SABAF GROUP

REPORT ON OPERATIONS

Business and Financial situation of the Group

(€/000)	**2018**	**%**	**2017**	**%**	2018-2017 change	% change
Sales revenue	150,642	100%	150,223	100%	419	+0.3%
EBITDA	29,959	19.9%	30,955	20.6%	(996)	-3.2%
EBIT	16,409	10.9%	18,117	12.1%	(1,708)	-9.4%
Pre-tax profit	20,960	13.9%	17,804	11.9%	3,156	+17.7%
Profit attributable to the Group	15,614	10.4%	14,835	9.9%	779	+5.3%
Basic earnings per share (€)	1.413		1.323		0.090	+6.8%
Diluted earnings per share (€)	1.413		1.323		0.090	+6.8%

In 2018, the Sabaf Group reported a sales revenue of € 150.6 million, an increase of 0.3% versus the figure of € 150.2 million in 2017 (-2.4% taking into consideration the same scope of consolidation). Profitability continued to be excellent, albeit slightly down: 2018 EBITDA amounted to € 30 million, equivalent to 19.9% of turnover, compared to € 31 million (20.6% of turnover) in 2017, EBIT reached € 16.4 million, equivalent to 10.9% of turnover, compared to € 18.1 million (12.1%) in 2017. Net profit of 2018, equal to € 15.6 million (10.4% of sales), is 5.3% higher than the € 14.8 million of 2017.

The subdivision of sales revenues by product line is shown in the table below:

(€/000)	**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 and other revenues	15,422	*10.3%*	15,267	*10.2%*	*+1.0%*
Total 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%*	0	*0.0%*	
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.

The geographical breakdown of revenues is shown below:

(€/000)	**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.

Average sales prices in 2018 were 0.2% lower compared to 2017.

The effective average 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.

The impact of labour cost on sales decreased from 23.5% to 23.1%, by benefiting from greater automation of production.

The ratio of net financial expenses to turnover remained low, equal to 0.6% of turnover. During the year, the Group recorded in the income statement positive exchange differences of € 5.4 million, due to fluctuations in exchange rates with the Turkish lira and the U.S. dollar.

The tax rate in 2018 was 24.6% (16.2% in 2017, when the Group recorded the "Patent Box" benefit for the three-year period 2015 to 2017). The main tax benefits enjoyed by the Group are shown in Note 31 to the consolidated financial statements.

The Group's statement of financial position, reclassified based on financial criteria, is illustrated below:

(€/000)	**31/12/2018**	**31/12/2017**
Non-current assets	*119,527*	*93,802*
Short-term assets[1]	92,111	79,314
Short-term liabilities[2]	(32,381)	(28,561)
Working capital[3]	*59,730*	*50,753*
Short-term financial assets	*-*	*67*
Provisions for risks and charges, Post-employment benefits, deferred taxes	*(6,387)*	*(4,034)*
Net invested capital	**172,870**	**140,588**
Short-term net financial position	(9,180)	(5,830)
Medium/long-term net financial position	(44,344)	(19,703)
Net financial debt	**(53,524)**	**(25,533)**
Shareholders' equity	**119,346**	**115,055**

Cash flows for the financial year are summarised in the table below:

(€/000)	**2018**	**2017**
Opening liquidity	*11,533*	*12,143*
Operating cash flow	*25,814*	*22,779*
Cash flow from investments	*(11,467)*	*(13,944)*
Free cash flow	14,347	8,835
Cash flow from financing activities	21,579	(6,516)
Okida acquisition	(24,077)	-
Foreign exchange differences due to translation	(9,956)	(2,929)
Cash flow for the period	1,893	(610)
Closing liquidity	*13,426*	*11,533*

Net financial debt and liquidity shown in the tables above are defined in compliance with the net financial position detailed in Note 22 of the consolidated financial statements, as required by CONSOB memorandum of 28 July 2006.

At 31 December 2018, working capital stood at € 59.7 million compared with € 50.8 million at the end of the 2017: its impact on pro-forma turnover (i.e. considered the contribution of Okida for the entire financial year 2018) was 38% (33.8% in 2017).

