SABAF S.p.A.

SEPARATE FINANCIAL STATEMENTS

AT 31 DECEMBER 2019

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 Auditors

EY S.p.A.

Statement of financial position

(in €)	NOTES	31/12/2019	31/12/2018
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	**1**	51,470,506	30,497,881
Investment property	**2**	3,975,991	1,261,716
Intangible assets	**3**	2,452,857	3,094,293
Equity investments	**4**	57,950,775	58,150,073
Non-current financial assets	**5**	5,340,310	5,366,725
- of which from related parties	**35**	*5,280,310*	*5,246,725*
Non-current receivables		19,871	19,871
Deferred tax assets	**21**	4,276,366	3,471,716
Total non-current assets		**125,486,676**	**101,862,275**
CURRENT ASSETS			
Inventories	**6**	19,862,180	26,627,854
Trade receivables	**7**	28,563,314	35,157,543
- of which from related parties	**35**	*9,094,290*	*6,080,706*
Tax receivables	**8**	1,736,169	2,377,224
- of which from related parties	**35**	*0*	*1,083,666*
Other current receivables	**9**	588,494	764,471
Current financial assets	**10**	2,832,998	5,110,000
- of which from related parties	**35**	*1,600,000*	*1,600,000*
Cash and cash equivalents	**11**	8,343,105	1,958,805
Total current assets		**61,926,260**	**71,995,897**
ASSETS HELD FOR SALE		**0**	**0**
TOTAL ASSETS		**187,412,936**	**173,858,172**
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	**12**	11,533,450	11,533,450
Retained earnings, Other reserves		93,399,901	72,464,975
Profit for the year		3,821,876	8,040,214
Total shareholders' equity		**108,755,227**	**92,038,639**
NON-CURRENT LIABILITIES			
Loans	**14**	35,485,756	33,669,253
Other financial liabilities	**15**	1,233,000	120,000
Post-employment benefit and retirement provisions	**16**	2,064,001	2,083,922
Provisions for risks and charges	**17**	1,064,482	1,088,183
Deferred tax liabilities	**21**	1,733,755	106,646
Total non-current liabilities		**41,580,994**	**37,068,004**
CURRENT LIABILITIES			
Loans	**14**	13,994,308	17,330,136
Other financial liabilities	**15**	331,505	1,795,310
Trade payables	**18**	15,734,266	18,944,590
- of which to related parties	**35**	*761,431*	*3,858,114*
Tax payables	**19**	695,008	589,828
- of which to related parties	**35**	*74,375*	*0*
Other payables	**20**	6,321,628	6,091,665
Total current liabilities		**37,076,715**	**44,751,529**
LIABILITIES HELD FOR SALE		**0**	**0**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**187,412,936**	**173,858,172**

Income statement

(in €)	NOTES	2019	2018
INCOME STATEMENT COMPONENTS			
OPERATING REVENUE AND INCOME			
Revenue	**23**	94,899,421	110,065,252
- of which from related parties	**35**	*13,984,435*	*11,496,883*
Other income	**24**	4,045,581	2,985,254
Total operating revenue and income		**98,945,002**	**113,050,506**
OPERATING COSTS			
Materials	**25**	(32,805,599)	(45,084,626)
Change in inventories		(6,765,674)	1,858,927
Services	**26**	(20,124,041)	(27,540,143)
- of which to related parties	**35**	*(1,698,535)*	*(3,991,378)*
Personnel costs	**27**	(26,785,293)	(28,388,299)
Other operating costs	**28**	(926,250)	(1,852,013)
Costs for capitalised in-house work		1,588,760	1,599,795
Total operating costs		**(85,818,097)**	**(99,406,359)**
OPERATING PROFIT BEFORE DEPRECIATION AND AMORTISATION, CAPITAL GAINS/LOSSES, WRITE-DOWNS/WRITE-BAC OF NON-CURRENT ASSETS		**13,126,905**	**13,644,147**
Depreciations and amortisation	**1,2,3**	(9,808,641)	(8,596,924)
Capital gains/(losses) on disposal of non-current assets		130,018	495,659
Write-downs/write-backs of non-current assets	**4**	(500,000)	0
- of which by related parties		*(500,000)*	*0*
EBIT		**2,948,282**	**5,542,882**
Financial income		211,324	122,845
- of which from related parties		*199,308*	*118,874*
Financial expenses	**29**	(816,612)	(918,213)
Exchange rate gains and losses	**30**	(10,015)	157,102
Profits and losses from equity investments	**31**	1,357,665	4,322,070
- of which from related parties		*1,357,665*	*4,322,070*
PROFIT BEFORE TAXES		**3,690,644**	**9,226,686**
Income taxes	**32**	131,232	(1,186,472)
PROFIT FOR THE YEAR		**3,821,876**	**8,040,214**

Comprehensive income statement

(in €)	2019	2018
PROFIT FOR THE YEAR	**3,821,876**	**8,040,214**
Total profits/losses that will not be subsequently reclassified under profit (loss) for the year		
Actuarial evaluation of post-employment benefit	(63,367)	26,538
Tax effect	15,208	(6,369)
Total other profits/(losses) net of taxes for the year	**(48,159)**	**20,169**
TOTAL PROFIT	**3,773,717**	**8,060,383**

Statement of changes in shareholders' equity

(€/000)	Share Capital	Share premium reserve	Legal reserve	Treasury shares	Actuarial evaluation of post-employment benefit provision	Other reserves	Profit for the year	Total shareholders' equity
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**
2019 dividend payment						1,980	(8,040)	(6,060)
Sale of treasury shares				4,600		208		4,808
Stock grant plan (IFRS 2)						680		680
Sabaf Immobiliare merger						13,514		13,514
Total profit at 31 December 2019					(48)		3,822	3,774
Balance at 31 December 2019	**11,533**	**10,002**	**2,307**	**(2,268)**	**(505)**	**83,864**	**3,822**	**108,755**

Statement of Cash Flows

(€/000)	**2019 FY**	**2018 FY**
Cash and cash equivalents at beginning of year	**2,169**[1]	**2,697**
Profit for the year	3,822	8,040
Adjustments for:		
- Depreciation and amortisation	9,809	8,597
- Realised gains	(130)	(496)
- Write-downs of non-current assets	500	0
- Profits and losses from equity investments	(1,358)	(4,322)
- Valuation of the stock grant plan	681	321
- Net financial income and expenses	605	795
- Non-monetary foreign exchange differences	34	79
- Income tax	(131)	1,186
Change in post-employment benefit	(94)	(139)
Change in risk provisions	(24)	719
Change in trade receivables	*6,610*	*(4,003)*
Change in inventories	*6,766*	*(1,859)*
Change in trade payables	*185*	*2,375*
Change in net working capital	13,561	(3,487)
Change in other receivables and payables, deferred tax liabilities	1,325	(407)
Payment of taxes	(339)	(1,319)
Payment of financial expenses	(790)	(895)
Collection of financial income	211	123
Cash flows from operations	**27,682**	**8,796**
Investments in non-current assets		
- intangible	(494)	(526)
- tangible	(6,622)	(7,836)
- financial	(12,314)	(8,698)
Disposal of non-current assets	1,527	1,841
Cash flow absorbed by investments	**(17,903)**	**(15,219)**
Free cash flow	**9,779**	**(6,423)**
Repayment of loans	(17,376)	(14,166)
Raising of loans	13,057	31,600
Change in financial assets	2,270	(7,641)
Purchase/Sale of treasury shares	3,146	(2,359)
Payment of dividends	(6,060)	(6,071)
Collection of dividends	1,358	4,322
Cash flow absorbed by financing activities	**(3,605)**	**5,685**
Total cash flows	**6,174**	**(738)**
Cash and cash equivalents at end of year (Note 11)	**8,343**	**1,959**
Net current financial debt	11,493	14,015
Non-current financial debt	36,719	33,789
Net financial debt (Note 22)	***39,868***	***45,845***

[1] The value of cash and cash equivalents refers to the sum of the data of Sabaf S.p.A. and Sabaf Immobiliare S.r.l.

EXPLANATORY NOTES

ACCOUNTING STANDARDS

Statement of compliance and basis of presentation

The separate financial statements of Sabaf S.p.A. for the financial year 2019 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. With reference to this assumption, 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 2019.

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 statement of cash flows that presents cash 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 2019, unchanged versus the previous year, with the exception of the new accounting standards adopted as from 1 January 2019 (IFRS 16 and IFRIC 23), 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 of value 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 Company 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 through profit or loss. 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.

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 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 cash 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
The post-employment benefit 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 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 through profit or loss
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 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 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 41.

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. 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 measured and written down if their recoverable value 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 taxes
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

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 2019

- Standard **IFRS 16 "Leases"** (published on 13 January 2016), which replaced 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 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 lease 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 impacts resulting from the first-time adoption of this standard are described in detail in the paragraph "Adoption of the accounting standard IFRS 16 “Leases”".

