SABAF S.p.A.

SEPARATE FINANCIAL STATEMENTS

AT 31 DECEMBER 2018

CORPORATE BODIES

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

Independent Auditor

EY S.p.A.

Statement of financial position

(in €)	NOTES	31/12/2018	31/12/2017
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	**1**	30,497,881	31,610,510
Investment property	**2**	1,261,716	1,453,564
Intangible assets	**3**	3,094,293	3,370,260
Equity investments	**4**	58,150,073	49,451,811
Non-current financial assets	**5**	5,366,725	1,847,639
- of which from related parties	**36**	*5,246,725*	*1,667,639*
Non-current receivables		19,871	19,871
Deferred tax assets	**21**	3,471,716	3,455,483
Total non-current assets		**101,862,275**	**91,209,138**
CURRENT ASSETS			
Inventories	**6**	26,627,854	24,768,927
Trade receivables	**7**	35,157,543	31,154,012
- of which from related parties	**36**	*6,080,706*	*1,208,883*
Tax receivables	**8**	2,377,224	2,229,708
- of which from related parties	**36**	*1,083,666*	*1,083,666*
Other current receivables	**9**	764,471	721,529
Current financial assets	**10**	5,110,000	1,067,429
- of which from related parties	**36**	*1,600,000*	*1,000,000*
Cash and cash equivalents	**11**	1,958,805	2,696,664
Total current assets		**71,995,897**	**62,638,269**
ASSETS HELD FOR SALE		**0**	**0**
TOTAL ASSETS		**173,858,172**	**153,847,407**
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	**12**	11,533,450	11,533,450
Retained earnings, other reserves		72,464,975	72,552,367
Profit for the year		8,040,214	8,001,327
Total shareholders' equity		**92,038,639**	**92,087,144**
NON-CURRENT LIABILITIES			
Loans	**14**	33,669,253	16,297,969
Other financial liabilities	**15**	120,000	180,000
Post-employment benefit and retirement reserves	**16**	2,083,922	2,199,523
Provisions for risks and charges	**17**	1,088,183	369,482
Deferred tax liabilities	**21**	106,646	67,983
Total non-current liabilities		**37,068,004**	**19,114,957**
CURRENT LIABILITIES			
Loans	**14**	17,330,136	18,927,558
- of which from related parties	**36**	*0*	*2,100,000*
Other financial liabilities	**15**	1,795,310	74,849
Trade payables	**18**	18,944,590	16,569,390
- of which from related parties	**36**	*3,858,114*	*509,631*
Tax payables	**19**	589,828	623,013
Other payables	**20**	6,091,665	6,450,496
Total current liabilities		**44,751,529**	**42,645,306**
LIABILITIES HELD FOR SALE		**0**	**0**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**173,858,172**	**153,847,407**

Income statement

(in €)	NOTES	2018	2017
INCOME STATEMENT COMPONENTS			
OPERATING REVENUE AND INCOME			
Revenue	**23**	110,065,252	115,687,029
- of which from related parties	**36**		*10,238,606*
Other income	**24**	2,985,254	2,647,542
Total operating revenue and income		**113,050,506**	**118,334,571**
OPERATING COSTS			
Materials	**25**	(45,084,626)	(46,554,625)
Change in inventories		1,858,927	1,276,087
Services	**26**	(27,540,143)	(27,603,637)
- of which by related parties	**36**	*(3,991,378)*	*(3,966,399)*
Payroll costs	**27**	(28,388,299)	(28,734,310)
Other operating costs	**28**	(1,852,013)	(715,296)
Costs for capitalised in-house work		1,599,795	1,474,322
Total operating costs		**(99,406,359)**	**(100,857,459)**
OPERATING PROFIT BEFORE DEPRECIATION AND AMORTISATION, CAPITAL GAINS/LOSSES, WRITE-DOWNS/WRITE-BA(OF NON-CURRENT ASSETS		**13,644,147**	**17,477,112**
Depreciations and amortisation	**1,2,3**	(8,596,924)	(8,843,617)
Capital gains/(losses) on disposals of non-current assets		495,659	97,873
Write-downs/write-backs of non-current assets	**29**	0	(681,628)
- of which by related parties	**36**	*0*	*(681,628)*
EBIT		**5,542,882**	**8,049,740**
Financial income		122,845	88,754
Financial expenses	**30**	(918,213)	(482,136)
Exchange rate gains and losses	**31**	157,102	(88,145)
Profits and losses from equity investments	**32**	4,322,070	1,503,354
PROFIT BEFORE TAXES		**9,226,686**	**9,071,567**
Income tax	**33**	(1,186,472)	(1,070,240)
PROFIT FOR THE YEAR		**8,040,214**	**8,001,327**

Comprehensive income statement

(in €)	2018	2017
PROFIT FOR THE YEAR	**8,040,214**	**8,001,327**
Total profits/losses that will not be subsequently reclassified under profit (loss) for the year		
Actuarial post-employment benefit reserve evaluation	26,538	73,372
Tax effect	(6,369)	(17,609)
Total other profits/(losses) net of taxes for the year	**20,169**	**55,763**
TOTAL PROFIT	**8,060,383**	**8,057,090**

Statement of changes in shareholders' equity

(€/000)	Share Capital	Share premium reserve	Legal reserve	Treasury shares	Actuarial post-employment benefit reserve evaluation	Other reserves	Profit for the year	Total shareholders' equity
Balance at 31 December 2016	**11,533**	**10,002**	**2,307**	**(2,399)**	**(533)**	**68,154**	**2,460**	**91,524**
2017 dividend payment						(2,924)	(2,460)	(5,384)
Purchase of treasury shares				(2,110)				(2,110)
Total profit at 31 December 2017					56		8,001	8,057
Balance at 31 December 2017	**11,533**	**10,002**	**2,307**	**(4,509)**	**(477)**	**65,230**	**8,001**	**92,087**
2018 dividend payment						1,930	(8,001)	(6,071)
Purchase of treasury shares				(2,359)				(2,359)
Stock grant plan (IFRS 2)						322		322
Total profit at 31 December 2018					20		8,040	8,060
Balance at 31 December 2018	**11,533**	**10,002**	**2,307**	**(6,868)**	**(457)**	**67,482**	**8,040**	**92,039**

Cash flow Statement

(€/000)	**2018 FY**	**2017 FY**
Cash and cash equivalents at beginning of year	**2,697**	**1,797**
Profit for the year	8,040	8,001
Adjustments for:		
- Depreciation and amortisation	8,597	8,844
- Realised gains	(496)	(98)
- Write-downs of non-current assets	0	622
- Profits and losses from equity investments	(4,322)	(1,503)
- Valuation of the stock grant plan	321	0
- Net financial income and expenses	795	393
- Non-monetary foreign exchange differences	79	230
- Income tax	1,186	1,070
Change in post-employment benefit reserve	(139)	(263)
Change in risk provisions	719	47
Change in trade receivables	*(4,003)*	*(3,689)*
Change in inventories	*(1,859)*	*(1,276)*
Change in trade payables	*2,375*	*559*
Change in net working capital	(3,487)	(4,406)
Change in other receivables and payables, deferred taxes	(407)	830
Payment of taxes	(1,319)	(847)
Payment of financial expenses	(895)	(456)
Collection of financial income	123	89
Cash flow from operations	**8,796**	**12,554**
Investments in non-current assets		
- intangible	(526)	(1,099)
- tangible	(7,836)	(8,670)
- financial	(8,698)	-
Disposal of non-current assets	1,841	449
Cash flow absorbed by investments	**(15,219)**	**(9,319)**
Repayment of loans	(14,166)	(10,607)
Raising of loans	31,600	14,273
Change in financial assets	(7,641)	(7)
Sale of treasury shares	(2,359)	(2,110)
Payment of dividends	(6,071)	(5,384)
Collection of dividends	4,322	1,500
Cash flow absorbed by financing activities	**5,685**	**(2,335)**
Total cash flows	**(738)**	**900**
Cash and cash equivalents at end of year (Note 11)	**1,959**	**2,697**
Net current financial debt	12,056	15,239
Non-current financial debt	33,789	16,478
Net financial debt (Note 22)	**45,845**	**31,717**

EXPLANATORY NOTES

ACCOUNTING STANDARDS

Statement of compliance and basis of presentation
The separate financial statements of Sabaf S.p.A. for the financial year 2018 have been prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Union. Reference to IFRS also includes all current International Accounting Standards (IAS).
The separate financial statements are drawn up in euro, which is the currency in the economy in which the Company operates. The income statement, the comprehensive income statement and the statement of financial position schedules are prepared in euro, while the cash flow statement, the statement of changes in shareholders' equity and the values reported in the explanatory notes are in thousands of euro.
The financial statements have been prepared on a historical cost basis except for some revaluations of property, plant and equipment undertaken in previous years, and are considered a going concern. The Company assessed that it is a going concern (as defined by paragraphs 25 and 26 of IAS 1), also due to the strong competitive position, high profitability and solidity of the financial structure.
Sabaf S.p.A., as the Parent Company, also prepared the consolidated financial statements of the Sabaf Group at 31 December 2018.

Financial statements
The Company adopted the following formats:

- current and non-current assets and current and non-current liabilities are stated separately in the statement of the financial position;
- an income statement that expresses costs using a classification based on the nature of each item;
- a comprehensive income statement that expresses revenue and expense items not recognised in profit for the year as required or permitted by IFRS;
- a cash flow statement that presents financial flows originating from operating activity, using the indirect method.

Use of these formats permits the most meaningful representation of the Company's capital, business and financial status.

Accounting policies
The accounting standards and policies applied for the preparation of the separate financial statements at 31 December 2018, unchanged versus the previous year, with the exception of the new accounting standards adopted as from 1 January 2018 (IFRS 9 and IFRS 15), are shown below:

Property, plant and equipment
These are recorded at purchase or manufacturing cost. The cost includes directly chargeable ancillary costs. These costs also include revaluations undertaken in the past based on monetary revaluation rules or pursuant to company mergers.

Depreciation is calculated according to rates deemed appropriate to spread the carrying value of tangible assets over their useful working life. Estimated useful working life in years, unchanged compared to previous financial years, is as follows:

Buildings	33
Light constructions	10
General plant	10
Specific plant and machinery	6 – 10
Equipment	4
Furniture	8
Electronic equipment	5
Vehicles and other transport means	5

Ordinary maintenance costs are expensed in the year in which they are incurred; costs that increase the asset value or useful working life are capitalised and depreciated according to the residual possibility of utilisation of the assets to which they refer.
Land is not depreciated.

