,559	-1.0%	27,585	27,184	+1.5%
Accessories	3,318	4,091	-18.9%	15,422	15,267	+1.0%
<i>Total gas parts</i>	<i>29,148</i>	<i>33,822</i>	<i>-13.8%</i>	<i>130,838</i>	<i>136,239</i>	<i>-4.0%</i>
<i>Professional burners</i>	1,145	1,356	-15.6%	5,331	5,079	+5.0%
<i>Hinges</i>	2,777	2,268	+22.4%	10,436	8,905	+17.2%
<i>Electronic components</i>	3,131	0		4,037	0	
Total	36,201	37,446	-3.3%	150,642	150,223	+0.3%

Management Statement

Results of operations

During the fourth quarter of 2018, the worsening of the European and Middle Eastern macroeconomic scenario, only partially offset by the positive tone of the North American market, led to a slowdown in the Group's sales: during the period, sales revenue totalled €36.2 million, 3.3% lower than the €37.4 million of the fourth quarter of 2017 (-11.7% taking into consideration the same scope of consolidation).

The markets most affected by the deterioration of the economic situation are Italy, Turkey and the Middle East. On the contrary, sales in North America maintained a growth rate of around 20%.

EBITDA for the fourth quarter of 2018 was €7 million, or 19.5% of sales, up by 2.8% compared to the figure of €6.9 million (18.3% of sales) in the fourth quarter of 2017.

EBIT was €2.8 million, equivalent to 7.9% of sales, and 23% lower than the €3.7 million recorded in the same quarter of 2017 (9.9% of sales).

It is noted that the provision for legal risks of €0.85 million, recorded under the item "Other operating costs" in the interim management statement at 30 September 2018 against the contingent liability resulting from a revocatory action relating to deeds dating back to 2013 and initiated by the bankruptcy of a former customer, was reclassified in this interim management statement under the item "Write-down of non-current assets", in that a settlement agreement that led to a loss in value of the same amount for an asset of the Group was reached. The reclassification of this income statement item had a positive impact on EBITDA in the fourth quarter of 2018, while the effect on the operating result for the period (EBIT) was zero.

During the quarter, the Group recorded in the income statement positive exchange differences of €1.6 million, due to fluctuations in exchange rates with the Turkish lira and the U.S. dollar. Profit before taxes was €4.1 million, up by 16.5% compared to the €3.6 million recorded in Q4 2017. Net profit for the period was €3.2 million, down 29.6% from €4.6 million in the fourth quarter of 2017, when the Group recorded tax benefits of €1.3 million.

In the whole of 2018, revenue totalled €150.6 million, up by 0.3% over the same period of 2017 (-2.4% taking into consideration the same scope of consolidation). EBITDA was €30 million (or 19.9% of sales), down by 3.2%, EBIT totalled €16.4 million (or 10.9% of sales) down by 9.4%, and the net profit owned by the Group was €15.6 million, up by 5.3% compared to 2017. The tax rate in 2018 was 24.6%, compared to 16.2% in 2017.

Investments and financial position

Quarter investments totalled €2.9 million, bringing total investments for the year to €11.5 million (€13.9 million in 2018).

At 31 December 2018, net financial debt was €53.5 million, compared with €53.2 million at 30 September 2018 and €25.5 million at 31 December 2017. The increase in financial debt in 2018 is mainly due to the acquisition of Okida, which involved an outlay of €24.1 million. During 2018, Sabaf S.p.A. also distributed dividends for €6.1 million and purchased treasury shares for €2.5 million.

Significant non-recurring, atypical and/or unusual transactions

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

Outlook

Based on the trend in negotiations with major customers and the current limited visibility in a still complex market context, for 2019 the Group estimates that it will be able to achieve sales ranging from €160 to €165 million and a gross operating profitability (EBITDA %) of more than 20%.

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

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

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

Ospitaletto (BS), 12 February 2019

Financial Reporting Officer
Gianluca Beschi