- Interpretation of **IFRIC 23 - Uncertainty over income tax treatments.** The Interpretation defines the accounting treatment of income taxes when the tax treatment involves uncertainties that have an effect on the application of IAS 12 and does not apply to taxes or duties that do not fall within the scope of IAS 12. The Company defines whether to consider each uncertain tax treatment separately or together with other uncertain tax treatments and uses the approach that provides better predictions of the resolution of the uncertainty.
  At the time the interpretation was adopted, the Company examined the existence of uncertain tax positions and determined that its tax treatment (including that of its subsidiaries) is likely to be accepted by the tax authorities. Therefore, the interpretation had no impact on the Company's financial statements.

- Amendment to **IFRS 9 Prepayment Features with Negative Compensation.** Under IFRS 9, a debt instrument may be measured at amortised cost or at fair value through other comprehensive income (FVOCI), on condition that the contractual cash flows are “solely payments of principal and interest on the reference amount” (the SPPI criterion) and that the instrument is classified in the appropriate business model. The amendments to IFRS 9 clarify that a financial asset meets the SPPI criterion regardless of the event of the circumstance that caused the early termination of the contract and regardless of which is the party paying or receiving a reasonable compensation for the early termination of the contract. These amendments had no impact on the Company's financial statements.

- 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.

These amendments had no impact on the financial statements insofar as the Company, in the reference period, did hot record any amendment, curtailment or settlement of the plans.

- Amendment to **IAS 28 Long-term Interests in Associates and Joint Ventures**. 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.
  These amendments did not have any impact on the Company's financial statements, insofar as Sabaf does not have equity investments in associates and joint ventures that are not measured with the equity method.

- Document **"Annual Improvements to IFRSs 2017–2015 Cycle"**, which implements the amendments to the standards as part of their annual process of improvement:
  - IFRS 3 Business combinations: The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination, which is carried out in different stages, including the re-measurement of the fair value of the interest previously held in the assets and liabilities of the joint operation. In doing this, the acquirer reassess the interest previously held in the joint operation. This amendment had no impact on the Company's financial statements;
  - IFRS 11 Joint Arrangements: An entity that participates in a joint operation, without having joint control, could obtain joint control of the joint operation if its activity constitutes a business as defined in IFRS 3. The amendments clarify that previously held interests in this joint operation are not re-measured. This amendment had no impact on the Company's financial statements;
  - IAS 12 Income Taxes: The amendments clarify that the tax consequences of dividends are related to past transactions or to events that generated distributable profits rather than to distributions to shareholders. As the Company's current practice is in line with these amendments, the Company did not recognise any impact resulting from said amendments on its financial statements;
  - IAS 23 Borrowing Costs: The amendments clarify that any borrowing made, which right from the start was intended to improve an asset, must be treated by the entity as non-specific if all of the measures needed to prepare said asset for use or sale have been completed. As the Company's current practice is in line with these amendments, the Company did not recognise any impact resulting from said amendments on its financial statements.

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 2019

- Amendments to **IFRS 3 Definition of a Business.** In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 to support entities in determining whether or not a set of assets acquired constitutes a business. The amendments clarify the minimum requirements for having a business, remove the assessment of whether market participants can replace any missing elements, add guidelines to support entities

in assessing whether an acquired process is substantial, narrow the definitions of business and output, and introduce an optional fair value concentration test.
Since the amendments apply prospectively to transactions or other events occurring on or after the date of first-time adoption, the Company is not affected by these amendments.

- Amendments to **IAS 1 and IAS 8 Definition of Material.** In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of "material" in standards and to clarify certain aspects of the definition. The new definition indicates that information is material if, as a result of its omission, or as a result of its incorrect or incomprehensible presentation, one could reasonably expect to influence the decisions that the main users of the financial statements would make on the basis of the financial information contained therein.
  The application is required, prospectively, starting from the financial statements of the financial years starting from 1 January 2020. The directors do not expect a significant effect on the Company's 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 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.

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. The directors do not expect the adoption of these amendments to have any impact on the Company's financial statements.

Adoption of the accounting standard IFRS 16 "Leases"

The Company applied IFRS 16 from 1 January 2019 by using the amended retrospective approach. Therefore, the cumulative effect of the adoption of IFRS16 was recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, without recalculating the comparative information.
In particular, the Company analysed all agreements in force as of 1 January 2019 and relating to the use of third-party assets in the light of the new definition of lease contained in the standard and recognised:

- a financial liability equal to the present value of remaining future payments at the transition date;
- a right of use, the value of which was set equal to the value of the financial liability at the transition date.

In adopting IFRS 16, the Company made use of the exemption granted in paragraph 5 a) in relation to leases with a duration of less than 12 months (known as short-term leases) and the exemption granted in paragraph 5 b) in relation to lease agreements whose underlying asset is a low-value asset. For these agreements, lease payments are recognised in the income statement on a straight-line basis for the duration of the respective agreements.

The following table summarises the main characteristics of the agreements that have been the subject matter of the above exemptions:

(€/000)

Subject-matter of the agreement	Applied exemption	Value of the agreement
Fork lifts	Short-term leases	23
Fork lifts	Low-value asset	8
Company cars	Short-term leases	24
Total value of agreements subject matter of the exemption		***55***

The amount of the lease payments for these types of agreements was not significant at 31 December 2019.

When evaluating the lease liabilities, Sabaf S.p.A. discounted the payments due for the lease using the incremental borrowing rate at 1 January 2019. The weighted average of the applied rate was 1.5% on 1 January 2019 and on 31 December 2019.

The lease term is calculated based on the non-cancellable period of the lease, including the periods covered by the option to extend or to terminate the lease if it is reasonably certain that those options will be exercised or not exercised, taking account of all relevant factors that create an economic incentive relating to those decisions.

Moreover, with reference to the transition rules, the Company adopted some practical expedients provided for by the Standard and in particular:

- agreements with a term of less than 12 months of the transition date were classified as short-term leases, therefore the related lease payments are recognised in the income statement on a straight-line basis;

- initial costs were excluded from the valuation of the asset for the right of use on the initial application date;
- the information present at the transition date was used to determine the lease term, with a special reference to the exercise of renewal and early closure options;
- payments for the use of the asset (lease component) and payments for services or maintenance (non-lease component) related to the same asset were not separated.

The following tables summarise the effects of the adoption of IFRS 16 according to the amended retrospective approach at the date of first-time adoption, 1 January 2019, and at 31 December 2019. Further details are provided in the notes relating to the specific items on which the standard has had an impact: Note 1 "Property, plant and equipment", Note 2 "Investment property" and Note 14 "Loans".

Adoption of IFRS 16 - Effects at 1 January 2019	Book value at 01/01/2019 in case of non-adoption of IFRS 16	Effect of IFRS 16	Book value at 01/01/2019
Assets			
Property, plant and equipment	30,498	688	31,186
Liabilities			
Loans beyond 12 months	33,789	460	34,249
Loans within 12 months	19,125	228	19,353
Shareholders' equity			
Retained earnings, Other reserves	72,465	-	72,465

Adoption of IFRS 16 - Effects at 31 December 2019	Book value at 31/12/2019 in case of non-adoption of IFRS 16	Effect of IFRS 16	Book value at 31/12/2019
Assets			
Property, plant and equipment	50,737	733	51,470
Liabilities			
Loans beyond 12 months	36,239	480	36,719
Loans within 12 months	14,068	258	14,326
Shareholders' equity			
Retained earnings, Other reserves	93,400	-	93,400
Income Statement 12 months 2019			
Costs for services	20,382	(258)	20,124
Depreciations	9,556	253	9,809
Financial expenses	807	10	817

Economic and financial indicators			
Shareholders' equity	108,760	5	108,755
Net financial debt	41,963	738	42,701
EBITDA	12,369	(258)	12,627
EBIT	2,943	(5)	2,948
Net profit for the period	3,827	5	3,822

Merger of Sabaf Immobiliare S.r.l.

