SABAF GROUP

CONSOLIDATED FINANCIAL

STATEMENTS

AT 31 DECEMBER 2018

GROUP STRUCTURE AND CORPORATE BODIES

Group structure

Parent company

SABAF S.p.A.

Subsidiaries and equity interest owned by the Group

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

Non-consolidated companies	
Sabaf US Corp.	100%
Handan ARC Burners Co., Ltd.	35.5%

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.

Consolidated statement of financial position

(€/000)	Notes:	31/12/2018	31/12/2017
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	**1**	70,765	73,069
Investment property	**2**	4,403	5,697
Intangible assets	**3**	39,054	9,283
Equity investments	**4**	380	281
Non-current financial assets	**10**	120	180
Non-current receivables	**5**	188	196
Deferred tax assets	**21**	4,617	5,096
Total non-current assets		**119,527**	**93,802**
CURRENT ASSETS			
Inventories	**6**	39,179	32,929
Trade receivables	**7**	46,932	42,263
Tax receivables	**8**	4,466	3,065
Other current receivables	**9**	1,534	1,057
Current financial assets	**10**	3,511	67
Cash and cash equivalents	**11**	13,426	11,533
Total current assets		**109,048**	**90,914**
ASSETS HELD FOR SALE		**0**	**0**
TOTAL ASSETS		**228,575**	**184,716**
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	**12**	11,533	11,533
Retained earnings, Other reserves		90,555	87,227
Profit for the year		15,614	14,835
Total equity interest of the Group		*117,702*	*113,595*
Minority interests		*1,644*	*1,460*
Total shareholders' equity		**119,346**	**115,055**
NON-CURRENT LIABILITIES			
Loans	**14**	42,406	17,760
Other financial liabilities	**15**	1,938	1,943
Post-employment benefit and retirement reserves	**16**	2,632	2,845
Provisions for risks and charges	**17**	725	385
Deferred tax liabilities	**21**	3,030	804
Total non-current liabilities		**50,731**	**23,737**
CURRENT LIABILITIES			
Loans	**14**	18,435	17,288
Other financial liabilities	**15**	7,682	75
Trade payables	**18**	21,215	19,975
Tax payables	**19**	3,566	1,095
Other payables	**20**	7,600	7,491
Total current liabilities		**58,498**	**45,924**
LIABILITIES HELD FOR SALE		**0**	**0**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**228,575**	**184,716**

Consolidated income statement

(€/000)	Notes:	2018	2017
INCOME STATEMENT COMPONENTS			
OPERATING REVENUE AND INCOME			
Revenue	**23**	150,642	150,223
Other income	**24**	3,369	3,361
Total operating revenue and income		**154,011**	**153,584**
OPERATING COSTS			
Materials	**25**	(62,447)	(59,794)
Change in inventories		4,603	2,380
Services	**26**	(31,297)	(30,227)
Payroll costs	**27**	(34,840)	(35,328)
Other operating costs	**28**	(1,670)	(1,134)
Costs for capitalised in-house work		1,599	1,474
Total operating costs		**(124,052)**	**(122,629)**
OPERATING PROFIT BEFORE DEPRECIATION AND AMORTISATION, CAPITAL GAINS/LOSSES, AND WRITE-DOWNS/WRITE-BACKS OF NON-CURRENT ASSETS		**29,959**	**30,955**
Depreciations and amortisation	**1, 2, 3**	(12,728)	(12,826)
Capital gains on disposals of non-current assets		28	(12)
Value adjustments of non-current assets	**2**	(850)	0
EBIT		**16,409**	**18,117**
Financial income		373	214
Financial expenses	**29**	(1,206)	(804)
Exchange rate gains and losses	**30**	5,384	274
Profits and losses from equity investments		0	3
PROFIT BEFORE TAXES		**20,960**	**17,804**
Income tax	**31**	(5,162)	(2,888)
PROFIT FOR THE YEAR		**15,798**	**14,916**
of which:			
Minority interests		184	81
PROFIT ATTRIBUTABLE TO THE GROUP		**15,614**	**14,835**
EARNINGS PER SHARE (EPS)	**32**		
Base		**1.413 euro**	**1.323 euro**
Diluted		**1.413 euro**	**1.323 euro**

Consolidated statement of comprehensive income

(€/000)	**2018**	**2017**
PROFIT FOR THE YEAR	**15,798**	**14,916**
Total profits/losses that will not be subsequently reclassified under profit (loss) for the year		
Actuarial post-employment benefit reserve evaluation	32	82
Tax effect	(8)	(20)
	24	**62**
Total profits/losses that will be subsequently reclassified under profit (loss) for the year		
Forex differences due to translation of financial statements in foreign currencies	**(3,940)**	**(4,806)**
Total other profits/(losses) net of taxes for the year	**(3,916)**	**(4,744)**
TOTAL PROFIT	**11,882**	**10,172**
of which:		
Minority interests	184	81
TOTAL PROFIT ATTRIBUTABLE TO THE GROUP	**11,698**	**10,091**

Statement of changes in consolidated shareholders’ equity

(€/000)	Share capital	Share premium reserve	Legal reserve	Treasury shares	Translation reserve	Post-employment benefit discounting reserve	Other reserves	Profit for the year	Total Group shareholders' equity	Minority interests	Total shareholders’ equity
At 31 December 2016 (*)	**11,533**	**10,002**	**2,307**	**(2,399)**	**(7,388)**	**(612)**	**88,561**	**8,994**	**110,998**	**1,379**	**112,377**
Allocation of 2016 profit											
- dividends paid out								(5,384)	(5,384)		(5,384)
- carried forward							3,610	(3,610)	0		0
Purchase of treasury shares				(2,110)					(2,110)		(2,110)
Total profit at 31 December 2017					(4,806)	62		14,835	10,091	81	10,172
At 31 December 2017	**11,533**	**10,002**	**2,307**	**(4,509)**	**(12,194)**	**(550)**	**92,171**	**14,835**	**113,595**	**1,460**	**115,055**
Allocation of 2017 profit											
2017 Dividends paid out								(6,071)	(6,071)		(6,071)
Carried forward							8,764	(8,764)	0		0
Purchase of treasury shares				(2,359)					(2,359)		(2,359)
Stock grant plan							321		321		321
Other changes							518		518		518
Total profit at 31 December 2018					(3,940)	24		15,614	11,698	184	11,882
At 31 December 2018	**11,533**	**10,002**	**2,307**	**(6,868)**	**(16,134)**	**(526)**	**101,774**	**15,614**	**117,702**	**1,644**	**119,346**

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

Consolidated cash flow statement

	2018	2017
Cash and cash equivalents at beginning of year	***11,533***	***12,143***
Profit for the year	15,798	14,916
Adjustments for:		
- Depreciation and amortisation	12,728	12,826
- Write-downs of non-current assets	850	-
- Realised gains/losses	(28)	12
- Valuation of the stock grant plan	321	-
- Net financial income and expenses	833	590
- Income tax	5,162	2,888
Change in post-employment benefit reserve	(241)	(189)
Change in risk provisions	340	(49)
Change in trade receivables	*(3,003)*	*(5,421)*
Change in inventories	*(4,374)*	*(1,445)*
Change in trade payables	*556*	*998*
Change in net working capital	(6,821)	(5,868)
Change in other receivables and payables, deferred tax	2,537	1,029
Payment of taxes	(4,860)	(3,058)
Payment of financial expenses	(1,178)	(532)
Collection of financial income	373	214
Cash flow from operations	**25,814**	**22,779**
Investments in non-current assets		
- intangible	(589)	(860)
- tangible	(11,348)	(13,604)
- financial	(99)	0
Disposal of non-current assets	569	520
Cash flow absorbed by investments	**(11,467)**	**(13,944)**
Repayment of loans	(19,579)	(16,526)
Raising of loans	52,972	17,751
Short-term financial assets	(3,384)	(247)
Purchase of treasury shares	(2,359)	(2,110)
Payment of dividends	(6,071)	(5,384)
Cash flow absorbed by financing activities	**21,579**	**(6,516)**
Acquisition of Okida Elektronik	(24,077)	0
Foreign exchange differences due to translation	(9,956)	(2,929)
Net financial flows for the year	**1,893**	**(610)**
Cash and cash equivalents at end of year (Note 10)	***13,426***	***11,533***
Current financial debt	22,606	17,363
Non-current financial debt	44,344	19,703
Net financial debt (Note 22)	***53,524***	***25,533***

Explanatory Notes

ACCOUNTING STANDARDS

Statement of compliance and basis of presentation

The consolidated financial statements of the Sabaf Group 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 endorsed by the European Union. Reference to IFRS also includes all current International Accounting Standards (IAS). The financial statements have been prepared in euro, the current currency in the economies in which the Group mainly operates, rounding amounts to the nearest thousand, and are compared with consolidated financial statements for the previous year, prepared according to the same standards. They consist of the statement of financial position, the income statement, the statement of changes in shareholders' equity, the cash flow statement and these explanatory notes. The financial statements have been prepared on a historical cost basis except for some revaluations of property, plant and equipment undertaken in previous years, and are considered a going concern. The Group assessed that it is a going concern (as defined by paragraphs 25 and 26 of IAS 1), also due to the strong competitive position, high profitability and solidity of the financial structure.