Investment property
Investment property is valued at cost, including revaluations undertaken in the past based on monetary revaluation rules or pursuant to company mergers.
The depreciation is calculated based on the estimated useful life, considered to be 33 years.
If the recoverable amount of the investment property – determined based on the market value of the properties – is estimated to be lower than its carrying value, the asset's carrying value is reduced to the lower recoverable amount, recognising impairment in the income statement.
When there is no longer any reason for a write-down to be maintained, the carrying value of the asset (or cash generating unit) is increased to the new value stemming from the estimate of its recoverable amount – but not beyond the net carrying value that the asset would have had if it had not been written down for impairment. Reversal of impairment loss is recognised in the income statement.

Intangible assets
As established by IAS 38, intangible assets acquired or internally produced are recognised as assets when it is probable that use of the asset will generate future economic benefits and when asset cost can be measured reliably. If it is considered that these future economic benefits will not be generated, the development costs are written down in the year in which this is ascertained.
Such assets are measured at purchase or production cost and - if the assets concerned have a finite useful life - are amortised on a straight-line basis over their estimated useful life.
The useful life of projects for which development costs are capitalised is estimated to be 10 years.
The SAP management system is amortised over five years.

Equity investments
Equity investments not classified as held for sale are booked at cost, reduced for impairment.

Impairment
At each end of the reporting period, Sabaf S.p.A. reviews the carrying value of its property, plant and equipment, intangible assets and equity investments to determine whether there are signs

of impairment of these assets. If there is any such indication, the recoverable amount of said assets is estimated so as to determine the total of the write-down. If it is not possible to estimate the recoverable amount individually, the Company estimates the recoverable amount of the cash generating unit (CGU) to which the asset belongs. In particular, the recoverable amount of the cash generating units (which generally coincide with the legal entity to which the capitalised assets refer) is verified by determining the value of use. The recoverable amount is the higher of the net selling price and value of use. In measuring the value of use, future cash flows net of taxes, estimated based on past experience, are discounted to their present value using a pre-tax rate that reflects current market valuations of the present cost of money and specific asset risk. The main assumptions used for calculating the value of use concern the discount rate, growth rate, expected changes in selling prices and cost trends during the period used for the calculation. The growth rates adopted are based on future market expectations in the relevant sector. Changes in the sales prices are based on past experience and on the expected future changes in the market. The Company prepares operating cash flow forecasts based on the most recent budgets approved by the Boards of Directors of the investees, draws up four-year forecasts and determines the terminal value (current value of perpetual income), which expresses the medium and long term operating flows in the specific sector.
Furthermore, the Company checks the recoverable amount of its investees at least once a year when the separate financial statements are prepared.
If the recoverable amount of an asset (or CGU) is estimated to be lower than its carrying value, the asset's carrying value is reduced to the lower recoverable amount, recognising impairment in the income statement.
When there is no longer any reason for a write-down to be maintained, the carrying value of the asset (or cash generating unit) is increased to the new value stemming from the estimate of its recoverable amount – but not beyond the net carrying value that the asset would have had if it had not been written down for impairment. Reversal of impairment loss is recognised in the income statement.

Inventories
Inventories are measured at the lower of purchase or production cost – determined using the weighted average cost method – and the corresponding fair value represented by the replacement cost for purchased materials and by the presumed realisable value for finished and semi-processed products – calculated taking into account any manufacturing costs and direct selling costs yet to be incurred. Inventory cost includes accessory costs and the portion of direct and indirect manufacturing costs that can reasonably be assigned to inventory items. Inventories subject to obsolescence and low turnover are written down in relation to their possibility of use or realisation. Inventory write-downs are eliminated in subsequent years if the reasons for such write-downs cease to exist.

Trade receivables and other financial assets

Initial recognition
Upon initial recognition, financial assets are classified, as the case may be, on the basis of subsequent measurement methods, i.e. at amortised cost, at fair value recognised in other comprehensive income (OCI) and at fair value recognised in the income statement.
The classification of financial assets at initial recognition depends on the characteristics of the contractual cash flows of the financial assets and on the business model that the Company uses to manage them.
Trade receivables that do not contain a significant financing component are valued at the transaction price determined in accordance with IFRS 15. See the "Revenue from Contracts with Customers" paragraph.

Other financial assets are recorded at fair value plus, in the case of a financial asset not at fair value recognised in the income statement, transaction costs.
For a financial asset to be classified and measured at amortised cost or at fair value recognised in OCI, it must generate cash flows that depend solely on the principal and interest on the amount of principal to be repaid (known as 'solely payments of principal and interest (SPPI)'). This measurement is referred to as the SPPI test and is carried out at the instrument level.

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below.

Financial assets at amortised cost (debt instruments)
This category is the most important for the Company. The Company measures the financial assets at amortised cost if both of the following requirements are met:

- the financial asset is held as part of a business model whose objective is to hold financial assets for the purpose of collecting contractual cash flows
  and
- the contractual terms of the financial asset envisage, at certain dates, cash flows represented solely by payments of principal and interest on the amount of principal to be repaid

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the income statement when the asset is derecognised, modified or revalued.
Financial assets at amortised cost of the Group include trade receivables.

Financial assets at fair value through profit or loss
This category includes all assets held for trading, assets designated at initial recognition as financial assets measured at fair value with changes recognised in the income statement, or financial assets that must be measured at fair value. Assets held for trading are all those assets acquired for sale or repurchase in the short term. Derivatives, separated or otherwise, are classified as financial instruments held for trading, unless they are designated as effective hedging instruments. Financial assets with cash flows that are not represented solely by principal and interest payments are classified and measured at fair value through profit or loss, regardless of the business model. Financial instruments at fair value with changes recognised in the income statement are recognised in the statement of financial position at fair value and net changes in fair value are recognised in the income statement. This category includes derivative instruments.

The Company does not hold financial assets at fair value through profit or loss with reclassification of cumulative gains and losses or financial assets at fair value through profit or loss without reversal of cumulative gains and losses upon derecognition.

Cancellation
A financial asset (or, if applicable, part of a financial asset or part of a group of similar financial assets) is firstly written off (e.g. removed from the statement of financial position of the Company) when:

- the rights to receive cash flows from the asset are extinguished, or
- the Company transferred to a third party the right to receive financial flows from the asset or has taken on the contractual obligation to pay them fully and without delay and (a) transferred substantially all the risks and benefits of the ownership of the financial asset or (b) did not substantially transfer or retain all the risks and benefits of the asset, but transferred their control.

If the Company has transferred the rights to receive financial flows from an asset or has signed an agreement on the basis of which it retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the financial flows to one or more beneficiaries (pass-through), it considers whether or to what extent it has retained the risks and benefits concerning the ownership. If it has not substantially transferred or retained all the risks and benefits or has not lost control over it, the asset continued to be recognised in the financial statements of the Company to the extent of its residual involvement in the asset itself. In this case, the company also recognises an associated liability. The transferred asset and the associated liability are measured in such a way as to reflect the rights and obligations that pertain to the Company. When the residual involvement of the entity is a guarantee in the transferred asset, the involvement is measured based on the amount of the asset or the maximum amount of the consideration received that the entity could be obliged to pay, whichever lower.

Provisions for risks and charges
Provisions for risks and charges are provisioned to cover losses and debts, the existence of which is certain or probable, but whose amount or date of occurrence cannot be determined at the end of the year. Provisions are stated in the statement of financial position only when a legal or implicit obligation exists that determines the use of resources with an impact on profit and loss to meet that obligation and the amount can be reliably estimated. If the effect is significant, the provisions are calculated by updating future financial flows estimated at a rate including taxes such as to reflect current market valuations of the current value of the cash and specific risks associated with the liability.

Post-employment benefit reserve
The post-employment benefit reserve (TFR) is provisioned to cover the entire liability accruing vis-à-vis employees in compliance with current legislation and with national and supplementary company collective labour contracts. This liability is subject to revaluation via application of indices fixed by current regulations. Up to 31 December 2006, post-employment benefits were considered defined-benefit plans and accounted for in compliance with IAS 19, using the projected unit-credit method. The regulations of this fund were amended by Italian Law no. 296 of 27 December 2006 and subsequent Decrees and Regulations issued during the first months of 2007. In the light of these changes, and, in particular, for companies with at least 50 employees, post-employment benefits must now be considered a defined-benefit plan only for the portions accruing before 1 January 2007 (and not yet paid as at the end of the reporting period). Conversely, portions accruing after that date are treated as defined-contribution plans. Actuarial gains or losses are recorded immediately under "Other total profits/(losses)".

Trade payables and other financial liabilities
Initial recognition
All financial liabilities are initially recognised at fair value, in addition to directly attributable transaction costs in case of mortgages, loans and payables.
The Company's financial liabilities include trade payables and other payables, mortgages and loans, including current account overdrafts and derivative financial instruments.

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below.

Financial liabilities at fair value recognised in the income statement

Financial liabilities at fair value with changes recognised in the income statement include liabilities held for trading and financial liabilities initially recognised at fair value, with changes recognised in the income statement. Liabilities held for trading are those liabilities acquired in order to discharge or transfer them in the short term. This category also includes derivative financial instruments subscribed by the Company and not designated as hedging instruments in a hedging relationship pursuant to IFRS 9. Embedded derivatives, separated from the main contract, are classified as financial instruments held for trading, unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. Financial liabilities are designated at fair value with changes recognised in the income statement from the date of initial recognition, only if the criteria of IFRS 9 are met.

Loans and payables

This is the most important category for the Company and includes interest-bearing payables and loans. After initial statement, loans are valued using the amortised cost approach, applying the effective interest rate method. Gains and losses are recognised in the income statement when the liability is discharged, as well as through the amortisation process. Amortised cost is calculated by recognising the discount or premium on the acquisition and the fees or costs that are an integral part of the effective interest rate. Amortisation at the effective interest rate is included in financial expenses in the income statement.

Cancellation

A financial liability is derecognised when the obligation underlying the liability is discharged, cancelled or fulfilled. If an existing financial liability is replaced by another from the same lender, at substantially different conditions, or if the conditions of an existing liability are substantially changed, this replacement or change is treated as a derecognition of the original liability accompanied by the recognition of a new liability, with any differences between the carrying values recognised in the income statement.

Policy for conversion of foreign currency items

Receivables and payables originally expressed in foreign currencies are converted into euro at the exchange rates in force on the date of the transactions originating them. Forex differences realised upon collection of receivables and payment of payables in foreign currency are posted in the income statement. Income and costs relating to foreign-currency transactions are converted at the rate in force on the transaction date.

