SABAF GROUP

CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2019

GROUP STRUCTURE AND CORPORATE BODIES

Group structure

Parent company

SABAF S.p.A.

Subsidiaries and equity interest pertaining to the Group

Companies consolidated on a line-by-line basis	
Faringosi Hinges s.r.l.	100%
Sabaf do Brasil Ltda.	100%
Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki (Sabaf Turkey)	100%
Sabaf Appliance Components (Kunshan) Co., Ltd.	100%
A.R.C. s.r.l.	70%
Okida Elektronik Sanayi ve Tickaret A.S	100%
Sabaf US Corp.	100%
C.M.I. s.r.l.	68.5%
C.G.D. s.r.l.	68.5%
C.M.I. Polska Sp. Zoo.	68.5%
Companies measured at equity	
Handan ARC Burners Co., Ltd.	35.7%

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.

Consolidated statement of financial position

(€/000)	Notes	31/12/2019	31/12/2018
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	**1**	75,885	70,765
Investment property	**2**	3,976	4,403
Intangible assets	**3**	51,668	39,054
Equity investments	**4**	115	380
Non-current financial assets	**10**	60	120
Non-current receivables	**5**	297	188
Deferred tax assets	**21**	6,505	4,617
Total non-current assets		**138,506**	**119,527**
CURRENT ASSETS			
Inventories	**6**	35,343	39,179
Trade receivables	**7**	46,929	46,932
Tax receivables	**8**	4,458	4,466
Other current receivables	**9**	1,459	1,534
Current financial assets	**10**	1,266	3,511
Cash and cash equivalents	**11**	18,687	13,426
Total current assets		**108,142**	**109,048**
ASSETS HELD FOR SALE		**0**	**0**
TOTAL ASSETS		**246,648**	**228,575**
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	**12**	11,533	11,533
Retained earnings, Other reserves	**13**	92,580	90,555
Profit for the year		9,915	15,614
Total equity interest of the Group		*114,028*	*117,702*
Minority interests		*7,077*	*1,644*
Total shareholders' equity		**121,105**	**119,346**
NON-CURRENT LIABILITIES			
Loans	**14**	44,046	42,406
Other financial liabilities	**15**	7,383	1,938
Post-employment benefit and retirement provisions	**16**	3,698	2,632
Provisions for risks and charges	**17**	995	725
Deferred tax liabilities	**21**	7,273	3,030
Total non-current liabilities		**63,395**	**50,731**
CURRENT LIABILITIES			
Loans	**14**	19,015	18,435
Other financial liabilities	**15**	4,637	7,682
Trade payables	**18**	27,560	21,215
Tax payables	**19**	1,802	3,566
Other payables	**20**	9,134	7,600
Total current liabilities		**62,148**	**58,498**
LIABILITIES HELD FOR SALE		**0**	**0**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**246,648**	**228,575**

Consolidated income statement

(€/000)	Notes	2019	2018
INCOME STATEMENT COMPONENTS			
OPERATING REVENUE AND INCOME			
Revenue	**23**	155,923	150,642
Other income	**24**	3,621	3,369
Total operating revenue and income		**159,544**	**154,011**
OPERATING COSTS			
Materials	**25**	(57,464)	(62,447)
Change in inventories		(8,617)	4,603
Services	**26**	(29,488)	(31,297)
Personnel costs	**27**	(37,103)	(34,840)
Other operating costs	**28**	(1,698)	(1,670)
Costs for capitalised in-house work		1,859	1,599
Total operating costs		**(132,511)**	**(124,052)**
OPERATING PROFIT BEFORE DEPRECIATION AND AMORTISATION, CAPITAL GAINS/LOSSES, AND WRITE-DOWNS/WRITE-BACKS OF NON-CURRENT ASSETS		**27,033**	**29,959**
Depreciations and amortisation	**1, 2, 3**	(15,183)	(12,728)
Capital gains on disposals of non-current assets		46	28
Value adjustments of non-current assets		0	(850)
EBIT		**11,896**	**16,409**
Financial income		638	373
Financial expenses	**29**	(1,339)	(1,206)
Exchange rate gains and losses	**30**	(1,380)	5,384
Profits and losses from equity investments	**4**	(39)	0
PROFIT BEFORE TAXES		**9,776**	**20,960**
Income taxes	**31**	407	(5,162)
PROFIT FOR THE YEAR		**10,183**	**15,798**
of which:			
Minority interests		268	184
PROFIT ATTRIBUTABLE TO THE GROUP		**9,915**	**15,614**
EARNINGS PER SHARE (EPS)	**32**		
Base		**€0.895**	**€1.413**
Diluted		**€0.895**	**€1.413**