On 25 June 2019, the Board of Directors of Sabaf S.p.A. approved, pursuant to Article 2505, paragraph 2 of the Italian Civil Code, the plan for the merger through incorporation into Sabaf S.p.A. of Sabaf Immobiliare S.r.l., a single-member company subject to the management and coordination of Sabaf S.p.A.
Sabaf Immobiliare S.r.l. was engaged in the management of the real estate assets of the Sabaf Group. In detail, Sabaf Immobiliare S.r.l. owned industrial buildings leased to Sabaf S.p.A. Moreover, the Company managed other residential investment properties intended for rent or sale.
On 18 November 2019, the merger was carried out with effect from 29 November 2019. The transactions of the merged company Sabaf Immobiliare S.r.l. were booked to the financial statements of the merging company Sabaf S.p.A. with effect from 1 January 2019, with the same effect for tax purposes.
The operation meets the requirement to concentrate the activities of the two companies in order to optimise the management of resources, synergies and economic and financial flows.
A merger through incorporation of a wholly-owned company is excluded from the scope of IFRS 3 Business Combinations in that it does not involve the merging company gaining control of the other participating company. The approach adopted is in accordance with the ASSIREVI Preliminary Guidelines on IFRS (OPI no. 2 – Revised), concerning the accounting treatment of mergers in the financial statements, resulted in retaining the continuity of values with respect to the consolidated financial statements.
A merger of a restructuring nature results in the convergence of the consolidated financial statements of the merging company at the merger date with the separate financial statements of merging company after the merger, implementing the legal consolidation. Moreover, the merger of wholly-owned subsidiaries, which determines the transition from indirect to direct control and the continuity of values with respect to the consolidated financial statements, involves the backdating in the accounts of the effects of the merger also with reference to the costs and revenues of the merged company from the beginning of the financial year.
In view of the backdating of the accounting effects of the merger to 1 January 2019, reclassified financial statements at 31 December 2018 were prepared, as if the merger had taken place from the beginning of the comparative year:

- recognition in the balance sheet of the values that would have resulted if Sabaf S.p.A. had always been a single entity with the merged company;
- the sum of the relevant Income statement accounts is included in the profit and loss account;
- derecognition of all items with the merged company, including the reversal of the dividend distributed during the year by the merged company Sabaf Immobiliare S.r.l.;
- recognition of a merger surplus resulting from the elimination of the equity investment in Sabaf Immobiliare S.r.l., lower than the recognition of the value of the shareholders' equity, in a specific equity reserve of Sabaf S.p.A.

The effects are shown in the table below:

(in €)	***1 January 2019***
Shareholders' Equity of Sabaf Immobiliare S.r.l.	26,989,413
Value of the equity investment	13,475,000
Merger surplus of Sabaf Immobiliare S.r.l.	**13,514,413**

Reclassified statement of financial position at 31 December 2018

(in €)	**Sabaf S.p.A. 2018 FY**	**Sabaf Immobiliare 2018 FY**	**Eliminations**	**Sabaf S.p.A. reclassified 2018 FY**
ASSETS				
Property, plant and equipment	30,497,881	22,807,853	463,748	53,769,482
Investment property	1,261,716	3,140,939		4,402,655
Intangible assets	3,094,293		(463,748)	2,630,545
Equity investments	58,150,073		(13,475,000)	44,675,073
Non-current financial assets	5,366,725			5,366,725
Non-current receivables	19,871			19,871
Deferred tax assets	3,471,716	601,869		4,073,585
Total non-current assets	**101,862,275**	**26,550,661**	**(13,475,000)**	**114,937,936**
Inventories	26,627,854			26,627,854
Trade receivables	35,157,543	3,444,214	(3,428,091)	35,173,666
Tax receivables	2,377,224			2,377,224
Other current receivables	764,471	19,596	(3,355)	780,712
Current financial assets	5,110,000			5,110,000
Cash and cash equivalents	1,958,805	210,415		2,169,220
Total current assets	**71,995,897**	**3,674,225**	**(3,431,446)**	**72,238,676**
Assets held for sale	**0**	**0**		**0**
TOTAL ASSETS	**173,858,172**	**30,224,886**	**(16,906,446)**	**187,176,612**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Share capital	11,533,450	25,000	(25,000)	11,533,450
Retained earnings, Other reserves	72,464,975	26,351,273	(10,450,000)	88,366,248
Profit for the year	8,040,214	613,140	(3,000,000)	5,653,354
Total shareholders' equity	**92,038,639**	**26,989,413**	**(13,475,000)**	**105,553,052**
Loans	33,669,253	1,308,612		34,977,865
Other financial liabilities	120,000			120,000
Post-employment benefit and retirement provisions	2,083,922			2,083,922
Provisions for risks and charges	1,088,183			1,088,183
Deferred tax liabilities	106,646	1,712,794		1,819,440
Total non-current liabilities	**37,068,004**	**3,021,406**		**40,089,410**
Loans	17,330,136	153,104		17,483,240
Other financial liabilities	1,795,310			1,795,310
Trade payables	18,944,590	36,178	(3,431,446)	15,549,322
Tax payables	589,828	19,801		609,629
Other payables	6,091,665	4,984		6,096,649
Total current liabilities	**44,751,529**	**214,067**	**(3,431,446)**	**41,534,150**
Liabilities held for sale	**0**	**0**		**0**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**173,858,172**	**30,224,886**	**(16,906,446)**	**187,176,612**

Reclassified Income Statement at 31 December 2018

(in €)	**Sabaf S.p.A. 2018 FY**	**Sabaf Immobiliare 2018 FY**	**Eliminations**	**Sabaf S.p.A. reclassified 2018 FY**
INCOME STATEMENT COMPONENTS				
Revenue	110,065,252	4,007,481	(3,973,295)	110,099,438
Other income	2,985,254	35	(33,223)	2,952,066
Total operating revenue and income	**113,050,506**	**4,007,516**	**(4,006,518)**	**113,051,504**
Materials	(45,084,626)	(456)		(45,085,082)
Change in inventories	1,858,927			1,858,927
Services	(27,540,143)	(94,312)	4,006,518	(23,627,937)
Personnel costs	(28,388,299)			(28,388,299)
Other operating costs	(1,852,013)	(214,891)		(2,066,904)
Costs for capitalised in-house work	1,599,795			1,599,795
Total operating costs	**(99,406,359)**	**(309,659)**	**4,006,518**	**(95,709,500)**
EBITDA	**13,644,147**	**3,697,857**		**17,342,004**
Depreciations and amortisation	(8,596,924)	(1,410,022)		(10,006,946)
Capital gains/(losses) on non-current assets	495,659	(3,871)		491,788
Write-downs/write-backs of non-current assets	0	(850,000)		(850,000)
OPERATING PROFIT (EBIT)	**5,542,882**	**1,433,964**		**6,976,846**
Net financial income (expenses)	(795,368)	(18,211)		(813,579)
Exchange rate gains and losses	157,102			157,102
Profits and losses from equity investments	4,322,070		(3,000,000)	1,322,070
PROFIT BEFORE TAXES	**9,226,686**	**1,415,753**	**(3,000,000)**	**7,642,439**
Income taxes	(1,186,472)	(802,613)		(1,989,085)
PROFIT FOR THE YEAR	**8,040,214**	**613,140**	**(3,000,000)**	**5,653,354**

Reclassified statement of cash flows at 31 December 2018

(€/000)	**Sabaf S.p.A. 2018 FY**	**Sabaf Immobiliare 2018 FY**	**Eliminations**	**Sabaf S.p.A. reclassified 2018 FY**
Cash and cash equivalents at beginning of year	**2,697**	**3,615**		**6,312**
Profit for the year	8,040	613	(3,000)	5,653
Adjustments for:				
- Depreciations and amortisation	8,597	1,410		10,007
- Realised gains	(496)	4		(492)
- Write-downs of non-current assets	0	850		850
- Profits and losses from equity investments	(4,322)	0	3,000	(1,322)
- Valuation of the stock grant plan	321	0		321
- Net financial income and expenses	795	18		813
- Non-monetary foreign exchange differences	79	0		79
- Income tax	1,186	803		1,989
Change in post-employment benefit	(139)	0		(139)
Change in risk provisions	719	0		719
Change in trade receivables	*(4,003)*	*(3,425)*	*3,428*	*(4,000)*
Change in inventories	*(1,859)*	*0*		*(1,859)*
Change in trade payables	*2,375*	*32*	*(3,431)*	*(1,024)*
Change in net working capital	(3,487)	(3,393)	(3)	(6,883)
Change in other receivables and payables, deferred tax liabilities	(407)	74	3	(330)
Payment of taxes	(1,319)	(643)		(1,962)
Payment of financial expenses	(895)	(1)		(896)
Collection of financial income	123	0		123
Cash flows from operations	**8,796**	**(264)**		**8,532**
Net investments	(15,219)	9		(15,210)
Cash flow absorbed by investments	**(15,219)**	**9**		**(15,210)**
Repayment of loans	(14,166)	(149)		(14,315)
Raising of loans	31,600	0		31,600
Change in financial assets	(7,641)	0		(7,641)
Buy-back of shares	(2,359)	0		(2,359)
Payment of dividends	(6,071)	(3,000)	3,000	(6,071)
Collection of dividends	4,322	0	(3,000)	1,322
Cash flow absorbed by financing activities	**5,685**	**(3,149)**		**2,536**
Total cash flows	**(738)**	**(3,404)**		**(4,142)**
Cash and cash equivalents at beginning of year	**1,959**	**210**		**2,169**
Current financial debt	14,015	153		14,168
Non-current financial debt	33,789	1,309		35,098
Net financial debt	**45,845**	**1,252**		**47,097**