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1 Sum of Inventories, Trade receivables, Tax receivables and Other current receivables
2 Sum of Trade payables, Tax payables and Other liabilities
3 Difference between short-term assets and short-term liabilities

The Group's financial debt is mainly medium to long-term, the most widely used form of financing is unsecured loans repayable in 5 years.

In 2018, the Group invested € 24.1 million to acquire 100% of the Turkish company Okida Elektronik; the purposes of this transaction are closely examined in the next paragraph of this report.

The Sabaf Group also carried out organic investments of € 11.5 million: the main investments in the financial year were aimed at the further automation of production of light alloy valves and interconnection of production plants with management systems (Industry 4.0). Other investments were made in the production of presses for new burners. Investments in maintenance and replacement, so that production equipment is kept constantly up to date and efficient, are systematic.

During the financial year, the Group paid out dividends of € 6.1 million and purchased treasury shares for € 2.4 million; the net financial debt was € 53.5 million, versus € 25.5 million in 31 December 2017.

Shareholders' equity totalled € 119.3 million at 31 December 2018; the ratio between the net financial debt and the shareholders' equity was 0.45 versus 0.22 in 2017.

Economic and financial indicators

	2018	**2017**
ROCE (return on capital employed)	9.5%	12.9%
Dividends per share (€)	0.55[4]	0.55
Net debt/EBITDA	1.79	0.82
Net debt/equity ratio	45%	22%
Market capitalisation (31/12)/equity ratio	1.44	2.00
Change in turnover	+0.2%	+14.7%

Please refer to the introductory part of the Annual Report for a detailed examination of other key performance indicators.

The acquisition of Okida Elektronik

In September 2018, the Group acquired 100% of Okida Elektronik, a leader in Turkey in the design, manufacture and sale of electronic control boards, controls, timers, display units and power units for ovens, hoods, vacuum cleaners, refrigerators and freezers. The acquisition of Okida represents the first step towards the implementation of the 2018-2022 Business Plan, in line with the strategy of expanding the range of products in components for household appliances and the acquisition of e-skills.

Okida was consolidated as from 4 September 2018, contributing € 4 million to 2018 consolidated turnover. The company ended the entire 2018 financial year with sales of € 11.1 million.

4 proposed dividend

Risk Factors

The results of the risk identification and assessment process carried out in 2018 showed that the Sabaf Group is exposed to certain risk factors, which can be traced back to the macro-categories described below.

Risks of external context
Risks deriving from the external context in which Sabaf operates, which could have a negative impact on the economic and financial sustainability of the business in the medium/long-term. The most significant risks in this category are related to general economic conditions, trend in demand and product competition, in addition to the risks related to Sabaf's presence in Turkey and, more generally, to instability in the emerging countries in which the Group operates.

Strategic risks
Strategic risks that could negatively impact Sabaf's short to medium term performance, including, for example: the loss of business opportunities in the Chinese market, risks related to the growth through acquisitions and the protection of product exclusivity.

Legal and compliance risks
Risks related to Sabaf's contractual liabilities and compliance with the regulations applicable to the Group, including: Legislative Decree 231/2001, Law 262/2005, HSE regulations, regulations applicable to listed companies, tax regulations, labour regulations, international trade regulations and intellectual property regulations.

Operational risks
Risks of suffering losses due to inadequate or malfunctioning processes, human resources and information systems. This category includes financial risks (e.g. losses deriving from the volatility of the price of raw materials used by the Group in its production processes, from fluctuations in exchange rates or from the management of trade receivables), risks related to production processes (e.g. product liability), organisational risks (e.g. loss of key staff and expertise and the difficulty of replacing them, resistance to change by the organisation), risks related to purchases (e.g. relations with suppliers and contractors) and Information Technology risks.

The main risks are described in detail below as well as the relevant risk management actions that are currently being implemented.

Performance of the sector
The Group's financial position, results and cash flows are affected by several factors related to the performance of the sector, including:

- General macro-economic performance: the household appliance market is affected by macro-economic factors such as: gross domestic product, consumer and business confidence, interest rate trend, the cost of raw materials, the unemployment rate and the ease of access to credit.
- Concentration of the end markets: as a result of mergers and acquisitions, customers have acquired bargaining power.