Financial statements

The Group has adopted the following formats:

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

Use of these formats permits the most meaningful representation of the Group's operating results, financial position and cash flows.

Scope of consolidation

The scope of consolidation at 31 December 2018 comprises the parent company Sabaf S.p.A. and the following companies controlled by Sabaf S.p.A.:

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

The only change in the scope of consolidation compared to 31 December 2017 is related to Okida Elektronik, of which the Group acquired control on 4 September 2018.

Sabaf U.S. is not consolidated since it is irrelevant for the purposes of the consolidation.

Handan A.R.C. Ltd, Chinese company in which the Group holds a 35.5% share, was measured at cost in that at 31 December 2018 operations are still in their embryonic stages, and therefore the company is considered irrelevant for consolidation purposes.

The companies in which Sabaf S.p.A. simultaneously possess the following three elements are considered subsidiaries: (a) power over the company; (b) exposure or rights to variable returns resulting from involvement therein; (c) ability to affect the size of these returns by exercising power. If these subsidiaries exercise a significant influence, they are consolidated as from the date in which control begins until the date in which control ends so as to provide a correct representation of the Group's operating results, financial position and cash flows.

Consolidation criteria

The data used for consolidation have been taken from the income statements and statements of financial position prepared by the directors of the individual subsidiary companies. These figures have been appropriately amended and restated, when necessary, to align them with international accounting standards and with uniform group-wide classification criteria.

The criteria applied for consolidation are as follows:

a) Assets and liabilities, income and costs in the financial statements consolidated on a 100% line-by-line basis are incorporated into the Group financial statements, regardless of the entity of the equity interest concerned. In addition, the carrying value of equity interests is eliminated against the shareholders' equity relating to investee companies.
b) Positive differences arising from elimination of equity investments against the carrying value of shareholders' equity at the date of first-time consolidation are attributed to the higher values of assets and liabilities when possible and, for the remainder, to goodwill. In accordance with the provisions of IFRS 3, the Group has changed the accounting treatment of goodwill on a prospective basis as from the transition date. Therefore, since 1 January 2004, the Group has not amortised goodwill and instead subjects it to impairment testing.
c) Payable/receivable and cost/revenue items between consolidated companies and profits/losses arising from intercompany transactions are eliminated.
d) The portion of shareholders' equity and net profit for the period pertaining to minority shareholders is posted in specific items of the balance sheet and income statement.

Information related to IFRS 3

Starting from these financial statements, Okida Elektronik, company active in the design and production of electronic components for household appliances, of which the Group acquired 100% control on 4 September 2018, was consolidated.[1] The Report on Operations describes the purpose of the transaction and the expected synergies.

In these consolidated financial statements, the temporary evaluation of Okida in accordance with IFRS 3 revised, namely recognising the fair value of assets, liabilities and contingent liabilities at the acquisition date, was carried out. The final evaluation will be carried out within 12 months from the acquisition date. The effects of this operation are shown in the following table[2]:

	Original values at 04/09/2018	Purchase Price Allocation	Fair value of assets and liabilities acquired
Assets			
Property, plant, and equipment	146		146
Intangible assets	409	8,638	9,047
- *Customer Relationship*		*6,805*	
- *Know How*		*891*	
- *Brand*		*942*	
Inventories	1,876		1,876
Trade receivables	1,666		1,666
Other receivables	236		236
Cash and cash equivalents	4,680		4,680
Total assets	**9,013**		**17,651**
Liabilities			
Provisions for risks and charges	0	(269)	(269)
Deferred tax liabilities	0	(1,753)	(1,753)
Trade payables	(684)		(684)
Other payables	(814)		(814)
Total liabilities	**(1,498)**		**(3,520)**
Fair value of net assets acquired (a)	**7,515**		**14,131**
Total cost of acquisition (b)			28,757
Goodwill deriving from acquisition (b-a)			14,626
Acquired cash and cash equivalents (c)			4,680
Total cash outlay (b-c)			24,077

The acquisition price was determined based on an Enterprise Value of 4x EBITDA 2017 plus 1.05x EBITDA 2018, adjusted for the net financial position at the date of the transaction and for the difference between working capital at the date of the transaction and average working capital. The parties agreed that the payment of part of the price will be postponed and in any case payable by the first quarter of 2019. At 31 December 2018, Other financial liabilities included a residual liability of € 7.622 million owed to

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[1] Financial data at 31 December 2018 and economic results for the period for which the Group held control (4 September - 31 September 2018) were consolidated.

[2] Values originally expressed in Turkish lira and converted in this table at the Euro/Turkish lira exchange rate on the acquisition date (7.7188). In the consolidated balance sheet as at 31 December 2018, the values, including goodwill, are converted at the year-end exchange rate (6.0588).

former Okida shareholders, which represents the residual portion of the price payable to sellers (Note 15). The acquisition was entirely financed by bank loans with a duration of 72 months.

As shown in the table, the Purchase Price Allocation, carried out with the support of independent experts, led to the identification and measurement of the fair values of the following acquired intangible assets:

- **Customer Relationship**: fair value of € 6.805 million determined using the "Multi-period Excess Earnings" method, taking the following parameters as reference:
    - revenue relating to customers with whom there is a strong technical and commercial relationship
    - profitability in line with the historical average
    - economic useful life of 15 years
    - discount rate of 10.85%
    - growth rate g of 2% from 2019 to 2021 and of 2.5% for the following years

- **Know How**: fair value of € 0.891 million determined using the "Relief from Royalty" method, taking the following parameters as reference:
    - total revenue at the valuation date
    - royalty rate equal to 3%
    - economic useful life of 7 years
    - discount rate of 10.3%
    - growth rate g of 2% from 2019 to 2021 and of 2.5% for the following years

- **Brand**: fair value of € 0.942 million determined using the "Relief from Royalty" method, taking the following parameters as reference:
    - total revenue at the valuation date
    - royalty rate equal to 2%
    - economic useful life of 15 years
    - discount rate of 10.3%
    - growth rate g of 2% from 2019 to 2021 and of 2.5% for the following years

The related tax effect was recognised on the fair value of the intangible assets identified above (recognition of deferred taxes of € 1.753 million).

The Purchase Price Allocation also led to the recognition of provisions for risks and charges totalling € 0.269 million (Note 17).

In the period for which the Group held control (4 September 2018 - 31 December 2018), Okida achieved sales revenue of € 4.024 million and a net profit of € 0.371 million.

In order to assess the extent of the change in the scope of consolidation in the consolidated statement of financial position at 31 December 2018, the following table summarises the balance sheet balances at the same date of Okida Elektronik, including the effects of the Purchase Price Allocation described above.

	31/12/2018
Assets	
Property, plant and equipment	189
Intangible assets	29,901
Inventories	2,609
Trade receivables	3,399
Tax receivables	676
Other receivables	244
Cash and cash equivalents	1,214
Total assets	**38,232**
Liabilities and Shareholders' Equity	
Shareholders' equity	32,649
Provisions for risks and charges	273
Deferred tax liabilities	2,174
Trade payables	1,570
Tax payables	1,380
Other payables	186
Total liabilities	**38,232**

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

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

Balance sheet items in accounts expressed in currencies other than euro are converted by applying current end-of-year exchange rates. Income statement items are converted at average exchange rates for the year.

Foreign exchange differences arising from the comparison between opening shareholders' equity converted at current exchange rates and at historical exchange rates, together with the difference between the net result expressed at average and current exchange rates, are allocated to "Other Reserves" in shareholders' equity.

The exchange rates used for conversion into euro of the financial statements of the foreign subsidiaries, prepared in local currency, are shown in the following table:

Description of currency	**Exchange rate in effect at 31/12/18**	**Average exchange rate 2018**	**Exchange rate in effect at 31/12/17**	**Average exchange rate 2017**
Brazilian real	4.4440	4.3085	3.9729	3.6048
Turkish lira	6.0588	5.7145	4.5464	4.1207
Chinese renminbi	7.8751	7.8038	7.8044	7.6289

Reconciliation between parent company and consolidated shareholders' equity and net profit for the year

Description	31/12/2018		31/12/2017	
	Profit for the year	Shareholders' equity	Profit for the year	Shareholders' equity
Profit and shareholders' equity of parent company Sabaf S.p.A.	**8,040**	**92,039**	**8,001**	**92,087**
Equity and consolidated company results[3]	15,324	113,123	7,971	74,144
Elimination of consolidated equity investments' carrying value	640	(83,622)	682	(48,596)
Put option on A.R.C. minorities	55	(1,818)	(241)	(1,763)
Intercompany eliminations	(8,005)	(427)	(1,497)	(817)
Other adjustments	(256)	51	0	0
Minority interests	(184)	(1,644)	(81)	(1,460)
Profit and shareholders' equity attributable to the Group	**15,614**	**117,702**	**14,835**	**113,595**

Segment reporting

The Group's Operating segments in accordance with IFRS 8 - Operating Segment are identified in the business segments that generate revenue and costs, whose results are periodically reassessed by top management in order to assess performance and decisions regarding resource allocation. The Group operating segments are the following:
- gas parts (household and professional)
- hinges
- electronic components for household appliances.