At year-end, assets and liabilities expressed in foreign currencies are posted at the spot exchange rate in force at the end of the reporting period and related foreign exchange gains and losses are posted in the income statement. If conversion generates a net gain, this value constitutes a non-distributable reserve until it is effectively realised.

Derivative instruments and hedge accounting

The Company's business is exposed to financial risks relating to changes in exchange rates, commodity prices and interest rates. The Company may decide to use derivative financial instruments to hedge these risks.

Derivatives are initially recognised at cost and are then adjusted to fair value on subsequent closing dates.

Changes in the fair value of derivatives designated and recognised as effective for hedging future cash flows relating to the Company's contractual commitments and planned transactions are

recognised directly in shareholders' equity, while the ineffective portion is immediately posted in the income statement. If the contractual commitments or planned transactions materialise in the recognition of assets or liabilities, when such assets or liabilities are recognised, the gains or losses on the derivative that were directly recognised in equity are factored back into the initial valuation of the cost of acquisition or carrying value of the asset or liability. For cash flow hedges that do not lead to recognition of assets or liabilities, the amounts that were directly recognised in equity are included in the income statement in the same period when the contractual commitment or planned transaction hedged impacts profit and loss – for example, when a planned sale actually takes place.
For effective hedges of exposure to changes in fair value, the item hedged is adjusted for the changes in fair value attributable to the risk hedged and recognised in the income statement. Gains and losses stemming from the derivative's valuation are also posted in the income statement.
Changes in the fair value of derivatives not designated as hedging instruments are recognised in the income statement in the period when they occur.
Hedge accounting is discontinued when the hedging instrument expires, is sold or is exercised, or when it no longer qualifies as a hedge. At this time, the cumulative gains or losses of the hedging instrument recognised in equity are kept in the latter until the planned transaction actually takes place. If the transaction hedged is not expected to take place, cumulative gains or losses recognised directly in equity are transferred to the year's income statement.
Embedded derivatives included in other financial instruments or contracts are treated as separate derivatives when their risks and characteristics are not strictly related to those of their host contracts and the latter are not measured at fair value with posting of related gains and losses in the income statement.

Revenue reporting
Revenue is reported net of return sales, discounts, allowances and bonuses, as well as of the taxes directly associated with sale of goods and rendering of services.
Sales revenue is reported when the company has transferred the significant risks and benefits associated with ownership of the goods and the amount of revenue can be reliably measured.
Revenues of a financial nature are recorded on an accrual basis.

Financial income
Finance income includes interest receivable on funds invested and income from financial instruments, when not offset as part of hedging transactions. Interest income is recorded in the income statement at the time of vesting, taking effective output into consideration.

Financial expenses
Financial expenses include interest payable on financial debt calculated using the effective interest method and bank expenses. All the other financial expenses are recognised as costs for the year in which they are incurred.

Income taxes for the year
Income taxes include all taxes calculated on the Company's taxable income. Income taxes are directly recognised in the income statement, with the exception of those concerning items directly debited or credited to shareholders' equity, in which case the tax effect is recognised directly in shareholders' equity. Other taxes not relating to income, such as property taxes, are included among operating expenses. Deferred taxes are provisioned in accordance with the

global liability provisioning method. They are calculated on all temporary differences that emerge from the taxable base of an asset or liability and its book value. Current and deferred tax assets and liabilities are offset when income taxes are levied by the same tax authority and when there is a legal right to settle on a net basis. Deferred tax assets and liabilities are measured using the tax rates that are expected to be applicable in the years when temporary differences will be realised or settled.

Dividends

Dividends are posted on an accrual basis when the right to receive them materialises, i.e. when shareholders approve dividend distribution.

Treasury shares

Treasury shares are booked in a specific reserve as a reduction of shareholders' equity. The carrying value of treasury shares and revenues from any subsequent sales are recognised in the form of changes in shareholders' equity.

Equity-settled transactions

Some of the Company employees receive part of the remuneration in the form of share-based payments, therefore employees provide services in exchange for shares ("equity-settled transactions"). The cost of equity-settled transactions is determined by the fair value at the date on which the assignment is made using an appropriate measurement method, as explained in more detail in Note 42.

This cost, together with the corresponding increase in shareholders' equity, is recorded under personnel costs (Note 27) over the period in which the conditions relating to the achievement of objectives and/or the provision of the service are met. The cumulative costs recognised for such transactions at the end of each reporting period up to the vesting date are commensurate with the expiry of the vesting period and the best estimate of the number of equity instruments that will actually vest.

Service or performance conditions are not taken into account when defining the fair value of the plan at the assignment date. However, the probability of these conditions being met is taken into account when defining the best estimate of the number of equity instruments that will vest. Market conditions are reflected in the fair value at the assignment date. Any other condition related to the plan that does not involve a service obligation is not considered to be a vesting condition. Non-vesting conditions are reflected in the fair value of the plan and result in the immediate recognition of the cost of the plan, unless there are also service or performance conditions.

No cost is recognised for rights that do not vest in that the performance and/or service conditions are not met. When the rights include a market condition or a non-vesting condition, these are treated as if they had vested regardless of whether the market conditions or other non-vesting conditions to which they are subject are met or not, it being understood that all other performance and/or service conditions must be met.

If the conditions of the plan are changed, the minimum cost to be recognised is the fair value at the assignment date in the absence of the change in the plan itself, on the assumption that the original conditions of the plan are met. Moreover, a cost is recognised for each change that results in an increase in total fair value of the payment plan, or that is in any case favourable for employees; this cost is measured with reference to the date of change. When a plan is cancelled, any remaining element of the plan's fair value is immediately expensed to the income statement.

Use of estimates

Preparation of the separate financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the carrying values of assets and liabilities and the disclosures on contingent assets and liabilities at the end of the reporting period. Actual results might differ from these estimates. Estimates are used to measure tangible and intangible assets and investments subject to impairment testing, as described earlier, as well as to measure the ability to recover prepaid tax assets, provisions for bad debts, for inventory obsolescence, depreciation and amortisation, asset write-downs, employee benefits, taxes, other provisions and reserves. Specifically:

Recoverability of value of tangible and intangible assets and investments

The procedure for determining impairment loses of tangible and intangible assets described in "Impairment" implies – in estimating the value of use – the use of the Business Plans of investees, which are based on a series of assumptions relating to future events and actions of the investees' management bodies, which may not necessarily come about. In estimating market value, however, assumptions are made on the expected trend in trading between third parties based on historical trends, which may not actually be repeated.

Provisions for bad debts

Receivables are adjusted by the related bad debt provision to take into account their recoverable amount. To determine the size of the write-downs, management must make subjective assessments based on the documentation and information available regarding, among other things, the customer's solvency, as well as experience and historical payment trends.

Provisions for inventory obsolescence

Inventories subject to obsolescence and slow turnover are systematically valued and written down if their recoverable amount is less than their carrying value. Write-downs are calculated based on management assumptions and estimates, resulting from experience and historical results.

Employee benefits

The current value of liabilities for employee benefits depends on a series of factors determined using actuarial techniques based on certain assumptions. Assumptions concern the discount rate, estimates of future salary increases, and mortality and resignation rates. Any change in the above-mentioned assumptions might have an effect on liabilities for pension benefits.

Share-based payments

Estimating the fair value of share-based payments requires the determination of the most appropriate valuation model, which depends on the terms and conditions under which these instruments are granted. This also requires the identification of data to feed into the valuation model, including assumptions about the exercise period of the options, volatility and dividend yield. The Company uses a binomial model for the initial measurement of the fair value of share-based payments with employees.

Income tax

Determining liabilities for Company taxes requires the use of management valuations in relation to transactions whose tax implications are not certain at the end of the reporting period. Furthermore, the valuation of deferred taxes is based on income expectations for future years; the valuation of expected income depends on factors that might change over time and have a significant effect on the valuation of deferred tax assets.

Other provisions and reserves

When estimating the risk of potential liabilities from disputes, the Directors rely on communications regarding the status of recovery procedures and disputes from the lawyers who represent the Company in litigation. These estimates are determined taking into account the gradual development of the disputes, considering existing exemptions.

Estimates and assumptions are regularly reviewed and the effects of each change immediately reflected in the income statement.

New accounting standards

Accounting standards, amendments and interpretations applicable from 1 January 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 of the Company'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 Company 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 Company 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 Company considered its policy of bad debt provision consistent with the Standard.
  Hedge accounting
  The Company 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 had no significant effects on the Company's separate 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 Company 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 Company 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 Company 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 Company 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 Company 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 Company did not entail any changes in accounting policies or retrospective adjustments.

IFRS and IFRIC accounting standards, amendments and interpretations approved by the European Union, not yet universally applicable and not adopted early by the Company at 31 December 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 Company started an analysis to assess the impact of the application of IFRS 16 on the amounts and related disclosures in the separate financial statements. However, it is not possible to provide a reasonable estimate of the effects until the Company has completed a detailed analysis of the related contracts.

- 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 Company's separate 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 separate financial statements the competent bodies of the European Union have not yet concluded the approval process necessary for the adoption of the amendments and principles described below.

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

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 2016	**6,327**	**158,391**	**31,819**	**1,427**	**197,964**
Increases	56	5,347	1,770	1,785	8,958
Disposals	-	(721)	(430)	(33)	(1,184)
Reclassification	18	551	59	(883)	(255)
At 31 December 2017	**6,401**	**163,568**	**33,218**	**2,296**	**205,483**
Increases	164	4,772	960	1,940	7,836
Disposals	-	(3,436)	(129)	-	(3,565)
Reclassification	5	1,552	19	(1,589)	(13)
At 31 December 2018	**6,570**	**166,456**	**34,068**	**2,647**	**209,741**

Accumulated depreciation					
At 31 December 2016	**2,887**	**135,147**	**28,838**	**-**	**166,872**
Depreciations for the year	177	6,221	1,522	-	7,920
Eliminations for disposals	-	(525)	(395)	-	(920)
At 31 December 2017	**3,064**	**140,843**	**29,965**	**-**	**173,872**
Depreciations for the year	180	6,049	1,433	-	7,662
Eliminations for disposals	-	(2,175)	(116)	-	(2,291)
At 31 December 2018	**3,244**	**144,717**	**31,282**	**-**	**179,243**

Net carrying value					
At 31 December 2018	3,326	21,739	2,786	2,647	30,498
At 31 December 2017	3,337	22,725	3,253	2,296	31,611

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

	31/12/2018	**31/12/2017**	**Change**
Land	1,291	1,291	-
Industrial buildings	2,035	2,046	(11)
Total	**3,326**	**3,337**	**(11)**

The main investments in the financial year were aimed at increasing the production capacity of special burners, at the further automation of production of light alloy valves and interconnecting production plants with management systems (Industry 4.0). Other investments were made in the production of presses for new burners. Investments in maintenance and replacement, so that production equipment is kept constantly up to date and efficient, are systematic.
Decreases mainly relate to the disposal of machinery no longer in use or sold to subsidiaries.
Assets under construction include machinery under construction and advance payments to suppliers of capital equipment.
At 31 December 2018, the Company found no endogenous or exogenous indicators of impairment of its property, plant and equipment. As a result, the value of property, plant and equipment was not submitted to impairment testing.

