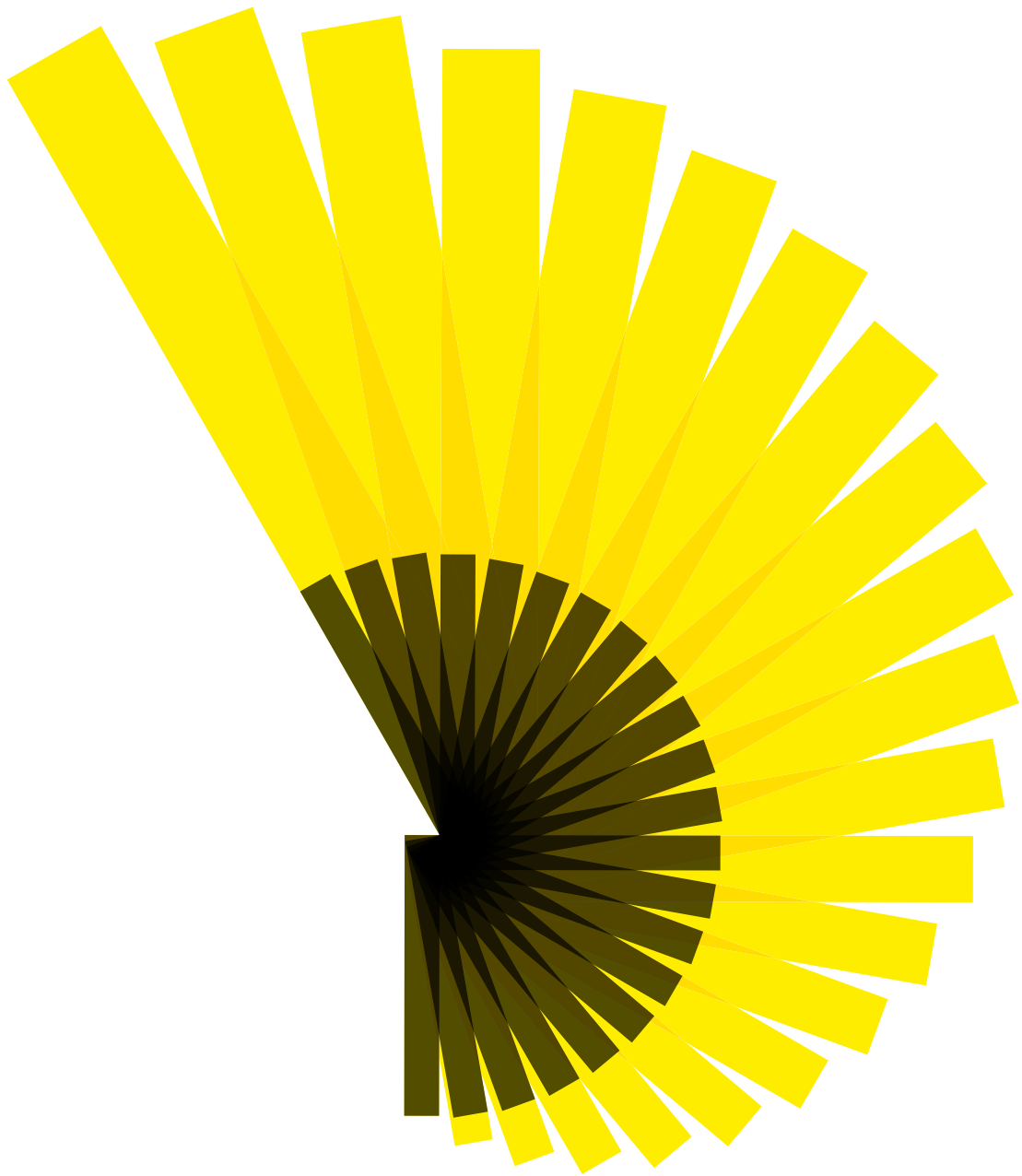




Expanding the range

Operating in a world market means satisfying diverse customers by listening to their many needs and requirements. With a broad and growing product range, Sabaf competes and achieves remarkable results in every country.



Report on operations

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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, equiv-

alent 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%
<i>Total household gas parts</i>	<i>130,838</i>	<i>86.9%</i>	<i>136,239</i>	<i>90.7%</i>	<i>-4.0%</i>
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 pos-

itive 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

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

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).

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.

⁴ Proposed dividend

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.

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.

CONSOLIDATED DISCLOSURE OF NON-FINANCIAL INFORMATION

Starting from 2017, the Sabaf Group publishes the consolidated disclosure of non-financial information required by Legislative Decree no. 254/2016 in a report separate from this Management Report. The consolidated disclosure of non-financial information 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 consolidated disclosure of non-financial information 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 Consolidated disclosure of non-financial information.

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 Consolidated disclosure of non-financial information.

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
Operating cash flow	2,697	1,797
Cash flow from investments	8,796	12,554
Free cash flow	(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:

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 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

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.

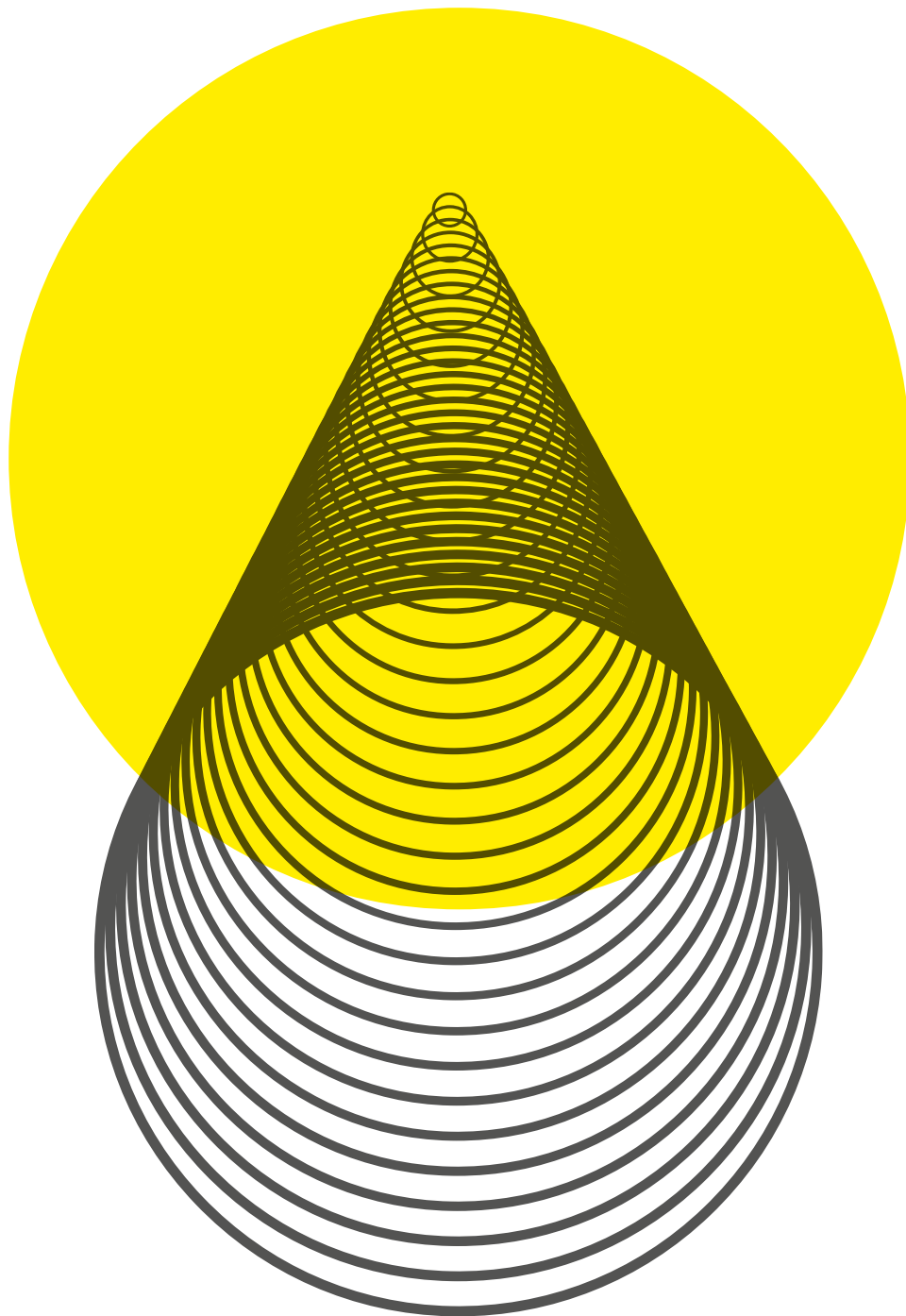
Ospitaletto, 26 March 2019

The Board of Directors

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

Continuity and specialisation

We do not know the future, but we are preparing to face it by improving skills and increasing knowledge and experience daily. Knowledge allows us to continue production with an ever-increasing specialisation.



Consolidated financial statements at 31 December 2018

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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 Sirketi (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 Ticaret 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
<i>Total equity interest of the Group</i>		<i>117,702</i>	<i>113,595</i>
<i>Minority interests</i>		<i>1,644</i>	<i>1,460</i>
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
<i>Total profits/losses that will not be subsequently reclassified under profit (loss) for the year</i>		
Actuarial post-employment benefit reserve evaluation	32	82
Tax effect	(8)	(20)
	24	62
<i>Total profits/losses that will be subsequently reclassified under profit (loss) for the year</i>		
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

(€/000)	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)
<i>Change in trade receivables</i>	<i>(3,003)</i>	<i>(5,421)</i>
<i>Change in inventories</i>	<i>(4,374)</i>	<i>(1,445)</i>
<i>Change in trade payables</i>	<i>556</i>	<i>998</i>
<i>Change in net working capital</i>	<i>(6,821)</i>	<i>(5,868)</i>
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 Ticaret 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:

- 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.
- 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.
- Payable/receivable and cost/revenue items between consolidated companies and profits/losses arising from intercompany transactions are eliminated.
- 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 consolidated¹. 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 table²:

	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
- <i>Customer Relationship</i>		6,805	
- <i>Know How</i>		891	
- <i>Brand</i>		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 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

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)

- **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

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

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:

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 oper-

ating 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 ex-

ception 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

Standard **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.

Standard **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 IFRS: 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.

Standard **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 pro-

duction 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				
	1.00%	1.25%	1.50%	1.75%	2.00%
DISCOUNT RATE					
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 im-

pairment 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				
	1.00%	1.25%	1.50%	1.75%	2.00%
DISCOUNT RATE					
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%
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 debt 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, 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. The 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 a 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%
<i>Household gas parts</i>	<i>130,838</i>	<i>86.9%</i>	<i>136,239</i>	<i>90.7%</i>	<i>-4.0%</i>
<i>Professional gas parts</i>	<i>5,331</i>	<i>3.5%</i>	<i>5,079</i>	<i>3.4%</i>	<i>+5.0%</i>
<i>Hinges</i>	<i>10,436</i>	<i>6.9%</i>	<i>8,905</i>	<i>5.9%</i>	<i>+17.2%</i>
<i>Electronic components</i>	<i>4,037</i>	<i>2.7%</i>	-	-	
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. Follow-

ing 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.

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 and withholding taxes (current and deferred)	4,654	2,442
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

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).

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 29 May 2019 (ex-date 27 May and record date 28 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		
<i>Amortised cost</i>		
Cash and cash equivalents	13,426	11,533
Escrow bank deposits	3,630	240
Trade receivables and other receivables	48,654	43,516
<i>Income statement fair value</i>		
Derivative to hedge cash flows	1	7
Financial liabilities		
<i>Amortised cost</i>		
Loans	60,533	35,048
Other financial liabilities	7,802	240
Trade payables	21,215	19,975
<i>Income statement fair value</i>		
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			
Rights on ROI	33.40%			
			Fair Value	2.28

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			
Rights on EBITDA	33.30%			
			Fair Value	2.99

FAIR VALUE MEASUREMENT METHODS - RIGHTS RELATING TO OBJECTIVES MEASURED IN 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			
Rights on TSR	33.30%			
			Fair Value	2.00
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	Jundiaí (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 Ticaret A.S	Istanbul (Turkey)	TRY 5,000,000	Sabaf S.p.A.	30%
			Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki	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 (Cina)	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
	E-mail: 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 ⁴
Total			98

⁴auditing 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**

Pietro Iotti

**The Financial
Reporting Officer**

Gianluca Beschi



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

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

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014

(Translation from the original Italian text)

To the Shareholders of
Sabaf S.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Sabaf Group (the Group), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated income statement, the consolidated statement of comprehensive income, statement of consolidated equity shareholders' equity and consolidated cash flow statement of for the year then ended, and explanatory notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of Sabaf S.p.A. in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matters

The consolidated financial statements of Sabaf Group for the year ended December 31st 2017 were audited by another auditor who expressed an unmodified opinion on those statements on April 12th 2018.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

EY S.p.A.
Sede Legale: Via Po, 32 - 00198 Roma
Capitale Sociale Euro 2.523.000.000 i.v.
Iscritta alla S.O. del Registro delle Imprese di Roma alla C.C.I.A.A. di Roma
Codice Fiscale e numero di iscrizione 00434900584 - numero R.E.A. 250904
P.IVA 00891231003
Iscritta al Registro Revisioni Legali al n. 70945 Pubblicata sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1999
Iscritta all'Albo Speciale delle società di revisione
Candido al programma n. 2 delibera n. 10831 del 10/7/1997
A member firm of Ernst & Young Global Limited



We identified the following key audit matters:

Key Audit Matters	Audit Responses
Valuation of the purchase price allocation related to Okida acquisition	
<p>During the year 2018 the Group acquired the entity di Okida Elektronik Sanayi ve Tickaret A.S.. The acquisition has been accounted pursuant to IFRS 3, Business Combination, including the related purchase price allocation (hereinafter, "PPA"). The PPA is aimed to determine, at the acquisition date, the fair value of the identifiable assets and liabilities acquired. The fair value of such identified assets and liabilities has been estimated based on complex assumptions that, by their nature, required judgments from management. The PPA resulted in a residual goodwill.</p> <p>Considering the significance of the transaction and the amounts involved in the PPA, the complexity of the assumptions assumed in the calculation of the fair value of the acquired assets and liabilities, and the level of judgement exercised by management, we determined this area represents a key audit matter.</p> <p>The note "Information related to IFRS 3" of the consolidated financial statements as of December 31st, 2018 include the description of the process followed by Group management and the impacts on the consolidated financial statements.</p>	<p>Our audit procedures in response to the key audit matter included, among others: (i) the analysis of the agreements signed within the Okida Elektronik Sanayi ve Tickaret A.S. acquisition process e the assessment of the related accounting treatment adopted by Sabaf Group; (ii) assessment of the valuation reports prepared by the external specialist who supported the Company in the calculation of the fair valuation of the assets and liabilities identified, and in the purchase price allocation process, (iii) the assessment of the key assumptions used by management in performing the aforementioned procedures.</p> <p>In performing our audit procedures we involved EY internal valuation specialists who assisted us in the assessment of the key assumptions and methodology adopted by management.</p> <p>Lastly, we evaluated the appropriateness of the disclosures included in the consolidated financial statements as of December 31st, 2018.</p>



Valuation of goodwill

The balance of goodwill at December 31st, 2018 amounted to Euro 24,8 million, and was allocated to the following Group's Cash Generating Units (CGU):

- to the "Hinges" (CGU) cash generating units of Euro 4.4 million;
- to the "Professional burners" CGU of € 1.8;
- to the "Electronic components" CGU of € 18.6 million.

The processes and methodologies to value and determine the recoverable amount of each CGU, in terms of value in use, are based on complex assumptions that, due to their nature, imply the use of judgement by management, in particular with reference to the future cash flow forecasts in the period covered by the Group business plan, the assessment of the normalized cash flows used to estimate the terminal value and the long term growth and discount rates applied to the future cash flow forecasts.

Considering the level of judgement and complexity of the assumptions applied in estimating the recoverable amount of goodwill we determined that this area represents a key audit matter.

The disclosures related to the valuation of goodwill are included in paragraph "Goodwill" and in note "3 - Intangible Assets".

Our audit procedures in response to this key audit matter included, among others: (i) assessment of the process and key controls implemented by the Group in connection with the valuation of goodwill; (ii) assessment of the CGUs perimeter and the allocation of the carrying amounts of assets and liabilities to each CGU; (iii) assessment of the key assumptions underlying future cash flow forecasts; (iv) test of the consistency of the future cash flow forecasts allocated to each CGU against the 2019-2023 Group business plan; (v) assessment of the accuracy of cash flow projections as compared to historical results; (vi) assessment of the long term growth rates and discount rates.

In performing our analysis, we engaged our experts in valuation techniques, who have independently performed calculation and sensitivity analyses of key assumptions in order to determine any changes in assumptions that could materially impact the valuation of the recoverable amount.

Lastly, we evaluated the appropriateness of the disclosures included in the consolidated financial statements as of December 31st, 2018.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Group's ability to continue as a going concern and, when preparing the consolidated financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the consolidated financial statements on a going concern basis unless they either intend to liquidate the Parent Company Sabaf S.p.A. or to cease operations, or have no realistic alternative but to do so.



The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Sabaf S.p.A., in the general meeting held on May 8, 2018, engaged us to perform the audits of the consolidated financial statements for each of the years ending December 31, 2010 to December 31, 2018.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Group in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of Sabaf S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure of Group Sabaf as at December 31, 2018, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements of Sabaf Group as at December 31, 2018 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operations and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of Sabaf Group as at December 31, 2018 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.



Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of Sabaf S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated 30 December 2016. We have verified that non-financial information have been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such non-financial information are subject to a separate compliance report signed by us.