Accounting policies

The accounting standards and policies applied for the preparation of the consolidated 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:

[3] Figures adjusted to allocate the consolidation difference to the equity of the acquired companies

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

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

Leased assets
Assets acquired via finance lease contracts are accounted for using the financial method and are reported with assets at their purchase value, less depreciation. Depreciation of such assets is reflected in the consolidated annual financial statements applying the same policy followed for Company-owned property, plant and equipment. Set against recognition of such assets, the amounts payable to the financial lessor are posted among short- and medium-/long-term payables. In addition, financial charges pertaining to the period are charged to the income statement.

Goodwill
Goodwill is the difference between the purchase price and fair value of investee companies' identifiable assets and liabilities on the date of acquisition.
As regards acquisitions completed prior to the date of IFRS adoption, the Sabaf Group has used the option provided by IFRS 1 to refrain from applying IFRS 3 – concerning business combinations – to acquisitions that took place prior to the transition date. Consequently, goodwill arising in relation to past acquisitions has not been recalculated and has been posted in accordance with Italian GAAPs, net of amortisation reported up to 31 December 2003 and any losses caused by a permanent value impairment.
After the transition date, goodwill – as an intangible asset with an indefinite useful life – is not amortised but subjected annually to impairment testing to check for value loss, or more frequently if there are signs that the asset may have suffered impairment (impairment test).

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

Customer relationship	15
Brand	15
Know-how	7
Development costs	10
Software	3 - 5

Impairment

At each end of reporting period, the Group reviews the carrying value of its tangible and intangible assets to determine whether there are signs of impairment losses of these assets. If there is any such indication, the recoverable amount of said assets is estimated so as to determine the total of the write-down. If it is not possible to estimate recoverable amount individually, the Group 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 fair market valuations of the present cost of money and specific asset risk. The main assumptions used for calculating the value of use concern the discount rate, growth rate, expected changes in selling prices and cost trends during the period used for the calculation. The growth rates adopted are based on future market expectations in the relevant sector. Changes in the sales prices are based on past experience and on the expected future changes in the market. The Group prepares operating cash flow forecasts based on the most recent budgets approved by the Board of Directors of the consolidated companies, draws up the forecasts for the coming years and determines the terminal value (current value of perpetual income), which expresses the medium and long term operating flows in the specific sector.

If the recoverable amount of an asset (or CGU) is estimated to be lower than its carrying value, the asset's carrying value is reduced to the lower recoverable amount, recognising impairment in the income statement.

When there is no longer any reason for a write-down to be maintained, the carrying value of the asset (or of the cash-generating unit) - with the exception of goodwill - is increased to the new value resulting from the estimate of its recoverable 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.

Investment property

As allowed by IAS 40, non-operating buildings and constructions are assessed at cost net of depreciation and losses due to cumulative impairment. The depreciation criterion applied is the asset's estimated useful life, which is considered to be 33 years.

If the recoverable amount of the investment property – determined based on the market value of the properties – is estimated to be lower than its carrying value, the asset's carrying value is reduced to the lower recoverable amount, recognising impairment in the income statement.

When there is no longer any reason for a write-down to be maintained, the carrying value of the asset (or CGU) is increased to the new value stemming from the estimate of its recoverable amount – but not beyond the net carrying value that the asset would have had if it had not been written down for impairment. Reversal of impairment loss is

recognised in the income statement.

Equity investments and non-current receivables
Equity investments not classified as held for sale are stated in the accounts at cost, reduced for impairment. The original value is written back in subsequent years if the reasons for write-down cease to exist.
Non-current receivables are stated at their presumed realisable value.

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

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 Group 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 Group. The Group 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 Group 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.

Derecognition
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 Group) when:

- the rights to receive cash flows from the asset are extinguished, or
- the Group 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 Group 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 Group to the extent of its residual involvement in the asset itself. In this case, the Group 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 Group. 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.

Derecognition
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, with the exception of non-current items, are posted at the spot exchange rate in force at the end of the reporting period and related foreign exchange gains and losses are posted in the income statement. If conversion generates a net gain, this value constitutes a non-distributable reserve until it is effectively realised.

Derivative instruments and hedge accounting
The Group's business is exposed to financial risks relating to changes in exchange rates, commodity prices and interest rates. The company uses derivative instruments (mainly forward contracts on currencies and commodity options) to hedge risks stemming from changes in foreign currencies relating to irrevocable commitments or to planned future transactions.
Derivatives are initially recognised at cost and are then adjusted to fair value on subsequent closing dates.
Changes in the fair value of derivatives designated and recognised as effective for hedging future cash flows relating to the Group's contractual commitments and planned transactions are recognised directly in shareholders' equity, while the ineffective portion is immediately posted in the income statement. If the contractual commitments or planned transactions materialise in the recognition of assets or liabilities, when such assets or liabilities are recognised, the gains or losses on the derivative that were directly recognised in equity are factored back into the initial valuation of the cost of acquisition or carrying value of the asset or liability. For cash flow hedges that do not

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

Revenue from contracts with customers
The Group is engaged in the supply of components for household appliances (mainly gas components, such as valves and burners, hinges and electronic components).
Revenue from contracts with customers is recognised when control of the goods is transferred to the customer for an amount that reflects the consideration that the Group expects to receive in exchange for the goods. The control of the goods passes to the customer according to the terms of return defined with the customer. The usual extended payment terms range from 30 to 120 days from shipment; the Group believes that the price does not include significant financing components.
The guarantees provided for in the contracts with customers are of a general nature and not extended and are accounted for in accordance with IAS 37.

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 Group's taxable income. Income taxes are directly recognised in the income statement, with the exception of those concerning items directly debited or credited to shareholders' equity, in which case the tax effect is recognised directly in shareholders' equity. Other taxes not relating to income, such as

property taxes, are included among operating expenses. Deferred taxes are provisioned in accordance with the global liability provisioning method. They are calculated on all temporary differences emerging between the taxable base of an asset and liability and its book value in the consolidated financial statements, with the exception of goodwill that is not tax-deductible and of differences stemming from investments in subsidiaries for which cancellation is not envisaged in the foreseeable future. Deferred tax assets on unused tax losses and tax credits carried forward are recognised to the extent that it is probable that future taxable income will be available against which they can be recovered. Current and deferred tax assets and liabilities are offset when income taxes are levied by the same tax authority and when there is a legal right to settle on a net basis. Deferred tax assets and liabilities are measured using the tax rates that are expected to be applicable, according to the respective regulations of the countries where the Group operates, in the years when temporary differences will be realised or settled.

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

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

Equity-settled transactions
Some Group 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 37.
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.

Earnings per share
Basic EPS is calculated by dividing the profit or loss attributable to the direct parent company's shareholders by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is calculated by dividing the profit or loss attributable to the direct parent company's shareholders by the weighted average number of shares outstanding, adjusted to take into account the effects of all potential ordinary shares with a dilutive effect.

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

Recoverable amount of tangible and intangible assets
The procedure for determining impairment 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 significant effects 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 Group uses a binomial model for the initial measurement of the fair value of share-based payments with employees.

Income tax

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

Other provisions and reserves

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

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

New accounting standards

Accounting standards, amendments and interpretations applicable from 1 January 2018

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

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

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

- Document **“Annual Improvements to IFRSs: 2014-2016 Cycle**”. The provisions issued concern IFRS 1 First-Time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters, IAS 28 Investments in Associates and Joint Ventures – Measuring investees at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice, IFRS 12 Disclosure of Interests in Other Entities – Clarification of the scope of the Standard. The provisions were approved by the European Union in February 2018 and are applicable in the preparation of the financial statements for financial years beginning on or after 1 January 2018, with reference to the amendments to IAS 28 and IFRS 1, as from 1 January 2017, with reference to the amendments to IFRS 12. The adoption of the provisions by the Group did not entail any changes in accounting policies or retrospective adjustments.

- IFRIC 22 **Interpretation "Foreign Currency Transactions and Advance Consideration”**. The interpretation was endorsed by the European Union in March 2018 and is applicable from 1 January 2018. The interpretation aims to provide guidelines for foreign currency transactions if advances or non-cash payments are recognised in the financial statements, prior to the recognition of the related asset, cost or revenue. This document provides guidance on how an entity should determine the date of a transaction, and consequently, the spot exchange rate to be used when foreign currency transactions occur in which the payment is made or received in advance. The adoption of the interpretation by the Group did not entail any changes in accounting policies or retrospective adjustments.