2. INVESTMENT PROPERTY

Cost	
At 31 December 2016	**6,675**
Increases	-
Disposals	-
At 31 December 2017	**6,675**
Increases	-
Disposals	-
At 31 December 2018	**6,675**

Accumulated depreciations	
At 31 December 2016	**5,030**
Depreciations for the year	191
At 31 December 2017	**5,221**
Depreciations for the year	192
At 31 December 2018	**5,413**

Net carrying value	
At 31 December 2018	1,262
At 31 December 2017	1,454

This item includes non-operating buildings owned by the Group. During the year, this item did not undergo any changes except for depreciations for the year. At 31 December 2018, the Company found no endogenous or exogenous indicators of impairment of its investment property. As a result, the value of investment property was not submitted to impairment testing.

3. INTANGIBLE ASSETS

	Patents, know-how and software	Development costs	Other intangible assets	Total
Cost				
At 31 December 2016	**6,275**	**4,902**	**2,067**	**13,244**
Increases	243	441	161	845
Reclassifications	99	-	155	254
Decreases	(14)	(79)	(14)	(107)
At 31 December 2017	**6,603**	**5,264**	**2,369**	**14,236**
Increases	153	284	89	526
Reclassifications	-	-	-	-
Decreases	-	(59)	-	(59)
At 31 December 2018	**6,756**	**5,489**	**2,458**	**14,703**
Amortisation and write-downs				
At 31 December 2016	**5,873**	**2,697**	**1,579**	**10,149**
Amortisation	242	341	148	731
Decreases	(14)	-	-	(14)
At 31 December 2017	**6,101**	**3,038**	**1,727**	**10,866**
Amortisation	220	362	161	743
Decreases	-	-	-	-
At 31 December 2018	**6,321**	**3,400**	**1,888**	**11,609**
Net carrying value				
At 31 December 2018	**435**	**2,089**	**570**	**3,094**
At 31 December 2017	**502**	**2,226**	**642**	**3,370**

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

At 31 December 2018, the Company found no endogenous or exogenous indicators of impairment of its intangible assets. As a result, the value of property, plant and equipment was not submitted to impairment testing.

4. EQUITY INVESTMENTS

	31/12/2018	31/12/2017	Change
In subsidiaries	58,116	49,418	8,698
Other equity investments	34	34	-
Total	**58,150**	**49,452**	**8,698**

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

	Sabaf Immobiliare	Faringosi Hinges	Sabaf do Brasil	Sabaf U.S.	Sabaf Appliance Components (China)	Sabaf A.C. Kunshan (China)	Sabaf Turkey	A.R.C. s.r.l.	Okida	Total
Historical cost										
At 31 December 2016	**13,475**	**10,329**	**8,469**	**139**	**4,400**	**200**	**12,005**	**4,800**	**0**	**53,817**
Purchase	-	-	-	-	-	-	-	-	-	-
At 31 December 2017	**13,475**	**10,329**	**8,469**	**139**	**4,400**	**200**	**12,005**	**4,800**	**-**	**53,817**
Purchase									8,698	8,698
At 31 December 2018	**13,475**	**10,329**	**8,469**	**139**	**4,400**	**200**	**12,005**	**4,800**	**8,698**	**62,515**
Provision for write-downs										
At 31 December 2016	**0**	**0**	**0**	**0**	**3,778**	**0**	**0**	**0**	**0**	**3,778**
Write-downs	-	-	-	-	622	-	-	-	-	622
At 31 December 2017	**0**	**0**	**0**	**0**	**4,400**	**0**	**0**	**0**	**0**	**4,400**
Write-downs	-	-	-	-	-	-	-	-	-	-
At 31 December 2018	**0**	**0**	**0**	**0**	**4,400**	**0**	**0**	**0**	**0**	**4,400**
Net carrying value										
At 31 December 2018	**13,475**	**10,329**	**8,469**	**139**	**-**	**200**	**12,005**	**4,800**	**8,698**	**58,116**
At 31 December 2017	**13,475**	**10,329**	**8,469**	**139**	**-**	**200**	**12,005**	**4,800**	**0**	**49,418**
Portion of shareholders' equity (calculated in compliance with IFRS)										
At 31 December 2018	**27,674**	**7,248**	**10,870**	**(28)**	**(697)**	**248**	**23,425**	**3,630**	**1,719**	**74,089**
At 31 December 2017	**30,061**	**6,248**	**10,409**	**(79)**	**(60)**	**251**	**16,449**	**3,200**	**0**	**66,479**
Difference between shareholders' equity and carrying value										
At 31 December 2018	**14,199**	**(3,081)**	**2,401**	**(167)**	**(697)**	**48**	**11,420**	**(1,170)**	**(6,979)**	**15,974**
At 31 December 2017	**16,586**	**(4,081)**	**1,940**	**(218)**	**(60)**	**51**	**4,444**	**(1,600)**	**0**	**17,062**

Faringosi Hinges S.r.l.

In 2018, the Faringosi Hinges achieved very positive and better results - in terms of sales and profitability - both compared to the previous year and compared to the budget. The 2019-2023 forward plan, drafted at the beginning of 2019, envisages a further increase in sales. At 31 December 2018, Sabaf S.p.A. tested - with the support of independent experts - the carrying value of the equity investment for impairment, determining its recoverable amount, considered to be equivalent to its value of use plus available liquidity, by discounting expected future cash flows in the forward plan drafted by the management. Cash flows for the period from 2019 to

2023 were augmented by the so-called terminal value, which expresses the operating flows that the investee is expected to generate from the sixth year to infinity and determined based on the perpetual income. The value of use was calculated based on a discount rate (WACC) of 10.45% (9.18% in the impairment test carried out while preparing the separate financial statements at 31 December 2017) and a growth rate (g) of 1.50%, unchanged from 31 December 2017.

The recoverable amount calculated on the basis of the above-mentioned assumptions and valuation techniques is € 12,762 million, compared with a carrying value of the equity investment of € 10,329 million; consequently, the amount recorded for equity investment at 31 December 2018 was deemed recoverable.

Sensitivity analysis
The table below shows the changes in recoverable amount depending on changes in the WACC discount rate and growth factor g:

(€/000)					
			growth rate		
discount rate	**1.00%**	**1.25%**	**1.50%**	**1.75%**	**2.00%**
9.45%	13,784	14,118	14,472	14,849	15,252
9.95%	12,966	13,257	13,565	13,893	14,241
10.45%	12,236	12,492	12,762	13,048	13,351
10.95%	11,581	11,808	12,046	12,298	12,563
11.45%	10,991	11,192	10,404	11,627	11,861

Sabaf do Brasil
In 2018, Sabaf do Brasil continued to obtain positive results, which improved compared with 2017. Shareholders' equity (converted into euros at the end-of-year exchange rate) is higher than the carrying amount of the investment.

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

Sabaf Appliance Components
Sabaf Appliance Components (Kunshan) Co., Ltd. has been producing burners for the Chinese market since 2015. Furthermore, the company has performed the function as distributor on the Chinese market of Sabaf products manufactured in Italy and Turkey. Low production volumes have enabled the company to reach the break-even point in 2018. At 31 December 2018, a provision for risks on equity investments of € 700,000 was recognised, corresponding to the negative equity value of the investee company. For further details, refer to Note 36.

Sabaf Appliance Components Trading
Sabaf Appliance Components Trading (Kunshan) Co., Ltd., was founded during 2012 in order to perform the function as distributor. During 2015, this activity was centralised at Sabaf Appliance

Components; however, the company went into liquidation; the process of liquidation should end in 2019.

Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki (Sabaf Turkey)
Sabaf Turkey achieved extremely satisfactory results in 2018 as well. The shareholders' equity remains well above the carrying value of the equity investment.

A.R.C. s.r.l.
In June 2016, the Company acquired the controlling share (70%) of A.R.C. s.r.l., leading company in the production of burners for professional cooking. The transaction allowed Sabaf to enter into a new sector, contiguous with the traditional sector of components for household gas cooking appliances, and to enhance the consolidated international presence of the Sabaf Group.

At 31 December 2018, the Company tested - with the support of independent experts - the carrying value of the equity investment for impairment, determining its recoverable amount, considered to be equivalent to its value of use plus available liquidity, by discounting expected future cash flows in the forward plan drafted at the beginning of 2019. Cash flows for the period from 2019 to 2023 were augmented by the so-called terminal value, which expresses the operating flows that the investee is expected to generate from the fourth year to infinity and determined based on the perpetual income. The value of use was calculated based on a discount rate (WACC) of 7.73% (6.90% in the impairment test carried out while drafting the separate financial statements at 31 December 2017) and a growth rate (g) of 1.50%, in line with last year.

The portion pertaining to Sabaf S.p.A. of the recoverable amount calculated on the basis of the above-mentioned assumptions and valuation techniques is € 8.421 million (70% of total recoverable amount, equal to € 12.030 million), compared with a carrying value of the equity investment of € 4.8 million; consequently, the carrying value recorded for equity investment at 31 December 2018 was deemed recoverable.

Sensitivity analysis
The table below shows the changes in recoverable amount depending on changes in the WACC discount rate and growth factor g:

(€/000)					
			growth rate		
discount rate	**1.00%**	**1.25%**	**1.50%**	**1.75%**	**2.00%**
6.73%	13,170	13,615	14,103	14,640	15,233
7.23%	12,207	12,575	12,975	13,412	13,891
7.73%	11,389	11,697	12,030	12,392	12,785
8.23%	10,685	10,947	11,228	11,531	11,858
8.73%	10,073	10,298	10,538	10,795	11,071

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

The option for the purchase of the residual 30% of A.R.C. represents a derivative instrument; since the exercise price defined by contract was considered representative of the fair value of the portion that can be potentially acquired, no value was recorded in the separate financial statements ended 31 December 2018.

Okida Elektronik Sanayi Limited Sirket
In September 2018, the Company directly acquired 30% of Okida Elektronik (the remaining 70% was acquired through the subsidiary Sabaf Turkey). Okida is a leader in Turkey in the design and manufacture of electronic components for household appliances (mainly ovens and hoods); the transaction allowed Sabaf to enter into a new sector, contiguous with the traditional sector of components for household gas cooking appliances.