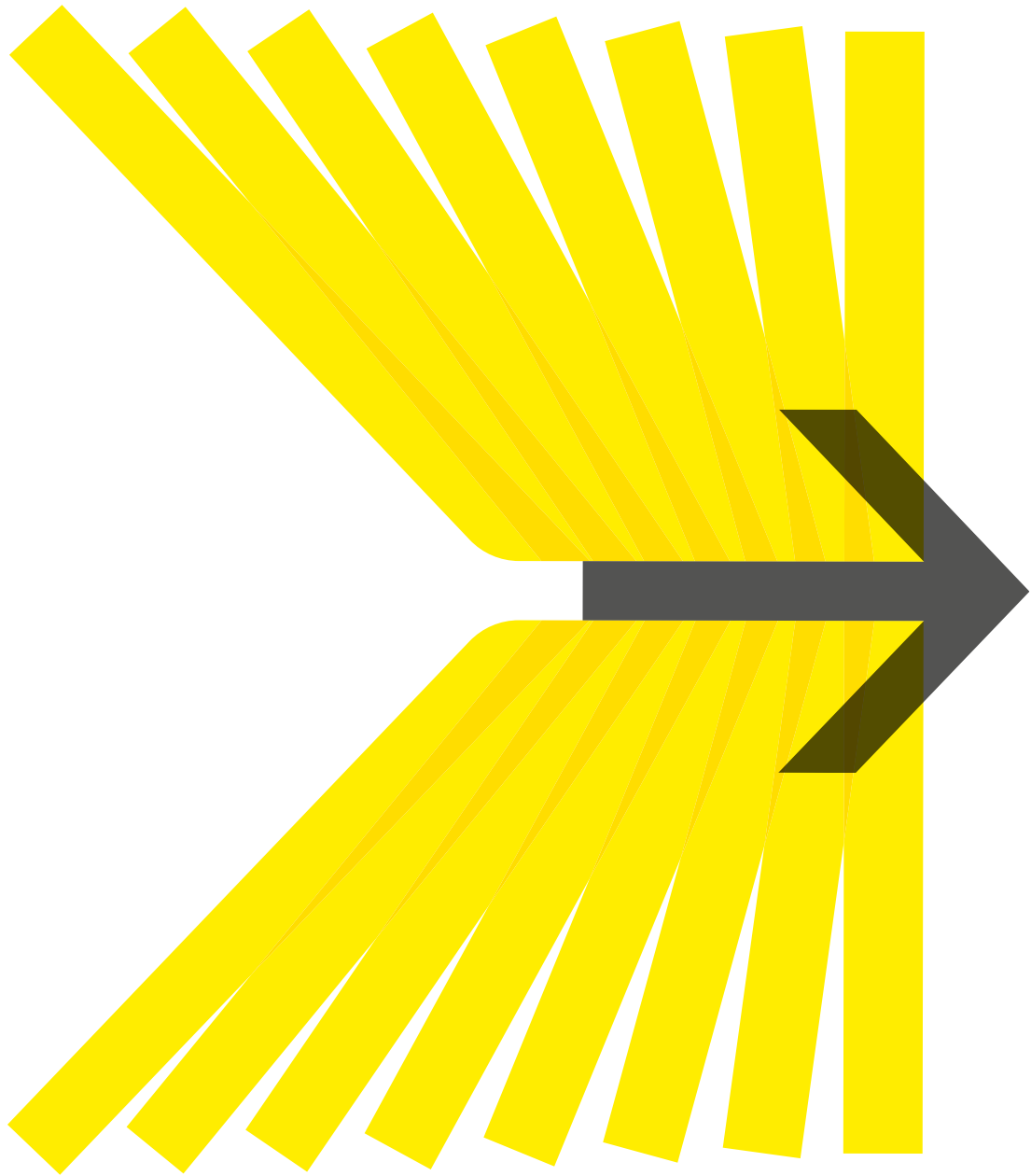
Milan, April 12, 2019

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

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

Overcoming limits

Moving from your comfort zone always offers a combination of fear and curiosity, but it is an effective drive towards innovation and progress. At Sabaf, we do not limit ourselves when we develop innovative ideas, products and skills.



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Corporate bodies

Board of Directors

Chairman	Giuseppe Saleri
Vice Chairman*	Nicla Picchi
Chief Executive Officer	Pietro Iotti
Director	Gianluca Beschi
Director	Claudio Bulgarelli

Director	Alessandro Potestà
Director*	Carlo Scarpa
Director*	Daniela Toscani
Director*	Stefania Triva

* Independent directors

Board of Statutory Auditors

Chairman	Alessandra Tronconi
Statutory Auditor	Luisa Anselmi
Statutory Auditor	Mauro Vivenzi

Independent Auditor

EY S.p.A.

Statement of financial position

(in €)	NOTES	31.12.2018	31.12.2017
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	1	30,497,881	31,610,510
Investment property	2	1,261,716	1,453,564
Intangible assets	3	3,094,293	3,370,260
Equity investments	4	58,150,073	49,451,811
Non-current financial assets	5	5,366,725	1,847,639
- of which from related parties	36	5,246,725	1,667,639
Non-current receivables		19,871	19,871
Deferred tax assets	21	3,471,716	3,455,483
TOTAL NON-CURRENT ASSETS		101,862,275	91,209,138
CURRENT ASSETS			
Inventories	6	26,627,854	24,768,927
Trade receivables	7	35,157,543	31,154,012
- of which from related parties	36	6,080,706	1,208,883
Tax receivables	8	2,377,224	2,229,708
- of which from related parties	36	1,083,666	1,083,666
Other current receivables	9	764,471	721,529
Current financial assets	10	5,110,000	1,067,429
- of which from related parties	36	1,600,000	1,000,000
Cash and cash equivalents	11	1,958,805	2,696,664
TOTAL CURRENT ASSETS		71,995,897	62,638,269
ASSETS HELD FOR SALE		0	0
TOTAL ASSETS		173,858,172	153,847,407
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	12	11,533,450	11,533,450
Retained earnings, other reserves		72,464,975	72,552,367
Profit for the year		8,040,214	8,001,327
TOTAL SHAREHOLDERS' EQUITY		92,038,639	92,087,144
NON-CURRENT LIABILITIES			
Loans	14	33,669,253	16,297,969
Other financial liabilities	15	120,000	180,000
Post-employment benefit and retirement reserves	16	2,083,922	2,199,523
Provisions for risks and charges	17	1,088,183	369,482
Deferred tax liabilities	21	106,646	67,983
Total non-current liabilities		37,068,004	19,114,957
CURRENT LIABILITIES			
Loans	14	17,330,136	18,927,558
- of which from related parties	36	0	2,100,000
Other financial liabilities	15	1,795,310	74,849
Trade payables	18	18,944,590	16,569,390
- of which from related parties	36	3,858,114	509,631
Tax payables	19	589,828	623,013
Other payables	20	6,091,665	6,450,496
TOTAL CURRENT LIABILITIES		44,751,529	42,645,306
LIABILITIES HELD FOR SALE		0	0
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		173,858,172	153,847,407

Income statement

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

Comprehensive income statement

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

Statement of changes in shareholders' equity

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

Cash flow Statement

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

Explanatory notes

Accounting standards

STATEMENT OF COMPLIANCE AND BASIS OF PRESENTATION

The separate financial statements of Sabaf S.p.A. for the financial year 2018 have been prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Union. Reference to IFRS also includes all current International Accounting Standards (IAS).

The separate financial statements are drawn up in euro, which is the currency in the economy in which the Company operates. The income statement, the comprehensive income statement and the statement of financial position schedules are prepared in euro, while the cash flow statement, the statement of changes in shareholders' equity and the values reported in the explanatory notes are in thousands of euro.

The financial statements have been prepared on a historical cost basis except for some revaluations of property, plant and equipment undertaken in previous years, and are considered a going concern. The Company assessed that it is a going concern (as defined by paragraphs 25 and 26 of IAS 1), also due to the strong competitive position, high profitability and solidity of the financial structure.

Sabaf S.p.A., as the Parent Company, also prepared the consolidated financial statements of the Sabaf Group at 31 December 2018.

FINANCIAL STATEMENTS

The Company adopted the following formats:

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

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

ACCOUNTING POLICIES

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

Property, plant and equipment

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

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

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

Ordinary maintenance costs are expensed in the year in which they are incurred; costs that increase the asset value or useful working life are capitalised and depreciated according to the residual possibility of utilisation of the assets to which they refer.

Land is not depreciated.

Investment property

Investment property is valued at cost, including revaluations undertaken in the past based on monetary revaluation rules or pursuant to company mergers.

The depreciation is calculated based on the estimated useful life, considered to be 33 years.

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

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

Intangible assets

As established by IAS 38, intangible assets acquired or internally produced are recognised as assets when it is probable that use of the asset will generate future economic benefits and when asset cost can be measured reliably.

If it is considered that these future economic benefits will not be generated, the development costs are written down in the year in which this is ascertained.

Such assets are measured at purchase or production cost and - if the assets concerned have a finite useful life - are amortised on a straight-line basis over their estimated useful life.

The useful life of projects for which development costs are capitalised is estimated to be 10 years.

The SAP management system is amortised over five years.

Equity investments

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

Impairment

At each end of the reporting period, Sabaf S.p.A. reviews the carrying value of its property, plant and equipment, intangible assets and equity investments to determine whether there are signs of impairment of these assets. If there is any such indication, the recoverable amount of said assets is estimated so as to determine the total of the write-down. If it is not possible to estimate the recoverable amount individually, the Company estimates the recoverable amount of the cash generating unit (CGU) to which the asset belongs. In particular, the recoverable amount of the cash generating units (which generally coincide with the legal entity to which the capitalised assets refer) is verified by determining the value of use. The recoverable amount is the higher of the net selling price and value of use. In measuring the value of use, future cash flows net of taxes, estimated based on past experience, are discounted to their present value using a pre-tax rate that reflects current market valuations of the present cost of money and specific asset risk. The main assumptions used for calculating the value of use concern the discount rate, growth rate, expected changes in selling prices and cost trends during the period used for the calculation. The growth rates adopted are based on future market expectations in the relevant sector. Changes in the sales prices are based on past experience and on the expected future changes in the market. The Company prepares operating cash flow forecasts based on the most recent budgets approved by the Boards of Directors of the investees, draws up four-year forecasts and determines the terminal value (current value of perpetual income), which expresses the medium and long term operating flows in the specific sector.

Furthermore, the Company checks the recoverable amount of its investees at least once a year when the separate financial statements are prepared.

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

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

Inventories

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

Trade receivables and other financial assets

Initial recognition

Upon initial recognition, financial assets are classified, as the case may be, on the basis of subsequent measurement methods, i.e. at amortised cost, at fair value recognised in other comprehensive income (OCI) and at fair value recognised in the income statement.

The classification of financial assets at initial recognition depends on the characteristics of the contractual cash flows of the financial assets and on the business model that the Company uses to manage them.

Trade receivables that do not contain a significant financing component are valued at the transaction price determined in accordance with IFRS 15. See the "Revenue from Contracts with Customers" paragraph.

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

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

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

Financial assets at amortised cost of the Group include trade receivables.

Financial assets at fair value through profit or loss

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

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

Cancellation

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

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

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

Provisions for risks and charges

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

flows estimated at a rate including taxes such as to reflect current market valuations of the current value of the cash and specific risks associated with the liability.

Post-employment benefit reserve

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

Actuarial gains or losses are recorded immediately under "Other total profits/ (losses)".

Trade payables and other financial liabilities

Initial recognition

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

Subsequent measurement

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

Financial liabilities at fair value recognised in the income statement

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

Loans and payables

This is the most important category for the Company and includes interest-bearing payables and loans. After initial statement, loans are valued using the amortised cost approach, applying the effective interest rate method. Gains and losses are recognised in the income statement when the liability is discharged, as well as through the amortisation process. Amortised cost

is calculated by recognising the discount or premium on the acquisition and the fees or costs that are an integral part of the effective interest rate. Amortisation at the effective interest rate is included in financial expenses in the income statement.

Cancellation

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

Policy for conversion of foreign currency items

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

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

Derivative instruments and hedge accounting

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

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

Changes in the fair value of derivatives designated and recognised as effective for hedging future cash flows relating to the Company's contractual commitments and planned transactions are recognised directly in shareholders' equity, while the ineffective portion is immediately posted in the income statement. If the contractual commitments or planned transactions materialise in the recognition of assets or liabilities, when such assets or liabilities are recognised, the gains or losses on the derivative that were directly recognised in equity are factored back into the initial valuation of the cost of acquisition or carrying value of the asset or liability. For cash flow hedges that do not lead to recognition of assets or liabilities, the amounts that were directly recognised in equity are included in the income statement in the same period when the contractual commitment or planned transaction hedged impacts profit and loss – for example, when a planned sale actually takes place.

For effective hedges of exposure to changes in fair value, the item hedged is adjusted for the changes in fair value attributable to the risk hedged and recognised in the income statement. Gains and losses stemming from the derivative's valuation are also posted in the income statement.

Changes in the fair value of derivatives not designated as hedging instruments are recognised in the income statement in the period when they occur.

Hedge accounting is discontinued when the hedging instrument expires, is sold or is exercised, or when it no longer qualifies as a hedge. At this time, the cumulative gains or losses of the hedging instrument recognised in equity are kept in the latter until the planned transaction actually takes place. If the transaction hedged is not expected to take place, cumulative gains or losses recognised directly in equity are transferred to the year's income statement.

Embedded derivatives included in other financial instruments or contracts are treated as separate derivatives when their risks and characteristics are not strictly related to those of their host contracts and the latter are not measured at fair value with posting of related gains and losses in the income statement.

Revenue reporting

Revenue is reported net of return sales, discounts, allowances and bonuses, as well as of the taxes directly associated with sale of goods and rendering of services.

Sales revenue is reported when the company has transferred the significant risks and benefits associated with ownership of the goods and the amount of revenue can be reliably measured.

Revenues of a financial nature are recorded on an accrual basis.

Financial income

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

Financial expenses

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

Income taxes for the year

Income taxes include all taxes calculated on the Company's taxable income. Income taxes are directly recognised in the income statement, with the exception of those concerning items directly debited or credited to shareholders' equity, in which case the tax effect is recognised directly in shareholders' equity. Other taxes not relating to income, such as property taxes, are included among operating expenses. Deferred taxes are provisioned in accordance with the global liability provisioning method. They are calculated on all temporary differences that emerge from the taxable base of an asset or liability and its book value. Current and deferred tax assets and liabilities are offset when income taxes are levied by the same tax authority and when there is a legal right to settle on a net basis. Deferred tax assets and liabilities are measured using the tax rates that are expected to be applicable in the years when temporary differences will be realised or settled.

Dividends

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

Treasury shares

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

Equity-settled transactions

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

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

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

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

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

Use of estimates

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

Recoverability of value of tangible and intangible assets and investments

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

Provisions for bad debts

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

Provisions for inventory obsolescence

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

Employee benefits

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

Share-based payments

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

Income tax

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

Other provisions and reserves

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

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

New accounting standards

Accounting standards, amendments and interpretations applicable from 1 January 2018

Standard **IFRS 9 – FINANCIAL INSTRUMENTS**. In July 2014, the IAS issued its final IFRS 9 replacing IAS 39 and all previous versions of IFRS 9. The standard was approved by the European Union in November 2016 and is effective for financial years beginning on or after 1 January 2018. IFRS 9 brings together all aspects relating to the recognition of financial instruments: Classification and Measurement, Impairment and Hedge Accounting.

The adoption of IFRS 9 did not have a significant impact on the of the Company's financial statements and did not entail the need to record adjustments to the consolidated statement of financial position at the date of initial application of the standard.

Classification and measurement

The Company did not have a significant impact on its financial statements as a result of the application of the classification and measurement requirements envisaged by IFRS 9. Loans, like trade receivables, are held for collection at the contractual due dates and are expected to generate cash flows represented solely by collections of principal and interest.

Impairment

The Company has not recorded any adjustments to the consolidated statement of financial position at the date of initial application of the standard. In particular, with reference to trade receivables, the Company considered its policy of bad debt provision consistent with the Standard.

Hedge accounting

The Company does not use hedge accounting for hedging instruments.

Standard **IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS**.

In May 2014, the IAS issued IFRS 15, a new revenue recognition standard that replaces IAS 18 and IAS 11 and was supplemented with further clarifications and guidance in 2016. The standard is applicable to the preparation of the financial statements for the financial years starting from 1 January 2018 and introduced a new five-stage model that applies to contracts with customers. IFRS 15 requires the recognition of revenue for an amount that reflects the consideration to which the entity believes it is entitled in exchange for the transfer of goods or services to the customer.

The application of the new standard and the relative interpretations had no significant effects on the Company's separate financial statements, either from the point of view of classification or of determining quantities. In particular, the application of IFRS 15 had no impact on contracts with customers, in which the sale of Sabaf products is the only obligation ("at a point in time"), since revenues are recognised at the time when control of the activity is transferred to the customer, according to the terms of return defined with the customer. The guarantees provided for in the contracts are of a general nature and not extended and, consequently, the Company believes that they will continue to be accounted for in accordance with IAS 37. Finally, with regard to the income from participating in the production of presses and equipment, in line with previous years, the Company will continue to allocate these revenues over the useful life of the projects, which is generally 10 years.

Document **"ANNUAL IMPROVEMENTS TO IFRSS: 2014-2016 CYCLE"**.

The provisions issued concern IFRS 1 First-Time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-

time adopters, IAS 28 Investments in Associates and Joint Ventures – Measuring investees at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice, IFRS 12 Disclosure of Interests in Other Entities – Clarification of the scope of the Standard. The provisions were approved by the European Union in February 2018 and are applicable in the preparation of the financial statements for financial years beginning on or after 1 January 2018, with reference to the amendments to IAS 28 and IFRS 1, as from 1 January 2017, with reference to the amendments to IFRS 12. The adoption of the provisions by the Company did not entail any changes in accounting policies or retrospective adjustments.

IFRIC 22 Interpretation "FOREIGN CURRENCY TRANSACTIONS AND ADVANCE CONSIDERATION".

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

Amendment to **IAS 40 "TRANSFERS OF INVESTMENT PROPERTY"**.

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

Amendment to **IFRS 2 "CLASSIFICATION AND MEASUREMENT OF SHARE-BASED PAYMENT TRANSACTIONS"**,

which contains some clarification on the recording of the effects of vesting conditions in the presence of cash-settled share-based payments, on the classification of share-based payments with net settlement characteristics and on the recording of amendments under the terms and conditions of a share-based payment that change their classification from cash-settled to equity-settled. The interpretation was endorsed by the European Union in February 2018 and is applicable from 1 January 2018. The adoption of the amendments by the Company did not entail any changes in accounting policies or retrospective adjustments.