Consolidated statement of comprehensive income

(€/000)	**2019**	**2018**
PROFIT FOR THE YEAR	**10,183**	**15,798**
Total profits/losses that will not be subsequently reclassified under profit (loss) for the year		
Actuarial evaluation of post-employment benefit	(26)	32
Tax effect	6	(8)
	(20)	**24**
Total profits/losses that will be subsequently reclassified under profit (loss) for the year		
Forex differences due to translation of financial statements in foreign currencies	**(3,323)**	**(3,940)**
Total other profits/(losses) net of taxes for the year	**(3,343)**	**(3,916)**
TOTAL PROFIT	**6,840**	**11,882**
of which:		
Minority interests	268	184
TOTAL PROFIT ATTRIBUTABLE TO THE GROUP	**6,572**	**11,698**

Statement of changes in consolidated shareholders' equity

(€/000)	Share capital	Share premium reserve	Legal reserve	Treasury shares	Translation reserve	Post-employment benefit discounting reserve	Other reserves	Profit for the year	Total Group shareholders' equity	Minority interests	Total shareholders' equity
Balance at 31 December 2017	**11,533**	**10,002**	**2,307**	**(4,509)**	**(12,194)**	**(550)**	**92,171**	**14,835**	**113,595**	**1,460**	**115,055**
Allocation of 2017 profit											
- dividends paid out								(6,071)	(6,071)		(6,071)
- carried forward							8,764	(8,764)			
Purchase of treasury shares				(2,359)					(2,359)		(2,359)
IFRS 2 measurement stock grant plan							321		321		321
Other changes							518		518		518
Total profit at 31 December 2018					(3,940)	24		15,614	11,698	184	11,882
Balance at 31 December 2018	**11,533**	**10,002**	**2,307**	**(6,868)**	**(16,134)**	**(526)**	**101,774**	**15,614**	**117,702**	**1,644**	**119,346**
Allocation of 2018 profit											
- dividends paid out								(6,060)	(6,060)		(6,060)
- carried forward							9,554	(9,554)			
IFRS 2 measurement stock grant plan							681		681		681
Sale of treasury shares				4,600			208		4,808		4,808
Change in the scope of consolidation							(981)		(981)	5,165	4,184
C.M.I. Group put option							(8,700)		(8,700)		(8,700)
Other changes					518		(512)		6		6
Total profit at 31 December 2019					(3,323)	(20)		9,915	6,572	268	6,840
Balance at 31 December 2019	**11,533**	**10,002**	**2,307**	**(2,268)**	**(18,939)**	**(546)**	**102,024**	**9,915**	**114,028**	**7,077**	**121,105**

Consolidated statement of cash flows

	2019	2018
Cash and cash equivalents at beginning of year	***13,426***	***11,533***
Profit for the year	10,183	15,798
Adjustments for:		
- Depreciation and amortisation	15,183	12,728
- Write-downs of non-current assets	0	850
- Realised gains/losses	(46)	(28)
- Valuation of the stock grant plan	681	321
- Profits and losses from equity investments	39	0
- Net financial income and expenses	701	833
- Income tax	(407)	5,162
Change in post-employment benefit	300	(241)
Change in risk provisions	270	340
Change in trade receivables	*10,148*	*(3,003)*
Change in inventories	*9,090*	*(4,374)*
Change in trade payables	*(2,901)*	*556*
Change in net working capital	16,337	(6,821)
Change in other receivables and payables, deferred tax liabilities	1,344	2,537
Payment of taxes	(2,952)	(4,860)
Payment of financial expenses	(1,339)	(1,178)
Collection of financial income	638	373
Cash flows from operations	**40,932**	**25,814**
Investments in non-current assets		
- intangible	(1,016)	(589)
- tangible	(11,510)	(11,348)
- financial	0	(99)
Disposal of non-current assets	512	569
Cash flow absorbed by investments	**(12,014)**	**(11,467)**
Free cash flow	**28,918**	**14,347**
Repayment of loans	(29,682)	(19,579)
Raising of loans	18,271	52,972
Short-term financial assets	2,245	(3,384)
Purchase/sale of treasury shares	3,146	(2,359)
Payment of dividends	(6,060)	(6,071)
Cash flow absorbed by financing activities	**(12,080)**	**21,579**
Acquisition of Okida Elektronik	(317)	(24,077)
C.M.I. acquisition	(10,475)	0
Foreign exchange differences	482	(9,956)
Net cash flows for the year	**6,528**	**1,893**
Cash and cash equivalents at end of year (Note 10 and 11)	***19,954***	***13,426***
Current financial debt	23,652	22,606
Non-current financial debt	51,430	44,344
Net financial debt (Note 22)	***55,128***	***53,524***