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

- Amendment to **IFRS 2 "Classification and measurement of share-based payment transactions”,** which contains some clarification on the recording of the effects of vesting conditions in the presence of cash-settled share-based payments, on the classification of share-based payments with net settlement characteristics and on the recording of amendments under the terms and conditions of a share-based payment that change their classification from cash-settled to equity-settled. The interpretation was endorsed by the European Union in February 2018 and is applicable from 1 January 2018. The adoption of

the amendments by the Group did not entail any changes in accounting policies or retrospective adjustments.

IFRS and IFRIC accounting standard, amendments approved by the European Union, not yet universally applicable and not adopted early by the Group at 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.
  On the basis of the analyses carried out, the directors expect that the application of IFRS 16 may have a minor impact on the amounts and on the related disclosures in the Group's consolidated financial statements. However, it is not possible to provide a reasonable estimate of the effects until the Group has completed a detailed analysis of the related contracts.

- Amendment to **IFRS 9 "Prepayment Features with Negative Compensation.** This document specifies the instruments that envisage early repayment that could comply with the "SPPI" test even if the "*reasonable additional compensation*" to be paid in the event of early repayment is a "*negative compensation*" for the lender. The interpretation was endorsed by the European Union in March 2018 and is applicable from 1 January 2019 (early application is also permitted). The directors do not expect a significant effect on the Group's consolidated financial statements through the adoption of these changes.

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

On the reference date of these consolidated financial statements the competent bodies of the European Union have not yet concluded the approval process necessary for the adoption of the amendments and principles described below.

- On 7 June 2017, IASB published the clarification document ***IFRIC 23 – Uncertainty over Income Tax Treatments***. The document deals with uncertainties about the tax treatment of income taxes. The document requires that uncertainties in determining deferred tax assets and liabilities be reflected in the financial statements only when it is probable that the entity will pay or recover the amount in question. Moreover, the document does not contain any new disclosure requirement but emphasises that an entity will have to determine whether it will be necessary to disclose information on management considerations and on the uncertainty relating to tax accounting in accordance with IAS 1. The new interpretation applies from 1 January 2019, but early application is permitted.
- Amendment to ***IAS 28 "Long-term Interests in Associates and Joint Ventures"*** (published on 12 October 2017). This document clarifies the need to apply IFRS 9, including the requirements of impairment, to other long-term interests in associate companies and joint ventures that are not accounted for under the equity method. The amendment applies from 1 January 2019, but early application is permitted. The directors do not expect a significant effect on the Group's consolidated financial statements through the adoption of these changes.
- Document "Annual Improvements to IFRSs 2015-2017 Cycle", published on 12 December 2017 (including IFRS 3 Business Combinations and IFRS 11 Joint Arrangements – Remeasurement of previously held interest in a joint operation, IAS 12 Income Taxes – Income tax consequences of payments on financial instruments classified as equity, IAS 23 Borrowing costs Disclosure of Interests in Other Entities – Borrowing costs eligible for capitalisation) which implements changes to some standards as part of the annual process of improving them. The amendments apply from 1 January 2019 but early application is permitted. The directors do not expect a significant effect on the Group's consolidated financial statements through the adoption of these changes.
- Amendment to ***IAS 19 "Plan Amendment, Curtailment or Settlement"***. The amendments clarify how pension costs are determined when a change occurs in a defined benefit plan. The amendments will be effective for the preparation of the financial statements for financial years beginning on or after 1 January 2019, unless they are postponed subsequent to their approval by the European Union.
- IFRS 17 ***"Insurance Contracts"***. A new accounting standard for the recognition of insurance contracts that will replace IFRS 4. The new standard will be effective for the preparation of the financial statements for financial years beginning on or after 1 January 2021, unless they are postponed subsequent to their approval by the European Union.

Comments on significant balance sheet items

1. PROPERTY, PLANT AND EQUIPMENT

	Property	Plant and equipment	Other assets	Assets under construction	Total
Cost					
At 31 December 2016	**51,268**	**185,148**	**40,303**	**1,770**	**278,489**
Increases	1,589	7,050	2,487	2,782	13,908
Disposals	-	(1,002)	(538)	-	(1,540)
Reclassifications	118	587	192	(1,201)	(304)
Forex differences	(914)	(1,900)	(626)	(29)	(3,469)
At 31 December 2017	**52,061**	**189,883**	**41,818**	**3,322**	**287,084**
Increases	309	6,120	1,703	3,250	11,382
Disposals	-	(1,644)	(125)	-	(1,769)
Change in the scope of consolidation	-	189	-	-	189
Reclassifications	5	1,647	84	(1,770)	(34)
Forex differences	(868)	(1,840)	(563)	(114)	(3,385)
At 31 December 2018	**51,507**	**194,355**	**42,917**	**4,688**	**293,467**
Accumulated depreciations					
At 31 December 2016	**16,976**	**152,756**	**35,312**	**-**	**205,044**
Depreciations for the year	1,459	8,047	2,260	-	11,766
Eliminations for disposals	-	(800)	(479)	-	(1,279)
Reclassifications	5	41	30	-	76
Forex differences	(156)	(1,002)	(434)	-	(1,592)
At 31 December 2017	**18,284**	**159,042**	**36,689**	**-**	**214,015**
Depreciations for the year	1,466	7,781	2,125	-	11,372
Eliminations for disposals	-	(1,178)	(92)	-	(1,270)
Reclassifications	4	40	28	-	72
Forex differences	(151)	(956)	(380)	-	(1,487)
At 31 December 2018	**19,603**	**164,729**	**38,370**	**-**	**222,702**
Net carrying value					
At 31 December 2018	**31,904**	**29,626**	**4,547**	**4,688**	**70,765**
At 31 December 2017	**33,777**	**30,841**	**5,129**	**3,322**	**73,069**

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

	31/12/2018	**31/12/2017**	**Change**
Land	6,699	6,877	(178)
Industrial buildings	25,205	26,900	(1,695)
Total	**31,904**	**33,777**	**(1,873)**

The net carrying value of industrial property includes an amount of € 2,040,000 (€ 2,125,000 at 31 December 2017) relating to industrial buildings held under finance leases.

The main investments in the financial year were aimed at increasing the production capacity of special burners, completing the 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. Assets under construction include machinery under construction and advance payments to suppliers of capital equipment.
At 31 December 2018, the Group found no endogenous or exogenous indicators of impairment of its property, plant and equipment. As a result, the value of property, plant and equipment was not submitted to impairment testing.

2. INVESTMENT PROPERTY

Cost	
At 31 December 2016	**13,136**
Increases	-
Disposals	(199)
At 31 December 2017	**12,937**
Increases	-
Disposals	(19)
At 31 December 2018	**12,918**

Depreciations and write-downs	
At 31 December 2016	**6,866**
Depreciations for the year	436
Eliminations for disposals	(62)
At 31 December 2017	**7,240**
Depreciations for the year	427
Write-downs for the year	850
Eliminations for disposals	(2)
At 31 December 2018	**8,515**

Net carrying value	
At 31 December 2018	4,403
At 31 December 2017	5,697

This item includes non-operating buildings owned by the Group: these are mainly properties for residential use, held for rental or sale.

At 31 December 2018, the Group recorded a write-down of € 850,000, corresponding to the residual carrying value of a property acquired in 2013 and for which a revocation action was initiated during the year by the bankruptcy of the selling company. At 31 December 2018, the Group found no other endogenous or exogenous indicators of impairment of its investment property. As a result, the value of investment property was not submitted to impairment testing.

3. INTANGIBLE ASSETS

	Goodwill	Patents and software	Development costs	Other intangible assets	Total
Cost					
At 31 December 2016	**10,778**	**6,467**	**4,955**	**791**	**22,991**
Increases	-	420	496	23	939
Reclassifications	-	-	(79)	-	(79)
Decreases	-	(14)	-	(13)	(27)
Forex differences	-	(14)	-	(8)	(22)
At 31 December 2017	**10,778**	**6,859**	**5,372**	**793**	**23,802**
Increases	-	227	340	22	589
Reclassifications	-	-	-	-	-
Decreases	-	-	(59)	(19)	(78)
Change in the scope of consolidation	18,632	84	-	11,458	30,174
Forex differences	-	(18)	-	-	(18)
At 31 December 2018	**29,410**	**7,152**	**5,653**	**12,254**	**54,469**
Amortisation/Write-downs					
At 31 December 2016	**4,563**	**6,005**	**2,699**	**647**	**13,914**
Amortisation for the year	-	272	342	22	636
Decreases	-	(14)	-	-	(14)
Forex differences	-	(9)	-	(8)	(17)
At 31 December 2017	**4,563**	**6,254**	**3,041**	**661**	**14,519**
Amortisation for the year	-	261	367	288	916
Decreases	-	-	-	(12)	(12)
Forex differences	-	(8)	-	-	(8)
At 31 December 2018	**4,563**	**6,507**	**3,408**	**937**	**15,415**
Net carrying value					
At 31 December 2018	**24,847**	**645**	**2,245**	**11,318**	**39,054**
At 31 December 2017	**6,215**	**605**	**2,331**	**132**	**9,283**

Goodwill

Goodwill recognised at 31 December 2018 is allocated:
- to the "Hinges" (CGU) cash generating units of € 4.445 million;
- to the "Professional burners" CGU of € 1.770 million;
- to the "Electronic components" CGU of € 18.632 million.