At 31 December 2018, the Company tested - with the support of independent experts - the carrying value of the equity investment, determining its recoverable amount, by discounting expected future cash flows estimated on the basis of the 2019 budget and projections for the following three years. Cash flows for the period from 2019 to 2022 were augmented by the so-called terminal value, which expresses the operating flows that the company is expected to generate from the fifth year to infinity and determined based on the perpetual income. The value of use was calculated based on a discount rate (WACC) of 11.05% and a growth rate (g) of 2.50%, in line with the expected growth of the sector in the Turkish market.

The portion pertaining to Sabaf S.p.A. of the recoverable amount calculated on the basis of the above-mentioned assumptions and valuation techniques is € 11.900 million (30% of total equity value, equal to € 39.665 million), compared with a carrying value of the equity investment of € 8.698 million; consequently, the carrying value recorded for equity investment at 31 December 2018 was deemed recoverable.

Sensitivity analysis
The table below shows the changes in recoverable amount depending on changes in the WACC discount rate and growth factor g:

(€/000)				
		growth rate		
discount rate	**1.50%**	**2.00%**	**2.50%**	**3.00%**
10%	40,200	42,307	44,697	47,430
10.5%	38,070	39,930	42,027	44,400
11%	36,163	37,817	39,665	41,747
11.5%	34,447	35,923	37,567	39,403

5. NON-CURRENT FINANCIAL ASSETS

	31/12/2018	31/12/2017	Change
Financial receivables from subsidiaries	5,247	1,668	3,579
Escrow bank account	120	180	(60)
Total	**5,367**	**1,848**	**3,519**

At 31 December 2018, financial receivables from subsidiaries consist of:
- an interest-bearing loan of USD 2 million (€ 1.747 million at the end-of-year exchange rate), granted to the subsidiary Sabaf do Brasil with the aim of optimising the Group's exposure to foreign exchange rate risk and whose maturity at the beginning of 2019 was postponed to March 2021:
- an interest-bearing loan of € 3.5 million to the subsidiary Sabaf Turkey, disbursed during the year as part of the coordination of the Group's financial management, with maturity in August 2021

As part of the acquisition of 70% of A.R.C., in 2016, Sabaf S.p.A. paid to a non-interest-bearing fixed bank account the total amount of € 300,000. This amount, deducted from the consideration agreed to guarantee the commitments assumed by the sellers, is released in favour of the sellers at constant rates in 5 years (Note 15). At 31 December 2018, the portion due beyond 12 months amounted to € 120,000, whereas the portion due within 12 months amounted to € 60,000 (Note 10)).

6. INVENTORIES

	31/12/2018	31/12/2017	Change
Commodities	9,358	8,795	563
Semi-processed goods	9,633	9,115	516
Finished products	9,231	8,789	442
Provision for inventory write-downs	(1,594)	(1,930)	336
Total	**26,628**	**24,769**	**1,857**

The provision for write-downs is allocated for hedging the obsolescence risk, quantified on the basis of specific analyses carried out at the end of the year on slow-moving and non-moving products, and refers to raw materials for € 435,000, semi-finished products for € 408,000 and finished products for € 751,000.

7. TRADE RECEIVABLES

	31/12/2018	31/12/2017	Change
Total trade receivables	**36,157**	**31,754**	**4,403**
Bad debt provision	(1,000)	(600)	(400)
Net total	**35,157**	**31,154**	**4,003**

At 31 December 2018, trade receivables included balances totalling USD 3,526,000, booked at the EUR/USD exchange rate in effect on 31 December 2018, i.e. 1.1450. The amount of trade receivables recognised in the financial statements includes approximately € 18 million in insured receivables (€ 22 million at 31 December 2017).

Note that some customer payments of approximately € 3.5 million, which were due by the end of the year, were received at the beginning of 2019. With the exception of this circumstance, there were no significant changes in the payment terms agreed with customers.

	31/12/2018	31/12/2017	Change
Current receivables (not past due)	29,966	28,591	1,375
Outstanding up to 30 days	1,996	1,524	472
Outstanding from 31 to 60 days	494	754	(260)
Outstanding from 61 to 90 days	3,030	519	2,511
Outstanding for more than 90 days	671	366	305
Total	**36,157**	**31,754**	**4,403**

The bad deb provision was adjusted to the better estimate of the credit risk at the end of the reporting period. Changes during the year were as follows:

	31/12/2017	Provisions	Utilisation	31/12/2018
Bad debt provision	600	402	(2)	1,000

8. TAX RECEIVABLES

	31/12/2018	31/12/2017	Change
For income tax	2,002	1,644	358
for VAT	375	586	(211)
Total	**2,377**	**2,230**	**147**

The income tax receivables derives for € 1,084,000 from the full deductibility of IRAP from IRES relating to the expenses incurred for employees for the 2006-2011 period (Italian Legislative Decree 201/2011), for which an application for a refund was presented and, for the residual part, to the payments on account on income, for the part exceeding the tax to be paid.

9. OTHER CURRENT RECEIVABLES

	31/12/2018	31/12/2017	Change
Credits to be received from suppliers	374	351	23
Advances to suppliers	112	28	84
Due from INAIL	10	21	(11)
Other	268	322	(54)
Total	**764**	**722**	**42**

At 31 December 2018, credits to be received from suppliers included € 171,000 related to the relief due to the Company as an energy-intensive business (known as “energy-intensive bonuses”) for the year 2017. “Energy-intensive bonuses” due for the year 2016 were regularly collected during 2018.

10. CURRENT FINANCIAL ASSETS

	31/12/2018	31/12/2017	Change
Financial receivables from subsidiaries	1,600	1,000	600
Escrow bank accounts	3,510	60	3,450
Interest rate derivatives	-	7	(7)
Total	**5,110**	**1,067**	**4,043**

Financial receivables from subsidiaries consist of an interest-bearing loan with a duration of 12 months to Sabaf Appliance Components Co., Ltd. to support the Chinese subsidiary's working capital.
At 31 December 2018, a term deposit of € 3.45 million was taken out, due on 31 March 2019, for a bank guarantee issued in favour of the sellers of the Okida Elektronik equity investment for the portion of the price, for which payment is deferred until March 2019.

11. CASH AND CASH EQUIVALENTS

The item Cash and cash equivalents, equal to € 1,959,000 at 31 December 2018 (€ 2,697,000 at 31 December 2017) refers almost exclusively to bank current account balances.

12. SHARE CAPITAL

The Company's share capital consists of 11,533,450 shares with a par value of € 1.00 each. The share capital paid in and subscribed did not change during the year.
At 31 December 2018, the structure of the share capital is shown in the table below.

	No. of shares	% of share capital	Rights and obligations
Ordinary shares	11,133,450	96.532%	--
Ordinary shares with increased vote	400,000	3.468%	Two voting rights per share
TOTAL	***11,533,450***	***100%***	

With the exception of the right to increased vote, there are no rights, privileges or restrictions on the Company. The availability of reserves is indicated in a table at the end of these Explanatory Notes.

13. TREASURY SHARES AND OTHER RESERVES

During the financial year, Sabaf S.p.A. acquired 132,737 treasury shares at an average unit price of € 17.77; there have been no sales.
At 31 December 2018, the Company held 514,506 treasury shares, equal to 4.46% of share capital (381,769 treasury shares at 31 December 2017), reported in the financial statements as an adjustment to shareholders' equity at a unit value of € 13.348 (the market value at year-end

was € 11.811). There were 11,018,944 outstanding shares at 31 December 2018 (11,151,681 at 31 December 2017).

Items "Retained earnings, other reserves" of € 72,465,000 included, at 31 December 2018, the stock grant reserve of € 321,000 thousand, which included the measurement at 31 December 2018 of fair value of rights assigned to receive Sabaf shares. For details of the Stock Grant Plan, refer to Note 42.

14. LOANS

	31/12/2018		31/12/2017	
	Current	Non-current	Current	Non-current
Unsecured loans	9,911	33,669	5,982	16,298
Short-term bank loans	7,188	-	10,846	-
Derivative instruments on interest rates	231	-	-	-
Sabaf Turkey loan	-	-	2,100	-
Total	**17,330**	**33,669**	**18,928**	**16,298**

During the year, the Company took out new unsecured loans for a total of € 28.7 million to finance the investments made, with particular reference to the acquisition of Okida. All loans are signed with an original maturity of ranging from 5 to 6 years and are repayable in instalments.
Some of the outstanding unsecured loans 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 (residual amount of the loans at 31 December 2018 equal to € 22.7 million)
- commitment to maintain a ratio of net financial position to EBITDA of less than 2 (residual amount of the loans at 31 December 2018 equal to € 7 million) or less than 2.5 (residual amount of the loans at 31 December 2018 equal to € 15.7 million) widely complied with at 31 December 2018.

All bank loans are denominated in euro, with the exception of a short-term loan of USD 2 million.

To manage interest rate risk, unsecured loans are either fixed-rate or hedged by IRS. These separate financial statements include the negative fair value of the IRSs hedging rate risks of unsecured loans pending, for residual notional amounts of approximately € 26.6 million and expiry until 31 December 2024. Financial expenses were recognised in the income statement with a balancing entry.

Note 36 provides information on financial risks, pursuant to IFRS 7.

15. OTHER FINANCIAL LIABILITIES

	31/12/2018		31/12/2017	
	Current	Non-current	Current	Non-current
Payables to former Okida shareholders	1,735	-		
Payables to A.R.C. shareholders	60	120	60	180
Derivative instruments on interest rates	-	-	15	-
Total	**1,795**	**120**	**75**	**180**

As part of the acquisition of Okida Elektronik, the parties agreed that the payment of part of the price would be subject to adjustment (depending, inter alia, on Okida's 2018 EBITDA) and postponed compared to the effective date of the transaction (4 September 2018). The payables to Okida shareholders at 31 December 2018 in these financial statements represents the residual portion of the price to be paid to the sellers by the Company.

The payable to the A.R.C. shareholders of € 180.000 at 31 December 2018 is related to the part of the price still to be paid to the sellers, which was deposited on an fixed account (Note 5) and will be released in favour of the sellers at constant rates in 3 years, in accordance with contractual agreements and guarantees issued by the sellers.

16. Post-employment benefit reserve

At 31 December 2017	**2,200**
Financial expenses	24
Payments made	(113)
Tax effect	(27)
At 31 December 2018	**2,084**

Following the revision of IAS 19 - Employee benefits, from 1 January 2013 all actuarial gains or losses are recorded immediately in the comprehensive income statement ("Other comprehensive income") under the item "Actuarial income and losses".