Explanatory Notes

ACCOUNTING STANDARDS

Statement of compliance and basis of presentation

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

Financial statements

The Group has adopted the following formats:

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

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

Scope of consolidation

The scope of consolidation at 31 December 2019 comprises the parent company Sabaf S.p.A. and the following companies controlled by Sabaf S.p.A.:

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

- Sabaf U.S
- C.M.I. s.r.l.
- C.G.D. s.r.l.
- C.M.I. Polska Sp. Zoo

Handan A.R.C. Burners Co. Ltd., an associate company, is consolidated starting from this year using the equity method.

The changes in the scope of consolidation compared to 31 December 2018 are related to the

- companies of the C.M.I. Group (C.M.I. s.r.l., C.G.D. s.r.l. and C.M.I. Polska Sp. Zoo), over which the Group acquired control on 31 July 2019;
- Sabaf U.S. consolidated using the line-by-line consolidation method as from this year

Also note that on 29 November 2019 the merger by incorporation of Sabaf Immobiliare s.r.l., previously consolidated on a line-by-line basis, into Sabaf S.p.A. became effective for third parties. The tax and accounting effects of this transaction were backdated to 1 January 2019. The approach adopted, in accordance with the ASSIREVI Preliminary Guidelines on IFRS (OPI no. 2 – Revised), resulted in retaining the continuity of values with respect to the consolidated financial statements.

The companies in which Sabaf S.p.A. simultaneously possess the following three elements are considered subsidiaries: (a) power over the company; (b) exposure or rights to variable returns resulting from involvement therein; (c) ability to affect the size of these returns by exercising power. Subsidiaries are consolidated from the date on which control begins until the date on which control ceases.

Consolidation criteria

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

The criteria applied for consolidation are as follows:

a) Assets and liabilities, income and costs in the financial statements consolidated on a line-by-line basis are incorporated into the Group financial statements, regardless of the entity of the equity interest concerned. In addition, the carrying value of equity interests is eliminated against the shareholders' equity relating to investee companies.

b) Positive differences arising from elimination of equity investments against the carrying value of shareholders' equity at the date of first-time consolidation are attributed to the higher values of assets and liabilities when possible and, for the remainder, to goodwill. In accordance with the provisions of IFRS 3. Since 1 January 2004, the Group has not amortised goodwill and instead subjects it to impairment testing.

c) Payable/receivable and cost/revenue items between consolidated companies and profits/losses arising from intra-group transactions are eliminated.
d) The portion of shareholders' equity and net profit for the period pertaining to minority shareholders is posted in specific items of the balance sheet and income statement.

Information related to IFRS 3

As from 31 July 2019, the C.M.I.[1] Group, one of the main players in the design, production and sale of hinges for household appliances was consolidated, active with production units in Italy and Poland. The acquisition of C.M.I. s.r.l. allows 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.

The allocation of the price paid for the acquisition of the C.M.I. Group on the net assets acquired (Purchase Price Allocation) was completed during 2019. Specifically, in accordance with IFRS 3 revised, the fair value of assets, liabilities and contingent liabilities was recognised at the acquisition date, the effects of which are shown in the table below:

	Original values at 31/07/2019	Purchase Price Allocation	Other changes	Fair value of assets and liabilities acquired
Assets				
Property, plant and equipment	5,931			5,931
Intangible Fixed Assets	2,218	12,647		14,865
- *Customer Relationship*		*4,315*		
- *Brand*		*4,180*		
- *Patents*		*4,152*		
Other non-current assets	127	159		286
Inventories	5,254	17		5,271
Trade receivables	10,145			10,145
Other receivables	1,253			1,253
Cash and cash equivalents	1,255			1,255
Total Assets	**26,183**	**12,823**		**39,006**
Liabilities				
Post-employment benefit provision	(766)	(166)		(932)
Provisions for risks and charges		(400)		(400)
Deferred tax liabilities	(217)	(3,528)		(3,745)
Financial payables	(6,511)			(6,511)
Trade payables	(9,246)			(9,246)
Other payables	(1,733)			(1,733)
Total liabilities	**(18,473)**	**(4,094)**		**(22,567)**
Value of net assets acquired	**7,710**	**8,729**		**16,439**
- % pertaining to Sabaf (68.5%) (a)	5,281	5,979		11,260
Carve out of goodwill recorded in C.M.I. (b)			(1,788)	(1,788)
Total cost of acquisition (c)	13,392			13,392
Receivables from current minority shareholder (d)			240	240
Goodwill deriving from acquisition (e = c-a-b-d)	8,111	(5,979)	1,548	3,680
Acquired cash and cash equivalents (f)	1,255			1,255
Sale of treasury shares in exchange (g)	1,662			1,662
Net cash outlay (c-f-g)	10,475			10,475

[1] Financial data at 31 December 2019 and economic results for the period for which the Group held control (31 July - 31 December 2019) were consolidated.