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 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**
Increases	152	3,132	1,723	1,893	6,900
Sabaf Immobiliare merger	35,896	4,723	367	-	40,986
IFRS16 assets	-	-	878	-	878
Disposals	-	(1,998)	(642)	-	(2,640)
Reclassification	706	3,073	53	(2,323)	1,509
At 31 December 2019	**43,324**	**175,386**	**36,447**	**2,217**	**257,374**

Accumulated depreciation					
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**
Depreciations for the year	1,210	6,131	1,479	-	8,820
Sabaf Immobiliare merger	13,613	4,198	367	-	18,178
Eliminations for disposals	-	(1,642)	(44)	-	(1,686)
Reclassification	464	884	-	-	1,348
At 31 December 2019	**18,531**	**154,288**	**33,084**	**-**	**205,903**

Net carrying value					
At 31 December 2019	24,793	21,098	3,363	2,217	51,471
At 31 December 2018	3,326	21,739	2,786	2,647	30,498

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

	31/12/2019	31/12/2018	Change
Land	5,404	1,291	4,113
Industrial buildings	19,389	2,035	17,354
Total	**24,793**	**3,326**	**21,456**

As a result of the merger, Sabaf acquired the entire industrial complex of Ospitaletto where it carries out its production activities.

Changes in property, plant and equipment resulting from the application of IFRS 16 are shown below:

	Property	Plant and equipment	Other assets	Total
1 January 2019	**-**	**-**	**-**	**-**
First-time adoption of IFRS16	108	-	580	688
Increases	-	-	298	298
Decreases	-	-	-	-
Depreciations	(35)	-	(218)	(253)
Foreign exchange differences	-	-	-	-
Other changes including reclassifications	-	-	-	-
At 31 December 2019	**73**	**-**	**660**	**733**

The main investments in the financial year were aimed at increasing and automating the production capacity of special burners. Other investments were made in the production of moulds 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. The reclassification mainly refers to the recalculation of the "Improvements on third-party assets" class in the respective "buildings" and "plant" asset classes, an operation carried out following the merger through incorporation of Sabaf Immobiliare Srl.
At 31 December 2019, 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 2017	**6,675**
Increases	-
Disposals	-
At 31 December 2018	**6,675**
Increases	-
Sabaf Immobiliare merger	5,052
IFRS16 assets	108
Disposals	-
At 31 December 2019	**11,835**

Accumulated depreciations	
At 31 December 2017	**5,221**
Depreciations for the year	192
At 31 December 2018	**5,413**
Depreciations for the year	429
Sabaf Immobiliare merger	2,017
At 31 December 2019	**7,859**

Net carrying value	
At 31 December 2019	3,976
At 31 December 2018	1,262

Changes in investment property resulting from the application of IFRS 16 are shown below:

	Investment property
1 January 2019	**-**
First-time adoption of IFRS16	108
Increases	-
Decreases	-
Depreciations	(35)
Foreign exchange differences	-
Other changes including reclassifications	-
At 31 December 2019	**73**

This item includes non-operating buildings owned by the Company.
At 31 December 2019, 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 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**
Increases	34	460	-	494
Decreases	-	-	(11)	(11)
Reclassifications	-	(101)	(1,812)	(1,913)
At 31 December 2019	**6,790**	**5,848**	**635**	**13,273**
Amortisation and write-downs				
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**
Amortisation	187	367	5	559
Decreases	-	-	-	-
Reclassifications	-	-	(1,348)	(1,348)
At 31 December 2019	**6,508**	**3,767**	**545**	**10,820**
Net carrying value				
At 31 December 2019	**282**	**2,081**	**90**	**2,453**
At 31 December 2018	**435**	**2,089**	**570**	**3,094**

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).
The reclassification mainly refers to the recalculation of the "Improvements on third-party assets" class in the respective "buildings" and "plant" asset classes, an operation carried out following the merger through incorporation of Sabaf Immobiliare Srl.

At 31 December 2019, 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

	31/12/2019	31/12/2018	Change
In subsidiaries	57,917	58,116	(199)
Other equity investments	34	34	-
Total	**57,951**	**58,150**	**(199)**

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

	Sabaf Immobiliare	Faringosi Hinges	Sabaf do Brasil	Sabaf U.S.	Sabaf Appliance Components (China)	Sabaf A.C. Kunshan (China)	Sabaf Turkey	A.R.C. s.r.l.	Okida	C.M.I. s.r.l.	Total
Historical cost											
31/12/17	**13,475**	**10,329**	**8,469**	**139**	**4,400**	**200**	**12,005**	**4,800**	**-**	**-**	**53,817**
Purchase	-	-	-	-	-	-	-	-	8,698	-	8,698
31/12/18	**13,475**	**10,329**	**8,469**	**139**	**4,400**	**200**	**12,005**	**4,800**	**8,698**	**-**	**62,515**
Purchase	-	-	-	-	500	-	-	-	84	13,392	13,976
Liquidation	-	-	-	-	-	(200)	-	-	-	-	(200)
Merger	(13,475)	-	-	-	-	-	-	-	-	-	(13,475)
31/12/19	**0**	**10,329**	**8,469**	**139**	**4,900**	**0**	**12,005**	**4,800**	**8,782**	**13,392**	**62,816**
Provision for write-downs											
31/12/17	**0**	**0**	**0**	**0**	**4,400**	**0**	**0**	**0**	**0**	**0**	**4,400**
Write-downs	-	-	-	-	-	-	-	-	-	-	-
31/12/18	**0**	**0**	**0**	**0**	**4,400**	**0**	**0**	**0**	**0**	**0**	**4,400**
Write-downs	-	-	-	-	500	-	-	-	-	-	500
31/12/19	**0**	**0**	**0**	**0**	**4,900**	**0**	**0**	**0**	**0**	**0**	**4,900**
Net carrying value											
31/12/19	**0**	**10,329**	**8,469**	**139**	**0**	**0**	**12,005**	**4,800**	**8,782**	**13,392**	**57,916**
31/12/18	**13,475**	**10,329**	**8,469**	**139**	**0**	**200**	**12,005**	**4,800**	**8,698**	**0**	**58,116**
Portion of shareholders' equity (calculated in compliance with IFRS)											
31/12/19	**0**	**7,319**	**11,524**	**(51)**	**(772)**	**0**	**25,109**	**3,965**	**1,785**	**5,103**	**53,982**
31/12/18	**27,674**	**7,248**	**10,870**	**(28)**	**(697)**	**248**	**23,425**	**3,630**	**1,719**	**0**	**74,089**
Difference between shareholders' equity and carrying value											
31/12/19	**0**	**(3,010)**	**3,055**	**(190)**	**(772)**	**0**	**13,104**	**(835)**	**(6,997)**	**(8,289)**	**(3,934)**
31/12/18	**14,199**	**(3,081)**	**2,401**	**(167)**	**(697)**	**48**	**11,420**	**(1,170)**	**(6,979)**	**0**	**15,974**

Faringosi Hinges s.r.l.

In 2019, 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 2020-2024 forward plan, drafted at the beginning of 2020, envisages a further increase in sales. At 31

December 2019, 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 2020 to 2024 were augmented by the 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 9.54% (10.45% in the impairment test carried out while preparing the Separate financial statements at 31 December 2018) and a growth rate (g) of 2% (1.5% at 31 December 2018).

The recoverable amount calculated on the basis of the above-mentioned assumptions and valuation techniques is €16,904 million, compared with a carrying value of the equity investment of €10,329 million; consequently, the amount recorded for equity investment at 31 December 2019 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%**	**1.75%**	**2.00%**	**2.25%**	**2.50%**
8.54%	18,500	19,069	19,682	20,343	21,058
9.04%	17,186	17,672	18,192	18,751	19,352
9.54%	16,039	16,457	16,904	17,380	17,891
10.04%	15,028	15,391	15,777	16,188	16,627
10.54%	14,131	14,449	14,786	15,143	15,522

Sabaf do Brasil
In 2019, Sabaf do Brasil continued to obtain positive results. 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 2019. A share capital increase of €500,000 was made during the year; a write-down of the same amount was made against the loss for the year. At 31 December 2019, a provision for risks on equity investments of €780,000

(€80,000 of which allocated in 2019) was also recognised, in line with 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; therefore, the company went into liquidation; the process of liquidation ended in 2019.

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

Sabaf Turkey achieved extremely satisfactory results in 2019 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 2019, 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 2020. Cash flows for the period from 2020 to 2024 were augmented by the 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 6.07% (7.73% in the impairment test carried out while drafting the separate financial statements at 31 December 2018) and a growth rate (g) of 1.50%, in line with last year.