IFRS and IFRIC accounting standards, amendments and interpretations approved by the European Union, not yet universally applicable and not adopted early by the Company at 31 December 2018

Standard **IFRS 16 "LEASES"** (published on 13 January 2016), which will replace standard IAS 17 – Leases, as well as interpretations IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The new standard provides a new definition of lease and introduces a criterion based on the control (right of use) of an asset in

order to distinguish the leasing contracts from the service contracts, identifying the discriminatory ones: the identification of the asset, the right of replacement of the same, the right to obtain substantially all of the economic benefits deriving from the use of the asset and the right to direct the use of the asset underlying the contract. The standard establishes a single model of recognition and measurement of the lease agreements for the lessee which requires the recognition of the asset to be leased (operating lease or otherwise) in assets offset by a financial debt, while also providing the opportunity not to recognise as leases the agreements whose subject matter are "low-value assets" and leases with a contract duration equal to or less than 12 months. By contrast, the Standard does not include significant changes for the lessors. The standard applies beginning on 1 January 2019 but early application is permitted, only for Companies that already applied IFRS 15 - Revenue from Contracts with Customers.

The Company started an analysis to assess the impact of the application of IFRS 16 on the amounts and related disclosures in the separate financial statements. However, it is not possible to provide a reasonable estimate of the effects until the Company has completed a detailed analysis of the related contracts.

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

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

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

On 7 June 2017, IASB published the clarification document **IFRIC 23 – UNCERTAINTY OVER INCOME TAX TREATMENTS**. The document deals with uncertainties about the tax treatment of income taxes. The document requires that uncertainties in determining deferred tax assets and liabilities be reflected in the financial statements only when it is probable that the entity will pay or recover the amount in question. Moreover, the document does not contain any new disclosure requirement but emphasises that an entity will have to determine whether it will be necessary to disclose information on management considerations and on the uncertainty relating to tax accounting in accordance with IAS 1. The new interpretation applies from 1 January 2019, but early application is permitted.

Amendment to **IAS 28 "LONG-TERM INTERESTS IN ASSOCIATES AND JOINT VENTURES"** (published on 12 October 2017)". This document clarifies the need to apply IFRS 9, including the requirements of impairment, to other long-term interests in associate companies and joint ventures that are not accounted for under the equity method. The amendment applies from 1 January 2019, but early application is permitted. The directors do not expect a significant effect on the Company's separate financial statements through the adoption of these changes.

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

Amendment to **IAS 19 "PLAN AMENDMENT, CURTAILMENT OR SETTLEMENT"**. The amendments clarify how pension costs are determined when a change occurs in a defined benefit plan. The amendments will be effective for the preparation of the financial statements for financial years beginning on or after 1 January 2019, unless they are postponed subsequent to their approval by the European Union.

Standard **IFRS 17 "INSURANCE CONTRACTS"**. A new accounting standard for the recognition of insurance contracts that will replace IFRS 4. The new standard will be effective for the preparation of the financial statements for financial years beginning on or after 1 January 2021, unless they are postponed subsequent to their approval by the European Union.

Comments on the main items of the statement of financial position

1. PROPERTY, PLANT AND EQUIPMENT

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

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

NET CARRYING VALUE					
At 31 December 2018	3,326	21,739	2,786	2,647	30,498
At 31 December 2017	3,337	22,725	3,253	2,296	31,611

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

	31.12.2018	31.12.2017	Change
Land	1,291	1,291	-
Industrial buildings	2,035	2,046	(11)
Total	3,326	3,337	(11)

The main investments in the financial year were aimed at increasing the production capacity of special burners, at the further automation of production of light alloy valves and interconnecting production plants with management systems (Industry 4.0). Other investments were made in the production of

presses for new burners. Investments in maintenance and replacement, so that production equipment is kept constantly up to date and efficient, are systematic.

Decreases mainly relate to the disposal of machinery no longer in use or sold to subsidiaries.

Assets under construction include machinery under construction and advance payments to suppliers of capital equipment.

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

2. INVESTMENT PROPERTY

COST	
At 31 December 2016	6,675
Increases	-
Disposals	-
At 31 December 2017	6,675
Increases	-
Disposals	-
At 31 December 2018	6,675
ACCUMULATED DEPRECIATIONS	
At 31 December 2016	5,030
Depreciations for the year	191
At 31 December 2017	5,221
Depreciations for the year	192
At 31 December 2018	5,413

NET CARRYING VALUE	
At 31 December 2018	1,262
At 31 December 2017	1,454

This item includes non-operating buildings owned by the Group. During the year, this item did not undergo any changes except for depreciations for the year.

At 31 December 2018, the Company found no endogenous or exogenous indicators of impairment of its investment property.

As a result, the value of investment property was not submitted to impairment testing.

3. INTANGIBLE ASSETS

	PATENTS, KNOW-HOW AND SOFTWARE	DEVELOPMENT COSTS	OTHER INTANGIBLE ASSETS	TOTAL
COST				
At 31 December 2016	6,275	4,902	2,067	13,244
Increases	243	441	161	845
Reclassifications	99	-	155	254
Decreases	(14)	(79)	(14)	(107)
At 31 December 2017	6,603	5,264	2,369	14,236
Increases	153	284	89	526
Reclassifications	-	-	-	-
Decreases	-	(59)	-	(59)
At 31 December 2018	6,756	5,489	2,458	14,703
AMORTISATION AND WRITE-DOWNS				
At 31 December 2016	5,873	2,697	1,579	10,149
Amortisation	242	341	148	731
Decreases	(14)	-	-	(14)
At 31 December 2017	6,101	3,038	1,727	10,866
Amortisation	220	362	161	743
Decreases	-	-	-	-
At 31 December 2018	6,321	3,400	1,888	11,609
NET CARRYING VALUE				
At 31 December 2018	435	2,089	570	3,094
At 31 December 2017	502	2,226	642	3,370

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

fer, in the main, to improvements to third-party leased assets.

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

4. EQUITY INVESTMENTS

	31.12.2018	31.12.2017	CHANGE
In subsidiaries	58,116	49,418	8,698
Other equity investments	34	34	-
Total	58,150	49,452	8,698

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

	SABAF IMMOBILIARE	FARINGOSI HINGES	SABAF DO BRASIL	SABAF U.S.	SABAF APPLIANCE COMPONENTS (CHINA)	SABAF A.C. TRADING (CHINA)	SABAF TURKEY	A.R.C. S.R.L.	OKIDA	TOTAL
HISTORICAL COST										
At 31 December 2016	13,475	10,329	8,469	139	4,400	200	12,005	4,800	0	53,817
Purchase	-	-	-	-	-	-	-	-	-	-
At 31 December 2017	13,475	10,329	8,469	139	4,400	200	12,005	4,800	0	53,817
Purchase	-	-	-	-	-	-	-	-	8,698	8,698
At 31 December 2018	13,475	10,329	8,469	139	4,400	200	12,005	4,800	8,698	62,515

PROVISION FOR WRITE-DOWNS										
At 31 December 2016	0	0	0	0	3,778	0	0	0	0	3,778
Write-downs	-	-	-	-	622	-	-	-	-	622
At 31 December 2017	0	0	0	0	4,400	0	0	0	0	4,400
Write-downs	-	-	-	-	-	-	-	-	-	-
At 31 December 2018	0	0	0	0	4,400	0	0	0	0	4,400

NET CARRYING VALUE										
At 31 December 2018	13,475	10,329	8,469	139	-	200	12,005	4,800	8,698	58,116
At 31 December 2017	13,475	10,329	8,469	139	-	200	12,005	4,800	0	49,418

PORTION OF SHAREHOLDERS' EQUITY (CALCULATED IN COMPLIANCE WITH IFRS)										
At 31 December 2018	27,674	7,248	10,870	(28)	(697)	248	23,425	3,630	1,719	74,089
At 31 December 2017	30,061	6,248	10,409	(79)	(60)	251	16,449	3,200	0	66,479

DIFFERENCE BETWEEN SHAREHOLDERS' EQUITY AND CARRYING VALUE										
At 31 December 2018	14,199	(3,081)	2,401	(167)	(697)	48	11,420	(1,170)	(6,979)	15,974
At 31 December 2017	16,586	(4,081)	1,940	(218)	(60)	51	4,444	(1,600)	0	17,062

Faringosi Hinges s.r.l.

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

based on the perpetual income. The value of use was calculated based on a discount rate (WACC) of 10.45% (9.18% in the impairment test carried out while preparing the separate financial statements at 31 December 2017) and a growth rate (g) of 1.50%, unchanged from 31 December 2017.

The recoverable amount calculated on the basis of the above-mentioned assumptions and valuation techniques is € 12.762 million, compared with a carrying value of the equity investment of € 10.329 million; consequently, the amount recorded for equity investment at 31 December 2018 was deemed recoverable.

Sensitivity analysis

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

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

Sabaf do Brasil

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

Sabaf U.S.

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

Sabaf Appliance Components

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

Sabaf Appliance Components Trading

Sabaf Appliance Components Trading (Kunshan) Co., Ltd., was founded during 2012 in order to perform the function as distributor. During 2015, this activity was centralised at Sabaf Appliance Components; however, the company went into liquidation; the process of liquidation should end in 2019.

Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki (Sabaf Turkey)

Sabaf Turkey achieved extremely satisfactory results in 2018 as well. The shareholders' equity remains well above the carrying value of the equity investment.

A.R.C. s.r.l.

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

At 31 December 2018, the Company tested - with the support of independent experts - the carrying value of the equity investment for impairment, determining its recoverable amount, considered to be equivalent to its value of use plus available liquidity, by discounting expected future cash flows in

the forward plan drafted at the beginning of 2019. Cash flows for the period from 2019 to 2023 were augmented by the so-called terminal value, which expresses the operating flows that the investee is expected to generate from the fourth year to infinity and determined based on the perpetual income. The value of use was calculated based on a discount rate (WACC) of 7.73% (6.90% in the impairment test carried out while drafting the separate financial statements at 31 December 2017) and a growth rate (g) of 1.50%, in line with last year.

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				
	1.00%	1.25%	1.50%	1.75%	2.00%
DISCOUNT RATE					
6.73%	13,170	13,615	14,103	14,640	15,233
7.23%	12,207	12,575	12,975	13,412	13,891
7.73%	11,389	11,697	12,030	12,392	12,785
8.23%	10,685	10,947	11,228	11,531	11,858
8.73%	10,073	10,298	10,538	10,795	11,071

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

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

Okida Elektronik Sanayi Limited Sirket

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

At 31 December 2018, the Company tested - with the support of independent experts - the carrying value of the equity investment, determining its recoverable amount, by discounting expected future cash flows estimated on the basis of the 2019 budget and projections for the following three years. Cash flows for the period from 2019 to 2022 were augmented by the so-called

terminal value, which expresses the operating flows that the company is expected to generate from the fifth year to infinity and determined based on the perpetual income. The value of use was calculated based on a discount rate (WACC) of 11.05% and a growth rate (g) of 2.50%, in line with the expected growth of the sector in the Turkish market.

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

Sensitivity analysis

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

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

5. NON-CURRENT FINANCIAL ASSETS

	31.12.2018	31.12.2017	CHANGE
Financial receivables from subsidiaries	5,247	1,668	3,579
Escrow bank account	120	180	(60)
Total	5,367	1,848	3,519

At 31 December 2018, financial receivables from subsidiaries consist of:

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

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

6. INVENTORIES

	31.12.2018	31.12.2017	CHANGE
Commodities	9,358	8,795	563
Semi-processed goods	9,633	9,115	516
Finished products	9,231	8,789	442
Provision for inventory write-downs	(1,594)	(1,930)	336
Total	26,628	24,769	1,857

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

€ 435,000, semi-finished products for € 408,000 and finished products for € 751,000.

7. TRADE RECEIVABLES

	31.12.2018	31.12.2017	CHANGE
Total trade receivables	36,157	31,754	4,403
Bad debt provision	(1,000)	(600)	(400)
Net total	35,157	31,154	4,003

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

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

	31.12.2018	31.12.2017	CHANGE
Current receivables (not past due)	29,966	28,591	1,375
Outstanding up to 30 days	1,996	1,524	472
Outstanding from 31 to 60 days	494	754	(260)
Outstanding from 61 to 90 days	3,030	519	2,511
Outstanding for more than 90 days	671	366	305
Total	36,157	31,754	4,403

The bad debt provision was adjusted to the better estimate of the credit risk at the end of the reporting period.

Changes during the year were as follows:

	31.12.2017	PROVISIONS	UTILISATION	31.12.2018
Bad debt provision	600	402	(2)	1,000

8. TAX RECEIVABLES

	31.12.2018	31.12.2017	CHANGE
For income tax	2,002	1,644	358
For VAT	375	586	(211)
Total	2,377	2,230	147

The income tax receivables derives for € 1,084,000 from the full deductibility of IRAP from IRES relating to the expenses incurred for employees for the 2006-2011 period (Italian Legislative Decree 201/2011), for which an applica-

tion for a refund was presented and, for the residual part, to the payments on account on income, for the part exceeding the tax to be paid.

9. OTHER CURRENT RECEIVABLES

	31.12.2018	31.12.2017	CHANGE
Credits to be received from suppliers	374	351	23
Advances to suppliers	112	28	84
Due from INAIL	10	21	(11)
Other	268	322	(54)
Total	764	722	42

At 31 December 2018, credits to be received from suppliers included € 171,000 related to the relief due to the Company as an energy-intensive busi-

ness (known as "energy-intensive bonuses") for the year 2017. "Energy-intensive bonuses" due for the year 2016 were regularly collected during 2018.

10. CURRENT FINANCIAL ASSETS

	31.12.2018	31.12.2017	CHANGE
Financial receivables from subsidiaries	1,600	1,000	600
Escrow bank accounts	3,510	60	3,450
Interest rate derivatives	-	7	(7)
Total	5,110	1,067	4,043

Financial receivables from subsidiaries consist of an interest-bearing loan with a duration of 12 months to Sabaf Appliance Components Co., Ltd. to support the Chinese subsidiary's working capital.

At 31 December 2018, a term deposit of € 3.45 million was taken out, due on 31 March 2019, for a bank guarantee issued in favour of the sellers of the Okida Elektronik equity investment for the portion of the price, for which payment is deferred until March 2019.

11. CASH AND CASH EQUIVALENTS

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

12. SHARE CAPITAL

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

	NO. OF SHARES	% OF SHARE CAPITAL	RIGHTS AND OBLIGATIONS
Ordinary shares	11,133,450	96.532%	--
Ordinary shares with increased vote	400,000	3.468%	Two voting rights per share
TOTAL	11,533,450	100%	

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

13. TREASURY SHARES AND OTHER RESERVES

During the financial year, Sabaf S.p.A. acquired 132,737 treasury shares at an average unit price of € 17.77; there have been no sales.

At 31 December 2018, the Company held 514,506 treasury shares, equal to 4.46% of share capital (381,769 treasury shares at 31 December 2017), reported in the financial statements as an adjustment to shareholders' equity at a unit value of € 13.348 (the market value at year-end was € 11.811). There were 11,018,944 outstanding shares at 31 December 2018 (11,151,681 at 31 December 2017).

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

14. LOANS

	31.12.2018		31.12.2017	
	Current	Non-current	Current	Non-current
Unsecured loans	9,911	33,669	5,982	16,298
Short-term bank loans	7,188	-	10,846	-
Derivative instruments on interest rates	231	-	-	-
Sabaf Turkey loan	-	-	2,100	-
TOTAL	17,330	33,669	18,928	16,298

During the year, the Company took out new unsecured loans for a total of € 28.7 million to finance the investments made, with particular reference to the acquisition of Okida. All loans are signed with an original maturity of ranging from 5 to 6 years and are repayable in instalments.

Some of the outstanding unsecured loans have covenants, defined with reference to the consolidated financial statements at the end of the reporting period, as specified below:

- commitment to maintain a ratio of net financial position to shareholders' equity of less than 1 (residual amount of the loans at 31 December 2018 equal to € 22.7 million)
- commitment to maintain a ratio of net financial position to EBITDA of less than 2 (residual amount of the loans at 31 December 2018 equal to € 7 million) or less than 2.5 (residual amount of the loans at 31 December 2018 equal to € 15.7 million) widely complied with at 31 December 2018.

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

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

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

15. OTHER FINANCIAL LIABILITIES

	31.12.2018		31.12.2017	
	Current	Non-current	Current	Non-current
Payables to former Okida shareholders	1,735	-		
Payables to A.R.C. shareholders	60	120	60	180
Derivative instruments on interest rates	-	-	15	-
TOTAL	1,795	120	75	180

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

The payable to the A.R.C. shareholders of € 180,000 at 31 December 2018 is related to the part of the price still to be paid to the sellers, which was deposited on an fixed account (Note 5) and will be released in favour of the sellers at constant rates in 3 years, in accordance with contractual agreements and guarantees issued by the sellers.

16. POST-EMPLOYMENT BENEFIT RESERVE

AT 31 DECEMBER 2017	2,200
Financial expenses	24
Payments made	(113)
Tax effect	(27)
AT 31 DECEMBER 2018	2,084

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

Post-employment benefits are calculated as follows:

FINANCIAL ASSUMPTIONS		
	31.12.2018	31.12.2017
Discount rate	1.30%	1.15%
Inflation	1.70%	1.80%

DEMOGRAPHIC THEORY		
	31.12.2018	31.12.2017
Mortality rate	ISTAT 2016 M/F	ISTAT 2016 M/F
Disability rate	INPS 1998 M/F	INPS 1998 M/F
Staff turnover	6%	6%
Advance pay-outs	5% per year	5% per year
Retirement age	pursuant to legislation in force on 31 December 2018	pursuant to legislation in force on 31 December 2017

17. PROVISIONS FOR RISKS AND CHARGES

	31.12.2017	PROVISIONS	UTILISATION	31.12.2018
Reserve for agents' indemnities	199	28	(19)	208
Product guarantee fund	60	7	(7)	60
Provision for risks on equity investments	60	640	-	700
Reserve for legal risks	50	70	-	120
Total	369	745	(26)	1,088

The reserve for agents' indemnities covers amounts payable to agents if the Company terminates the agency relationship.

The product guarantee fund covers the risk of returns or charges by customers for products already sold.

The provision for risks on equity investments was set aside to cover future outlays to restore the shareholders' equity of the Chinese subsidiary Sabaf Appliance Components, which was negative at 31 December 2018.

The reserve for legal risks is allocated for disputes of a modest size.