The financial payables of the C.M.I. Group at the acquisition date amounted to €6.511 million, of which €2.398 million deriving from the application of IFRS 16 according to the modified retrospective approach.

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

- **Customer Relationship**: fair value of €4.315 million determined using the "Multi-period Excess Earnings" method, taking the following parameters as reference:
    - revenue relating to customers with whom there is a strong technical and commercial relationship
    - profitability in line with the historical average
    - economic useful life of 15 years
    - discount rate of 11.68%
    - g growth rate of 1.15%

- **Brand**: fair value of €4.180 million determined using the "Relief from Royalty" method, taking the following parameters as reference:
    - total revenue at the valuation date
    - royalty rate equal to 2%
    - economic useful life of 15 years
    - discount rate of 11.68%
    - g growth rate of 1.15%

- **Patents**: fair value of €4.152 million determined using the "Relief from Royalty" method, taking the following parameters as reference:
    - revenues from products covered by patents at the valuation date
    - royalty rate equal to 4.10%
    - economic useful life of 9 years
    - discount rate of 11.68%
    - g growth rate of 1.15%

The related tax effect was recognised on the fair value of the intangible assets identified above (recognition of deferred taxes of €3.528 million).

The Purchase Price Allocation also led to the recognition of provisions for risks and charges totalling €0.4 million (Note 17).

In the period for which the Group held control (31 July 2019 - 31 December 2019), the C.M.I. Group achieved sales revenue of €12.5 million and a net profit of €0.43 million.

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

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

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

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

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

Description of currency	Exchange rate in effect at 31/12/19	2019 average exchange rate	Exchange rate in effect at 31/12/18	2018 average exchange rate
Brazilian real	4.5157	4.4151	4.4440	4.3085
Turkish lira	6.6843	6.3486	6.0588	5.7145
Chinese renminbi	7.8205	7.7336	7.8751	7.8038
Polish Zloty	4.2568	4.3123	-	-

Segment reporting

The Group's operating segments in accordance with IFRS 8 - Operating Segment are identified in the business segments that generate revenue and costs, whose results are periodically reassessed by top management in order to assess performance and decisions regarding resource allocation. The Group operating segments are the following:

- gas parts (household and professional)
- hinges
- electronic components for household appliances.

Accounting policies

The accounting standards and policies applied for the preparation of the consolidated financial statements at 31 December 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 – 10
Furniture	8
Electronic equipment	5
Vehicles and other transport means	4 – 5

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

Leased assets
The Group assesses at the time of signing an agreement whether it is, or contains, a lease, or if the contract gives the right to control the use of an identified asset for a period of time in exchange for a consideration.
The Group adopts a single recognition and measurement model for all leases according to which the assets acquired relating to the right of use are shown under assets at purchase value less depreciation, any impairment losses and adjusted for any re-measurement of lease liabilities. Assets are depreciated on a straight-line basis from the starting date of the agreement until the end of the useful life of the asset or the end of the lease agreement, whichever comes first.
Set against recognition of such assets, the amounts payable to the lessor, are posted among short- and medium-/long-term payables, by measuring them at the present value of the lease payments not yet made. Moreover, financial charges pertaining to the period are charged to the income statement.
The Group applies the exemption for the recognition of short-term leases and leases relating to low-value assets the lease payments of which are recognised in the income statement as expenses on a straight-line basis over the lease term.
Further details on the criteria used to recognise leased assets and the related impact on the Group's consolidated financial statements are described in the paragraph "Adoption of the accounting standard IFRS 16 “Leases”".

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

Equity investments in associates and joint ventures

An associated company is a company on which the Group exercises significant influence. Significant influence is the power to participate in determining the financial and operational policies of the associated company without having control or joint control over it. A joint venture is a joint control agreement in which the parties holding the joint control have rights on the net assets of the agreement.

The Group's equity investment in associates and joint ventures are measured using the equity method: the equity investment are initially entered at cost, subsequently, the carrying value of the equity investment is increased or decreased to reflect the investor's share of the investee's profits and losses realised after the acquisition date. Goodwill pertaining to the associated company or joint venture is included at the carrying value of the equity investment and is not subject to individual assessment of impairment).