- Stagnation of demand in mature markets (i.e. Europe) in favour of growth in emerging Countries, characterised by different sales conditions and a more unstable macro-economic environment.
- Increasing competition, which in some cases imposes aggressive pricing policies.

To cope with this situation, the Group aims to retain and reinforce its leadership position wherever possible through:
- development of new products characterised by superior performance compared with market standards, and tailored to the needs of the customer;
- diversification of commercial investments in growing and emerging markets with local commercial and productive investments;
- the maintenance of high quality and safety standards, which make it possible to differentiate the product through the use of resources and implementation of production processes that are not easily sustainable by competitors;
- strengthening of business relations with the main players in the sector;
- adoption of a diversification strategy and entry into new segments / business sectors.

Instability of Emerging countries in which the Group operates
Turkey represents the main production hub of household appliances at the European level; over the years, local industry attracted heavy foreign investments and favoured the growth of important manufacturers. In this context, the Sabaf Group created a production plant in Turkey in 2012 that realises today 10% of total production. In 2018, the Group also acquired 100% of Okida Elektronik, a leader in Turkey in the design, manufacture and sale of electronic control boards for household appliances.
With the acquisition of Okida, Turkey represents approximately 15% of the Group's production and more than 25% of its total sales. The social and political tensions in Turkey over the last few years had no effect on the activities of the Sabaf Group, which continued normally. In consideration of the strategic importance of this Country, the management assessed the risks that could arise from any difficulties/impossibilities of operating in Turkey and envisaged actions to mitigate this risk.

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

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

Product competition

The Sabaf Group's business model focuses on the production of gas cooking components (valves and burners); therefore, there is the risk of not correctly assessing the threats and opportunities deriving from the competition of alternative products (alternative solutions to gas cooking, such as induction), with the consequence of not adequately making use of any market opportunities and/or suffering from negative impacts on margins and turnover.

In recent years, the Group has launched a number of projects aimed at analysing the opportunities and threats related to competition of products other than gas cooking, including:

- analysing the possibilities for expansion in the induction hob market, with a focus on technical and commercial feasibility analyses;
- development of new gas cooking components able to satisfy the needs that lead some consumers (especially Western consumers) to prefer induction (aesthetic factors, practicality and ease of cleaning, technological integration with electronic components);
- evaluation of M&A operations, also in sectors adjacent to the traditional Sabaf sector.

Loss of business opportunities in the Chinese market

With a production of over 20 million hobs per year, China is one of the world's most important markets. After many years of commercial presence only, in 2015 Sabaf started the on-site production of a special burner for the Chinese market.
However, there is a risk that Sabaf's investments in the opening of its Chinese headquarters and the start of production will not generate - at least in the short/medium term - an adequate economic return.

To support the development of the Group's Chinese subsidiary and ensure the economic return on the investments made, Sabaf is carrying out the following actions:

- developing a strategic/operational plan suitable for using growth opportunities offered by the local market;
- continuing to develop product lines in accordance with the needs of the Chinese market and in compliance with local regulations;
- adopting and maintaining a quality-price mix in line with the expectations of potential local customers.

Growth through acquisitions

The strategic plan developed by the Group's management includes the possibility of growth through acquisitions, also in related sectors. This strategic choice involves specific risk profiles for Sabaf, due to:

- incorrect assessment of the target companies / incorrect assessment of risks and opportunities for a possible acquisition;
- delays or difficulties in integration.

The Group adopted solutions and instruments to mitigate the above risks, such as:

- definition of guidelines / requirements necessary for the identification of target companies;
- creation of an internal work team, dedicated to the identification and evaluation of potential targets;
- development of guidelines, processes and tools to support the assessment of M&As and subsequent integration activities.

Protection of product exclusivity

Sabaf's business model based the protection of product exclusivity mainly on design capacity and the internal production of special machines used in manufacturing processes, thanks to its unique know-how that competitors would find difficult to replicate.
There is a risk that some Group products, although patented, will be copied by competitors. Exposure to this risk increased as a result of the opening up of trade in countries where it is difficult to enforce industrial patent rights.