The provisions booked to the provisions for risks, which represent the estimate of future payments made based on historical experience, have not been discounted because the effect is considered negligible.

18. TRADE PAYABLES

	31.12.2018	31.12.2017	CHANGE
Total	18,945	16,569	2,374

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

19. TAX PAYABLES

	31.12.2018	31.12.2017	CHANGE
To inland revenue for IRPEF tax deductions	590	569	21
Other tax payables	-	54	(54)
Total	590	623	(33)

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

20. OTHER CURRENT PAYABLES

	31.12.2018	31.12.2017	CHANGE
To employees	3,649	3,931	(282)
To social security institutions	1,901	2,063	(162)
Advances from customers	91	64	27
To agents	235	165	70
Other current payables	216	227	(11)
Total	6,092	6,450	(358)

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

21. DEFERRED TAX ASSETS AND LIABILITIES

	31.12.2018	31.12.2017
Deferred tax assets	3,472	3,455
Deferred tax liabilities	(107)	(68)
Net position	3,365	3,387

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

	AMORTISATION AND LEASING	PROVISIONS AND VALUE ADJUSTMENTS	FAIR VALUE OF DERIVATIVE INSTRUMENTS	GOODWILL	ACTUARIAL POST-EMPLOYMENT BENEFIT RESERVE EVALUATION	OTHER TEMPORARY DIFFERENCES	TOTAL
At 31 December 2016	393	770	57	1,771	178	17	3,186
To the income statement	(46)	149	(55)	-	(2)	172	218
To shareholders' equity	-	-	-	-	(17)	-	(17)
At 31 December 2017	347	919	2	1,771	159	189	3,387
To the income statement	69	(45)	53	-	-	(93)	(16)
To shareholders' equity	-	-	-	-	(6)	-	(6)
At 31 December 2018	416	874	55	1,771	153	96	3,365

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

22. NET FINANCIAL POSITION

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

	31.12.2018	31.12.2017	CHANGE
A. Cash (Note 11)	6	5	1
B. Positive balances of unrestricted bank accounts (Note 11)	1,953	2,692	(739)
C. Other cash equivalents	-	-	-
D. Liquidity (A+B+C)	1,959	2,697	(738)
E. Current financial receivables	5,110	1,067	4,043
F. Current bank payables (Note 14)	7,419	12,946	(5,527)
G. Current portion of non-current debt (Note 14)	9,911	5,982	3,929
H. Other current financial payables (Note 15)	1,795	75	1,720
I. Current financial debt (F+G+H)	19,125	19,003	122
J. Net current financial debt (I-D-E)	12,056	15,239	(3,183)
K. Non-current bank payables (Note 14)	33,669	16,298	17,371
L. Other non-current financial payables	120	180	(60)
M. Non-current financial debt (K+L)	33,789	16,478	17,311
N. Net financial debt (J+M)	45,845	31,717	14,128

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

Comments on key income statement items

23. REVENUE

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

Revenue by geographical area

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

The sales analysis by geographical area shows an uneven trend in the various markets in which the Company operates. The best results were achieved on the American continent: sales in North America were sustained by the good performance of consumption; in South America, strong growth rates were recorded in the Andean countries, which more than offset the effects of the crisis in Argentina and a still stagnant demand in Brazil. Satisfactory growth rates were recorded in European markets, thanks to the consolidation of rela-

tionships with major customers and the contribution made by the acquisition in Turkey of Okida; only in Italy sales are down due to the sharp reduction in the production of domestic appliances. North Africa and the Middle East have shown signs of weakness, while the of the Company's presence on Asian markets is not yet sufficiently consolidated.

Revenue by product family

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

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

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

24. OTHER INCOME

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

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

25. MATERIALS

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

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

26. COSTS FOR SERVICES

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

All-in-all, costs for services did not change significantly compared to the previous year.

Costs for advisory services related to technical (€ 564,000), sales (€ 503,000) and legal, administrative and general (€ 810,000) services.

During the year, the Board of Directors was renewed and the fees due to the directors were recalculated, with a reduction in expenses of around € 400,000. Other costs included expenses for the registration of patents, waste disposal, cleaning, leasing third-party assets and other minor charges.

27. PAYROLL COSTS

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

Average of the Company headcount in 2018 totalled 503 employees (376 blue-collar, 117 white-collar and supervisors, 10 managers), compared with 514 in 2017 (394 blue-collar, 110 white-collar and supervisors, 10 managers). The average number of temporary staff, with supply contract, was 47 in 2018 (42 in 2017).

In 2018, the Company made negligible use of the temporary unemployment fund. The item "Stock Grant Plan" included the measurement at 31 December 2018 of the fair value of rights to the assignment of Sabaf shares attributed to employees. For details of the Stock Grant Plan, refer to Note 42.

28. OTHER OPERATING COSTS

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

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

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

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

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

30. FINANCIAL EXPENSES

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

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

31. EXCHANGE RATE GAINS AND LOSSES

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

32. PROFITS AND LOSSES FROM EQUITY INVESTMENTS

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

This item includes dividends received from investee companies.

33. INCOME TAX

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

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

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

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

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

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

No significant tax disputes were pending at 31 December 2018.

34. DIVIDENDS

On 31 May 2018, shareholders were paid an ordinary dividend of € 0.55 per share (total dividends of € 6,071,000).

The Directors have recommended payment of an unchanged dividend of € 0.55 per share this year. This dividend is subject to approval of shareholders in the annual Shareholders' Meeting and was not included under liabilities in these financial statements.

The dividend proposed is scheduled for payment on 29 May 2019 (ex-date 27 May and record date 28 May).

35. SEGMENT REPORTING

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

36. INFORMATION ON FINANCIAL RISK

Categories of financial instruments

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

	31.12.2018	31.12.2017
Financial assets		
<i>Income statement fair value</i>		
Derivative cash flow hedges (on currency)	-	7
<i>Amortised cost</i>		
Cash and cash equivalents	1,959	2,697
Trade receivables and other receivables	35,922	31,876
Non-current loans	5,246	1,668
Current loans	1,600	1,000
Other financial assets	3,630	240
Financial liabilities		
<i>Income statement fair value</i>		
Derivative cash flow hedges (on interest rates)	231	15
<i>Amortised cost</i>		
Loans	50,999	35,226
Other financial liabilities	1,915	240
Trade payables	18,945	16,569

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

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

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

Credit risk management

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

A credit insurance policy is in place, which guarantees cover for approximately 50% of trade receivables.

Credit risk relating to customers operating in emerging economies is generally attenuated by the expectation of revenue through letters of credit.

Forex risk management

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

Sensitivity analysis

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

Interest rate risk management

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

Sensitivity analysis

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

Commodity price risk management

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

Liquidity risk management

The management of liquidity and financial debt is coordinated at Group level. The Group operates with a debt ratio considered physiological (net financial debt / shareholders' equity at 31 December 2018 of 45%, net financial debt / EBITDA of 1.79) and has unused short-term lines of credit. To minimise the risk of liquidity, the Administration and Finance Department:

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

AT 31 DECEMBER 2018	Carrying value	Contractual financial flows	Within 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years
Unsecured loans	43,580	44,414	1,795	8,422	32,621	1,576
Short-term bank loans	7,419	7,419	7,419	-	-	-
Payables to ARC shareholders	180	180	-	60	120	-
Payables to former Okida shareholders	1,735	1,735	1,735	-	-	-
Total financial payables	52,914	53,748	10,949	8,482	32,741	1,576
Trade payables	18,954	18,954	18,437	517	-	-
Total	71,868	72,702	29,386	8,999	32,741	1,576

AT 31 DECEMBER 2017	Carrying value	Contractual financial flows	Within 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years
Unsecured loans	22,280	22,676	1,537	4,612	16,527	-
Short-term bank loans	10,846	10,846	10,846	-	-	-
Short-term Sabaf Turkey loan	2,100	2,118	-	2,118	-	-
Payables to ARC shareholders	240	240	-	60	180	-
Total financial payables	35,466	35,880	12,383	6,790	16,707	0
Trade payables	16,569	16,569	15,615	954	-	-
Total	52,035	52,449	27,998	7,744	16,707	0

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

Hierarchical levels of fair value assessment

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

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

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

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

37. RELATIONS BETWEEN GROUP COMPANIES AND WITH RELATED PARTIES

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

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

	TOTAL 2018	SUBSIDIARIES	GIUSEPPE SALERI SAPA	OTHER RELATED PARTIES	TOTAL RELATED PARTIES	IMPACT ON THE TOTAL
Non-current financial assets	5,367	5,247	-	-	5,247	97.76%
Trade receivables	35,158	6,166	12	-	6,178	17.57%
Tax receivables	2,377	-	1,084	-	1,084	45.60%
Current financial assets	5,874	1,600	-	-	1,600	27.24%
Trade payables	18,945	3,895	-	5	3,900	20.59%

	TOTAL 2017	SUBSIDIARIES	GIUSEPPE SALERI SAPA	OTHER RELATED PARTIES	TOTAL RELATED PARTIES	IMPACT ON THE TOTAL
Non-current financial assets	1,848	1,668	-	-	1,668	90.26%
Trade receivables	31,154	1,209	-	-	1,209	3.88%
Tax receivables	2,230	-	1,084	-	1,084	48.60%
Current financial assets	1,788	1,000	-	-	1,000	55.93%
Trade payables	16,573	510	-	2	512	3.09%
Current financial payables	2,100	2,100	-	-	2,100	100%

Impact of related-party transactions on income statement items

	TOTAL 2018	SUBSIDIARIES	GIUSEPPE SALERI SAPA	OTHER RELATED PARTIES	TOTAL RELATED PARTIES	IMPACT ON THE TOTAL
Revenue	110,065	11,520	-	-	11,520	10.46%
Other income	2,985	800	40	-	840	28.14%
Materials	45,085	1,417	-	-	1,417	3.14%
Services	27,540	3,991	-	22	4,013	14.57%
Capital gains on non-current assets	496	467	-	-	467	94.15%
Other operating costs	1,852	640	-	-	640	34.56%
Financial income	123	119	-	-	119	96.75%

	TOTAL 2017	SUBSIDIARIES	GIUSEPPE SALERI SAPA	OTHER RELATED PARTIES	TOTAL RELATED PARTIES	IMPACT ON THE TOTAL
Revenue	115,687	10,239	-	-	10,239	8.85%
Other income	2,648	414	10	-	424	16%
Materials	46,555	1,548	-	-	1,548	3.33%
Services	27,604	3,966	-	20	3,986	14.44%
Capital gains on non-current assets	98	97	-	-	97	99.58%
Write-downs of non-current assets	682	682	-	-	682	100%
Financial income	89	80	-	-	80	89.89%
Financial expenses	482	2	-	-	2	0.46%

Relations with subsidiaries mainly consist of:

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

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

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

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

38. SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

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

39. ATYPICAL AND/OR UNUSUAL TRANSACTIONS

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

40. COMMITMENTS

Guarantees issued

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

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

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

42. SHARE-BASED PAYMENTS

In order to adopt a medium and long-term incentive instrument for directors and employees of the Sabaf Group, on the proposal of the Remuneration and Nomination Committee, the Board of Directors prepared a specific free allocation plan of shares (the "Plan") with the characteristics described below.

The Plan was approved by the Shareholders' Meeting on 8 May 2018 and the related Regulations by the Board of Directors on 15 May 2018.

Purpose of the plan

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

Beneficiaries of the plan

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

- Cluster 1: Beneficiaries already identified in the Plan or who will be identified by the Board of Directors by 30 June 2018 on the Shareholders' Meeting authority.
 - Cluster 2: Beneficiaries who will be identified by the Board of Directors from 1 July 2018 to 30 June 2019 on the Shareholders' Meeting authority.
- On 15 May 2018, the Board of Directors identified the Beneficiaries of Cluster 1 of the Plan to whom a total of 185,600 rights have been assigned.

Subject-matter of the plan

The subject-matter of the Plan is the free allocation to the Beneficiaries of a maximum of 370,000 Rights, each of which entitles them to receive free of charge, under the terms and conditions provided for by the Regulations of the Plan, 1 Sabaf S.p.A. Share.

The free allocation of Sabaf S.p.A. shares is conditional, among other things, on the achievement, in whole or in part, with progressiveness, of the business objectives related to the ROI, EBITDA and TSR indicators.

Deadline of the Plan

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

Fair Value measurement methods

Considering the allocation mechanism described above, it was necessary to measure at fair value the rights assigned to receive shares of the company.

The main assumptions made at the beginning of the vesting period of the plan are illustrated below:

FAIR VALUE MEASUREMENT METHODS - RIGHTS RELATING O 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			
Rights on ROI	33.40%			
			Fair Value	2.28

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			
Rights on EBITDA	33.30%			
			Fair Value	2.99

FAIR VALUE MEASUREMENT METHODS - RIGHTS RELATING TO OBJECTIVES MEASURED IN 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			
Rights on TSR	33.30%			
			Fair Value	2.00
Fair Value per share at initial date of the vesting period				7.27

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

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

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

STATUTORY REFERENCES	CONTRIBUTION VALUE	DISBURSING SUBJECT
Patent Box	1,307	Italian State
Super ammortamento (Super amortisation)	179	Italian State
Energy-intensive contributions	509	Italian State
Total	1,995	

Patent Box:

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

Super ammortamento (Super amortisation):

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

Energy-intensive contributions:

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

List of investments with additional information required by CONSOB (communication DEM6064293 of 28 July 2006)

IN SUBSIDIARIES ¹						
COMPANY NAME	REGISTERED OFFICES	SHARE CAPITAL AT 31 DECEMBER 2018	SHAREHOLDERS	OWNERSHIP %	SHAREHOLDERS' EQUITY AT 31 DECEMBER 2018	2018 PROFIT (LOSS)
Faringosi Hinges s.r.l.	Ospitaletto (BS)	EUR 90,000	Sabaf S.p.A.	100%	EUR 7,248,309	EUR 996,255
Sabaf Immobiliare s.r.l.	Ospitaletto (BS)	EUR 25,000	Sabaf S.p.A.	100%	EUR 21,341,974	EUR 759,565
Sabaf do Brasil Ltda	Jundiaí (Brazil)	BRL 24,000,000	Sabaf S.p.A.	100%	BRL 48,305,068	BRL 6,954,784
Sabaf US Corp.	Plainfield (USA)	USD 100,000	Sabaf S.p.A.	100%	USD -28,342	USD 51,140
Sabaf Appliance Components (Kunshan) Co., Ltd.	Kunshan (China)	EUR 4,400,000	Sabaf S.p.A.	100%	CNY -4,347,931	CNY -4,407,939
Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirketi	Manisa (Turkey)	TRY 28,000,000	Sabaf S.p.A.	100%	TRY 139,948,685	TRY 67,735,385
Sabaf Appliance Components Trading (Kunshan) Co., Ltd. in liquidation	Kunshan (China)	EUR 200,000	Sabaf S.p.A.	100%	CNY 1,955,552	----
A.R.C. s.r.l.	Campodarsego (PD)	EUR 45,000	Sabaf S.p.A.	70%	EUR 5,289,518	EUR 655,460
Okida Elektronik Sanayi ve Ticaret A.S	Istanbul (Turkey)	TRY 5,000,000	Sabaf S.p.A.	30%	TRY 34,726,075	TRY 27,193,127
			Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirketi	70%		

Other significant equity investments

None.

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

Origin, possibility of utilisation and availability of reserves

DESCRIPTION	AMOUNT	POSSIBILITY OF UTILISATION	AVAILABLE SHARE	AMOUNT SUBJECT TO TAXATION FOR THE COMPANY IN THE CASE OF DISTRIBUTION
CAPITAL RESERVE:				
Share premium reserve	10,002	A, B, C	10,002	0
Revaluation reserve, Law 413/91	42	A, B, C	42	42
Revaluation reserve, Law 342/00	1,592	A, B, C	1,592	1,592
RETAINED EARNINGS:				
Legal reserve	2,307	B	0	0
Other retained earnings	58,657	A, B, C	58,657	0
VALUATION RESERVE:				
Post-employment benefit actuarial reserve	(456)		0	0
Reserve for stock grant plan	321		0	0
TOTAL	72,465		70,293	1,634

KEY:

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

Statement of revaluations of equity assets at 31 December 2018

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

GENERAL INFORMATION

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

Registered and administrative office	Via dei Carpini, 1 25035 - Ospitaletto (Brescia)
Contacts	Tel: +39 030 - 6843001
	Fax: +39 030 - 6848249
	E-mail: 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 services and for services other than auditing provided by the Independent Auditor. No services were provided by entities belonging to the network.

(€/000)	PARTY PROVIDING THE SERVICE	FEEES PERTAINING TO THE 2018 FINANCIAL YEAR
Audit	EY S.p.A.	20
Certification services	EY S.p.A.	---
Other services	EY S.p.A.	16 ²
Total		36

² auditing procedures agreement relating to interim management reports



CERTIFICATION OF SEPARATE FINANCIAL STATEMENTS

pursuant to Article 154-bis of Italian Legislative Decree 58/98

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

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

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

They also certify that:

- the separate financial statements:
 - were prepared in accordance with the international accounting policies recognised in the European Community in accordance with EC regulation 1606/2002 of the European Parliament and Council of 19 July 2002 and with the measures issued in implementation of Article 9 of Italian Legislative Decree 38/2005;
 - are consistent with accounting books and records;
 - provide a true and fair view of the financial position and performance of the issuer;
- the report on operations contains a reliable analysis of the performance and results of operations and the situation at the issuer, along with a description of the key risks and uncertainties to which it is exposed.