Post-employment benefits are calculated as follows:

Financial assumptions

	31/12/2018	*31/12/2017*
Discount rate	1.30%	1.15%
Inflation	1.70%	1.80%

Demographic theory

	31/12/2018	*31/12/2017*
Mortality rate	ISTAT 2016 M/F	ISTAT 2016 M/F
Disability rate	INPS 1998 M/F	INPS 1998 M/F
Staff turnover	6%	6%
Advance pay-outs	5% per year	5% per year
Retirement age	pursuant to legislation in force on 31 December 2018	pursuant to legislation in force on 31 December 2017

17. PROVISIONS FOR RISKS AND CHARGES

	31/12/2017	Provisions	Utilisation	31/12/2018
Reserve for agents' indemnities	199	28	(19)	208
Product guarantee fund	60	7	(7)	60
Provision for risks on equity investments	60	640	-	700
Reserve for legal risks	50	70	-	120
Total	**369**	**745**	**(26)**	**1,088**

The reserve for agents' indemnities covers amounts payable to agents if the Company terminates the agency relationship.
The product guarantee fund covers the risk of returns or charges by customers for products already sold.
The provision for risks on equity investments was set aside to cover future outlays to restore the shareholders' equity of the Chinese subsidiary Sabaf Appliance Components, which was negative at 31 December 2018.
The reserve for legal risks is allocated for disputes of a modest size.
The provisions booked to the provisions for risks, which represent the estimate of future payments made based on historical experience, have not been discounted because the effect is considered negligible.

18. TRADE PAYABLES

	31/12/2018	31/12/2017	Change
Total	**18,945**	**16,569**	**2,374**

Average payment terms did not change versus the previous year. The amount of trade payables in currencies other than the euro is not significant. At 31 December 2018, there were no overdue payables of a significant amount and the Company did not receive any injunctions for overdue payables.

19. TAX PAYABLES

	31/12/2018	31/12/2017	Change
To inland revenue for IRPEF tax deductions	590	569	21
Other tax payables	-	54	(54)
Total	**590**	**623**	**(33)**

Payables for IRPEF tax deductions, relating to employment and self-employment, were duly paid at maturity.

20. OTHER CURRENT PAYABLES

	31/12/2018	31/12/2017	Change
To employees	3,649	3,931	(282)
To social security institutions	1,901	2,063	(162)
Advances from customers	91	64	27
To agents	235	165	70
Other current payables	216	227	(11)
Total	**6,092**	**6,450**	**(358)**

At the beginning of 2019, payables due to employees and social security institutions were paid in accordance with the scheduled expiry dates.

21. DEFERRED TAX ASSETS AND LIABILITIES

	31/12/2018	31/12/2017
Deferred tax assets	3,472	3,455
Deferred tax liabilities	(107)	(68)
Net position	**3,365**	**3,387**

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

	Amortisation and leasing	Provisions and value adjustments	Fair value of derivative instruments	Goodwill	Actuarial post-employment benefit reserve evaluation	Other temporary differences	Total
At 31 December 2016	**393**	**770**	**57**	**1,771**	**178**	**17**	**3,186**
To the income statement	(46)	149	(55)	-	(2)	172	218
To shareholders' equity	-	-	-	-	(17)	-	(17)
At 31 December 2017	**347**	**919**	**2**	**1,771**	**159**	**189**	**3,387**
To the income statement	69	(45)	53	-	-	(93)	(16)
To shareholders' equity	-	-	-	-	(6)	-	(6)
At 31 December 2018	**416**	**874**	**55**	**1,771**	**153**	**96**	**3,365**

Deferred tax assets relating to goodwill refer to the exemption of the value of the investment in Faringosi Hinges s.r.l. made in 2011 pursuant to Italian law Decree 98/2011.

22. NET FINANCIAL POSITION

As required by the CONSOB memorandum of 28 July 2006, we disclose that the Company's net financial position is as follows:

		31/12/2018	31/12/2017	Change
A.	Cash (Note 11)	6	5	1
B.	Positive balances of unrestricted bank accounts (Note 11)	1,953	2,692	(739)
C.	Other cash equivalents	-	-	-
D.	**Liquidity (A+B+C)**	**1,959**	**2,697**	**(738)**
E.	**Current financial receivables**	**5,110**	**1,067**	**4,043**
F.	Current bank payables (Note 14)	7,419	12,946	(5,527)
G.	Current portion of non-current debt (Note 14)	9,911	5,982	3,929
H.	Other current financial payables (Note 15)	1,795	75	1,720
I.	**Current financial debt (F+G+H)**	**19,125**	**19,003**	**122**
J.	**Net current financial debt (I-D-E)**	**12,056**	**15,239**	**(3,183)**
K.	Non-current bank payables (Note 14)	33,669	16,298	17,371
L.	Other non-current financial payables	120	180	(60)
M.	**Non-current financial debt (K+L)**	**33,789**	**16,478**	**17,311**
N.	**Net financial debt (J+M)**	**45,845**	**31,717**	**14,128**

The cash flow statement, which shows the changes in cash and cash equivalents (letter D. of this statement), describes in detail the cash flows that led to the change in the net financial position.

Comments on key income statement items

23. REVENUE

In 2018, sales revenue totalled € 110,065,252, down 4.9% from €115,687,029 in 2017.

Revenue by geographical area

	2018	%	2017	%	% change
Italy	24,762	22.5%	29,587	25.6%	*-16.3%*
Western Europe	8,925	8.1%	8,920	7.7%	*0.1%*
Eastern Europe and Turkey	36,807	33.4%	35,655	30.8%	*3.2%*
Asia and Oceania (excluding Middle East)	4,893	4.4%	9,570	8.3%	*-48.9%*
Central and South America	11,912	10.8%	11,331	9.8%	*5.1%*
Middle East and Africa	13,323	12.1%	12,703	11.0%	*4.9%*
North America and Mexico	9,443	8.6%	7,921	6.8%	*19.2%*
Total	**110,065**	100%	**115,687**	100%	***-4.9%***

The sales analysis by geographical area shows an uneven trend in the various markets in which the Company operates. The best results were achieved on the American continent: sales in North America were sustained by the good performance of consumption; in South America, strong growth rates were recorded in the Andean countries, which more than offset the effects of the crisis in Argentina and a still stagnant demand in Brazil. Satisfactory growth rates were recorded in European markets, thanks to the consolidation of relationships with major customers and the contribution made by the acquisition in Turkey of Okida; only in Italy sales are down due to the sharp reduction in the production of domestic appliances. North Africa and the Middle East have shown signs of weakness, while the of the Company's presence on Asian markets is not yet sufficiently consolidated.

Revenue by product family

	2018	%	2017	%	% change
Brass valves	4,342	3.9%	5,992	5.2%	*-27.5%*
Light alloy valves	37,603	34.2%	39,219	33.9%	*-4.1%*
Thermostats	6,521	5.9%	7,365	6.4%	*-11.5%*
Total valves and thermostats	*48,466*	*44.0%*	*52,576*	*45.5%*	*-7.8%*
Standard burners	21,820	19.8%	25,127	21.7%	*-13.2%*
Special burners	24,018	21.8%	24,136	20.9%	*-0.5%*
Total burners	*45,838*	*41.6%*	*49,263*	*42.6%*	*-7.0%*
Accessories and other revenues	15,761	14.3%	13,848	11.9%	*+13.8%*
Total	**110,065**	100%	**115,687**	100%	***-4.9%***

The sales analysis by product category shows a marked decrease in more mature products (brass valves and thermostats), while more innovative product families (light alloy valves and special burners) show an improved performance.

Average sales prices in 2018 were 0.3% lower compared to 2017.

24. OTHER INCOME

	2018	2017	Change
Sale of trimmings	1,424	1,457	(33)
Services to subsidiaries	629	378	251
Contingent income	55	97	(42)
Rental income	87	89	(2)
Use of provisions for risks and charges	26	39	(13)
Services to parent company	40	10	30
Other income	724	578	146
Total	**2,985**	**2,648**	**337**

Services to subsidiaries refer to administrative, commercial and technical services provided within the scope of the Group.

25. MATERIALS

	2018	2017	Change
Commodities and outsourced components	41,286	42,973	(1,687)
Consumables	3,799	3,582	217
Total	**45,085**	**46,555**	**(1,470)**

In 2018, the effective purchase prices of the main raw materials (aluminium alloys, steel and brass) were on average higher than in 2017, with a negative impact of 0.6% of sales. Consumption (purchases plus change in inventories) as a percentage of sales was 42.6% in 2018, compared with 41.3% in 2017.

26. COSTS FOR SERVICES

	2018	2017	Change
Outsourced processing	8,815	8,681	134
Property rental	4,009	3,974	35
Electricity and natural gas	3,271	3,314	(43)
Maintenance	3,081	3,296	(215)
Advisory services	1,977	1,676	301
Transport and export expenses	1,394	1,408	(14)
Directors' fees	475	881	(406)
Insurance	468	444	24
Commissions	631	533	98
Travel expenses and allowances	550	550	0
Waste disposal	378	358	20
Canteen	291	296	(5)
Temporary agency workers	196	180	16
Other costs	2,004	2,013	(9)
Total	**27,540**	**27,604**	**(64)**

All-in-all, costs for services did not change significantly compared to the previous year.
Costs for advisory services related to technical (€ 564,000), sales (€ 503,000) and legal, administrative and general (€ 810,000) services.
During the year, the Board of Directors was renewed and the fees due to the directors were recalculated, with a reduction in expenses of around € 400,000.
Other costs included expenses for the registration of patents, waste disposal, cleaning, leasing third-party assets and other minor charges.

27. PAYROLL COSTS

	2018	2017	Change
Salaries and wages	18,744	19,540	(796)
Social Security costs	6,099	6,249	(150)
Temporary agency workers	1,779	1,477	302
Post-employment benefit reserve and other costs	1,445	1,468	(23)
Stock grant plan	321	-	321
Total	**28,388**	**28,734**	**(346)**

Average of the Company headcount in 2018 totalled 503 employees (376 blue-collars, 117 white-collars and supervisors, 10 managers), compared with 514 in 2017 (394 blue-collars, 110 white-collars and supervisors, 10 managers). The average number of temporary staff, with supply contract, was 47 in 2018 (42 in 2017).
In 2018, the Company made negligible use of the temporary unemployment fund.
The item "Stock Grant Plan" included the measurement at 31 December 2018 of the fair value of rights to the assignment of Sabaf shares attributed to employees. For details of the Stock Grant Plan, refer to Note 42.