The portion pertaining to Sabaf S.p.A. of the recoverable amount calculated on the basis of the above-mentioned assumptions and valuation techniques is €10.906 million (70% of total recoverable amount, equal to €15.580 million), compared with a carrying value of the equity investment of €4.8 million; consequently, the carrying value recorded for equity investment at 31 December 2019 was deemed recoverable.

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

(€/000)					
			growth rate		
discount rate	**1.00%**	**1.25%**	**1.50%**	**1.75%**	**2.00%**
5.07%	12,285	12,911	13,624	14,445	15,398
5.57%	11,071	11,554	12,097	12,711	13,411
6.07%	10,097	10,481	10,906	11,380	11,913
6.57%	9,300	9,611	9,952	10,329	10,745
7.07%	8,636	8,892	9,170	9,475	9,809

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 strike 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 at 31 December 2019.

Okida Elektronik Sanayi Limited Sirket
In 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 2019, the Company tested - with the support of independent experts - the carrying value of the equity investment for impairment, determining its recoverable amount by discounting expected future cash flows in the forward plan drafted at the beginning of 2020. Cash flows for the period from 2020 to 2024 were augmented by the 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 12.92% (11.05% in the impairment test carried out while preparing the separate financial statements at 31 December 2018) and a growth rate (g) of 2.50%, unchanged from the 2018 impairment test.

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 €9.464 million (30% of total equity value, equal to €31.547 million), compared with a carrying value of the equity investment of

€8.782 million; consequently, the carrying value recorded for equity investment at 31 December 2019 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	**2.00%**	**2.25%**	**2.50%**	**2.75%**	**3.00%**
11.92%	10,113	10,304	10,506	10,718	10,943
12.42%	9,610	9,780	9,959	10,147	10,345
12.92%	9,154	9,306	9,464	9,632	9,808
13.42%	8,738	8,874	9,017	9,166	9,323
13.92%	8,358	8,481	8,609	8,743	8,883

C.M.I. s.r.l.
In July 2019, the Company acquired 68.5% of C.M.I. s.r.l., one of the main players in the design, production and sale of hinges for household appliances. The acquisition of C.M.I. s.r.l. allowed the Sabaf Group to achieve a leadership position on a global scale in the hinges sector, proposing itself also in this area as a reference partner for all manufacturers of household appliances.

At 31 December 2019, the Company tested - with the support of independent experts - the carrying value of the equity investment for impairment, determining its recoverable amount by discounting expected future cash flows in the forward plan drafted by the management. Cash flows for the period from 2020 to 2022 were augmented by the terminal value, which expresses the operating flows that the company is expected to generate from the third year to infinity and determined based on the perpetual income. The value of use was calculated based on a discount rate (WACC) of 10.49% and a growth rate (g) of 1.15%, representative of expected future growth rates for the reference 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 €19.102 million (68.5% of total equity value , equal to €27.886 million), compared with a carrying value of the equity investment of €13.392 million; consequently, the carrying value recorded for equity investment at 31 December 2019 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	**0.15%**	**0.65%**	**1.15%**	**1.65%**	**2.15%**
9.50%	19,389	20,513	21,771	23,190	24,801
10.00%	18,242	19,245	20,361	21,521	23,019
10.50%	17,207	18,107	19,102	20,211	21,452
11.00%	16,268	17,079	17,972	18,961	20,062
11.50%	15,412	16,147	16,952	17,840	18,822

The option for the purchase of the residual 31.5% of C.M.I. represents a derivative instrument; since the strike 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 at 31 December 2019.

5. NON-CURRENT FINANCIAL ASSETS

	31/12/2019	31/12/2018	Change
Financial receivables from subsidiaries	5,280	5,247	33
Escrow bank account	60	120	(60)
Total	**5,340**	**5,367**	**(27)**

At 31 December 2019, financial receivables from subsidiaries consist of:
- an interest-bearing loan of USD 2 million (€1.780 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 2018 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 escrow 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 2019, the portion due beyond 12 months amounted to €60,000, whereas the portion due within 12 months amounted to €60,000 (Note 10).

6. INVENTORIES

	31/12/2019	31/12/2018	Change
Raw Materials	7,248	9,358	(2,110)
Semi-processed goods	6,071	9,633	(3,561)
Finished products	7,833	9,231	(1,398)
Provision for inventory write-downs	(1,290)	(1,594)	304
Total	**19,862**	**26,628**	**(6,765)**

The value of final inventories at 31 December 2019 is significantly lower than the value of the previous year. This improvement was achieved thanks to structural actions on internal logistics, which made it possible to significantly reduce the stocks of work in progress. 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 €453,000, semi-finished products for €326,000 and finished products for €511,000. The following table shows the changes in the Provision for inventory write-downs during the current financial year:

31/12/2018	**1,594**
Provisions	18
Utilisation	(322)
31/12/2019	**1,290**

7. TRADE RECEIVABLES

	31/12/2019	31/12/2018	Change
Total trade receivables	**29,413**	**36,157**	**(6,744)**
Bad debt provision	(850)	(1,000)	150
Net total	**28,563**	**35,157**	**(6,594)**

At 31 December 2019, trade receivables included balances totalling USD 3,214,000, booked at the EUR/USD exchange rate in effect on 31 December 2019, i.e. 1.1234. The amount of trade receivables recognised in the financial statements includes approximately €15 million in insured receivables (€18 million at 31 December 2018).
There were no significant changes in average payment terms agreed with customers.
Receivables assigned to factors without recourse are eliminated from the Statement of Financial Position in that the reference contract provides for the assignment of ownership of the receivables, together with ownership of the cash flows generated by the receivable, as well as of all risks and benefits, to the assignee.

	31/12/2019	31/12/2018	Change
Current receivables (not past due)	21,929	29,966	(8,038)
Outstanding up to 30 days	2,530	1,996	534
Outstanding from 31 to 60 days	1,935	494	1,441
Outstanding from 61 to 90 days	1,958	3,030	(1,072)
Outstanding for more than 90 days	1,061	671	390
Total	**29,413**	**36,157**	**(6,745)**

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

	31/12/2018	Provisions	Utilisation	31/12/2019
Bad debt provision	1,000	42	(192)	850

8. TAX RECEIVABLES

	31/12/2019	31/12/2018	Change
For income tax	1,323	2,002	(679)
for VAT	413	375	38
Total	**1,736**	**2,377**	**(641)**

At 31 December 2019, income tax receivables include €559,000 (€1,083,000 at 31 December 2018) for the residual amount of the receivable originating from the full deduction from IRES of IRAP relating to expenses incurred for employees and similar for the period from 2009 to 2011 (Italian Decree Law 201/2011). During 2019, the Company received a partial refund of €524,000; an additional refund of €168,000 was received at the beginning of 2020.
Income tax receivables also include payments on account on 2019 income, for the part exceeding the tax to be paid.

9. OTHER CURRENT RECEIVABLES

	31/12/2019	31/12/2018	Change
Credits to be received from suppliers	127	374	(247)
Advances to suppliers	104	112	(8)
Due from INAIL	31	10	21
Other	326	268	58
Total	**588**	**764**	**(176)**

Credits to be received from suppliers mainly refer to bonuses paid to the Company for the attainment of purchasing objectives.

10. CURRENT FINANCIAL ASSETS

	31/12/2019	31/12/2018	Change
Financial receivables from subsidiaries	1,600	1,600	-
Escrow bank accounts	1,233	3,510	(2,277)
Total	**2,833**	**5,110**	**(2,277)**

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 2019, the following were taken out:

- a term deposit of €60 thousand, due on 30 June 2021, for the portion of the price not yet paid to the sellers of the ARC equity investment;
- a term deposit of €1.173 million for the portion of the price not yet paid to the sellers of the C.M.I. equity investment and deposited as collateral in accordance with the terms of the C.M.I. acquisition agreement.

11. CASH AND CASH EQUIVALENTS

The item Cash and cash equivalents, equal to €8,343,000 at 31 December 2019 (€1,959,000 at 31 December 2018), 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 2019, the structure of the share capital is shown in the table below.

	No. of shares	% of share capital	Rights and obligations
Ordinary shares	7,065,449	61.26%	--
Ordinary shares with increased vote	4,468,001	38.74%	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. sold 344,631 treasury shares with reference to the following transactions:
- acquisition of 68.5% of the share capital of C.M.I. Cerniere Meccaniche Industriali s.r.l. on 31 July 2019, following which 8.5% of the share capital was acquired through the sale of 113,962 Sabaf shares, equal to 0.99% of the share capital, at a unit price of 14.5815 per share;
- partnership agreement with the Japanese group Paloma, active globally in the gas equipment sector. Paloma Rheem Investments Inc. purchased 230,669 Sabaf shares, equal to 2% of the share capital, at a unit price of €13.64 per share.