Sabaf developed and maintained a structured model to manage innovation and protect intellectual property. Moreover, the Group periodically monitors the patent strategies adopted/to be adopted based on the assessments of cost/opportunity.

Financial risks

The Sabaf Group is exposed to a series of financial risks, due to:

- **Commodity price volatility**: Sabaf uses metals and alloys in its production processes, the prices of which are generally negotiated semi-annually or annually; as a result, Group companies may not be able to immediately pass on to customers changes in the prices of commodities that occur during the year, which has an impact on profitability.
- **Exchange rate fluctuation**: the Group carries out transactions primarily in euro; however, transactions also take place in other currencies, such as the U.S. dollar, the Brazilian real, the Turkish lira and the Chinese renminbi. in particular, since turnover in US dollars accounted for about 16% of consolidated turnover, the possible depreciation against the euro and the real could lead to a loss in competitiveness on the markets in which sales are made in that currency (mainly South and North America).
- **Trade receivable**: the high concentration of turnover on a small number of customers generates a concentration of the respective trade receivables, with a resulting increase in the negative impact on economic and financial results in the event of insolvency of any one of them. In particular, given the structural difficulties of the household appliance sector in mature markets, it is possible that situations of financial difficulty and insolvency among customers could arise.

For more information on financial risks and the related management methods, see Note 35 of the consolidated financial statements as regards disclosure for the purposes of IFRS 7.

Research and Development

The most important research and development projects carried out in 2018 were as follows:

Gas parts

- various models of customised burners are being developed mainly for North America;
- innovative technical solutions that make it easier for users to clean burners are being tested;
- a project is underway to create a multiposition valve.

Hinges

- a damping unit fitted in the oven was developed to provide a soft close effect using just one damping unit for the kitchen;

- damping unit fitted in the oven was developed that allows to have both a soft close and a soft open effect;
- a horizontal axis hinge was developed for covers used in the semi-professional sector;
- a hidden cam hinge for oven doors with a damping unit fitted in the oven was developed.

Electronic components

- an advanced IOT electronic control system for hoods was developed;
- a platform for electronic control with touch interface was created for up-market refrigerators and freezers;
- an innovative electronic control platform for electric ovens is being developed.

The improvement in production processes continued throughout the Group, accompanied by the development and internal production of machinery, tools and presses.

Development costs to the tune of € 340,000 were capitalised, as all the conditions set by international accounting standards were met; in other cases, they were charged to the income statement.

Non-financial statement

Starting from 2017, the Sabaf Group publishes the consolidated non-financial statement required by Legislative Decree no. 254/2016 in a report separate from this Management Report. The non-financial statement provides all the information needed to ensure understanding of the Group's activities, performance, results and impact, with particular reference to environmental, social and personnel aspects, respect for human rights and the fight against active and passive corruption, which are relevant considering the Group's activities and characteristics.

The non-financial statement is included in the same file in which the management report, the consolidated financial statements, the separate financial statements of the parent company Sabaf S.p.A. and the remuneration report are published.

It should be noted that since 2005, the Sabaf Group has drawn up an Annual Report on its economic, social and environmental sustainability performance.

Personnel

In 2018, the Sabaf Group suffered no on-the-job deaths or serious accidents that led to serious or very serious injuries to staff for which the Group was definitively held responsible, nor was it held responsible for occupational illnesses of employees or former employees or causes of mobbing.

For all other information, please refer to the Non-Financial Statement.

Environment

In 2018 there was no:

- damage caused to the environment for which the Group was held definitively responsible;
- definitive fines or penalties imposed on the Group for environmental crimes or damage.

For all other information, please refer to the Non-Financial Statement.

Corporate Governance

For a complete description of the corporate governance system of the Sabaf Group, see the report on corporate governance and on the ownership structure, available in the Investor Relations section of the company website.

Internal Control System on Financial Reporting

The internal control system on financial reporting is described in detail in the report on corporate governance and on ownership structure.