Ospitaletto, 26 March 2019

Chief Executive Officer

Pietro Iotti

The Financial Reporting Officer

Gianluca Beschi



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

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

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014 (Translation from the original Italian text)

To the Shareholders of
Sabaf S.p.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Sabaf S.p.A. (the Company), which comprise the statement of financial position as at December 31, 2018, and the income statement, the comprehensive income statement, statement of changes in shareholders' equity and cash flows statement for the year then ended, and explanatory notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matters

The financial statements of Sabaf S.p.A. for the year ended December 31st 2017 were audited by another auditor who expressed an unmodified opinion on those statements on April 12th 2018.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

EY S.p.A.
Spazio Legale - Via Po, 32 - 00198 Roma
Capitale Sociale (euro) 2.575.000,00 i.v.
Inscritta alla S.O. del Registro delle Imprese di Roma alla C.C.I.A.A. di Roma
Codice Fiscale e numero di iscrizione 00424007584 - numero R.E.A. 250904
P. IVA 00691231003
Inscritta al Registro Rinnovi Legali al n. 70945 Pseudonimo sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Comitato di revisione n. 2 dottori n. 10831 del 16/7/1997
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We identified the following key audit matters:

Key Audit Matters	Audit Responses
<p>Valuation of investments</p> <p>The balance of investments at December 31, 2018 amounted to € 58,1 million. The most significant investments related to:</p> <p>Sabaf Immobiliare S.r.l.: € 13,5 million Faringosi Hinges S.p.A.: € 10,3 million Sabaf do Brasil: € 8,5 million Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited: € 12 million A.R.C. s.r.l.: € 4,8 million Okida Elektronik Sanayi Limited Sirket: € 8,7 million</p> <p>Management assesses the existence of impairment indicators on investments at least annually, in line with its strategy in managing each separate entity within the group and, if present, such investments are subject to an impairment test.</p> <p>The processes and methodologies to value and determine the recoverable amount of investments are based on complex assumptions that, due to their nature, imply the use of judgement by management, in particular with reference to the assumptions underlying future cash flow forecasts in the period covered by the business plan, the estimate of the terminal value and the calculation of the long-term growth and discount rates applied to the future cash flow forecasts.</p> <p>Considering the level of judgement and complexity of the assumptions applied in estimating the recoverable amount of investments, we determined that this area represents a key audit matter.</p> <p>The disclosures related to the valuation of investments are included in paragraph "Use of estimates" and in note "4 Equity Investments".</p>	<p>Our audit procedures in response to this key audit matter included, among others: (i) assessment of the process and key controls implemented by the Company in connection with the valuation of investments; (ii) assessment of the assumptions underlying future cash flow forecasts; (iii) test of the consistency of the investments future cash flow forecasts against the 2019-2023 business plan approved by the Board of Directors; (iv) assessment of the accuracy of cash flow projections as compared to historical results; (v) assessment of the long-term growth rates and discount rates.</p> <p>In performing our analysis, we engaged our experts in valuation techniques, who have independently performed calculation and sensitivity analyses of key assumptions in order to determine any changes in assumptions that could materially impact the valuation of the recoverable amount.</p> <p>Lastly, we evaluated the adequacy of the disclosures made in the explanatory notes to the financial statements regarding the key audit matter.</p>



Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Company's ability to continue as a going concern and, when preparing the financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the financial statements on a going concern basis unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.



However, future events or conditions may cause the Company to cease to continue as a going concern;

- we have evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Sabaf S.p.A., in the general meeting held on May 8, 2018, engaged us to perform the audits of the financial statements for each of the years ending December 31, 2018 to December 31, 2016.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of Sabaf S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure of Sabaf S.p.A. as at December 31, 2018, including their consistency with the related financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the financial statements of Sabaf S.p.A. as at December 31, 2018 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.



In our opinion, the Report on Operations and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the financial statements of Sabaf S.p.A. as at December 31, 2018 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Milan, April 12, 2019

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

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

Report of the Board of Statutory Auditors to the Shareholders' Meeting of SABAF S.p.A.

in accordance with Art. 2429, paragraph 2 of the Italian Civil Code and Art. 153 of Italian Legislative Decree no. 58/1998

To the Shareholders' Meeting of the Company SABAF S.p.A.

Introduction

The Board of Statutory Auditors of SABAF S.p.A. (hereinafter also "SABAF" or "Company"), pursuant to Art. 153 of Italian Legislative Decree no. 58 of 1998 (hereinafter also TUF) and Art. 2429, paragraph 2 of the Italian Civil Code, is called upon to report to the Shareholders' Meeting called to approve the Financial Statements on the supervisory activity carried out during the financial year in the performance of its duties, also in the capacity of "internal control and audit committee", on any omissions and reprehensible facts found and on the results of the financial year, as well as to formulate proposals regarding the Financial Statements, the approval thereof and matters falling within its competence.

Note, first of all, that the Board of Directors decided to make use of the longer term envisaged in Art. 2364 of the Italian Civil Code and Art. 8 of the Articles of Association for the call of the Shareholders' Meeting to approve the 2018 financial statements, owing to the existence of the relative conditions. The financial statements report is in any case made available to the public in full within the terms of Art. 154-ter of the TUF (within four months from the end of the financial year). The decision was taken by the Board, as explained in the Report on Operations, as SABAF is required to prepare the consolidated financial statements, in consideration of requirements related to the relevant obligations and fulfilments.

During the year ended 31 December 2018 and up to date, the Board of Statutory Auditors carried out its supervisory activities in compliance with Law provisions, Rules of Behaviour of the Board of Statutory Auditors of listed companies issued by the Italian Board of Certified Public Accountants and Bookkeepers, the CONSOB provisions on corporate controls, the Corporate Governance Code, as well as by the provisions contained in Art. 19 of Italian Legislative Decree 39/2010.

The financial statements of SABAF were prepared in accordance with the IAS/IFRS international accounting standards issued by the International Accounting Standards Board (IASB) and approved by the European Union, as well as in accordance with the provisions issued by CONSOB in implementation of Article 9, paragraph 3, of Italian Legislative Decree 38/2005.

The Company's Financial Statements were prepared in accordance with the law and accompanied by the documents required by the Italian Civil Code and the TUF. Moreover, in accordance with law provisions, the Company prepared the Consolidated financial statements and the Consolidated disclosure of

non-financial information for the year 2018.

The Board of Statutory Auditors acquired the information necessary for the performance of the supervisory duties assigned to it by attending the meetings of the Board of Directors and the Board Committees, the hearings of the Company's and the Group's management, the information acquired from the competent company structures, as well as through the additional control activities carried out.

Appointment and Independence of the Board of Statutory Auditors

The Board of Statutory Auditors in office at the date of this Report was appointed by the Shareholders' Meeting of 8 May 2018 in the persons of Alessandra Tronconi (Chairman), Luisa Anselmi (Statutory Auditor), Mauro Giorgio Vivenzi (Statutory Auditor), as well as Paolo Guidetti and Stefano Massarotto (Alternate Auditors). The control body will remain in office for three financial years and will expire on the date of the Shareholders' Meeting called to approve the Financial Statements for the year 2020.

The appointment was made on the basis of two lists submitted by the Shareholders Giuseppe Saleri S.a.p.a and Quaestio Capital SGR S.p.A. respectively, in compliance with the applicable law, regulatory and statutory provisions. The Chairman of the Board of Statutory Auditors and one Alternate Auditor were drawn from the list that obtained the lowest number of votes.

The composition of the Board of Statutory Auditors complies with the gender distribution criterion set forth in Art. 148 of Italian Legislative Decree no. 58 of 1998.

At the time of its appointment and subsequently on 15 May 2018, the Board of Statutory Auditors checked the existence of the independence requirement as part of the broader process of self-assessment of the control body pursuant to Standard Q.1.1 of the Rules of Behaviour of listed companies; the check was carried out on the basis of the criteria envisaged by the aforesaid Standards and by the Corporate Governance Code applicable to independent directors.

The outcome of the check was communicated (pursuant to Art. 144-novies, paragraph 1-ter of CONSOB Regulation no. 11971 of 1999, Art. 8.C.1 of the Corporate Governance Code and Standard Q.1.1 of the Rules of Behaviour of listed companies) to the Board of Directors, which issued the relevant press release on 26 June 2018.

This assessment was carried out again on 12 March 2019 and consequently communicated to the Board of Directors, which disclosed it in the Report prepared pursuant to Art. 123 bis of the TUF.

Supervision and control of the Board of Statutory Auditors

Supervisory activity on compliance with the law and articles of association

In carrying out its duties, the Board of Statutory Auditors carried out the supervisory activities required by Art. 2403 of the Italian Civil Code, Art. 149 of Italian Legislative Decree No. 58 of 1998, Art. 19 of Italian Legislative Decree No. 39/2010, CONSOB recommendations on corporate controls and the activities of the Board of Statutory Auditors and referring to the indications contained in the Corporate Governance Code, as well as the Rules of Behaviour of the Board of Statutory Auditors of listed companies.

Therefore, as part of its functions, the Board of Statutory Auditors:

- attended the meetings of the Shareholders and Board of Directors, monitoring compliance with the statutory, legislative and regulatory provisions regulating the operation of the Company's bodies as well as compliance with the principles of proper management;
- supervised, for what of direct concern, the adequacy of the Company's organisational structure and compliance with the principles of proper management, through direct observation, gathering information from heads of the corporate functions and meetings with the Independent auditors to exchange data and information;
- assessed and supervised the adequacy of the internal control system and the administrative and accounting system, as well as its reliability in providing a fair presentation of operational transactions, through the information of the heads of the respective functions, the examination of company documents and the analysis of the results of the work carried out by the Independent Auditors;
- held 11 meetings during the year, lasting approximately 2 hours, and also attended all the meetings of the Board of Directors, as well as of the board committees (Control and Risk Committee, Remuneration and Nomination Committee);
- supervised the adequacy of the reciprocal flow of information between SABAF and its subsidiaries pursuant to Art. 114, paragraph 2, of Italian Legislative Decree no. 58 of 1998, ensured by the instructions issued by the Company's management to Group companies;
- supervised compliance with the rules of "Market abuse", "Protection of savings" and "Internal Dealing", with a special reference to the processing of inside information and the procedure for the dissemination of statements and information to the public. The adjustment of the procedure adopted by the Company for the management of inside and relevant information, drawn up in the light of CONSOB Guidelines no. 1/2017, was monitored;
- supervised the implementation by SABAF of the new regulations deriving from the entry into force of European Regulation no. 2016/679 on the protection of personal data.

Moreover, the Board:

- obtained from the Directors adequate information on the business carried on and major economic and financial operations carried out by the Company and its subsidiaries pursuant to Art. 150, paragraph 1 of the TUF. In this regard, the Board of Statutory Auditors paid special attention to the fact that the transactions approved and implemented complied with the law and the Articles of Association and were not imprudent or risky,

in contrast with the resolutions adopted by the Shareholders' Meeting, in potential conflict of interest or such as to compromise the integrity of the Company's assets;

- held meetings with representatives of the Independent Auditors pursuant to Art. 150, paragraph 3 of the TUF and there were no significant data and/or information to be reported;
- had exchanges of information with corresponding control bodies (if any) of the companies directly or indirectly controlled by SABAF S.p.A. pursuant to Art. 151, paragraph 1 and 2 of the TUF;
- supervised the procedures for effective implementation of the corporate governance rules envisaged in the Corporate Governance Code complied with, as adequately represented in the Report on Corporate Governance and Ownership Structure, in compliance with Art. 124-ter of the TUF and Art. 89-bis of the Issuers' Regulations;
- checked, in relation to the periodic assessment to be carried out pursuant to Application Principle 3.C.5 of the Corporate Governance Code, as part of the supervision of the procedures for effective implementation of the corporate governance rules, the correct application of the assessment criteria and procedures adopted by the Board of Directors, with regard to the positive assessment of the independence of the Directors.

As required by Application Principle 1.C.1, letter g) of the Corporate Governance Code, the Board of Directors expressed its assessment of the size and composition of the Board and its operation, as well as the size, composition and operation of the board committees. The assessment - carried out on the basis of the results of a self-assessment questionnaire - used the assessment criteria already adopted in the previous year, filled in by all the members of the Board of Directors.

The Board also acknowledges that it has issued a favourable opinion:

- on the Policy on the composition of corporate bodies prepared pursuant to Art. 123-bis, paragraph 2, letter d-bis of the TUF;
- on the appointment of the manager responsible for preparing the accounting documents;
- on the appointment and remuneration to be assigned to the head of the Internal Audit Department as required by Application Principle 7.C.1 of the Corporate Governance Code;
- at the suggestion for remuneration of directors holding special positions, pursuant to Art. 2389 of the Italian Civil Code, also in the light of the assessments of the Remuneration and Nomination Committee; the Board of Statutory Auditors also certified the consistency of the 2018 - 2020 Stock Grant Plan in favour of directors and employees of the Company and its subsidiaries and of the related Implementation Regulations with the Company's Remuneration Policy. The Board also expressed a favourable opinion on the Regulations for the implementation of the Stock Grant Plan;
- with regard to the annual Audit Plan prepared by the Head of the Internal Audit Department.

The Board of Statutory Auditors also gave its consent, pursuant to Art. 2426, paragraph 1, number 5, of the Italian Civil Code, to the recognition in the financial statements of development costs with a multi-year use of € 284,000.

Supervisory activity on the adequacy of the administrative and accounting system and the auditing activity

Pursuant to Art. 19 of Italian Legislative Decree 39/2010 (Consolidated External Audit Act), the Board of Statutory Auditors is required to supervise:

- the financial reporting process;
- the effectiveness of the internal control and risk management systems;
- the External audit of annual accounts and consolidated accounts;
- the independence of the Independent Auditors, specifically as far as the provision of non-audit services is concerned.

The Board of Statutory Auditors carried out its activities in collaboration with the Control and Risk Committee in order to coordinate their responsibilities and avoid overlapping of activities.

Financial reporting process

The Board of Statutory Auditors supervised the existence of rules and procedures relating to the process of formation and dissemination of financial information. In this regard, it should be noted that the Report on Corporate Governance and Ownership Structure illustrates how the Group defined its Internal Control and Risk Management System in relation to the financial reporting process at the consolidated level. The Financial Reporting Officer is Gianluca Beschi.

The Financial Reporting Officer is supported by the Internal Audit Department to check the operation of the administrative and accounting procedures through control testing.

The Board of Statutory Auditors acknowledges that it has received adequate information on the monitoring of business processes with an administrative and accounting impact within the Internal Control System, carried out both during the year in relation to the regular management reports, and during the closing of the accounts for the preparation of the Financial Statements, in compliance with the monitoring and certification requirements to which SABAF S.p.A. is subject pursuant to Italian Law no. 262/2005. In particular, the Board of Statutory Auditors acknowledged the Risk Assessment for 2018, as well as the periodic update on testing activities pursuant to Italian Law no. 262/2005.

The adequacy of the administrative and accounting system was also assessed through the acquisition of information from the heads of the respective departments and the analysis of the results of the work carried out by the Independent Auditors. Note that during the 2018 financial year no updates were made to the administrative and accounting procedures prepared pursuant to Italian Law 262/2005 and adopted by SABAF.

No particular critical issues or elements hindering the issue of the certification by the Financial Reporting Officer and by the Chief Executive Officer concerning the adequacy of the administrative and accounting procedures for the preparation of the financial statements of SABAF S.p.A. and the Consolidated Financial Statements for the year 2018 emerged.

The Board of Statutory Auditors supervised compliance with the regulations related to the preparation and publication of the Half-Yearly Report and the Interim Management Reports, as well as the settings given to them and the correct application of the accounting standards, also using the information obtained from the Independent Auditors.

Furthermore, it is acknowledged that:

- the Independent Auditors appointed to carry out the external audit currently in office, EY S.p.A., were appointed for the 2018-2026 period at the Shareholders' Meeting held on 8 May 2018: the procedure for the appointment was carried out in compliance with the provisions of Article 16 of Regulation (EU) 2014/537. The Board of Statutory Auditors in office at that time submitted to the Board of Directors a reasoned recommendation containing the name of two Independent Auditors suitable to replace the one that is due to expire, expressing preference for one of them. This recommendation was developed at the end of a detailed selection procedure that was carried out in compliance with the provisions contained in Regulation (EU) 2014/537;
- the Independent Auditors appointed to audit the company illustrated to the Board of Statutory Auditors the checks carried out and did not report any findings in the periodic meetings with the Board of Statutory Auditors;
- the Board of Statutory Auditors supervised the auditing of the annual and consolidated financial statements, obtaining information and periodically discussing with the Independent Auditors, also in the light of the recent changes introduced with regard to the Independent Auditors' report.

In particular, all the main phases of the audit activity were illustrated to the Board of Statutory Auditors, including the identification of the risk areas, with a description of the related audit procedures adopted; moreover, the main accounting principles applied by SABAF have been followed.

The Board also acknowledges that the Independent Auditors EY S.p.A. issued their opinions on the Consolidated Financial Statements and the Separate Financial Statements today (April 12, 2019) and also issued on the same date the Additional Report to the Internal Control and Audit Committee pursuant to Article 11 of Regulation (EU) 2014/537.

The reports on the Separate financial statements and the Consolidated financial statements do not give rise to any observations or requests for information.

It is also acknowledged that the Independent Auditors expressed, in the reports mentioned above, a positive opinion with regard to consistency with the financial statements and compliance with the law with reference:

- to the Management report;
- to the information referred to in Art. 123-bis, paragraph 4, Italian Legislative Decree 58/98 contained in the Report on corporate governance and ownership structure.

In the audit work, a special attention was paid to the key aspects relating to the impairment test and Purchase Price Allocation. Moreover, the reports issued by the Independent Auditors do not reveal any significant shortcomings in the Company's internal control system for financial information and accounting system.

The Board of Statutory Auditors supervised the independence of the Independent Auditors EY S.p.A., verifying the type and extent of services other than auditing with reference to SABAF and its subsidiaries and obtaining explicit confirmation from the Independent Auditors that the independence requirement was met. The statement on independence has been included, pursuant to Art. 11, paragraph 2, letter a), of Regulation (EU) 2014/537, in the above-mentioned Additional Report.

The fees paid by the SABAF Group to the Independent Auditors and to the companies belonging to the network of the Independent Auditors themselves are as follows:

ASSETS	AMOUNT EUR/000
Audit	82
Certification services	-
Other services	16
Total	98

In the light of the above, the Board of Statutory Auditors considers that the Independent Auditors EY S.p.A. meet the requirement of independence.

Note that in 2018 there were changes in the scope of the audit, in relation to the inclusion in the consolidation area of the company Okida Elektronik Sanayi Limited Sirket as a result of its acquisition in September by the Group. Okida was consolidated as from 4 September 2018, contributing to the Group's total turnover of approximately € 4 million.

Supervisory activity on the adequacy of the internal control system and the organisational structure

The Board of Statutory Auditors assessed and supervised the adequacy of internal control and the effectiveness of the internal control and risk management systems. The Board of Statutory Auditors acknowledges that it has verified the most significant activities carried out by the overall internal control and risk management system by attending the meetings of the Control and Risk Committee (also with functions of Committee for related-party transactions) attended by:

- members of the Control and Risk Committee;
- members of the Board of Statutory Auditors;
- the Chief Executive Officer and director in charge of the internal control and risk management system;
- the Internal Audit department and its Head;
- the Financial Reporting Officer.