28. OTHER OPERATING COSTS

	2018	2017	Change
Losses and write-downs of trade receivables	402	49	353
Non-income related taxes and duties	217	238	(21)
Contingent liabilities	192	138	54
Provisions for risks	77	-	77
Other provisions	668	26	642
Other operating expenses	296	264	32
Total	**1,852**	**715**	**1,137**

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

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

	2018	2017	Change
Write-down Sabaf Appliance Components	-	(622)	622
Allocation to risk provisions on equity investments	-	(60)	60
Total	**0**	**(682)**	**682**

In 2017, this item included the write-down of the equity investment in Sabaf Appliance Components, to bring it into line with the value of shareholders' equity at 31 December 2018. As detailed in Note 17, in these consolidated financial statements a provision of € 640,000 was made to the provision for risks on equity investments, recorded under Other operating costs, to cover future outlays expected to restore the shareholders' equity of the Chinese subsidiary, which at 31 December 2018 was negative.

30. FINANCIAL EXPENSES

	2018	2017	Change
Interest paid to banks	641	244	397
Banking expenses	240	209	31
Other financial expense	37	29	8
Total	**918**	**482**	**436**

The increase in financial expenses to banks reflects the higher average net debt for the year. Interest paid to banks includes IRS spreads payable that hedge interest rate risks.

31. EXCHANGE RATE GAINS AND LOSSES

During the 2018 financial year, the Company reported net foreign exchange gains of € 157,000 (net losses of € 88,000 in 2017).

32. PROFITS AND LOSSES FROM EQUITY INVESTMENTS

	2018	2017	Change
Dividends received from Sabaf Immobiliare	3,000	1,500	1,500
Dividends received from Okida Elektronik	1,322	-	1,322
Other profits from equity investments	-	3	(3)
Total	**4,322**	**1,503**	**2,819**

This item includes dividends received from investee companies.

33. INCOME TAX

	2018	2017	Change
Current taxes	967	1,791	(824)
Deferred tax assets and liabilities	16	(219)	235
Taxes related to previous financial years	21	(502)	523
Taxes on dividends received	182	-	182
Total	**1,186**	**1,070**	**116**

Current taxes include IRES of € 672,000 and IRAP of € 295,000 (€ 1,436,000 and € 355,000 respectively in 2017).

Reconciliation between the tax burden booked in the financial statements and the theoretical tax burden calculated according to the statutory tax rates currently in force in Italy is shown in the following table:

	2018	2017
Theoretical income tax	2,214	2,177
Taxes related to previous financial years	18	88
Tax effect of dividends from investee companies	(803)	(342)
"Patent box" tax effect	(323)	(1,151)
"Iper e Superammortamento" tax benefit	(449)	(179)
Permanent tax differences	279	209
Other differences	4	9
IRES (current and deferred)	**940**	**811**
IRAP (current and deferred)	246	259
Total	**1,186**	**1,070**

Theoretical taxes were calculated applying the current corporate income tax (IRES) rate, i.e. 24%, to the pre-tax result. IRAP is not taken into account for the purpose of reconciliation because, as it is a tax with a different assessment basis from pre-tax profit, it would generate distorting effects.

In these separate financial statements, the Company recognised the tax benefit related to the Patent Box for 2018 of € 375,000 (€ 323,000 for IRES and € 52,000 for IRAP). Following the prior agreement signed with the Revenue Agency, in 2017 the benefit for the three-year period from 2015 to 2017, for a total of € 1,324,000 was recognised.

No significant tax disputes were pending at 31 December 2018.

34. DIVIDENDS

On 31 May 2018, shareholders were paid an ordinary dividend of € 0.55 per share (total dividends of € 6,071,000).
The Directors have recommended payment of an unchanged dividend of € 0.55 per share this year. This dividend is subject to approval of shareholders in the annual Shareholders' Meeting and was not included under liabilities in these financial statements.
The dividend proposed is scheduled for payment on 30 May 2019 (ex-date 28 May and record date 29 May).

35. SEGMENT REPORTING

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

36. INFORMATION ON FINANCIAL RISK

Categories of financial instruments

In accordance with IFRS 7, a breakdown of the financial instruments is shown below, among the categories set forth in IAS 39.

	31/12/2018	31/12/2017
Financial assets		
Income statement fair value		
Derivative cash flow hedges (on currency)	-	7
Amortised cost		
Cash and cash equivalents	1,959	2,697
Trade receivables and other receivables	35,922	31,876
Non-current loans	5,246	1,668
Current loans	1,600	1,000
Other financial assets	3,630	240
Financial liabilities		
Income statement fair value		
Derivative cash flow hedges (on interest rates)	231	15
Amortised cost		
Loans	50,999	35,226
Other financial liabilities	1,915	240
Trade payables	18,945	16,569

The Company is exposed to financial risks related to its operations, mainly:
- credit risk, with special reference to normal trade relations with customers;
- market risk, relating to the volatility of prices of commodities, foreign exchange and interest rates;
- liquidity risk, which can be expressed by the inability to find financial resources necessary to ensure Company operations.

It is part of Sabaf's policies to hedge exposure to changes in prices and in fluctuations in exchange and interest rates via derivative financial instruments. Hedging is done using forward contracts, options or combinations of these instruments. Generally speaking, the maximum duration covered by such hedging does not exceed 18 months. The Company does not enter into speculative transactions. When the derivatives used for hedging purposes meet the necessary requisites, hedge accounting rules are followed.

Credit risk management

Trade receivables involve producers of domestic appliances, multinational groups and smaller manufacturers in a few or single markets. The Company assesses the creditworthiness of all its customers at the start of supply and systemically at least on an annual basis. After this assessment, each customer is assigned a credit limit.

A credit insurance policy is in place, which guarantees cover for approximately 50% of trade receivables.
Credit risk relating to customers operating in emerging economies is generally attenuated by the expectation of revenue through letters of credit.

Forex risk management
The main exchange rate to which the Company is exposed is the euro/USD in relation to sales made in dollars (mainly in North America) and, to a lesser extent, to some purchases (mainly from Asian manufacturers). Sales in US dollars represented 12% of total turnover in 2018, while purchases in dollars represented 5% of total turnover. During the year, operations in dollars were partially hedged through forward sales contracts; no currency derivatives were pending at 31 December 2018.

Sensitivity analysis
With reference to financial assets and liabilities in US dollars at 31 December 2018, a hypothetical and immediate revaluation of 10% of the euro against the dollar would have led to a loss of € 270,000.

Interest rate risk management
Owing to the current trend in interest rates, the Company favours fixed-rate indebtedness: medium to long-term loans originated at a variable rate are converted to a fixed rate by entering into interest rate swaps (IRS) at the same time as the loan is opened. At 31 December 2018, IRS totalling € 26.6 million were in place, mirrored in mortgages with the same residual debt, through which the Company transformed the floating rate of the mortgages into fixed rate. Considering the IRS in place, at the end of 2018 almost all medium to long-term financial debt was at a fixed rate. The derivative contracts were not designated as a cash flow hedge and were therefore recognised using the "income statement fair value" method.

Sensitivity analysis
Considering the IRS in place, at the end of 2018 almost all of the Company's financial debt was at a fixed rate. Therefore, at 31 December 2018 no sensitivity analysis was carried out in that the exposure to interest rate risk, linked to a hypothetical increase (decrease) in interest rates, is not significant.

Commodity price risk management
A significant portion of the Company's purchase costs is represented by aluminium, steel and brass. Sales prices of products are generally renegotiated annually; as a result, the Company is unable to immediately pass on to customers any changes in the prices of commodities during the year. The Company protects itself from the risk of changes in the price of aluminium, steel and brass with supply contracts signed with suppliers for delivery up to twelve months in advance or, alternatively, with derivative financial instruments. In 2018 and 2017, the Company did not use financial derivatives on commodities. To stabilise the rising costs of commodities, Sabaf preferred to execute transactions on the physical market, fixing prices with suppliers for immediate and deferred delivery.

Liquidity risk management
The management of liquidity and financial debt is coordinated at Group level. The Group operates with a debt ratio considered physiological (net financial debt / shareholders' equity at

31 December 2018 of 45%, net financial debt / EBITDA of 1.79) and has unused short-term lines of credit. To minimise the risk of liquidity, the Administration and Finance Department:

- maintains a correct balance of net financial debt, financing investments with capital and with medium to long-term debt.
- verifies systematically that the short-term accrued cash flows (amounts received from customers and other income) are expected to accommodate the deferred cash flows (short-term financial debt, payments to suppliers and other outgoings);
- regularly assesses expected financial needs in order to promptly take any corrective measures. An analysis by expiration date of financial payables at 31 December 2018 and 31 December 2017 is shown below

At 31 December 2018

	Carrying value	Contractual financial flows	Within 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years
Unsecured loans	43,580	44,414	1,795	8,422	32,621	1,576
Short-term bank loans	7,419	7,419	7,419	-	-	-
Payables to ARC shareholders	180	180	-	60	120	-
Payables to former Okida shareholders	1,735	1,735	1,735	-	-	-
Total financial payables	**52,914**	**53,748**	**10,949**	**8,482**	**32,741**	**1,576**
Trade payables	18,954	18,954	18,437	517	-	-
Total	**71,868**	**72,702**	**29,386**	**8,999**	**32,741**	**1,576**

At 31 December 2017

	Carrying value	Contractual financial flows	Within 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years
Unsecured loans	22,280	22,676	1,537	4,612	16,527	-
Short-term bank loans	10,846	10,846	10,846	-	-	-
Short-term Sabaf Turkey loan	2,100	2,118	-	2,118	-	-
Payables to ARC shareholders	240	240	-	60	180	-
Total financial payables	**35,466**	**35,880**	**12,383**	**6,790**	**16,707**	**0**
Trade payables	16,569	16,569	15,615	954	-	-
Total	**52,035**	**52,449**	**27,998**	**7,744**	**16,707**	**0**

The various due dates are based on the period between the end of the reporting period and the contractual expiration date of the commitments, the values indicated in the table correspond to non-discounted cash flows. Cash flows include the shares of principal and interest; for floating rate liabilities, the shares of interest are determined based on the value of the reference parameter at the end of the reporting period and increased by the spread set forth in each contract.

Hierarchical levels of fair value assessment

The revised IFRS 7 requires that financial instruments reported in the statement of financial position at fair value be classified based on a hierarchy that reflects the significance of the input used in determining the fair value. IFRS 7 makes a distinction between the following levels:

- Level 1 – quotations found on an active market for assets or liabilities subject to assessment;
- Level 2 - input other than prices listed in the previous point, which can be observed directly (prices) or indirectly (derived from prices) on the market;
- Level 3 – input based on observable market data

The following table shows the assets and liabilities valued at fair value at 31 December 2018, by hierarchical level of fair value assessment.