At 31 December 2019, the Company held 169,875 treasury shares, equal to 1.473% of share capital (514,506 treasury shares at 31 December 2018), 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 €13.40). There were 11,363,575 outstanding shares at 31 December 2019 (11,018,944 at 31 December 2018).

Items "Retained earnings, other reserves" of €93,400,000 included, at 31 December 2019,

- the stock grant reserve of €1,002,000 thousand, which included the measurement at 31 December 2019 of fair value of rights assigned to receive Sabaf shares. For details of the Stock Grant Plan, refer to Note 42;
- €13,514,000 for the merger surplus resulting from the merger of Sabaf Immobiliare s.r.l., as explained in the specific section of these Explanatory Notes.

14. LOANS

	31/12/2019			31/12/2018		
	Current	Non current	Total	Current	Non current	Total
Leases	297	1,750	2,047	-	-	-
Unsecured loans	11,904	33,736	45,640	9,911	33,669	43,580
Short-term bank loans	1,793	-	1,793	7,188	-	7,188
Derivative instruments on interest rates	-	-	-	231	-	231
Total	**13,994**	**35,486**	**49,480**	**17,330**	**33,669**	**50,999**

During the year, the Company took out new unsecured loans for a total of €12 million to finance the investments made, with particular reference to the acquisition of C.M.I. 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 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 2019 equal to €19 million)
- commitment to maintain a ratio of net financial position to EBITDA of less than 2.5 (residual amount of the loans at 31 December 2019 equal to €31 million) widely observed at 31 December 2019.

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 €33.2 million and expiry until 30 June 2025. Financial expenses were recognised in the income statement with a balancing entry.

Following the merger through incorporation of the company Sabaf Immobiliare s.r.l., Sabaf took over the finance lease of an industrial building, whose residual debt on 1 January 2019 was €1,462,000.

The following table shows the reconciliation between commitments for operating leases at 31 December 2018 and liabilities relating to leases at 31 December 2019:

Commitments for operating leases at 31 December 2018	698
Incremental borrowing rate at 1 January 2019	1.5%
Discounting effect	(10)
Commitments for operating leases discounted at 1 January 2019	688
Commitments relating to leases previously classified as finance leases	1,462
Lease liabilities at 1 January 2019	2,150
New agreements signed during 2019	297
Repayments during 2019	(400)
Lease liabilities at 31 December 2019	2,047

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

15. OTHER FINANCIAL LIABILITIES

	31/12/2019		**31/12/2018**	
	Current	Non current	Current	Non current
Payables to former Okida shareholders	-	-	1,735	-
Payables to A.R.C. shareholders	60	60	60	120
Payables to C.M.I. shareholders	-	1,173	-	-
Derivative instruments on interest rates	271	-	-	-
Total	**331**	**1,233**	**1,795**	**120**

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 and postponed compared to the effective date of the transaction (4 September 2018). The payables to Okida shareholders recorded at 31 December 2018, representing the remaining part of the price, was paid in March 2019.

The payable to the A.R.C. shareholders of €120.000 at 31 December 2019 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 2 years, in accordance with contractual agreements and guarantees issued by the sellers.

The payable to C.M.I. shareholders of €1,173,000 at 31 December 2019 is related to the part of the price still to be paid to the Chinese group Guandong Xingye Investment, seller of C.M.I., which was deposited on a non-interest-bearing escrow account in accordance with contractual agreements and guarantees issued by the seller.

16. Post-employment benefit

At 31 December 2018	**2,084**
Financial expenses	26
Payments made	(110)
Tax effect	64
At 31 December 2019	**2,064**

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

	31/12/2019	*31/12/2018*
Discount rate	0.40%	1.30%
Inflation	1.20%	1.70%

Demographic theory

	31/12/2019	*31/12/2018*
Mortality rate	IPS55 ANIA	ISTAT 2016 M/F
Disability rate	INPS 2000	INPS 1998 M/F
Staff turnover	6%	6%
Advance payouts	5% per year	5% per year
Retirement age	pursuant to legislation in force on 31 December 2019	pursuant to legislation in force on 31 December 2018

17. PROVISIONS FOR RISKS AND CHARGES

	31/12/2018	**Provisions**	**Utilisation**	**31/12/2019**
Provision for agents' indemnities	208	17	(27)	198
Product guarantee fund	60	38	(38)	60
Provision for risks on equity investments	700	80	-	780
Provision for legal risks	120	36	(130)	26
Total	**1,088**	**171**	**(195)**	**1,064**

The provision 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 fund was adjusted at the end of the year, on the basis of analyses conducted and past experience.
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 2019.
The provision for legal risks, set aside for moderate disputes, was adjusted to reflect the outstanding disputes.
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

	31/12/2019	31/12/2018	Change
Total	**15,734**	**18,945**	**(3,211)**

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 2019, there were no overdue payables of a significant amount and the Company did not receive any injunctions for overdue payables.

19. TAX PAYABLES

	31/12/2019	31/12/2018	Change
To inland revenue for IRPEF tax deductions	621	590	31
Other tax payables	74	-	74
Total	**695**	**590**	**105**

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

20. OTHER CURRENT PAYABLES

	31/12/2019	31/12/2018	Change
To employees	3,697	3,649	48
To social security institutions	1,806	1,901	(95)
Advances from customers	165	91	74
To agents	193	235	(42)
Other current payables	461	216	245
Total	**6,322**	**6,092**	**230**

At the beginning of 2020, payables due to employees and social security institutions were paid in accordance with the scheduled expiry dates.
Other current payables include accrued liabilities and deferred income.

21. DEFERRED TAX ASSETS AND LIABILITIES

	31/12/2019	31/12/2018
Deferred tax assets	4,276	3,472
Deferred tax liabilities	(1,734)	(107)
Net position	**2,542**	**3,365**

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	Tax loss	Actuarial evaluation of post-employment benefit	Other temporary differences	Total
At 31 December 2017	**347**	**919**	**2**	**1,771**	**-**	**159**	**189**	**3,387**
Through profit or loss	69	(45)	53	-	-	-	(93)	(16)
To shareholders' equity	-	-	-	-	-	(6)	-	(6)
At 31 December 2018	**416**	**874**	**55**	**1,771**	**-**	**153**	**96**	**3,365**
Through profit or loss	219	22	10	(354)	419	-	(43)	273
To shareholders' equity	(1,111)	-	-	-	-	15	-	(1,096)
At 31 December 2019	**(476)**	**896**	**65**	**1,417**	**419**	**168**	**53**	**2,542**

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, deductible in ten instalments starting in 2018.

The change in shareholders' equity relating to the item Amortisation and leasing of approximately Euro 1.111 million relates to the merger of Sabaf Immobiliare S.r.l.

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:

		31/12/2019	31/12/2018	Change
A.	Cash (Note 11)	8	6	2
B.	Positive balances of unrestricted bank accounts (Note 11)	8,335	1,953	6,382
C.	Other cash equivalents	-	-	-
D.	**Liquidity (A+B+C)**	**8,343**	**1,959**	**6,384**
E.	**Current financial receivables**	**2,833**	**5,110**	**(2,277)**
F.	Current bank payables (Note 14)	1,793	7,419	(5,626)
G.	Current portion of non-current debt (Note 14)	12,201	9,911	2,290
H.	Other current financial payables (Note 15)	331	1,795	(1,464)
I.	**Current financial debt (F+G+H)**	**14,325**	**19,125**	**(4,800)**
J.	**Net current financial debt (I-D-E)**	**3,149**	**12,056**	**(8,907)**
K.	Non-current bank payables (Note 14)	35,486	33,669	1,817
L.	Other non-current financial payables	1,233	120	1,113
M.	**Non-current financial debt (K+L)**	**36,719**	**33,789**	**2,930**
N.	**Net financial debt (J+M)**	**39,868**	**45,845**	**(5,977)**

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 2019, sales revenue totalled €94,899,421, down 13.8% from €110,065,252 in 2018.

Revenue by geographical area

	2019	%	2018	%	% change
Italy	22,053	23.2%	24,762	22.5%	*(10.9%)*
Western Europe	8,661	9.1%	8,925	8.1%	*(3%)*
Eastern Europe and Turkey	30,690	32.3%	36,807	33.4%	*(16.6%)*
Asia and Oceania (excluding Middle East)	7,808	8.2%	4,893	4.4%	*59.6%*
Central and South America	11,389	12%	11,912	10.8%	*(4.4%)*
Middle East and Africa	6,070	6.4%	13,323	12.1%	*(54.4%)*
North America and Mexico	8,228	8.7%	9,443	8.6%	*(12.9%)*
Total	**94,899**	100%	**110,065**	100%	***(13.8%)***

The trend in revenue was affected by the overall uncertainty of the macroeconomic scenario. In Turkey, main destination market, the Company recorded a 20% decrease in sales in 2019, more pronounced in the first part of the year and showed a clear recovery in recent months. In Italy, sales suffered from the reduction in the production of domestic appliances. Downturns were also recorded in the Middle East and Africa. Among the markets that have shown a positive trend is China, thanks to the launch of new supply contracts to primary customers.