The Board of Statutory Auditors also acknowledges that it attended the periodic meetings among the Company's control bodies attended by:

- members of the Control and Risk Committee;
- members of the Board of Statutory Auditors;
- the Independent Auditors;
- the Chief Executive Officer and Director in charge of the internal control system;
- the Financial Reporting Officer;
- the Internal Audit department and its Head;
- the Supervisory Body.

In particular, as part of these activities, the Board of Statutory Auditors acknowledges that it has received and examined:

- the periodic reports on the activities carried out, prepared by the Control and Risks Committee and the Internal Audit department;
- the reports drawn up at the end of the verification and monitoring activities by the Internal Audit department, with the relative results, the recommended actions and the controls on the implementation of the aforesaid actions;

- periodic updates on the development of the risk management process, the outcome of the monitoring and assessment activities carried out by Internal Audit and the objectives achieved.

The Board of Statutory Auditors then reviewed every six months the periodic reports on the activities carried out by the Supervisory Body and examined the activity plan and the budget allocated for 2018. Similarly, the Board of Statutory Auditors acknowledged the compliance with the provisions of Italian Legislative Decree no. 231/2001 and the activity plan for 2018, examining and agreeing with the amendments made during the year to the Organisation and Management Model pursuant to Italian Legislative Decree no. 231/2001.

Following the activities carried out during the 2018 financial year, as detailed above, the Board of Statutory Auditors shared the positive assessment expressed by the Control and Risk Committee with regard to the adequacy of the Internal Control and Risk Management System.

With reference to the internal control system, the Board of Statutory Auditors acknowledges that, after the 2018 reporting period, on 5 February 2019, Marcandalli, Head of the Internal Audit department and member of the Supervisory Body, resigned, effective as from 1 May 2019. A new department head is currently being selected.

Supervisory activity on compliance the principles of proper management

During 2018, in line with the 2018-2022 Business Plan, SABAF carried out an important operation aimed at achieving growth through acquisitions of the Group: as described in the Report on Operations, in September 2018 the Group purchased 100% of Okida Elektronik Sanayi Limited Sirket (30% directly from Sabaf S.p.A., the remaining 70% indirectly purchased through the Turkish subsidiary Sabaf Beyaz Esya), for a total investment of € 24.1 million. This transaction is considered strategic in that it allows the Group to implement its strategy of expanding its range of products in components for domestic appliances and acquiring expertise in the electronics sector.

In terms of ordinary operations, SABAF's activities continued in line with previous years and consisted of industrial activities, strategic and management coordination of the Group, the search for the optimisation of the Group's financial flows, as well as the search and selection of equity investments with the aim of accelerating the Group's growth.

The Sabaf Group also carried out organic investments of € 11.5 million mainly aimed at increasing the production capacity of special burners, completing the automation of production of light alloy valves and interconnection of production plants with management systems (Industry 4.0).

Moreover, following the supervision and control activities carried out during the year, the Board of Statutory Auditors can certify that:

- during the course of the activity carried out, no omissions, irregularities or reprehensible or significant facts that would require reporting to the control bodies or mention in this Report emerged;
- no reports were received by the Board of Statutory Auditors pursuant to Art. 2408 of the Italian Civil Code, nor has it received any complaints from third parties;

- no transactions have been identified with third parties, intra-group and/or related parties such as to highlight atypical and/or unusual profiles, in terms of content, nature, size and timing;
- all the transactions and management choices adopted are inspired by the principle of correct information and reasonableness and comply with the 2018-2022 Business Plan approved by the Board of Directors.

Supervisory activity on implementation of the corporate governance rules

The Board of Statutory Auditors assessed the application of the corporate governance rules set out in the Corporate Governance Code that SABAF complies with and the relative level of compliance, also by analysing the Report on Corporate Governance and ownership structure and comparing its contents with what emerged during the general supervisory activity carried out during the year. Moreover, compliance with the obligation on the part of SABAF to inform the market in its report on corporate governance of its level of compliance with the Code itself was assessed, also in accordance with the provisions of Article 123 bis of the TUF. The Board of Statutory Auditors is of the opinion that the report on corporate governance was prepared in accordance with the provisions of Art. 123-bis of the TUF and the Corporate Governance Code and following the format made available by the Corporate Governance Committee of Borsa Italiana S.p.A.

Supervisory activities in relation to the Financial Statements, the Consolidated financial statements and the Consolidated disclosure of non-financial information

With regard to the Separate financial statements for the year ended 31 December 2018, the Consolidated financial statements for the year ended 31 December 2018 and the related Report on operations, note the following:

- the Board of Statutory Auditors ascertained, through direct audits and information obtained from the Independent Auditors, compliance with law provisions regulating their formation, the layout of the Financial statements, the Consolidated financial statements and the Report on Operations, and the financial statement formats adopted, certifying the correct use of the accounting standards described in the explanatory notes and the Report on operations. In particular, the Board of Statutory Auditors analysed the results of the impairment test carried out, in accordance with IAS 36, on the individual CGUs that coincide with the equity investments in Faringosi Hinges s.r.l., A.R.C. s.r.l. and Okida Elektronik ("Hinges" CGU for Faringosi Hinges s.r.l.; "Professional burners" CGU for A.R.C. s.r.l.; "electronic components" CGU for Okida Elektronik).
In particular, note that the test was carried out:
- for the purposes of the Separate financial statements of Sabaf S.p.A. (and, in relation to Okida Elektronik, of Sabaf Turkey), to assess the recoverability of the amount of investments and

- for the purposes of the Consolidated Financial Statements, to make sure that the net capital invested in the CGUs (including goodwill and other intangible assets deriving from the Okida acquisition) was lower than its recoverable amount.

In this regard, note that the Independent Auditors, in their reports, accurately described the audit procedures carried out with reference to the impairment tests, as "key aspects of the audit" and to which, therefore, the Board of Statutory Auditors refers. Therefore, the Board of Statutory Auditors supports the procedures adopted and the results obtained, which show values in use that are significantly higher than the carrying values of the equity investments and assets;

- in pursuance of CONSOB Resolution 15519/2006, the effects of transactions with related parties are expressly indicated in the financial statements. In pursuance of this Resolution in the Explanatory Notes, it is specified that during the year there were no significant non-recurring events or operations and no transactions deriving from atypical and/or unusual operations were carried out;
- the Financial statements are in keeping with the facts and information of which the Board of Statutory Auditors has become aware within its supervisory duties and its control and inspection powers;
- as far as the Board of Statutory Auditors is aware, the Directors, when preparing the financial statements, did not depart from the law provisions pursuant to Art. 2423, paragraph 5 of the Italian Civil Code;
- the Chief Executive Officer and the Financial Reporting Officer issued the certificate, pursuant to Art. 81-ter of CONSOB Regulation no. 11971/1999 as amended and Art. 154-bis of Italian Legislative Decree 58/1998 (TUF);
- the Report on Operations complies with legal requirements and is consistent with the data and results of the Financial Statements; it provides the necessary information on the activities and significant transactions of which the Board of Statutory Auditors was informed during the year, on the main risks of the Company and its subsidiaries, on intra-group and related-party transactions, as well as on the process of adapting the corporate organisation to the principles of corporate governance, in accordance with the Corporate Governance Code for listed companies;
- pursuant to the provisions of Art. 123-ter of Italian Legislative Decree 58/1998 (TUF), the Remuneration Report is presented to the Shareholders' Meeting: the Board of Statutory Auditors examined and agreed with the approach followed in preparing this report, at a joint meeting with the Remuneration Committee.

In relation to the presentation of the Consolidated disclosure of non-financial information, the Board of Statutory Auditors, in compliance with Italian Legislative Decree no. 254 of 30 December 2016, supervised compliance with the provisions set out in the decree itself and in CONSOB resolution no. 20267 of 18 January 2018 for the preparation of the statements in question, also acquiring the certification issued by the appointed auditor EY S.p.A. on 12 April 2019. This activity did not reveal any facts that could be reported in this report.

Supervisory activity on relationships with Subsidiaries and parent companies

The Board of Statutory Auditors supervised the adequacy of the instructions given by the Company to the subsidiaries, in accordance with Art. 114, paragraph 2 of Italian Legislative Decree 58/1998.

Periodic meetings with the management and the company in charge of Internal Audit did not reveal any critical elements to be reported in this report.

Finally, we acknowledged that to date no communications have been received from the Control Bodies of the Subsidiaries and/or parent companies containing findings to be noted in this report.

Supervisory activity on related-party transactions

In relation to the provisions of Art. 2391 bis of the Italian Civil Code, the Board of Statutory Auditors acknowledges that the Board of Directors adopted a procedure for the regulation of Related-Party Transactions, whose main objective is to define the guidelines and criteria for identifying related-party transactions and setting out roles, responsibilities and operating methods so as to guarantee, for such transactions, adequate information transparency and the related procedural and substantial correctness.

That procedure was prepared in compliance with what was established by the CONSOB Regulation on Related Parties (no. 17221 dated 21 March 2010) and was amended during the year by the Board of Directors on 25 September 2018.

The Board of Statutory Auditors supervised the effective application of the rules by the Company and has no observations to make in this regard in this Report.

Proposal to the Shareholders' Meeting

The Board of Statutory Auditors expresses its favourable opinion for the approval of the Separate financial statements as at 31 December 2018 and has no objections to make to the draft resolution presented by the Board of Directors as formulated in the Directors' Report on Operations.

Ospitaletto, 12 April 2019

The Board of Statutory Auditors

Chairman

Alessandra Tronconi

Statutory Auditor

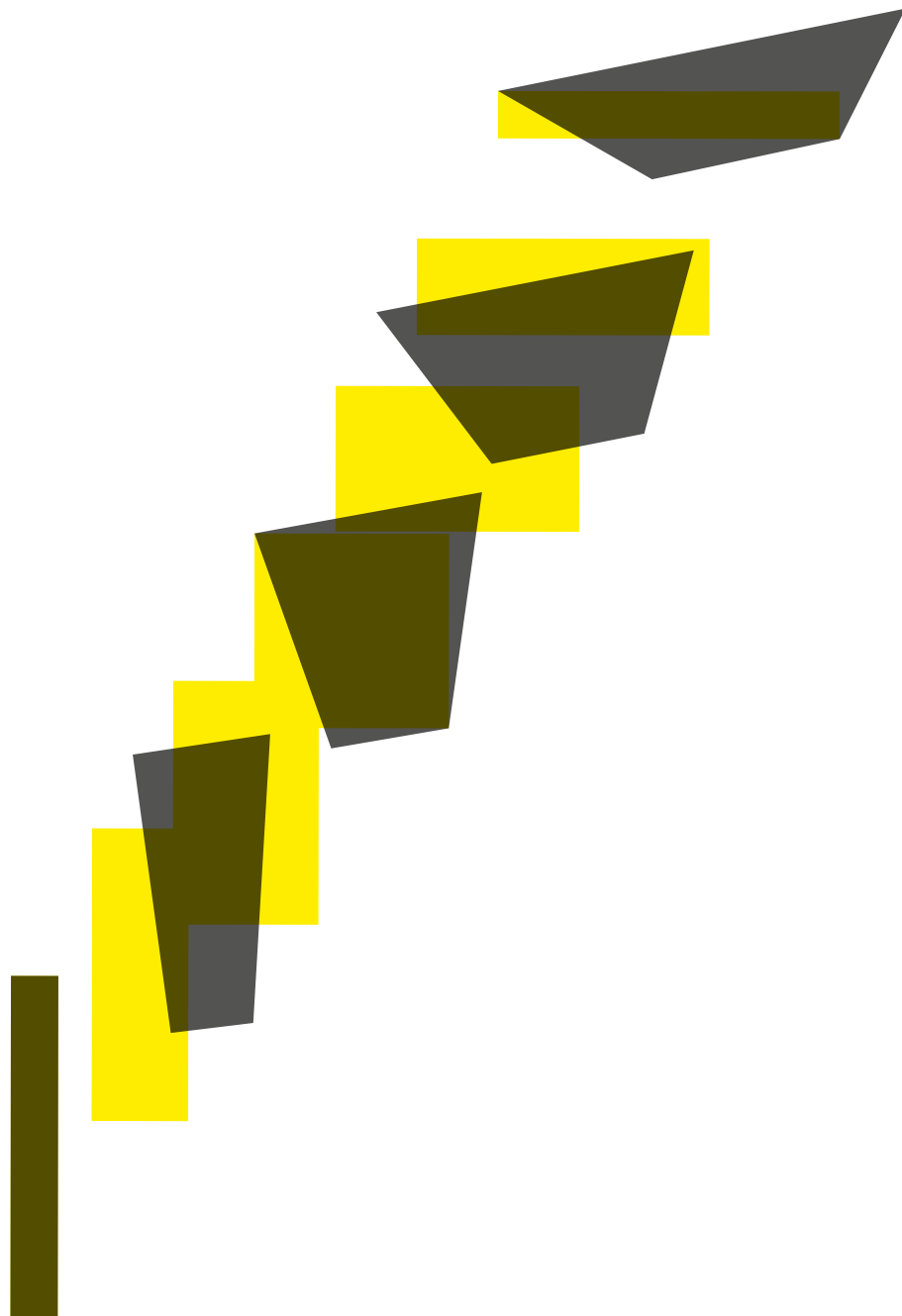
Luisa Anselmi

Statutory Auditor

Mauro Vivenci

Adapting to change

Sabaf experiences small and big transformations by learning from the past and looking to the future with an open and innovative vision, developing our qualities and improving performance. This creates growth and improvement possibilities.



Report on remuneration

*pursuant to Article 123-ter of the TUF
and Article 84-quater
of the Issuers' Regulations*

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SECTION I - REMUNERATION POLICY

Sabaf S.p.A.'s General Remuneration Policy (hereinafter also "remuneration policy"), approved by the Board of Directors on 22 December 2011 and updated on 20 March 2013, 4 August 2015 and 26 September 2017, defines the criteria and guidelines for the remuneration of members of the Board of Directors, Executives with strategic responsibilities and members of the Board of Statutory Auditors.

The remuneration policy was prepared:

- pursuant to Article 6 of the Corporate Governance Code of listed companies, approved in March 2010 and subsequent amendments and supplements;
- in line with Recommendations 2004/913/EC and 2009/385, which were incorporated into law with Article 123-ter of the Consolidated Law on Finance (TUF).

1. Corporate bodies and persons involved in preparing, approving and implementing the remuneration policy

SHAREHOLDERS' MEETING

- Determines the remuneration due to the members of the Board of Directors, including a fixed amount and attendance fees
- Resolves remuneration plans based on the allocation of financial instruments with regard to directors and employees
- Gives a non-binding vote on the first section of the Report on Remuneration (Remuneration Policy)

BOARD OF DIRECTORS

- At the suggestion of the Remuneration and Nomination Committee and subject to the opinion of the Board of Statutory Auditors, determines the fee for Directors holding specific positions
- Defines the remuneration policy of Executives with strategic responsibilities
- After obtaining the opinion of the Remuneration and Nomination Committee, resolves to sign Non-competition agreements with regard to the Chief Executive Officer and to executives
- At the suggestion of the Remuneration and Nomination Committee, defines incentive plans based on short- and long-term variable remuneration to be assigned to the Chief Executive Officer and to the Executives with strategic responsibilities
- At the suggestion of the Chief Executive Officer, defines the incentive plans based on short-term variable remuneration for company Management and other employees
- At the suggestion of the Remuneration and Nomination Committee, resolves to assign non-monetary benefits to executives
- Makes proposals to the Shareholders' Meeting on remuneration plans based on the allocation of financial instruments with regard to directors and employees
- Prepares the Report on Remuneration pursuant to Article 123-ter of the Consolidated Law on Finance and Article 84-quater of the Issuers' Regulations

No independent experts or advisors contributed to the preparation of the policy, nor were the remuneration policies of other companies used for reference purposes.

The Board of Directors is responsible for properly implementing the remuneration policy.

REMUNERATION AND NOMINATION COMMITTEE

- Makes proposals to the Board of Directors, in the absence of the persons directly concerned, for remuneration of the Chief Executive Officer and Directors holding specific positions
- Examines, with the support of the Human Resources Department, the policy for the remuneration of executives, with a special attention to Executives with strategic responsibilities
- Makes suggestions and proposals to the Board of Directors concerning the setting of targets on which the annual variable component and long-term incentives for the Chief Executive Officer and Executives with strategic responsibilities should be dependent, in order to ensure alignment with shareholders' long-term interests and the company's strategy
- Assesses the level of achievement of the short- and long-term variable incentive targets of Directors and executives
- Prepares the proposals to the Board of Directors of remuneration plans based on financial instruments
- Assesses the adequacy, actual application and consistency of the remuneration policy, also with reference to the actual company performance, making suggestions and proposals for change
- Follows the development of the regulatory framework of reference and best market practices on remuneration, getting inspired by them for formulating the remuneration policy and identifying aspects for improving the Report on Remuneration

The Remuneration and Nomination Committee currently in office comprises four non-executive members, the majority of them independent (Daniela Toscani, Stefania Triva and Alessandro Potestà), with the knowledge and experience in accounting, finance and remuneration policies that is deemed adequate by the Board of Directors.

BOARD OF STATUTORY AUDITORS

- The Board of Statutory Auditors expresses the opinions required by the regulations in force on proposals for remuneration of Directors holding specific positions
- The Board of Statutory Auditors, i.e. the Chairman of the Board of Statutory Auditors or another Statutory Auditor designated by him/her can attend the meetings of the Remuneration and Nomination Committee

HUMAN RESOURCES DEPARTMENT

Actually enacts what is decided upon by the Board.

2. Purpose of the remuneration policy

The Company's intention is that the Remuneration Policy:

- ensures the competitiveness of the company on the labour market and attracts, motivates and increases the loyalty of persons with appropriate professional expertise;
- protects the principles of internal equity and diversity;
- brings the interests of the management into line with those of the shareholders;
- favours the creation of sustainable value for shareholders in the medium to long term and maintains an appropriate level of competitiveness for the company in the sector in which it operates.