The Group verifies the ability to recover goodwill at least once a year or more frequently if there are indications of impairment. Recoverable amount is determined through value of use, by discounting expected cash flows.

Goodwill allocated to the Hinges CGU

In 2018, the Hinges CGU achieved very positive and better results - in terms of sales and profitability - both compared to the previous year and compared to the budget. The 2019-2023 forward plan envisages a further increase in sales and the maintenance of high levels of profitability. At 31 December 2018, the Group tested - with the support of independent experts - the carrying value of its CGU Hinges for impairment, determining its recoverable amount, considered to be equivalent to its usable value, by discounting expected future cash flow in the forward plan drafted by the management.

Cash flows for the period from 2019 to 2023 were augmented by the so-called terminal value, which expresses the operating flows that the CGU is expected to generate from the sixth year to infinity and determined based on the perpetual income. The value of use was calculated based on a discount rate (WACC) of 10.45% (9.18% in the impairment test carried out while preparing the consolidated financial statements at 31 December 2017) and a growth rate (g) of 1.50%, unchanged from the 2017 impairment test.

The recoverable amount calculated on the basis of the above-mentioned assumptions and valuation techniques is € 12,645 million, compared with a carrying value of the assets allocated to the Hinges unit of € 7,379 million; consequently, the value recorded for goodwill 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%	13,689	14,022	14,376	14,754	15,156
9.95%	12,859	13,150	13,459	13,786	14,134
10.45%	12,118	12,374	12,645	12,931	13,233
10.95%	11,453	11,679	11,918	12,169	12,435
11.45%	10,852	11,054	11,265	11,488	11,722

Goodwill allocated to the Professional burners CGU
At 31 December 2018, the Group tested - with the support of independent experts - the carrying value of its Professional burners CGU for impairment, determining its recoverable amount, considered to be equivalent to its usable value, by discounting expected future cash flow 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 CGU is expected to generate from the sixth year to infinity and determined based on the perpetual income. The value of use was calculated based on a discount rate (WACC) of 7.73% (6.90% in the impairment test carried out while preparing the consolidated financial statements at 31 December 2017) and a growth rate (g) of 1.50%, unchanged from the 2017 impairment test.

The recoverable amount calculated on the basis of the above-mentioned assumptions and valuation techniques is € 10,482 million, compared with a carrying value of the assets allocated to the Professional burners unit of € 4,247 million (including minority interests); consequently, the value recorded for goodwill 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%	11,637	12,082	12,569	13,106	13,699
7.23%	10,666	11,034	11,434	11,871	12,349
7.73%	9,839	10,148	10,482	10,843	11,236
8.23%	9,128	9,390	9,671	9,974	10,302
8.73%	8,510	8,734	8,974	9,231	9,507

Goodwill allocated to the Electronic components CGU

At 31 December 2018, the Group tested - with the support of independent experts - the carrying value of its Electronic components CGU for impairment, determining its recoverable amount, considered to be equivalent to its value of use, by discounting expected future cash flow 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 CGU 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 recoverable amount calculated on the basis of the above-mentioned assumptions and valuation techniques is € 38,452 million, compared with a carrying value of the assets allocated to the Electronic components unit of € 31,434 million; consequently, the value recorded for goodwill 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%	38,985	41,094	43,484	46,215
10.5%	36,856	38,716	40,811	43,185
11%	34,949	40,811	38,452	40,531
11.5%	33,233	43,185	36,352	38,188

Patents and software

Software investments include the application development of the Group management system (SAP) and the implementation of specific IT solutions to meet the requirements of the tax regulations of the countries in which the Group operates.

Development costs

The main investments in the year relate to the development of new products, including special burners and personalised burners for some customers (research and

development activities carried out during the year are set out in the Report on Operations).

Other intangible assets

The other intangible assets recorded in these consolidated financial statements mainly derive from the Purchase Price Allocation carried out following the acquisition of Okida Elektronik and described in the previous paragraph "Information related to IFRS 3".
The net carrying value of intangible assets is broken down as follows:

	31/12/2018	**31/12/2017**	**Change**
Customer Relationship electronic components	8,477	-	8,477
Electronic components - Brand	1,174	-	1,174
Electronic components - Know-how	1,081	-	1,081
Other	586	132	454
Total	**11,318**	**132**	**11,186**

At 31 December 2018, the recoverability of the amount of other intangible assets allocated to the Electronic Components CGU was verified as part of the impairment test of the related goodwill described in the previous paragraph.

4. EQUITY INVESTMENTS

	31/12/2017	Capital increases	Disposals	31/12/2018
Sabaf US	139	-	-	139
ARC Handan Burners Co.	101	100	-	201
Other equity investments	40	-	-	40
Total	**280**	**100**	**0**	**380**

The subsidiary Sabaf U.S. operates as a commercial base for North America. The carrying value of the investment is deemed recoverable taking into consideration expected developments on the North American market.

Handan ARC Burners Co. is a Chinese joint venture with the aim to produce and market in China burners for professional cooking. During the year, the Group, through ARC s.r.l., which holds the equity investment in the joint venture, subscribed and paid up capital of € 100,000 and increased its stake from 50% to 51% (therefore, the Group's share is now 35.5%). Handan ARC Burners is still in the start-up phase.

5. NON-CURRENT RECEIVABLES

	31/12/2018	31/12/2017	Change
Tax receivables	145	153	(8)
Guarantee deposits	43	43	-
Total	**188**	**196**	**(8)**

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

6. INVENTORIES

	31/12/2018	31/12/2017	Change
Raw Materials	14,680	11,459	3,221
Semi-processed goods	11,727	11,180	547
Finished products	15,576	13,448	2,128
Provision for inventory write-downs	(2,804)	(3,158)	354
Total	**39,179**	**32,929**	**6,250**

The value of final inventories at 31 December 2018 increased compared to the end of the previous year due to the change in the scope of consolidation and to the higher value of finished products held in consignment stock by some customers. The provision for write-downs is mainly allocated for hedging the obsolescence risk. At the end of the financial year, the appropriation is adjusted based on specific analyses carried out on slow-moving and non-moving products.

7. TRADE RECEIVABLES

	31/12/2018	31/12/2017	Change
Total trade receivables	48,061	43,002	5,059
Bad debt provision	(1,129)	(739)	(390)
Net total	**46,932**	**42,263**	**4,669**

Trade receivables at 31 December 2018 were higher than at the end of 2017 following the change in the scope of consolidation. Moreover, some customer payments of approximately € 4 million, which were due by the end of the year, were received in the early months of 2019. With the exception of this circumstance, there were no significant changes in the payment terms agreed with customers.
The amount of trade receivables recognised in the financial statements includes approximately € 26.1 million in insured receivables (€ 28.2 million at 31 December 2017).

	31/12/2018	31/12/2017	Change
Current receivables (not past due)	38,980	38,282	698
Outstanding up to 30 days	3,972	2,802	1,170
Outstanding from 30 to 60 days	1,019	868	151
Outstanding from 60 to 90 days	3,062	594	2,468
Outstanding for more than 90 days	1,028	456	572
Total	**48,061**	**43,002**	**5,059**

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	Exchange rate differences	31/12/2018
Bad debt provision	739	415	(23)	(3)	1,129

8. TAX RECEIVABLES

	31/12/2018	31/12/2017	Change
For income tax	3,435	1,998	1,437
For VAT and other sales taxes	851	682	169
Other tax credits	180	385	(205)
Total	**4,466**	**3,065**	**1,401**

The income tax receivables derives for € 1,153,000 from the full deductibility of IRAP from IRES relating to the expenses incurred for employees for the 2006-2011 period (Italian Legislative Decree 201/2011), for which an application for a refund was presented and, for the residual part, to the payments on account on 2018 income, for the part exceeding the tax to be paid.

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

9. OTHER CURRENT RECEIVABLES

	31/12/2018	31/12/2017	Change
Credits to be received from suppliers	385	360	25
Advances to suppliers	411	155	256
Other	738	542	196
Total	**1,534**	**1,057**	**477**

Credits to be received from suppliers mainly refer to bonuses paid to the Group for the attainment of purchasing objectives.
Other current receivables include accrued income and prepaid expenses.

10. FINANCIAL ASSETS

	31/12/2018		31/12/2017	
	Current	**Non-current**	**Current**	**Non-current**
Escrow bank accounts	3,510	120	60	180
Derivative instruments on interest rates	-	-	7	-
Currency derivatives	1	-	-	-
Total	**3,511**	**120**	**67**	**180**

At 31 December 2018, the following were taken out:
- a term deposit of € 3.45 million, 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.
- a term deposit of € 0.18 million, due on 30 June 2021, for the portion of the price not yet paid to the sellers of the ARC equity investment (Note 15).