With reference to the "conditions for listing shares of parent companies set up and regulated by the law of states not belonging to the European Union" pursuant to articles 36 and 39 of the Market Regulations, the Company and its subsidiaries have administrative and accounting systems that can provide the public with the accounting situations prepared for drafting the consolidated report of the companies that fall within the scope of this regulation and can regularly supply management and the auditors of the Parent Company with the data necessary for drafting the consolidated financial statements. The Sabaf Group has also set up an effective information flow to the independent auditor as well as continuous information on the composition of the corporate bodies of the subsidiaries, together with information on the offices held, and requires the systematic and centralised gathering as well as regular updates of the formal documents relating to the articles of association and granting of powers to corporate bodies. The conditions exist as required by article 36, letters a), b) and c) of the Market Regulations issued by CONSOB. During the year, the Group acquired Okida Elektronik, a company based in Turkey, and is fully integrating its financial reporting system.

Model 231

The Organisation, Management and Control Model, adopted pursuant to Legislative Decree 231/2001, is described in the report on company governance and on the ownership structure, which should be reviewed for reference.

Personal data protection

During 2018, Sabaf S.p.A. updated its personal data management and protection system, adopting an Organisational Model consistent with the provisions of European Regulation 2016/679 (General Data Protection Regulation - GDPR). Specific projects are being implemented for all Group companies for which the GDPR is applicable.

Derivative financial instruments

For the comments on this item, please see Note 35 of the consolidated financial statements.

Atypical or unusual transactions

Sabaf Group companies did not execute any unusual or atypical transactions in 2018.

Secondary offices

Neither Sabaf S.p.A. nor its subsidiaries have secondary operating offices.

Management and coordination

Sabaf S.p.A. is not subject to management and coordination by other companies.

Sabaf S.p.A. exercises management and coordination activities over its Italian subsidiaries, Faringosi Hinges s.r.l., Sabaf Immobiliare s.r.l. and A.R.C. s.r.l.

Intra-group transactions and related-party transactions

The relationships between the Group companies, including those with the parent company, are regulated under market conditions, as well as the relationships with related parties, defined in accordance with the accounting standard IAS 24. The details of the intra-group transactions and other related-party transactions are given in Note 36 of the consolidated financial statements and in Note 37 of the separate financial statements of Sabaf S.p.A.

Significant events after year-end and business outlook

The start of 2019 shows signs of a slowdown in demand in some of the main markets in which the Group operates, including Turkey.

For 2019 the Group estimates that it will be able to achieve sales ranging from € 160 to € 165 million and a gross operating profit (EBITDA %) of more than 20%.

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

Business and financial situation of Sabaf S.p.A.

(€/000)	**2018**	**2017**	**Change**	**% change**
Sales revenue	110,065	115,687	(5,622)	-4.9%
EBITDA	13,644	17,477	(3,833)	-21.9%
EBIT	5,543	8,050	(2,507)	-31.1%
Pre-tax profit (EBT)	9,227	9,072	155	+1.7%
Net Profit	8,040	8,001	39	+0.5%

The reclassification based on financial criteria is illustrated below:

(€/000)	**31/12/2018**	**31/12/2017**
Non-current assets [5]	*96,495*	*89,361*
Non-current financial assets	5,367	*1,848*
Short-term assets[6]	64,927	58,875
Short-term liabilities[7]	(25,626)	(23,643)
Working capital[8]	*39,301*	*35,232*
Provisions for risks and charges, Post-employment benefits, deferred taxes	*(3,278)*	*(2,637)*
Net invested capital	**138,885**	**123,804**
Short-term net financial position	(12,056)	(15,239)
Medium/long-term net financial position	(33,789)	(16,478)
Net financial position	**(45,845)**	**(31,717)**
Shareholders' equity	**92,040**	**92,087**

5 Excluding Financial assets
6 Sum of Inventories, Trade receivables, Tax receivables and Other current receivables
7 Sum of Trade payables, Tax payables and Other liabilities
8 Difference between short-term assets and short-term liabilities

Cash flows for the financial year are summarised in the table below:

(€/000)	**2018**	**2017**
Opening liquidity	***2,697***	***1,797***
Operating cash flow	*8,796*	*12,554*
Cash flow from investments	*(15,219)*	*(9,319)*
Free cash flow	(6,423)	3,235
Cash flow from financing activities	5,685	(2,335)
Cash flow for the period	(738)	900
Closing liquidity	***1,959***	***2,697***

Net financial debt and the net short-term financial position shown in the tables above are defined in compliance with the net financial position detailed in Note 22 of the separate financial statements, as required by the CONSOB memorandum of 28 July 2006.