	Level 1	Level 2	Level 3	Total
Other financial liabilities (derivatives on interest rates)	-	(231)	-	(231)
Option on minorities A.R.C.	-	-	-	-
Total assets and liabilities at fair value	**-**	**(231)**	**-**	**(231)**

37. RELATIONS BETWEEN GROUP COMPANIES AND WITH RELATED PARTIES

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

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

	Total 2018	**Subsidiarie s**	**Giuseppe Saleri Sapa**	**Other related parties**	**Total related parties**	**Impact on the total**
Non-current financial assets	5,367	5,247	-	-	5,247	97.76%
Trade receivables	35,158	6,166	12	-	6,178	17.57%
Tax receivables	2,377	-	1,084	-	1,084	45.60%
Current financial assets	5,874	1,600	-	-	1,600	27.24%
Trade payables	18,945	3,895	-	5	3,900	20.59%

	Total 2017	**Subsidiarie s**	**Giuseppe Saleri Sapa**	**Other related parties**	**Total related parties**	**Impact on the total**
Non-current financial assets	1,848	1,668	-	-	1,668	90.26%
Trade receivables	31,154	1,209	-	-	1,209	3.88%
Tax receivables	2,230	-	1,084	-	1,084	48.60%
Current financial assets	1,788	1,000	-	-	1,000	55.93%
Trade payables	16,573	510	-	2	512	3.09%
Current financial payables	2,100	2,100	-	-	2,100	100%

Impact of related-party transactions on income statement items

	Total 2018	**Subsidiaries**	**Giuseppe Saleri Sapa**	**Other related parties**	**Total related parties**	**Impact on the total**
Revenue	110,065	11,520	-	-	11,520	10.46%
Other income	2,985	800	40	-	840	28.14%

Materials	45,085	1,417	-	-	1,147	3.14%
Services	27,540	3,991	-	22	4,013	14.57%
Capital gains on non-current assets	496	467	-	-	467	94.15%
Other operating costs	1,852	640	-	-	640	34.56%
Financial income	123	119	-	-	119	96.75%

	Total 2017	**Subsidiaries**	**Giuseppe Saleri Sapa**	**Other related parties**	**Total related parties**	**Impact on the total**
Revenue	115,687	10,239	-	-	10,239	8.85%
Other income	2,648	414	10	-	424	16%
Materials	46,555	1,548	-	-	1,548	3.33%
Services	27,604	3,966	-	20	3,986	14.44%
Capital gains on non-current assets	98	97	-	-	97	99.58%
Write-downs of non-current assets	682	682	-	-	682	100%
Financial income	89	80	-	-	80	89.89%
Financial expenses	482	2	-	-	2	0.46%

Relations with subsidiaries mainly consist of:

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

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

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

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

38. SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

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

39. ATYPICAL AND/OR UNUSUAL TRANSACTIONS

Pursuant to CONSOB memorandum of 28 July 2006, the Company declares that no atypical and/or unusual transactions as defined by the CONSOB memorandum were executed during 2018.

40. COMMITMENTS

Guarantees issued
Sabaf S.p.A. also issued sureties to guarantee mortgage loans granted by banks to employees for a total of € 4,734,000 (€ 5,145,000 at 31 December 2017).

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

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

42. SHARE-BASED PAYMENTS

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 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	-0,2846%	-0,1641%	-0,0497%	-0,0497%
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	Fair Value 2,28
Rights on ROI	33,40%	

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

	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	-0,2846%	-0,1641%	-0,0497%	-0,0497%
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 EBITDA	8,97	Fair Value 2,99
Rights on EBITDA	33,30%	

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	-0,2846%	-0,1641%	-0,0497%
Expected volatility	31%	29%	27%
Dividend yield	0,00%	0,00%	0,00%
Strike Price	22,61	25,32	28,34

Total value on TSR	6,00	Fair Value 2,00
Rights on TSR	33,30%	

Fair value per share at initial date of the vesting period	7,27

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 these Financial statements.

Summary of public grants pursuant to Article 1, paragraphs 125-129, Italian Law no. 124/2017

In compliance with the requirements of transparency and publicity envisaged pursuant to Italian Law no. 124 of 4 August 2017, article 1, paragraphs 125-129, which imposed on companies the obligation to indicate in the explanatory notes *"grants, contributions, and in any case economic advantages of any kind"*, the following are the details of the relative amounts, accounted for "on a cash basis".

Statutory References	Contribution value	Disbursing Subject
Patent Box	1,307	Italian State
Super ammortamento (Super amortisation)	179	Italian State
Energy-intensive contributions	509	Italian State
Total	**1,995**	

Patent Box: concerning the reduced taxation of income from intangible assets, the reference regulations of which are contained in the 2015 Stability Law (Italian Law 23/12/2014 no.190) Articles from 37 to 45.

Super ammortamento (Super amortisation): it allows an over-estimation of 130% of the newly purchased or leased instrumental investments, the reference regulations of which are contained in Law no. 205 of 27 December 2017

Energy-intensive contributions: Accessible grants for companies that consume a lot of electricity, whose regulatory reference is the MISE Decree of 21 December 2017.

LIST OF INVESTMENTS WITH ADDITIONAL INFORMATION REQUIRED BY CONSOB (COMMUNICATION DEM6064293 of 28 July 2006)

IN SUBSIDIARIES[1]

Company name	Registered offices	Share capital at 31 December 2018	Shareholders	ownership %	Shareholders' equity at 31 December 2018	2018 profit (loss)
Faringosi Hinges S.r.l.	Ospitaletto (BS)	€ 90,000	Sabaf S.p.A.	100%	€ 7,248,309	€ 996,255
Sabaf Immobiliare s.r.l.	Ospitaletto (BS)	€ 25,000	Sabaf S.p.A.	100%	€ 21,341,974	€ 759,565
Sabaf do Brasil Ltda	Jundiaì (Brazil)	BRL 24,000,000	Sabaf S.p.A.	100%	BRL 48,305,068	BRL 6,954,784
Sabaf US Corp.	Plainfield (USA)	USD 100,000	Sabaf S.p.A.	100%	USD -28,342	USD 51,140
Sabaf Appliance Components (Kunshan) Co., Ltd.	Kunshan (China)	€ 4,400,000	Sabaf S.p.A.	100%	CNY -4,347,931	CNY -4,407,939
Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki	Manisa (Turkey)	TRY 28,000,000	Sabaf S.p.A.	100%	TRY 139,948,685	TRY 67,735,385
Sabaf Appliance Components Trading (Kunshan) Co., Ltd. in liquidation	Kunshan (China)	€ 200,000	Sabaf S.p.A.	100%	CNY 1,955,552	----
A.R.C. s.r.l.	Campodarsego (PD)	€ 45,000	Sabaf S.p.A.	70%	€ 5,289,518	€ 655,460
Okida Elektronik Sanayi ve Tickaret A.S	Istanbul (Turkey)	TRY 5,000,000	Sabaf S.p.A. Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki	30% 70%	TRY 34,726,075	TRY 27,193,127

OTHER SIGNIFICANT EQUITY INVESTMENTS

None

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

ORIGIN, POSSIBILITY OF UTILISATION AND AVAILABILITY OF RESERVES

Description	Amount	Possibility of utilisation	Available share	Amount subject to taxation for the company in the case of distribution
Capital reserve:				
Share premium reserve	10,002	A, B, C	10,002	0
Revaluation reserve, Law 413/91	42	A, B, C	42	42
Revaluation reserve, Law 342/00	1,592	A, B, C	1,592	1,592
Retained earnings:				
Legal reserve	2,307	B	0	0
Other retained earnings	58,657	A, B, C	58,657	0
Valuation reserve:				
Post-employment benefit actuarial reserve	(456)		0	0
Reserve for stock grant plan	321		0	0
Total	72,465		70,293	1,634

Key:

A. for share capital increase
B. to hedge losses
C. for distribution to shareholders

STATEMENT OF REVALUATIONS
OF EQUITY ASSETS AT 31 December 2018

		Gross value	Cumulative depreciation	Net value
Investment property	Law 72/1983	137	(137)	0
	1989 merger	516	(467)	49
	Law 413/1991	47	(43)	4
	1994 merger	1,483	(1,091)	392
	Law 342/2000	2,870	(2,454)	416
		5,053	**(4,192)**	**861**
Plant and machinery	Law 576/75	205	(205)	0
	Law 72/1983	2,219	(2,219)	0
	1989 merger	6,140	(6,140)	0
	1994 merger	6,820	(6,820)	0
		15,384	**(15,384)**	**0**
Industrial and commercial equipment	Law 72/1983	**161**	**(161)**	**0**
Other assets	Law 72/1983	**50**	**(50)**	**0**
TOTAL		**20,648**	**(19,787)**	**861**

GENERAL INFORMATION

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

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Website: http://www.sabaf.it

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

Appendix

Information as required by Article 149-*duodecies* of the CONSOB Issuers' Regulation

The following table, prepared pursuant to Article 149-*duodecies* of the CONSOB Issuers' Regulation, shows fees relating to 2018 for auditing services and for services other than auditing provided by the Independent Auditor. No services were provided by entities belonging to the network.

(€/000)	Party providing the service	Fees pertaining to the 2018 financial year
Audit	EY S.p.A.	20
Certification services	EY S.p.A	---
Other services	EY S.p.A	16 (1)
Total		*36*

(1) auditing procedures agreement relating to interim management reports;

Certification of Separate financial statements pursuant to Article 154-bis of Italian Legislative Decree 58/98

Pietro Iotti, the Chief Executive Officer, and Gianluca Beschi, the Financial Reporting Officer of Sabaf S.p.A., have taken into account the requirements of Article 154-bis, paragraphs 3 and 4, of Legislative Decree 58 of 24 February 1998 and can certify:

- the adequacy, in relation to the business characteristics and
- the actual application

of the administrative and accounting procedures for the formation of the separate financial statements during the 2018 financial year.

They also certify that:

- the separate financial statements:
    - were prepared in accordance with the international accounting policies recognised in the European Community in accordance with EC regulation 1606/2002 of the European Parliament and Council of 19 July 2002 and with the measures issued in implementation of Article 9 of Italian Legislative Decree 38/2005;
    - are consistent with accounting books and records;
    - provide a true and fair view of the financial position and performance of the issuer;

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

Ospitaletto, 26 March 2019

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