Revenue by product family

	2019	%	2018	%	% change
Valves and thermostats	40,003	42.2%	48,466	44.0%	*(17.5%)*
Burners	43,304	45.6%	45,838	41.6%	*(5.5%)*
Accessories and other revenues	11,592	12.2%	15,761	14.3%	*(26.5%)*
Total	**94,899**	100%	**110,065**	100%	***(13.8%)***

The sales analysis by product category shows a marked drop in valves while burners show an improved performance.

Average sales prices in 2019 were 0.4% lower compared to 2018.

24. OTHER INCOME

	2019	2018	Change
Sale of trimmings	912	1,424	(512)
Services to subsidiaries	1,332	536	796
Royalties vs. subsidiaries	97	93	4
Contingent income	317	55	262
Rental income	118	87	31
Use of provisions for risks and charges	64	26	38
Services to parent company	-	40	(40)
Other income	1,205	724	481
Total	**4,045**	**2,985**	**1,060**

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

25. MATERIALS

	2019	2018	Change
Commodities and outsourced components	29,860	41,286	(11,425)
Consumables	2,945	3,799	(854)
Total	**32,805**	**45,085**	**(12,279)**

In 2019, the effective purchase prices of the main raw materials (aluminium alloys, steel and brass) were on average lower than in 2018, with a positive impact of 0.8% of sales.

26. COSTS FOR SERVICES

	2019	2018	Change
Outsourced processing	6,674	8,815	(2,141)
Property rental	-	4,009	(4,009)
Electricity and natural gas	2,800	3,271	(471)
Maintenance	3,020	3,081	(61)
Advisory services	2,020	1,977	43
Transport and export expenses	1,091	1,394	(303)
Directors' fees	482	475	7
Insurance	466	468	(2)
Commissions	565	631	(66)
Travel expenses and allowances	402	550	(148)
Waste disposal	368	378	(10)
Canteen	260	291	(31)
Temporary agency workers	111	196	(85)
Other costs	1,865	2,004	(139)
Total	**20,124**	**27,540**	**(7,416)**

The main outsourced processing carried out by the Company include aluminium die-casting, hot moulding of brass and some mechanical processing and assembly. The reduction in costs for outsourced processing reflects the lower levels of activity compared to the previous year. As a result of the merger of Sabaf Immobiliare, property rental costs were zeroed.

Other costs included expenses for the registration of patents, waste disposal, cleaning, leasing third-party assets and other minor charges.

27. PERSONNEL COSTS

	2019	2018	Change
Salaries and wages	17,996	18,744	(748)
Social Security costs	5,764	6,099	(335)
Temporary agency workers	972	1,779	(807)
Post-employment benefit and other costs	1,373	1,445	(72)
Stock grant plan	680	321	359
Total	**26,785**	**28,388**	**(1,282)**

Average of the Company headcount at 31 December 2019 totalled 488 employees (360 blue-collars, 118 white-collars and supervisors, 10 managers), compared with 503 in 2018 (376 blue-collars, 117 white-collars and supervisors, 10 managers). The number of temporary staff with temporary work contract was 18 at 31 December 2019 (47 in 2018).
The item "Stock Grant Plan" included the measurement at 31 December 2019 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 41.

28. OTHER OPERATING COSTS

	2019	2018	Change
Losses and write-downs of trade receivables	42	402	(360)
Non-income related taxes and duties	400	217	183
Contingent liabilities	99	192	(93)
Provisions for risks	74	77	(3)
Other provisions	97	668	(571)
Other operating expenses	214	296	(82)
Total	**926**	**1,852**	**(926)**

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. FINANCIAL EXPENSES

	2019	2018	Change
Interest paid to banks	592	641	(49)
Banking expenses	173	240	(67)
Other financial expense	52	37	15
Total	**817**	**918**	**(101)**

Interest paid to banks includes IRS spreads payable that hedge interest rate risks.

30. EXCHANGE RATE GAINS AND LOSSES

In 2019, the Company reported net foreign exchange losses of €10,000 (net gains of €157,000 in 2018).

31. PROFITS AND LOSSES FROM EQUITY INVESTMENTS

	2019	2018	Change
Dividends received from Sabaf Kunshan Trading	47	-	47
Dividends received from Sabaf Immobiliare	996	3,000	(2,004)
Dividends received from Okida Elektronik	315	1,322	(1,007)
Total	**1,358**	**4,322**	**(2,964)**

This item includes dividends received from investee companies.

32. INCOME TAXES

	2019	2018	Change
Current taxes	127	967	(840)
Deferred tax assets and liabilities	(273)	16	(289)
Taxes related to previous financial years	(29)	21	(50)
Taxes on foreign dividends	44	182	(138)
Total	**(131)**	**1,186**	**(1,317)**

Current taxes for 2019 are related to IRAP (IRES of €672,000 and IRAP of €295,000 in 2018). Deferred tax assets and liabilities include an IRES income of €419,000 relating to the tax loss for 2019.

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:

	2019	2018
Theoretical income tax	886	2,214
Taxes related to previous financial years	(25)	18
Tax effect of dividends from investee companies	(265)	(803)
“Patent box” tax effect	(306)	(323)
“Iper e Superammortamento” tax benefit	(581)	(449)
Permanent tax differences	4	279
Other differences	(4)	4
IRES (current and deferred)	(291)	940
IRAP (current and deferred)	160	246
Total	**(131)**	**1,186**

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 2019 of €356,000 (€306,000 for IRES and €50,000 for IRAP).

No tax disputes were pending at 31 December 2019.

33. DIVIDENDS

On 29 May 2019, shareholders were paid an ordinary dividend of €0.55 per share (total dividends of €6,060,000).
The Directors, having acknowledged the significant change in the global economic scenario following the spread of the coronavirus pandemic, considered it appropriate, on a prudential basis, to propose to the Shareholders' meeting to allocate the profit for 2019 entirely to the extraordinary reserve.

34. 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.

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 IFRS 9.

	31/12/2019	31/12/2018
Financial assets		
Amortised cost		
Cash and cash equivalents	8,343	1,959
Trade receivables and other receivables	29,152	35,922
Non-current loans	1,780	5,246
Current loans	1,600	1,600
Other financial assets	1,293	3,630
Financial liabilities		
Fair Value through profit or loss		
Derivative cash flow hedges (on interest rates)	271	231
Amortised cost		
Loans	49,480	50,999
Other financial liabilities	1,293	1,915
Trade payables	15,734	18,945

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.
The Company factors receivables with factoring companies based on without recourse agreements, thereby transferring the related risk.
A credit insurance policy is in place, which guarantees cover for approximately 54% 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 14% of total turnover in 2019, while purchases in dollars represented 3% of total turnover. During the year, operations in dollars were partially hedged through forward sales contracts; no currency derivatives were pending at 31 December 2019.

Sensitivity analysis

With reference to financial assets and liabilities in US dollars at 31 December 2019, a hypothetical and immediate revaluation of 10% of the euro against the dollar would have led to a loss of €185,000.

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 2019, IRS totalling €33.2 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. The derivative contracts were not designated as a cash flow hedge and were therefore recognised using the "fair value through profit or loss" method.

Sensitivity analysis

Considering the IRS in place, at the end of 2019 almost all of the Company's financial debt was at a fixed rate. Therefore, at 31 December 2019 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 2019 and 2018, 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 2019 of 46%, net financial debt / pro-forma EBITDA [2] of 1.86) 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 expiry date of financial payables at 31 December 2019 and 31 December 2018 is shown below.

At 31 December 2019

	Carrying value	Contractual cash flows	Within 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years
Unsecured loans	47,687	48,588	1,723	11,009	33,251	2,605
Short-term bank loans	1,793	1,793	1,793	-	-	-
Payables to ARC shareholders	120	120	-	60	60	-
Payables to former C.M.I. shareholders	1,173	1,173	-	-	1,173	-
Total financial payables	**50,773**	**51,674**	**3,516**	**11,069**	**34,484**	**2,605**
Trade payables	15,734	15,734	15,707	27	-	-
Total	**66,507**	**67,408**	**19,223**	**11,096**	**34,484**	**2,605**

[2] The return on capital employed and the pro-forma net debt/EBITDA ratio are calculated considering, for the companies acquired and included in the scope of consolidation during the year, the EBIT and EBITDA for the entire year.

At 31 December 2018

	Carrying value	Contractual cash 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**

The various due dates are based on the period between the end of the reporting period and the contractual expiry 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 2019, by hierarchical level of fair value assessment.