Attracts, motivates and increases the loyalty of **PERSONS** with appropriate professional expertise

Brings the interests of the **MANAGEMENT** into line with those of the **SHAREHOLDERS**

Favours the creation of **SUSTAINABLE VALUE** for shareholders in the medium to long term

Protects the principles of **INTERNAL EQUITY** and **DIVERSITY**

3. Remuneration policy guidelines and instruments

The definition of a fair and sustainable remuneration package takes into account three main tools:

- Fixed remuneration
- Variable remuneration (short- and medium- to long-term)
- Benefits

Each remuneration component is analysed below.

FIXED ANNUAL COMPONENT

The fixed component of the remuneration of the Directors is such that it is able to attract and motivate individuals with appropriate expertise for the roles entrusted to them within the Board and is set with reference to the remuneration awarded for the same positions by other listed Italian industrial groups of a similar size.

The Shareholders' Meeting decides on the remuneration of the members of the Board of Directors, including a fixed amount and attendance fees.

With regard to the remuneration for Directors holding special offices, the Board of Directors, at the proposal of the Remuneration and Nomination Committee and subject to the opinion of the Board of Statutory Auditors, determines the additional fixed remuneration.

Directors who sit on committees formed within the Board (Internal Control and Risk Committee, Remuneration and Nomination Committee) are granted remuneration that includes a fixed salary and attendance fees intended to reward the commitment required of them.

Executives with strategic responsibilities are paid a fixed annual remuneration, determined so that it is sufficient in itself to guarantee an appropriate basic salary level, even in the event that the variable components are not paid owing to a failure to reach the targets.

The members of the Board of Statutory Auditors are paid a fixed remuneration, the amount of which is determined by the Shareholders' Meeting, at the time of their appointment.

INDEMNITY AGAINST THE EARLY TERMINATION OF EMPLOYMENT

There is an agreement for the Chief Executive Officer regulating *ex ante* the economic part concerning the early termination of the employment relationship.

There are no agreements for other Directors or other Executives with strategic responsibilities regulating *ex ante* the economic part concerning the early termination of the employment relationship. For the end of the relationship for reasons other than just cause or justified reasons provided by the employer, it is the Company's policy to pursue consensual agreements to end the employment relationship, in accordance with legal and contractual obligations.

The Company does not provide directors with benefits subsequent to the end of their mandate.

The Company has entered into non-competition agreements with the Chief Executive Officer and with certain executives who report to him, the terms of which were approved by the Board of Directors, after obtaining the opinion of the Remuneration and Nomination Committee.

COMPONENTS OF THE REMUNERATION	CORPORATE OFFICES				
	Executive Directors	Non-Executive Directors	Members of committees within the BoD	Executives with strategic responsibilities	Auditors
FIXED COMPONENTS	Fixed remuneration for the office of Director	Fixed remuneration for the office of Director	Fixed remuneration for Directors members of committees within the BoD	Collective National Contract for Industrial Managers	Fixed remuneration
	Fixed remuneration for Directors holding special positions	Attendance fee	Attendance fee		
INDEMNITY AGAINST THE EARLY TERMINATION OF EMPLOYMENT	Remuneration for non-competition agreement (only for Chief Executive Officer)	N/A	N/A	Remuneration for non-competition agreement	N/A

SHORT-TERM VARIABLE COMPONENT (ANNUAL)

The Board of Directors, at the suggestion of the Remuneration and Nomination Committee and in accordance with the budget, defines an MBO plan, for the benefit of:

- Executives with strategic responsibilities
- other persons, identified by the Chief Executive Officer, among the managers who report directly to him or who report to the aforementioned managers.

This plan sets a common target (Group EBIT, which is considered to be the Group's main indicator of financial performance) and quantifiable and measurable individual targets economic-financial, technical-productive and/or socio-environmental in nature.

The targets of the Chief Executive Officer and of the Executives with strategic responsibilities are decided by the Board of Directors, at the suggestion of the Remuneration and Nomination Committee, in accordance with the budget.

The targets of the other beneficiaries of the incentive plans are defined by the Chief Executive Officer, in accordance with the budget.

Non-executive directors are not granted any variable remuneration.

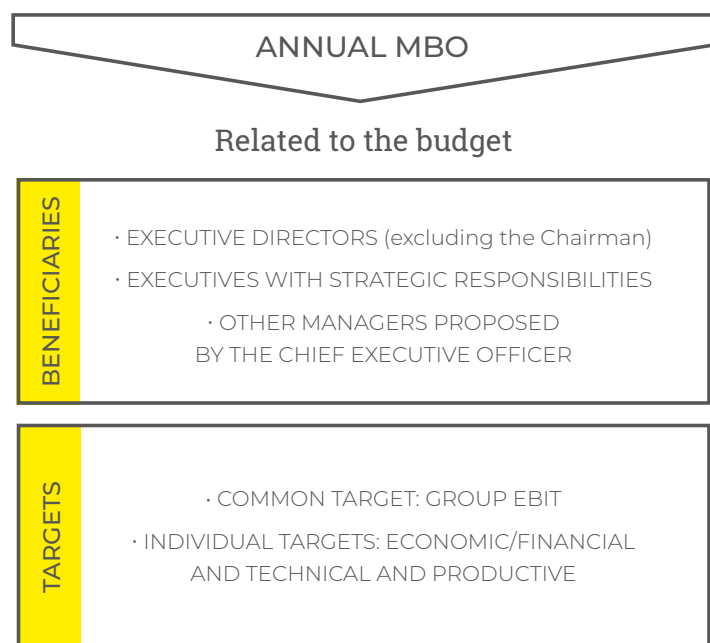
LONG-TERM VARIABLE COMPONENT

In compliance with the Shareholders' Meeting resolution, at the suggestion of the Remuneration and Nomination Committee, and after obtaining the opinion of the Board of Statutory Auditors, the Board of Directors approves a long-term incentive plan based on financial instruments (*stock grants*).

The Beneficiaries, if not already identified in the Plan, are identified by the Board of Directors among the members of the Board of Directors and/or among the managers of the Company or its Subsidiary companies who hold or will hold key positions in the implementation of the Business Plan. In the case of the Chief Executive Officer and/or Executives with strategic responsibilities of the Company, the identification is made on the suggestion of the Remuneration and Nomination Committee.

The Board of Directors identifies the total number of rights to be assigned to each beneficiary (within the limits set by the Shareholders' Meeting). All or part of the shares are allocated by the Board of Directors at the end of the vesting period; for the Chief Executive Officer and Executives with strategic responsibilities, the allocation is made on the suggestion of the Remuneration and Nomination Committee.

The allocation of shares is related to predetermined (business and individual) performance targets measurable and linked to the creation of value for shareholders over the long term and extends over three years coinciding with the mandate of the Board of Directors (2018-2020).



COMPONENTS OF THE REMUNERATION		CORPORATE OFFICES	
		Executive directors and Other executives with strategic responsibilities	Other persons identified by the CEO/BoD
VARIABLE COMPONENTS	SHORT-TERM VARIABLE COMPONENT	Annual MBO plan based on achieving a common target and individual targets	Annual MBO plan based on achieving a common target and individual targets
	LONG-TERM VARIABLE COMPONENT	Stock Grant Plan based on achieving business targets and individual performance targets	Stock Grant Plan based on achieving business targets and individual performance targets

NON-MONETARY BENEFITS

Third-party civil liability insurance policy: the Company has taken out a third-party civil liability insurance policy in favour of directors, statutory auditors and executives for unlawful acts committed in the carrying-out of their respective duties, in violation of obligations established by law and the Articles of Association, with the sole exclusion of deliberate intent. The taking-out of this policy is approved by the Shareholders' Meeting.

Life insurance policy and cover for medical expenses: the Company also provides a life insurance policy and cover for medical expenses (FASI) for executives, as established by the Collective National Contract for Industrial Managers; moreover, it has taken out an additional policy to cover medical expenses not covered by FASI reimbursements.

Company cars: at the suggestion of the Remuneration and Nomination Committee, the Board of Directors also assigns company cars to executives.

Accommodation costs: at the suggestion of the Remuneration and Nomination Committee, the Board of Directors can provide for housing to be made available to executives, for the possibility to reimburse the rent of the house or for the temporary reimbursement of the costs of accommodation in a hotel.

ENTRY BONUS

With the aim of attracting highly professional individuals, the Board may decide to give entry bonuses to newly hired executives.

CLAW BACK CLAUSES

As from 2018, the Company established mechanisms for the ex-post adjustment of the variable remuneration component or claw back clauses to demand the return of all or part of the variable components of remuneration paid out (or to withhold deferred sums), which were determined on the basis of data subsequently found to be clearly incorrect.

REMUNERATION FOR OFFICES IN SUBSIDIARIES

Directors and other executives with strategic responsibilities may be paid remuneration – exclusively as a fixed amount – for offices held in subsidiaries. In addition to the approval of the subsidiaries' corporate bodies, this remuneration is subject to the favourable opinion of the Remuneration and Nomination Committee.

COMPONENTS OF THE REMUNERATION		CORPORATE OFFICES			
		Executive Directors	Non-Executive Directors	Executives with strategic responsibilities	Auditors
BENEFITS AND OTHER COMPONENTS	NON-MONETARY BENEFITS	Third-party liability insurance policy	Third-party liability insurance policy	Third-party liability insurance policy Life insurance policy to cover medical expenses (FASI), supplementary medical expenses Company cars	Third-party liability insurance policy
	OFFICES IN SUBSIDIARIES	Fixed remuneration for offices in subsidiaries	N/A	Fixed remuneration for offices in subsidiaries	N/A

4. Remuneration of the Board of Directors, Chairman and Vice Chairmen of the Board of Directors, Chief Executive Officer, Executives with strategic responsibilities and Board of Statutory Auditors

REMUNERATION OF THE BOARD OF DIRECTORS

The Shareholders' Meeting is responsible for determining the annual gross remuneration (maximum amount) due to the Directors, including a fixed amount and attendance fees.

The members of the Board are covered by a third-party civil liability insurance policy for unlawful acts committed in the exercise of their respective duties, in violation of obligations established by law and the Articles of Association, with the sole exclusion of deliberate intent. The taking-out of this policy is approved by the Shareholders' Meeting.

REMUNERATION OF THE CHAIRMAN OF THE BOARD OF DIRECTORS AND VICE CHAIRMAN

No variable remuneration is paid to the Chairman and Vice Chairman of the Board of Directors, but only remuneration in addition to those of directors for special offices held.

REMUNERATION OF THE CHIEF EXECUTIVE OFFICER

The remuneration of the Chief Executive Officer includes the following components:

Fixed remuneration for the office of Director: the Chief Executive Officer is the recipient of the fixed remuneration for the office of Director (pursuant to Article 2389 paragraph I Italian Civil Code).

Third-party civil liability insurance policy: The Company has taken out a third-party civil liability insurance policy for unlawful acts committed in the carrying-out of their respective duties, in violation of obligations established by law and the Articles of Association, with the sole exclusion of deliberate intent. The taking-out of this policy is approved by the Shareholders' Meeting.

Long-term variable component: the long-term incentive is dependent on the achievement of performance targets, proposed by the Remuneration and Nomination Committee to the Board of Directors, and extends over three years, coinciding with the mandate of the Board of Directors.

If the Chief Executive Officer is also assigned an executive management role within the Sabaf Group, the Board decides on the assignment of the following additional remuneration instruments:

- **Fixed annual gross salary:** the fixed remuneration is determined so that it is sufficient in itself to guarantee an appropriate basic salary level, even in the event that the variable components are not paid owing to a failure to reach the targets.

- **Non-competition agreement:** assignment of a fixed annual remuneration against the signing of a Non-competition Agreement with the Company.
- **Short-term variable component:** annual incentive, dependent on the achievement of the targets envisaged by the MBO plan, approved by the Board of Directors at the suggestion of the Remuneration and Nomination Committee. On the occasion of the annual approval, the Board of Directors decides on the maximum amount of the annual variable component, the methods and timing for its payment.
- **Benefits:** the benefits envisaged for the management of the Company can be assigned: Life insurance policy and cover for medical expenses, assignment of company car; reimbursement of the rent for the house.

REMUNERATION OF EXECUTIVES WITH STRATEGIC RESPONSIBILITIES

Fixed annual gross remuneration: employment relationships with Executives with strategic responsibilities are regulated by the Collective National Contract for Industrial Managers. In this regard, fixed remuneration is determined so that it is sufficient in itself to guarantee an appropriate basic salary level, even in the event that the variable components are not paid owing to a failure to reach the targets.

Short- and long-term variable components: Executives with strategic responsibilities are the recipients of short- and long-term incentive plans (ref. paragraph 3). At the time of approval of short- and long-term incentive plans, the Board of Directors is responsible for setting the maximum amounts of variable remuneration, the methods and timing for the payment of this remuneration.

Benefits: Executives with strategic responsibilities receive the benefits envisaged for the executives of the Company (Life insurance policy and cover for medical expenses; assignment of company car) and are covered by an occupational risk policy.

REMUNERATION OF THE BOARD OF STATUTORY AUDITORS

The amount of remuneration for Statutory Auditors is set by the Shareholders' Meeting, which establishes a fixed amount for the Chairman and the other Statutory Auditors.

The members of the Board are covered by a third-party civil liability insurance policy for unlawful acts committed in the exercise of their respective duties, in violation of obligations established by law and the Articles of Association, with the sole exclusion of deliberate intent. The taking-out of this policy is approved by the Shareholders' Meeting.

SECTION II – REMUNERATION OF THE MEMBERS OF THE BOARD OF DIRECTORS AND THE BOARD OF STATUTORY AUDITORS AND OTHER EXECUTIVES WITH STRATEGIC RESPONSIBILITIES IN 2018

This section, by name of Directors and Statutory Auditors:

- describes each of the items that make up the remuneration, showing their consistency with the remuneration policy of Sabaf;
- analytically illustrates the remuneration paid in the financial year under review (2018), for any reason and in any form, by the Company or by subsidiaries or affiliates, identifying any components of this remuneration that relate to activities undertaken in previous years to the year under review.

The components of the remuneration paid to directors for 2018

The remuneration paid to directors for 2018 consisted of the following components:

- An annual fixed remuneration, approved by the Shareholders' meeting of 8 May 2018 that the Board of Directors decided to divide, in compliance with the maximum limit of €400,000.00 established by the Shareholders' Meeting, as follows:
 - €20,000 assigned to each director without distinction,
 - €10,000 assigned to each member of the committees set up within the Board itself (Internal Control and Risk Committee and Remuneration and Nomination Committee);
 - additional remuneration of €160,000 divided among the Chairman of the Board of Directors, Vice Chairman and Chief Executive Officer as detailed in the table below;
- An attendance fee of €1,000, due to non-executive directors only, for every occasion on which they attend Board of Directors' meetings and the meetings of committees formed within the Board.

A fixed remuneration component for employment and a fixed remuneration for offices in subsidiaries are paid to executive directors appointed as executives.

With reference to variable components, which are intended only for executive directors (excluding the Chairman), the following is pointed out:

- In relation to the annual variable incentive plan established for 2017, remuneration of €66,282 accrued in the previous financial year (and disbursed in 2018).
- With reference to the annual incentive plan for 2018, the Chief Executive Officer Pietro Iotti accrued variable remuneration of €73,000, whereas the Director Gianluca Beschi accrued variable remuneration of €26,374, for the partial achievement of the targets of the 2018 MBO plan.

In implementation of the Policy in 2018, Sabaf introduced a stock grant plan aimed at the Group's executive directors and executives who hold or will hold key positions in the implementation of the Business Plan. Beneficiaries already identified in the Plan include the Chief Executive Officer and Director Gianluca Beschi. The assignment of shares is subject to the achievement of company targets (based on ROI, TSR and EBITDA) and individual targets over the three-year period 2018 to 2020, consistent with the objectives of the Business Plan. For further details, please refer to the information contained in the Information Document prepared pursuant to Article 114-bis of Italian Legislative Decree no. 58 of 24 February 1998, of Article 84-bis of Consob resolution no. 11971/99, submitted to the Shareholders' Meeting on 8 May 2018.

Remuneration of Statutory Auditors for 2018

The remuneration paid to the Statutory Auditors for 2018 consists of a fixed remuneration determined by the Shareholders' Meeting of 8 May 2018, amounting to a total of €70,000.

The remuneration of other executives with strategic responsibilities for 2018

The remuneration of other executives with strategic responsibilities (Technical Director and two Sales Managers) consists of a fixed remuneration for employment totalling €420,743, and following variable remuneration:

- With reference to the variable incentive plan (MBO) of 2017, during 2018, remuneration totalling €95,980 was paid.

For a breakdown of the remuneration paid in 2018, please refer to the tables below (**Table 1**, **Table 2** and **Table 3**), which contain remuneration paid to Directors and Statutory Auditors, and, at the aggregate level, to other executives with strategic responsibilities, taking into account any office held for a fraction of a year. Remuneration received from subsidiaries and/or affiliates, with the exception of that waived or paid back to the Company, is also indicated separately.

With particular reference to **Table 1**, the column:

- "Fixed remuneration" shows, for the portion attributable to 2018, the fixed remuneration approved by the Shareholders' meeting (and distributed with resolution of the Board of Directors), including the remuneration received for the carrying-out of special offices (pursuant to Article 2389, paragraph 3, Italian Civil Code. attendance fees as approved by the Board of Directors; employee salaries due for the year gross of social security contributions and income taxes owed by the employee.
- "Remuneration for attendance at Committee meetings", shows, for the portion relating to 2018, the remuneration due to directors who attended the meetings of the Committees set up within the Board and the related attendance fees.
- "Bonus and other incentives" includes the variable remuneration accrued during the year, for monetary incentive plans. This value corresponds to the sum of the amounts provided in Table 3 in the "Bonus for the year - payable/paid", "Bonus of previous years - payable/paid" and "Other bonuses" columns.
- "Non-monetary benefits" shows, according to accrual and tax liability criteria, the value of outstanding insurance policies and the company cars assigned.
- "Other remuneration" shows, for the portion attributable to 2018, any other remuneration resulting from other services provided.

- With reference to the variable incentive plan (MBO) for 2018, remuneration totalling €51,635 accrued. Its payment is deferred and dependent upon the continuation of the employment relationship.

Remuneration totalling €94,500 was also disbursed by subsidiaries.