11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents, which amounted to € 13,426,000 at 31 December 2018 (€ 11,533,000 at 31 December 2017) consisted of bank current account balances of approximately € 7.1 million and sight deposits of approximately € 6.3 million.

12. SHARE CAPITAL

The parent company's share capital consists of 11,533,450 shares with a par value of € 1.00 each. The share capital paid in and subscribed did not change during the year.
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 shares of the Parent Company. The availability of the Parent Company's reserves is indicated in the separate financial statements of Sabaf S.p.A.

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 parent company Sabaf S.p.A. 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 € 13.35 (the market value at year-end was € 14.88).
There were 11,018,944 outstanding shares at 31 December 2018 (11,151,681 at 31 December 2017).

Items "Retained earnings, other reserves" of € 90,236,000 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 shares of the Parent Company. For details of the Stock Grant Plan, refer to Note 37.

14. LOANS

	31/12/2018		31/12/2017	
	Current	Non-current	Current	Non-current
Property leasing	153	1,309	149	1,462
Unsecured loans	10,741	41,097	5,982	16,298
Short-term bank loans	5,247	-	9,477	-
Advances on bank receipts or invoices	1,942	-	1,678	-
Interest payable	44	-	2	-
Derivative instruments on interest rates	308	-	-	-
Total	**18,435**	**42,406**	**17,288**	**17,760**

During the year, the Group took out new unsecured loans for a total of € 37 million to finance the investments made, with particular reference to the acquisition of Okida. All loans are signed with an original maturity 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 € 31 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 € 24 million)

widely observed 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 consolidated financial statements include the negative fair value of the IRSs hedging rate risks of unsecured loans pending, for residual notional amounts of approximately € 34.9 million and expiry until 31 December 2024. Financial expenses were recognised in the income statement with a balancing entry.

Note 35 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	7,622	-		
Option on A.R.C. minorities	-	1,818	-	1,763
Payables to A.R.C. shareholders	60	120	60	180
Derivative instruments on interest rates	-	-	15	-
Total	**7,682**	**1,938**	**75**	**1,943**

As part of the acquisition of 100% 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 consolidated financial statements represent the residual portion of the price to be paid to the sellers.

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

Pursuant to the provisions of IAS 32, the assignment of an option to sell (put option) in the terms described above required the recording of a liability corresponding to the estimated redemption value, expected at the time of any exercise of the option: to this end, a financial liability of € 1.763 million was recognised in the consolidated financial statements at 31 December 2017. At 31 December 2018, the Group revalued the outlay estimate, based on the expected results of A.R.C. at 31 December 2020 in accordance with the business plan of the subsidiary prepared at the beginning of 2019. Th recalculation of the fair value, in compliance with IAS 39, led to an increase of € 55,000 in the liability; financial expenses were recognised as a balancing entry (Note 29).

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 non-interest-bearing escrow account 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 AND RETIREMENT RESERVES

	Post-employment benefit reserve	Retirement reserve	Total
At 31 December 2017	**2,720**	**125**	**2,845**
Provisions	154	-	154
Financial expenses	27	-	27
Payments made	(226)	(125)	(351)
Tax effect	(32)	-	(32)
Forex differences	(11)	-	(11)
At 31 December 2018	**2,632**	**0**	**2,632**

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	3% - 6%	3% - 6%
Advance pay-outs	5% - 7% per year	5% - 7% 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**	**Change in the scope of consolidation**	**Exchange rate differences**	**31/12/2018**
Reserve for agents' indemnities	210	28	(21)	-	-	217
Product guarantee fund	60	57	(57)	-	-	60
Reserve for legal risks	115	70	(3)	-	(7)	175
Other provisions for risks and charges	-	-	-	273	-	273
Total	**385**	**155**	**(81)**	**273**	**(7)**	**725**

The reserve for agents' indemnities covers amounts payable to agents if the Group terminates the agency relationship.
The product guarantee fund covers the risk of returns or charges by customers for products already sold. The fund was adjusted at the end of the year, on the basis of analyses conducted and past experience.
The reserve for legal risks, set aside for moderate disputes, was adjusted to reflect the outstanding disputes.
Other provisions for risks and charges, recognised as part of the purchase price allocation following the acquisition of Okida Elektronik, reflect the fair value of the potential liabilities of the acquired entity (tax risks).
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	**21,215**	**19,975**	**1,240**

The increase in trade payables is related to the change in the scope of consolidation. Average payment terms did not change versus the previous year. At 31 December 2018, there were no overdue payables of a significant amount and the Group did not receive any injunctions for overdue payables.

19. TAX PAYABLES

	31/12/2018	31/12/2017	Change
For income tax	2,672	240	2,432
Withholding taxes	680	656	24
Other tax payables	214	199	15
Total	**3,566**	**1,095**	**2,471**

The income tax payables refer to the taxes for the year, for the portion exceeding the advances paid.

20. OTHER CURRENT PAYABLES

	31/12/2018	31/12/2017	Change
To employees	4,383	4,552	(169)
To social security institutions	2,148	2,304	(156)
To agents	312	195	117
Advances from customers	250	94	156
Other current payables	507	346	161
Total	**7,600**	**7,491**	**109**

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	4,617	5,096
Deferred tax liabilities	(3,030)	(804)
Net position	**1,587**	**4,293**

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.

	Non-current tangible and intangible assets	Provisions and value adjustments	Fair value of derivative instruments	Good will	Tax incentives	Actuarial post-employment benefit reserve evaluation	Other temporary differences	Total
At 31 December 2017	**(120)**	**1,150**	**3**	**1,771**	**629**	**189**	**671**	**4,293**
To the income statement	78	34	53	-	(141)	-	(333)	(309)
To shareholders' equity	(1,753)	-	-	-	-	(7)	-	(1,760)
Forex differences	(421)	(20)	-	-	(149)	-	(47)	(637)
At 31 December 2018	**(2,216)**	**1,164**	**56**	**1,771**	**339**	**182**	**291**	**1,587**

As described in the paragraph "Information related to IFRS 3", these consolidated financial statements include deferred taxes on the fair value measurement of intangible assets recognised as a result of the Purchase Price Allocation of Okida Elektronik.
Deferred tax assets relating to goodwill, equal to € 1,771,000, refer to the exemption of the value of the equity investment in Faringosi Hinges s.r.l. made in 2011 pursuant to Italian law Decree 98/2011.
Deferred tax assets relating to tax incentives are commensurate to investments made in Turkey.

22. NET FINANCIAL POSITION

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

		31/12/2018	31/12/2017	Change
A.	Cash (Note 11)	19	14	5
B.	Positive balances of unrestricted bank accounts (Note 11)	7,067	11,009	(3,942)
C.	Other cash equivalents	6,340	510	5,830
D.	**Liquidity (A+B+C)**	**13,426**	**11,533**	**1,893**
E.	**Current financial receivables**	**3,511**	**0**	**3,511**
F.	Current bank payables (Note 14)	7,233	11,157	(3,924)
G.	Current portion of non-current debt (Note 14)	10,741	6,131	4,610
H.	Other current financial payables (Note 15)	8,143	75	8,068
I.	**Current financial debt (F+G+H)**	**26,117**	**17,363**	**8,754**
J.	**Net current financial debt (I-D-E)**	**9,180**	**5,830**	**3,350**
K.	Non-current bank payables (Note 14)	41,097	16,298	24,799
L.	Other non-current financial payables (Note 14)	3,247	3,405	(158)
M.	**Non-current financial debt (K+L)**	**44,344**	**19,703**	**24,641**
N.	**Net financial debt (J+M)**	**53,524**	**25,533**	**27,991**

The consolidated 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 revenues totalled € 150,642,000, up by € 419,000 (+0.3%) compared with 2017. Taking into consideration the same scope of consolidation, revenue decreased by 2.4%.

Revenue by geographical area

	2018	%	2017	%	% change
Italy	31,579	*21.0%*	36,523	*24.3%*	*-13.5%*
Western Europe	12,337	*8.2%*	11,678	*7.8%*	*+5.6%*
Eastern Europe	46,301	*30.7%*	42,824	*28.5%*	*+8.1%*
Middle East and Africa	12,303	*8.2%*	13,009	*8.6%*	*-5.4%*
Asia and Oceania	7,590	*5.0%*	10,516	*7.0%*	*-27.8%*
South America	25,461	*16.9%*	22,938	*15.3%*	*+11.0%*
North America and Mexico	15,071	*10.0%*	12,735	*8.5%*	*+18.3%*
Total	**150,642**	***100%***	**150,223**	***100%***	**+0.3%**

The sales analysis by geographical area shows an uneven trend in the various markets in which the Group 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 Group's presence on Asian markets is not yet sufficiently consolidated.