The 2018 financial year ended with a decrease in turnover of 4.9% compared with 2017. The sales analysis by product category shows a marked decrease in more mature products (brass valves and thermostats), while more innovative product families (light alloy valves and special burners) show an improved performance. The decrease in sales had a negative impact on gross operating profitability: EBITDA was € 13.6 million, or 12.4% of turnover (€ 17.5 million in 2017, or 15.1%).

EBIT of 2018 was € 5.5 million, or 5% of turnover (€ 8.1 million in 2017, or 7%).

The impact of the labour costs on sales increased from 24.8% to 25.8%.
Net finance expense as a percentage of turnover was minimal, at 0.8%, given the low level of financial debt and the low interest rates.

During 2018, the Company received dividends of € 3 million from the subsidiary Sabaf Immobiliare and € 1.3 million from the new investee Okida Elektronik.

The actual tax burden related to 2018 was 12.9% (11.8% in 2017).

Net profit was € 8 million euro, or 7.3% of turnover (substantially unchanged from 2017, when it represented 6.9% of turnover).

In 2018, Sabaf S.p.A. invested over € 8 million in plant and equipment. The main investments in the financial year were aimed at increasing the production capacity of special burners, at the further automation of production of light alloy valves and interconnecting production plants with management systems (Industry 4.0). Other investments were made in the production of presses for new burners. Investments in maintenance and replacement, so that production equipment is kept constantly up to date and efficient, are systematic.

At 31 December 2018, working capital stood at € 39.3 million compared with € 35.2 million at the end of the previous year: its percentage impact on turnover stood at 35.7% from 30.5% at the end of 2017.

The net financial debt was € 45.8 million, compared with € 31.7 million on 31 December 2017.

At the end of the year, the shareholders' equity amounted to € 92 million, compared with € 92.1 million in 2017. The net financial debt/shareholders' equity ratio was 49.8%, 34% at the end of 2017.

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

Pursuant to the CONSOB memorandum of 28 July 2006, a reconciliation statement of the result of the 2018 financial year and Group shareholders' equity at 31 December 2018 with the same values of the parent company Sabaf S.p.A. is given below:

	31/12/2018		31/12/2017	
Description	Profit for the year	Shareholders' equity	Profit for the year	Shareholders' equity
Profit and shareholders' equity of parent company Sabaf S.p.A.	**8,040**	**92,039**	**8,001**	**92,087**
Equity and consolidated company results[9]	15,324	113,123	7,971	74,144
Elimination of the carrying value of consolidated equity investments	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**

Use of the longer time limit for calling the shareholders' meeting

Pursuant to the second paragraph of Article 2364 of the Italian Civil Code, in consideration of the need to consolidate the financial statements of Group companies and to prepare all supporting documentation, the directors intend to use the longer time limits granted to companies required to prepare the consolidated financial statements for calling the ordinary shareholders' meeting to approve the 2018 financial statements. The Shareholders' Meeting will be convened on a single date for 7 May 2019.

Proposal for approval of the separate financial statements and proposed dividend

9 Figures adjusted to allocate the consolidation difference to the equity of the acquired companies

While thanking employees, the Board of Statutory Auditors, the independent auditors, and the Supervisory Authorities for their effective collaboration, we ask the shareholders to approve the financial statements for the year ended 31 December 2018, with the proposal to allocate the profit for the year of € 8,040,215 in the following manner:

- a dividend of € 0.55 per share to be paid to shareholders as from 29 May 2019 (ex-date 27 May 2019 and record date 28 May 2019). With regard to treasury shares, we invite you to allocate an amount corresponding to the dividend on the shares held in portfolio on the ex-date to the Extraordinary Reserve;
- the remainder to the Extraordinary Reserve.

Ospitaletto, 26 March 2019
The Board of Directors