	Level 1	Level 2	Level 3	Total
Other financial liabilities (interest rate derivatives)	-	(271)	-	(271)
Option on A.R.C. minorities	-	-	-	-
Total assets and liabilities at fair value	**-**	**(271)**	**-**	**(271)**

36. 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 2019	Subsidiarie s	Giuseppe Saleri Sapa	Other related parties	Total related parties	Impact on the total
Non-current financial assets	5,340	5,280	-	-	5,280	98.88%
Trade receivables	28,563	9,676	-	-	9,676	33.88%
Current financial assets	3,421	1,600	-	-	1,600	46.77%
Trade payables	15,734	765	-	4	769	4.89%

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

Impact of related-party transactions on income statement items

	Total 2019	Subsidiaries	Giuseppe Saleri Sapa	Other related parties	Total related parties	Impact on the total
Revenue	94,899	11,820	-	-	11,820	12.46%
Other income	4,045	1,760	-	-	1,760	43.51%
Materials	32,806	1,852	-	-	1,852	5.65%
Services	20,124	465	-	21	486	2.42%
Capital gains on non-current assets	130	90	-	-	90	69.23%
Other operating costs	926	80	-	-	80	8.64%
Write-downs of non-current assets	500	500	-	-	500	100%
Financial income	211	175	-	-	175	82.94%

	Total 2018	Subsidiaries	Giuseppe Saleri Sapa	Other related parties	Total related parties	Impact on the total
Revenue	110,065	11,520	-	-	11,520	10.46%
Other income	2,985	800	40	-	840	28.14%
Materials	45,085	1,417	-	-	1,147	3.14%
Services	27,540	3,991	-	22	4,013	14.57%
Capital gains on non-current assets	496	467	-	-	467	94.15%
Other operating costs	1,852	640	-	-	640	34.56%
Financial income	123	119	-	-	119	96.75%

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;
- charging for intra-group royalties;
- intra-group loans;
- group VAT;

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

37. 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 2019.

38. 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 2019.

39. COMMITMENTS

Guarantees issued
Sabaf S.p.A. also issued sureties to guarantee mortgage loans granted by banks to employees for a total of €4,024,000 (€4,734,000 at 31 December 2018).

40. 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.

41. 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, subsequently amended as resolved by the Board of Directors on 14 May 2019.

<u>Purpose of the plan</u>
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 and of the Group.

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.

The Board of Directors, in its meeting of 15 May 2018, identified the Beneficiaries of Cluster 1 of the Plan to whom a total of 185,600 rights were assigned; and the Board of Directors in its meeting of 14 May 2019, identified the Beneficiaries of Cluster 2 of the Plan to whom a total of 184,400 rights were 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 and Individual objectives, i.e. performance objectives of each beneficiary determined by the Board of Directors at the suggestion of the Remuneration and Nomination Committee.

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 for Cluster 1 and 14 May 2019 for Cluster 2. The main assumptions made at the beginning of the vesting period are illustrated below:

Cluster 1

FAIR VALUE MEASUREMENT METHODS - RIGHTS RELATING TO OBJECTIVES MEASURED ON ROI

	2018	2019	2020	2018 - 2020
Share price at the start of the vesting period	19.48	19.48	19.48	19.48
Expected probabilty of business objective achievment	31%	0%	44.5%	15.5%

Total value on ROI	4.59
Rights on ROI	33.40%

Fair Value	1.53

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

	2018	2019	2020
Share price at the start of the vesting period	19.48	19.48	19.48
Expected probabilty of business objective achievment	41%	0%	60.9%

Total value on EBITDA	7.04
Rights on EBITDA	33.30%

Fair Value	2.35

FAIR VALUE MEASUREMENT METHODS - RIGHTS RELATING TO OBJECTIVES MEASURED ON TSR

	2018	2019	2020	2018 - 2020
Share price at the start of the vesting period	20.2	14.9	12.44	20.2
Risk free rate	-0.28%	-0.30%	-0.38%	-0.38%
Expected volatility	31%	18%	29%	29%
Dividend yield	0.00%	0.00%	0.00%	0.00%
Strike Price	22.61	17.39	14.51	28.34

Total value on TSR	7.57
Rights on TSR	33.30%

Fair Value	2.52

Fair Value per share at initial date of the vesting period	6.40

Cluster 2

FAIR VALUE MEASUREMENT METHODS - RIGHTS RELATING TO OBJECTIVES MEASURED ON ROI

	2019	2020	2019 - 2020
Share price at the start of the vesting period	13.66	13.66	13.66
Expected probabilty of business objective achievment	0%	36.90%	15.50%

Total value on ROI	2.80	Fair Value	0.65
Rights on ROI	23.38%		

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

	2019	2020
Share price at the start of the vesting period	13.66	13.66
Expected probabilty of business objective achievment	0%	53.50%

Total value on EBITDA	4.50	Fair Value	1.05
Rights on EBITDA	23.31%		

FAIR VALUE MEASUREMENT METHODS - RIGHTS RELATING TO OBJECTIVES MEASURED ON TSR

	2019	2020	2019 - 2020
Share price at the start of the vesting period	14.9	12.44	14.9
Risk free rate	-0.30%	-0.38%	-0.38%
Expected volatility	18%	29%	29%
Dividend yield	0.00%	0.00%	0.00%
Strike Price	17.39	14.51	22.86

Total value on TSR	2.53	Fair Value	0.59
Rights on TSR	23.31%		

FAIR VALUE MEASUREMENT METHODS - RIGHTS RELATING TO OBJECTIVES MEASURED ON INDIVIDUAL OBJECTIVES

	2019	2020
Share price at the start of the vesting period	13.66	13.66
Expected probabilty of business objective achievment	50%	50%

Total value on individual objectives	6.83	Fair Value	2.05
Rights on individual objectives	30.00%		

Fair Value per share at initial date of the vesting period	4.34

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

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	356	Italian State
Super/Iper ammortamento (Super/Hyper amortisation)	581	Italian State
Energy-intensive contributions	468	Italian State
Total	**1,405**	

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[3]

Company name	Registered offices	Share capital at 31 December 2019	Shareholders	ownership %	Shareholders' equity at 31 December 2019	2019 profit (loss)
Faringosi Hinges s.r.l.	Ospitaletto (BS)	€ 90,000	Sabaf S.p.A.	100%	€ 7,318,972	€ 1,076,057
Sabaf do Brasil Ltda	Jundiai (Brazil)	BRL 24,000,000	Sabaf S.p.A.	100%	BRL 52,039,450	BRL 3,734,068
Sabaf US Corp.	Plainfield (USA)	USD 200,000	Sabaf S.p.A.	100%	USD -56,826	USD 71,516
Sabaf Appliance Components (Kunshan) Co., Ltd.	Kunshan (China)	€ 4,900,000	Sabaf S.p.A.	100%	CNY -6,037,256	CNY -4,420,172
Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki	Anisa (Turkey)	TRY 28,000,000	Sabaf S.p.A.	100%	TRY 167,844,599	TRY 25,918,705
A.R.C. s.r.l.	Campodarsego (PD)	€ 45,000	Sabaf S.p.A.	70%	€ 5,663,939	€ 571,572
Okida Elektronik Sanayi ve Tickaret A.S	Istanbul (Turkey)	TRY 5,000,000	Sabaf S.p.A. Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki	30% 70%	TRY 39,770,099	TRY 12,807,253
C.M.I s.r.l.	Vasalgia (BO)	€ 1,000,000	Sabaf S.p.A.	68.5%	€ 7,450,225	€ 481,009

OTHER SIGNIFICANT EQUITY INVESTMENTS

None

[3] 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 case of distribution
Capital reserves:				
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	78,960	A, B, C	78,960	0
Valuation reserve:				
Post-employment benefit actuarial provision	(505)		0	0
Reserve for stock grant plan	1,002		0	0
Total	93,400		90,596	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 2019

		Gross value	Cumulative depreciation	Net value
Investment property	Law 72/1983	137	(137)	0
	1989 merger	516	(484)	32
	Law 413/1991	47	(44)	3
	1994 merger	1,483	(1,136)	347
	Law 342/2000	2,870	(2,540)	330
		5,053	**(4,341)**	**712**
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**	**(19,936)**	**712**

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
	Web site:	http://www.sabaf.it
Tax information:	REA 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 2019 for auditing services and for services other than auditing provided by the Independent Auditors. No services were provided by entities belonging to the network.

(€/000)	Party providing the service	Fees pertaining to the 2019 financial year
Audit	EY S.p.A.	47
Certification services	EY S.p.A	---
Other services	EY S.p.A	39 (1)
Total		*86*

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

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

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

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

of the administrative and accounting procedures for the formation of the separate financial statements during the 2019 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, 24 March 2020

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