Revenue by product family

	2018	%	2017	%	% change
Brass valves	4,327	*2.9%*	5,991	*4.0%*	*-27.8%*
Light alloy valves	37,615	*25.0%*	39,351	*26.2%*	*-4.4%*
Thermostats	6,521	*4.3%*	7,376	*4.9%*	*-11.6%*
Standard burners	39,368	*26.1%*	41,070	*27.3%*	*-4.1%*
Special burners	27,585	*18.3%*	27,184	*18.1%*	*+1.5%*
Accessories	15,422	*10.3%*	15,267	*10.2%*	*+1.0%*
Household gas parts	*130,838*	*86.9%*	*136,239*	*90.7%*	*-4.0%*
Professional gas parts	*5,331*	*3.5%*	*5,079*	*3.4%*	*+5.0%*
Hinges	*10,436*	*6.9%*	*8,905*	*5.9%*	*+17.2%*
Electronic components	*4,037*	*2.7%*	-	-	
Total	**150,642**	***100%***	**150,223**	***100%***	***+0.3%***

Product innovation continues to support sales of special and professional burners, while more mature products (brass valves and thermostats) show a marked decline. Sales of hinges increased significantly, supported by the positive trend of the North American market and the launch of new supply contracts. Following the acquisition of Okida Elektronik, from September 2018 the Group is also active in the production and sale of electronic components.

Average sales prices in 2018 were on average 0.2% lower compared with 2017.

24. OTHER INCOME

	2018	2017	Change
Sale of trimmings	2,507	2,261	246
Contingent income	88	311	(223)
Rental income	88	89	(1)
Use of provisions for risks and charges	71	36	35
Other income	615	664	(49)
Total	**3,369**	**3,361**	**8**

The increase in income from the sale of trimmings is related to the increase in the price of raw materials.

25. MATERIALS

	2018	2017	Change
Commodities and outsourced components	56,347	54,179	2,168
Consumables	6,100	5,615	485
Total	**62,447**	**59,794**	**2,653**

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 0.7% of sales. Consumption (purchases plus change in inventories) as a percentage of sales was 38.4% in 2018, compared with 38.2% in 2017.

26. COSTS FOR SERVICES

	2018	2017	Change
Outsourced processing	10,017	9,779	238
Natural gas and power	4,561	4,485	76
Maintenance	4,468	4,474	(6)
Transport	2,340	2,221	119
Advisory services	2,326	2,106	220
Travel expenses and allowances	780	715	65
Commissions	736	637	99
Directors’ fees	685	1,084	(399)
Insurance	545	537	8
Canteen	393	394	(1)
Other costs	4,446	3,795	651
Total	**31,297**	**30,227**	**1,070**

The main outsourced processing carried out by the Group's Italian companies include aluminium die-casting, hot moulding of brass and steel blanking, as well as some mechanical processing and assembly.
Costs for advisory services related to technical (€ 770,000), sales (€ 440,000) and legal, administrative and general (€ 1,116,000) services.
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	23,141	23,987	(846)
Social Security costs	7,429	7,585	(156)
Temporary agency workers	2,121	1,910	211
Post-employment benefit reserve and other costs	1,828	1,846	(18)
Stock grant *plan*	321	-	321
Total	**34,840**	**35,328**	**(488)**

The average Group headcount in 2018 was 798 employees compared to 760 in 2017. The average number of temporary staff was 61 in 2018 (60 in 2017).
In 2018, the Group 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 shares of the Parent Company attributed to Group employees. For details of the Stock Grant Plan, refer to Note 37.

28. OTHER OPERATING COSTS

	2018	2017	Change
Non-income taxes	506	539	(33)
Other operating expenses	371	331	40
Contingent liabilities	217	145	72
Losses and write-downs of trade receivables	421	93	328
Provisions for risks	127	11	116
Other provisions	28	15	13
Total	**1,670**	**1,134**	**536**

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

29. FINANCIAL EXPENSES

	2018	2017	Change
Interest paid to banks	829	270	559
Interest paid on finance lease contracts	17	19	(2)
Banking expenses	287	240	47
Adjustment to the fair value of the ARC option (Note 15)	55	241	(186)
Other financial expense	18	34	(16)
Total	**1,206**	**804**	**402**

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 (Note 35).

30. EXCHANGE RATE GAINS AND LOSSES

In 2018, the Group reported net foreign exchange gains of € 5,384,000, versus net gains of € 274,000 in 2017. The main portion of 2018 foreign exchange gains, recorded by Sabaf Turkey, is related to financial payables taken out in euros and reflects the revaluation of the Turkish lira against the euro from the date on which the financial payables were taken out to the end of the reporting period.

31. INCOME TAXES

	2018	2017	Change
Current taxes	5,039	3,836	1,203
Deferred tax liabilities	103	(452)	555
Taxes related to previous financial years	21	(496)	517
Total	**5,163**	**2,888**	**2,275**

The current income taxes include the IRES of € 2,049,000, the IRAP of € 549,000 and foreign income taxes of € 2,441,000 (€ 2,448,000, € 545,000 and € 843,000 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	5,030	4,272
Permanent tax differences	937	172
Taxes related to previous financial years	18	91
Tax effect from different foreign tax rates	(25)	5
Effect of non-recoverable tax losses	154	172
“Patent box” tax benefit	(323)	(1,151)
“Super ammortamento” tax benefit	(449)	(179)
Tax incentives for investments in Turkey	(710)	(950)
Other differences	22	10
Income taxes booked in the accounts, excluding IRAP	**4,654**	**2,442**

and withholding taxes (current and deferred)		
IRAP (current and deferred)	509	446
Total	**5,163**	**2,888**

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.

Permanent tax differences mainly relate to non-deductible provisions and value adjustments.

In these consolidated financial statements, the Group 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;
- the tax benefits relating to "Superammortamento" (Super amortisation) and "Iperammortamento" (Hyper amortisation), related to the investments made in Italy, amounting to € 449,000 (€ 179,000 in 2017);
- the tax benefits deriving from the investments made in Italy amounting to € 710,000 (€ 950,000 in 2017).

No significant tax disputes were pending at 31 December 2018.

32. EARNINGS PER SHARE

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

Earnings

	2018	2017
	(€/000)	*(€/000)*
Profit for the year	15,614	14,835

Number of shares

	2018	2017
Weighted average number of ordinary shares for determining basic earnings per share	11,051,570	11,208,062
Dilutive effect from potential ordinary shares	-	-
Weighted average number of ordinary shares for determining diluted earnings per share	11,051,570	11,208,062

Earnings per share (€)

	2018	2017
Basic earnings per share	1.413	1.323
Diluted earnings per share	1.413	1.323

Basic earnings per share are calculated on the average number of outstanding shares minus treasury shares, equal to 481,880 in 2018 (325,388 in 2017).
Diluted earnings per share are calculated taking into account any shares approved but not yet subscribed, of which there were none in 2018 and 2017.

33. 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).

34. INFORMATION BY BUSINESS SEGMENT

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

	2018 FY			
	Gas parts (household and professional)	**Hinges**	**Electronic components**	**Total**
Sales	136,211	10,407	4,024	**150,642**
Ebit	13,540	1,315	1,554	**16,409**

	2017 FY			
	Gas parts (household and professional)	**Hinges**	**Electronic components**	**Total**
Sales	141,280	8,943	-	**150,223**
Ebit	16,974	1,143	-	**18,117**

35. INFORMATION ON FINANCIAL RISK

Categories of financial instruments

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

	31/12/2018	31/12/2017
Financial assets		
Amortised cost		
Cash and cash equivalents	13,426	11,533
Escrow bank deposits	3,630	240
Trade receivables and other receivables	48,654	43,516
Income statement fair value		
Derivative to hedge cash flows	1	7
Financial liabilities		
Amortised cost		
Loans	60,533	35,048
Other financial liabilities	7,802	240
Trade payables	21,215	19,975
Income statement fair value		
ARC put option (Note 15)	1,818	1,763
Derivative to hedge cash flows	308	15

The Group is exposed to financial risks related to its operations, mainly:

- credit risk, with special reference to normal trade relations with customers;
- market risk, relating to the volatility of prices of commodities, foreign exchange and interest rates;
- liquidity risk, which can be expressed by the inability to find financial resources necessary to ensure Group operations.

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

Credit risk management

Trade receivables involve producers of domestic appliances, multinational groups and smaller manufacturers in a few or single markets. The Group 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 55% of trade receivables.
Credit risk relating to customers operating in emerging economies is generally attenuated by the expectation of revenue through letters of credit.

Forex risk management
The key currencies other than the euro to which the Group is exposed are the US dollar, the Brazilian real and the Turkish lira, in relation to sales made in dollars (chiefly on some Asian and American markets) and the production units in Brazil and Turkey. Sales in US dollars represented 16% of total turnover in 2017, while purchases in dollars represented 4% of total turnover. During the year, operations in dollars were partially hedged through forward sales contracts; at 31 December 2018, the Group had in place forward sales contracts for a total of USD 1 million, maturing on 31 December 2019.

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 € 634,000.