The three executives with strategic responsibilities are among the Beneficiaries of the stock grant plan, approved in 2018, in implementation of the Remuneration Policy. For further details, please refer to the information contained in the Information Document prepared pursuant to Article 114-bis of Italian Legislative Decree no. 58 of 24 February 1998, of Article 84-bis of Consob resolution no. 11971/99, submitted to the Shareholders' Meeting on 8 May 2018.

- "Total" shows the sum of the amounts provided under the previous items.

For a breakdown of other items, see attachment 3A, statement 7-bis and 7-ter of Consob Regulation 11971 of 14 May 1999.

Table 2 shows the information relating to the stock grant plan approved by the Shareholders' Meeting and aimed at the Group's executive directors and executives who hold or will hold key positions in the implementation of the Business Plan. Specifically, the column:

- "Financial instruments assigned in previous financial years not vested during the financial year" shows the financial instruments assigned in previous years and not vested during the year, indicating the vesting period;
- "Financial instruments assigned during the financial year" shows the financial instruments assigned during the year, indicating the fair value at the assignment date, the vesting period, the assignment date and the market price at the assignment;
- "Financial instruments vested during the year and not assigned" shows the number and type of instruments vested during the financial year and not assigned;
- "Financial instruments vested during the year and attributable" contains information on instruments vested during the financial year of reference and attributable, indicating the value at the vesting date;

"Vesting period" means the period between the time when the right to participate in the incentive scheme is assigned and the time when the right accrues. Financial instruments vested during the financial year and not assigned are financial instruments for which the vesting period ended during the financial year and which were not assigned to the recipient for failure to meet the conditions under which the assignment of the instrument was conditional (for example, failure to meet performance targets).

The value at the vesting date is the value of the financial instruments accrued, even if not yet paid (for example, due to the presence of lock up clauses), at the end of the vesting period.

For a breakdown of other items, see attachment 3A, statement 7-bis and 7-ter of Consob Regulation 11971 of 14 May 1999.

Table 3 contains information on monetary incentive plans for members of the administration body and other executives with strategic responsibilities; in particular, it shows:

For the section "Bonus for the year"

- In the column "payable/paid", the bonus accrued for the year for the targets reached during the year and paid or payable because not subject to further conditions (known as upfront fee).
- The column "Deferred" shows the bonus dependent on the targets to be reached during the year but not payable because subject to further conditions (known as deferred bonus).

For the section "Bonus of previous years"

- The column "No longer payable" shows the sum of bonuses deferred in previous years still to be paid at the beginning of the financial year and no longer payable for failure to meet the conditions to which they are subject.
- The column "Payable/Paid" shows the sum of bonuses deferred in previous years still to be paid at the beginning of the financial year and paid during the year or payable.
- The column "Still deferred" shows the sum of bonuses deferred in previous years still to be paid at the beginning of the financial year and still deferred.

Lastly, the column "Other bonuses" shows the bonuses for the year not explicitly included in specific ex ante defined plans.

Finally, pursuant to Article 84-*quater*, paragraph four of the Consob Issuers' Regulations, **Table 4** shows shareholdings in Sabaf S.p.A. held by directors and executives with strategic responsibilities, as well as their non-separated spouses and dependent children, directly or through subsidiaries, trust companies or third parties, as shown in the shareholder register, communications received and other information acquired from the same parties. This includes all persons who held office during the year, even for only part of the year. The number of shares held is shown by individual director and in aggregate form for executives with strategic responsibilities.

TAB. 1 - Remuneration paid to members of the Board of Directors and Board of Statutory Auditors and other executives with strategic responsibilities in 2018

(FIGURES IN EURO)

BOARD OF DIRECTORS												
Name and surname	Office	Period of office	Expiry of office	Fixed remuneration	Remuneration for attendance at Committee meetings	Variable remuneration (non equity)		Non-monetary benefits	Other remuneration	Total	Fair Value of equity remuneration	Indemnity for end of office or termination of employment relationship
						Bonus and other incentives	Profit sharing					
Giuseppe Saleri	Chairman	1 Jan - 31 Dec 2018	Approval of 2020 financial statements									
(I)	Remuneration at Sabaf S.p.A.			160,000 ^(a)	0	0	0	0	0	160,000	0	0
(II)	Remuneration from subsidiaries and affiliates			8,000	0	0	0	0	0	8,000	0	0
(III) Total				168,000	0	0	0	0	0	168,000	0	0
^(a) of which €20,000 as Director and €140,000 as Chairman												
Nicla Picchi	Vice Chairman	1 Jan - 31 Dec 2018	Approval of 2020 financial statements									
(I)	Remuneration at Sabaf S.p.A.			39,000 ^(a)	14,000 ^(b)	0	0	0	15,000	68,000	0	0
(II)	Remuneration from subsidiaries and affiliates			0	0	0	0	0	5,000	5,000	0	0
(III) Total				39,000	14,000	0	0	0	20,000^(c)	73,000	0	0
^(a) of which €20,000 as director, €10,000 as Vice Chairman and €9,000 as board meeting attendance fees												
^(b) of which €10,000 as a member of the Internal Control and Risk Committee and €4,000 in Committee meeting attendance fees												
^(c) of which €15,000 as member of the Sabaf S.p.A. Supervisory Body and €5,000 as member of the Supervisory Body of the subsidiary Faringosi Hinges s.r.l.												
Pietro Iotti	Chief Executive Officer	1 Jan - 31 Dec 2018	Approval of 2020 financial statements									
(I)	Remuneration at Sabaf S.p.A.			330,000 ^(a)	0	33,333	0	10,171	0	373,505	0	0
(II)	Remuneration from subsidiaries and affiliates			22,000	0	0	0	0	0	22,000	0	0
(III) Total				352,000	0	33,333	0	10,171	0	395,505	0	0
^(a) of which €20,000 as director, €10,000 as Chief Executive Officer, and €300,000 as General Manager (including €30,000 relating to Remuneration for non-competition agreement)												
Gianluca Beschi	Director	1 Jan - 31 Dec 2018	Approval of 2020 financial statements									
(I)	Remuneration at Sabaf S.p.A.			161,265 ^(a)	0	32,949	0	5,466	0	199,681	0	0
(II)	Remuneration from subsidiaries and affiliates			41,000	0	0	0	0	0	41,000	0	0
(III) Total				202,265	0	32,949	0	5,466	0	240,681	0	0
^(a) of which €20,000 as director and €141,265 as Administration, Finance and Control Director												
Renato Camodeca	Director	1 Jan - 31 Dec 2018	23 January 2019									
(I)	Remuneration at Sabaf S.p.A.			30,000 ^(a)	28,000 ^(b)	0	0	0	0	58,000	0	0
(II)	Remuneration from subsidiaries and affiliates			0	0	0	0	0	0	0	0	0
(III) Total				30,000	28,000	0	0	0	0	58,000	0	0
^(a) of which €20,000 as director and €10,000 as BoD meeting attendance fees												
^(b) of which €10,000 as a member of the Internal Control and Risk Committee, €10,000 as a member of the Remuneration and Nomination Committee and €8,000 as Committee meeting attendance fees												

(FIGURES IN EURO)

BOARD OF DIRECTORS

Name and surname	Office	Period of office	Expiry of office	Fixed remuneration	Remuneration for attendance at Committee meetings	Variable remuneration (non equity)		Non-monetary benefits	Other remuneration	Total	Fair Value of equity remuneration	Indemnity for end of office or termination of employment relationship
						Bonus and other incentives	Profit sharing					

Alessandro Potestà	Director	1 Jan - 31 Dec 2018	Approval of 2020 financial statements									
(I)	Remuneration at Sabaf S.p.A.			28,000 ^(a)	11,000 ^(b)	0	0	0	0	39,000	0	0
(II)	Remuneration from subsidiaries and affiliates			0	0	0	0	0	0	0	0	0
(III)	Total			28,000	11,000	0	0	0	0	39,000	0	0

^(a) of which €20,000 as director and €8,000 as BoD meeting attendance fees^(b) of which €10,000 as a member of the Remuneration and Nomination Committee and €1,000 as Committee meeting attendance fees

Claudio Bulgarelli	Director	8 May - 31 Dec 2018	Approval of 2020 financial statements									
(I)	Remuneration at Sabaf S.p.A.			28,000 ^(a)	2,667 ^(b)	0	0	0	0	30,667	0	0
(II)	Remuneration from subsidiaries and affiliates			0	0	0	0	0	0	0	0	0
(III)	Total			28,000	2,667	0	0	0	0	30,667	0	0

^(a) of which €20,000 as director and €8,000 as BoD meeting attendance fees^(b) of which €1,667 as a member of the Remuneration and Nomination Committee and €1,000 as Committee meeting attendance fees

Daniela Toscani	Director	8 May - 31 Dec 2018	Approval of 2020 financial statements									
(I)	Remuneration at Sabaf S.p.A.			27,000 ^(a)	11,000 ^(b)	0	0	0	0	38,000	0	0
(II)	Remuneration from subsidiaries and affiliates			0	0	0	0	0	0	0	0	0
(III)	Total			27,000	11,000	0	0	0	0	38,000	0	0

^(a) of which €20,000 as director and €7,000 as BoD meeting attendance fees^(b) of which €10,000 as a member of the Internal Control and Risk Committee and €1,000 in Committee meeting attendance fees

Stefania Triva	Director	8 May - 31 Dec 2018	Approval of 2020 financial statements									
(I)	Remuneration at Sabaf S.p.A.			25,000 ^(a)	8,333 ^(b)	0	0	0	0	33,333	0	0
(II)	Remuneration from subsidiaries and affiliates			0	0	0	0	0	0	0	0	0
(III)	Total			25,000	8,333	0	0	0	0	33,333	0	0

^(a) of which €20,000 as director and €5,000 as BoD meeting attendance fees^(b) of which €8,333 as a member of the Remuneration and Nomination Committee

(FIGURES IN EURO)

DIRECTORS NO LONGER IN OFFICE DURING THE YEAR UNDER REVIEW

Name and surname	Office	Period of office	Expiry of office	Fixed remuneration	Remuneration for attendance at Committee meetings	Variable remuneration (non equity)		Non-monetary benefits	Other remuneration	Total	Fair Value of equity remuneration	Indemnity for end of office or termination of employment relationship
						Bonus and other incentives	Profit sharing					

Cinzia Saleri	Vice Chairman	1 Jan - 8 May 2018	Approval of 2017 financial statements									
(I) Remuneration at Sabaf S.p.A.				0	0	0	0	0	0	0	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) Total				0	0	0	0	0	0	0	0	0

Roberta Forzanini	Vice Chairman	1 Jan - 8 May 2018	Approval of 2017 financial statements									
(I) Remuneration at Sabaf S.p.A.				0	0	0	0	0	0	0	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) Total				0	0	0	0	0	0	0	0	0

Ettore Saleri	Vice Chairman	1 Jan - 8 May 2018	Approval of 2017 financial statements									
(I) Remuneration at Sabaf S.p.A.				0	0	0	0	0	0	0	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) Total				0	0	0	0	0	0	0	0	0

Giuseppe Cavalli	Director	1 Jan - 8 May 2018	Approval of 2017 financial statements									
(I) Remuneration at Sabaf S.p.A.				2,000 ^(a)	3,000 ^(b)	0	0	0	0	5,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) Total				2,000	3,000	0	0	0	0	5,000	0	0

^(a) of which €2,000 as BoD meeting attendance fees^(b) of which €3,000 as Committee meeting attendance fees

Fausto Gardoni	Director	1 Jan - 8 May 2018	Approval of 2017 financial statements									
(I) Remuneration at Sabaf S.p.A.				2,000 ^(a)	4,000 ^(b)	0	0	0	0	6,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) Total				2,000	4,000	0	0	0	0	6,000	0	0

^(a) of which €2,000 as BoD meeting attendance fees^(b) of which €4,000 as Committee meeting attendance fees

Anna Pendoli	Director	1 Jan - 8 May 2018	Approval of 2017 financial statements									
(I) Remuneration at Sabaf S.p.A.				2,000 ^(a)	0	0	0	0	0	2,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) Total				2,000	0	0	0	0	0	2,000	0	0

^(a) of which €2,000 as BoD meeting attendance fees

(FIGURES IN EURO)

BOARD OF STATUTORY AUDITORS

Name and surname	Office	Period of office	Expiry of office	Fixed remuneration	Remuneration for attendance at Committee meetings	Variable remuneration (non equity)		Non-monetary benefits	Other remuneration	Total	Fair Value of equity remuneration	Indemnity for end of office or termination of employment relationship
						Bonus and other incentives	Profit sharing					
Alessandra Tronconi	Chairman	8 May - 31 Dec 2018	Approval of 2020 financial statements									
(I) Remuneration at Sabaf S.p.A.				30,000	0	0	0	0	0	30,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) Total				30,000	0	0	0	0	0	30,000	0	0

Luisa Anselmi	Standing Auditor	1 Jan - 31 Dec 2018	Approval of 2020 financial statements									
(I) Remuneration at Sabaf S.p.A.				20,000	0	0	0	0	0	20,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) Total				20,000	0	0	0	0	0	20,000	0	0

Mauro Vivenci	Standing Auditor	8 May - 31 Dec 2018	Approval of 2020 financial statements									
(I) Remuneration at Sabaf S.p.A.				20,000	0	0	0	0	0	20,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) Total				20,000	0	0	0	0	0	20,000	0	0

AUDITORS NO LONGER IN OFFICE DURING THE YEAR UNDER REVIEW

Antonio Passantino	Chairman	1 Jan - 8 May 2018	Approval of 2017 financial statements									
(I) Remuneration at Sabaf S.p.A.				0	0	0	0	0	0	0	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) Total				0	0	0	0	0	0	0	0	0

Enrico Broli	Standing Auditor	1 Jan - 8 May 2018	Approval of 2017 financial statements									
(I) Remuneration at Sabaf S.p.A.				0	0	0	0	0	0	0	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) Total				0	0	0	0	0	0	0	0	0

OTHER EXECUTIVES WITH STRATEGIC RESPONSIBILITIES

Other executives with strategic responsibilities (3)	1 Jan - 31 Dec 2018	n/a										
(I) Remuneration at Sabaf S.p.A.				420,743 ^(a)	0	95,980	0	15,781	0	532,504	0	0
(II) Remuneration from subsidiaries and affiliates				94,500	0	0	0	0	0	94,500	0	0
(III) Total				515,243	0	95,980	0	15,781	0	627,004	0	0

^(a) remuneration including €44,613 related to Remuneration for non-competition agreement

TAB. 2 - Incentive plans based on financial instruments, other than stock options, for members of the board of directors, general managers and other executives with strategic responsibilities

(FIGURES IN EURO)

Name and surname	Office	Plan	FINANCIAL INSTRUMENTS											
			assigned in previous financial years not vested during the financial year		assigned during financial year				vested during financial year and not assigned	vested during financial year and assigned		pertaining to the financial year		
			Number and type of financial instruments	Vesting period	Number and type of financial instruments	Fair Value at the assignment date	Vesting period	Assignment date	Market price on assignment	Number and type of financial instruments	Number and type of financial instruments	Value at vesting date	Fair value	
Pietro Iotti	Chief Executive Officer													
Remuneration at Sabaf S.p.A.		2018 Stock Grant Plan (May 2018)	-	-	56,000 rights corresponding to 56,000 shares	407,120	3 years	15 May 2018	€ 19.48 / share	-	-	-	-	96,985
Gianluca Beschi	Director													
Remuneration at Sabaf S.p.A.		2018 Stock Grant Plan (May 2018)	-	-	33,600 rights corresponding to 33,600 shares	244,272	3 years	15 May 2018	€ 19.48 / share	-	-	-	-	58,191
Other executives with strategic responsibilities (3)														
Remuneration at Sabaf S.p.A.		2018 Stock Grant Plan (May 2018)	-	-	46,000 rights corresponding to 46,000 shares	334,420	3 years	15 May 2018	€ 19.48 / share	-	-	-	-	93,521
TOTAL						985,812							-	248,697

TAB. 3 - Monetary incentive plans for members of the board of directors and other executives with strategic responsibilities

(FIGURES IN EURO)

Name and surname	Office	Plan	Bonus for the year			Bonus of previous years			Other bonuses
			Payable / Paid	Deferred	Deferment period	No longer payable	Payable / Paid	Still deferred	
Pietro Iotti	Chief Executive Officer								
Remuneration at Sabaf S.p.A.		2017 MBO Plan (March 2017)	0	0		0	33,333	0	0
Remuneration at Sabaf S.p.A.		2018 MBO Plan (March 2018)	0	73,000	March 2019	0	0	0	0
Gianluca Beschi	Executive Director								
Remuneration at Sabaf S.p.A.		2017 MBO Plan (March 2017)	0	0		0	32,949	0	0
Remuneration at Sabaf S.p.A.		2018 MBO Plan (March 2018)	0	26,374	March 2019	0	0	0	0
Other executives with strategic responsibilities (3)									
Remuneration at Sabaf S.p.A.		2017 MBO Plan (March 2017)	0	0		0	95,980	0	0
Remuneration at Sabaf S.p.A.		2018 MBO Plan (March 2018)	0	51,635	March 2019	0	0	0	0
Total			0	151,009		0	162,262	0	0

TAB. 4 - Shareholdings of members of the administration and control bodies and other executives with strategic responsibilities

(FIGURES IN EURO)

Name and surname	Office	Type of Ownership	Investee Company	No. shares held at 31 Dec 2017	No. shares acquired	No. shares sold	No. shares held at 31 Dec 2018
Saleri Giuseppe	Chairman	Indirect through the subsidiary Giuseppe Saleri S.a.p.A.	Sabaf S.p.A.	2,766,313	-	-	2,766,313
Iotti Pietro	Chief Executive Officer	Direct	Sabaf S.p.A.	10,000	1,000	-	11,000
Toscani Daniela	Director	Indirect through spouse	Sabaf S.p.A.	-	2,419	-	2,419
		Direct	Sabaf S.p.A.	-	498	-	498
Bulgarelli Claudio	Director	Indirect through the company Fintel Srl	Sabaf S.p.A.	850,000	-	-	850,000
Vivenzi Mauro Giorgio	Auditor	Indirect through spouse	Sabaf S.p.A.	-	600	-	600

CONCEPT AND GRAPHIC DESIGN:
ALL CREATIVE AGENCY - ALLCREATIVE.AGENCY

PRINT:
GRAPHIC CENTER

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