Interest rate risk management
Owing to the current trend in interest rates, the Group 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) when the loan is opened. At 31 December 2018, IRS totalling € 34.9 million were in place, mirrored in mortgages with the same residual debt, through which the Group transformed the floating rate of the mortgages into fixed rate. 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 Group'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 Group’s purchase costs is represented by aluminium, steel and brass. Sale prices of products are generally renegotiated annually; as a result, the Group is unable to pass on to customers any changes in the prices of commodities during the year. The Group protects itself from the risk of changes in the price of 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 Group did not use financial derivatives on commodities. To stabilise the rising costs of commodities, Sabaf preferred to execute transactions on the physical market, fixing prices with suppliers for immediate and deferred delivery.

Liquidity risk management
The Group operates with a 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
Short-term bank loans	7,233	8,063	8,063	0	-	-
Unsecured loans	51,838	53,219	1,947	9,256	39,603	2,413
Finance leases	1,462	1,630	47	142	754	687
Payables to ARC shareholders	180	180	-	60	120	-
Payables to former Okida shareholders	7,622	7,622	7,622	-	-	-
ARC option	1,818	1,818	-	-	1,818	-
Total financial payables	**70,153**	**72,532**	**17,679**	**9,458**	**42,295**	**3,100**
Trade payables	21,215	21,215	20,412	803	-	-
Total	**91,368**	**93,747**	**38,091**	**10,261**	**42,295**	**3,100**

At 31 December 2017

	Carrying value	Contractual financial flows	Within 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years
Short-term bank loans	11,157	11,157	11,157	0	-	-
Unsecured loans	22,280	22,676	1,537	4,612	16,527	-
Finance leases	1,611	1,818	47	141	754	876
Payables to ARC shareholders	240	240	-	60	180	-
ARC option	1,763	1,763	-	-	1,763	-
Total financial payables	**37,051**	**37,654**	**12,741**	**4,813**	**19,224**	**876**
Trade payables	19,975	19,975	19,021	954	-	-
Total	**57,026**	**57,629**	**31,762**	**5,767**	**19,224**	**876**

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 financial 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 assets (currency derivatives)	-	1	-	1
Total assets	**-**	**1**	**-**	**1**
Other financial liabilities (interest rate derivatives)	-	308	-	308
Other financial liabilities (ARC put option)	-	-	1,818	1,818
Total liabilities	**-**	**308**	**1,818**	**2,126**

36. RELATED-PARTY TRANSACTIONS

Transactions between consolidated companies were eliminated from the consolidated financial statements and are not reported in these notes. The table below illustrates the impact of all transactions between the Group and other related parties on the balance sheet and income statement.

Impact of related-party transactions on balance sheet items

	Total 2018	**Giuseppe Saleri S.a.p.A.**	**Non-consolidated subsidiaries**	**Other related parties**	**Total related parties**	**Impact on the total**
Trade receivables	46,932	12	88	-	100	0.21%
Tax receivables	4,466	1,158	-	-	1,158	25.93%
Trade payables	21,215	-	-	5	5	0.02%

	Total 2017	**Giuseppe Saleri S.a.p.A.**	**Non-consolidated subsidiaries**	**Other related parties**	**Total related parties**	**Impact on the total**
Trade receivables	42,263	-	299	-	299	0.71%
Tax receivables	3,065	1,158	-	-	1,158	37.78%
Trade payables	19,976	-	-	2	2	0.01%

Impact of related-party transactions on income statement items

	Total 2018	**Giuseppe Saleri S.a.p.A.**	**Non-consolidated subsidiaries**	**Other related parties**	**Total related parties**	**Impact on the total**
Other income	3,369	40	-	-	40	1.19%
Services	(31,297)	-	(263)	(22)	(285)	0.91%

	Total 2017	Giuseppe Saleri S.a.p.A.	Non-consolidated subsidiaries	Other related parties	Total related parties	Impact on the total
Other income	3,361	10	-	-	10	0.30%
Services	(30,227)	-	(167)	(20)	(187)	0.62%

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 and for which liquidation by the tax authorities is pending.

Transactions are regulated by specific contracts regulated at arm’s length conditions.
Transactions with non-consolidated subsidiaries were solely of a commercial nature.

Fees to directors, statutory auditors and executives with strategic responsibilities

Please see the 2018 Report on Remuneration for this information.

37. 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 of Sabaf S.p.A. prepared a specific free allocation plan of shares (the "Plan") with the characteristics described below.
The Plan was approved by the Shareholders' Meeting on 8 May 2018 and the related Regulations by the Board of Directors on 15 May 2018.

Purpose of the plan

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

Beneficiaries of the plan

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

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

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

Subject-matter of the plan

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

Deadline of the Plan

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

Fair Value measurement methods

Considering the allocation mechanism described above, it was necessary to measure at fair value the rights assigned to receive shares of the Parent Company. In line with the date of assignment of the rights and terms of the plan, the grant date was set at 15 May 2018. The main assumptions made at the beginning of the vesting period 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

The accounting impacts of the Plan on these consolidated financial statements are illustrated in Note 13 and Note 27.

38. CAPITAL MANAGEMENT

For the purposes of managing the Group's capital, it has been defined that this includes the issued share capital, the share premium reserve and all other capital reserves attributable to the shareholders of the Parent Company. The main objective of capital management is to maximise the value for shareholders. In order to maintain or correct its financial structure, the Group may intervene in dividends paid to shareholders, purchase its own shares, redeem capital to shareholders or issue new shares. The Group controls equity using a gearing ratio consisting of the ratio of net financial debt (as defined in Note 22) to shareholders' equity. The Group's policy is to keep this ratio below 1. In order to achieve this objective, the management of the Group's capital aims,

among other things, to ensure that the covenants, linked to loans, which define the capital structure requirements, are complied with. Violations of covenants would allow banks to demand immediate repayment of loans (Note 14). During the current financial year, there were no breaches of the covenants linked to interest-bearing loans.
In the years ended 31 December 2018 and 2017, no changes were made to the objectives, policies and procedures for capital management.

39. SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

The effects of the acquisition of Okida Elektronik are described in detail in the paragraph - "Information related to IFRS 3".

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

	Shareholders' equity attributable to the Group	Profit attributable to the Group	Net financial debt	Cash flows
Financial statement values (A)	**117,702**	**15,614**	**53,524**	**1,893**
Write-down of investment property (Note 2)	(850)	(850)	-	-
Financial statement notional value (A+B)	**118,552**	**16,464**	**53,524**	**1,893**

40. ATYPICAL AND/OR UNUSUAL TRANSACTIONS

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

41. COMMITMENTS

Guarantees issued

The Sabaf Group has issued sureties to guarantee consumer and mortgage loans granted by banks to Group employees for a total of € 4,734,000 (€ 5,145,000 at 31 December 2017).

42. SCOPE OF CONSOLIDATION AND SIGNIFICANT EQUITY INVESTMENTS

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

Company name	Registered offices	Share capital	Shareholders	ownership %
Faringosi Hinges S.r.l.	Ospitaletto (BS)	€ 90,000	Sabaf S.p.A.	100%
Sabaf Immobiliare s.r.l.	Ospitaletto (BS)	€ 25,000	Sabaf S.p.A.	100%
Sabaf do Brasil Ltda	Jundiaì (SP, Brazil)	BRL 24,000,000	Sabaf S.p.A.	100%
Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki	Manisa (Turkey)	TRY 28,000,000	Sabaf S.p.A.	100%
Sabaf Appliance Components Trading Ltd.	Kunshan (China)	€ 200,000	Sabaf S.p.A.	100%
Sabaf Appliance Components Ltd.	Kunshan (China)	€ 4,400,000	Sabaf S.p.A.	100%
A.R.C. s.r.l.	Campodarsego (PD) - Italy	€ 45,000	Sabaf S.p.A.	70%
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%

NON-CONSOLIDATED COMPANIES VALUED AT COST

Company name	Registered offices	Share capital	Shareholders	ownership %	holding %
Sabaf US Corp.	Plainfield (USA)	USD 100,000	Sabaf S.p.A.	100%	100%
Handan ARC Burners Co., Ltd.	Handan (China)	RMB 3,000,000	A.R.C. s.r.l.	51%	35.5%

43. GENERAL INFORMATION ON THE PARENT COMPANY

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

Contacts:
Tel: +39 030 - 6843001
Fax: +39 030 - 6848249
Email: info@sabaf.it
Website: 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 and for services other than auditing provided by the Independent Auditor and its network.

(€/000)	Party providing the service	Recipient	Fees pertaining to the 2018 financial year
Audit	EY S.p.A.	Parent company	20
	EY S.p.A.	Italian subsidiaries	10
	EY network	Foreing subsidiaries	52
Other services	EY S.p.A.	Parent company	16[1)]
Total			*98*

(1) auditing procedures agreement relating to interim management reports

Certification of the Consolidated Financial Statements, in accordance with Article 154 bis of Italian Legislative Decree 58/98

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

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

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

They also certify that:

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

- the report on operations contains a reliable analysis of the performance and results of operations and the situation of the issuer and the companies included in the scope of consolidation, along with a description of the key risks and uncertainties to which they are exposed.

Ospitaletto, 26 March 2019

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