Other intangible assets

As established by IAS 38, other intangible assets acquired or internally produced are recognised as assets when it is probable that use of the asset will generate future economic benefits and when asset cost can be measured reliably. If it is considered that these future economic benefits will not be generated, the development costs are written down in the year in which this is ascertained.

Such assets are measured at purchase or production cost and - if the assets concerned have a finite useful life - are amortised on a straight-line basis over their estimated useful life. Estimated useful working life, in years, is as follows:

Customer relationship	15
Brand	15
Patents	9
Know-how	7
Development costs	10
Software	3 - 5

Impairment

At each end of reporting period, the Group reviews the carrying value of its tangible and intangible assets to determine whether there are signs of impairment losses of these assets. If there is any such indication, the recoverable amount of said assets is estimated so as to determine the total of the write-down. If it is not possible to estimate recoverable amount individually, the Group estimates the recoverable amount of the cash generating unit (CGU) to which the asset belongs.

In particular, the recoverable amount of the cash generating units (which generally coincide with the legal entity to which the capitalised assets refer) is verified by determining the value of use. The recoverable amount is the higher of the net selling price and value of use. In measuring the value of use, future cash flows net of taxes, estimated based on past experience, are discounted to their present value using a pre-tax rate that reflects 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 Group prepares operating cash flow forecasts based on the most recent budgets approved by the Board

of Directors of the consolidated companies, draws up the forecasts for the coming years and determines the terminal value (current value of perpetual income), which expresses the medium- and long-term operating flows in the specific sector.
If the recoverable amount of an asset (or CGU) is estimated to be lower than its carrying value, the asset's carrying value is reduced to the lower recoverable amount, recognising impairment in the income statement.
When there is no longer any reason for a write-down to be maintained, the carrying value of the asset (or of the cash-generating unit) - with the exception of goodwill - is increased to the new value resulting from the estimate of its recoverable amount, but not beyond the net carrying value that the asset would have had if it had not been written down for impairment. Reversal of impairment loss is recognised in the income statement.

Investment property
As allowed by IAS 40, non-operating buildings and constructions are assessed at cost net of depreciation and losses due to cumulative impairment. The depreciation criterion applied is the asset's estimated useful life, which is considered to be 33 years.
If the recoverable amount of the investment property – determined based on the market value of the properties – is estimated to be lower than its carrying value, the asset's carrying value is reduced to the lower recoverable amount, recognising impairment in the income statement.
When there is no longer any reason for a write-down to be maintained, the carrying value of the asset (or CGU) is increased to the new value stemming from the estimate of its recoverable amount – but not beyond the net carrying value that the asset would have had if it had not been written down for impairment. Reversal of impairment loss is recognised in the income statement.

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

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

Trade receivables and other financial assets

Initial recognition

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

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

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

Other financial assets are recorded at fair value plus, in the case of a financial asset not at fair value recognised in the income statement, transaction costs.

For a financial asset to be classified and measured at amortised cost or at fair value recognised in OCI, it must generate cash flows that depend solely on the principal and interest on the amount of principal to be repaid (known as ‘solely payments of principal and interest (SPPI)’). This measurement is referred to as the SPPI test and is carried out at the instrument level.

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

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

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

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

Financial assets at fair value through profit or loss

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

statement are recognised in the statement of financial position at fair value and net changes in fair value are recognised in the income statement.
This category includes derivative instruments.

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

Derecognition
A financial asset (or, if applicable, part of a financial asset or part of a group of similar financial assets) is firstly written off (e.g. removed from the statement of financial position of the Group) when:
- the rights to receive cash flows from the asset are extinguished, or
- the Group transferred to a third party the right to receive financial flows from the asset or has taken on the contractual obligation to pay them fully and without delay and (a) transferred substantially all the risks and benefits of the ownership of the financial asset or (b) did not substantially transfer or retain all the risks and benefits of the asset, but transferred their control.

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

Provisions for risks and charges
Provisions for risks and charges are provisioned to cover losses and debts, the existence of which is certain or probable, but whose amount or date of occurrence cannot be determined at the end of the year. Provisions are stated in the statement of financial position only when a legal or implicit obligation exists that determines the use of resources with an impact on profit and loss to meet that obligation and the amount can be reliably estimated. If the effect is significant, the provisions are calculated by updating future 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 recognised in the income statement
Financial liabilities at fair value with changes recognised in the income statement include liabilities held for trading and financial liabilities initially recognised at fair value, with changes recognised in the income statement. Liabilities held for trading are those liabilities acquired in order to discharge or transfer them in the short term. This category also includes derivative financial instruments subscribed by the Company and not designated as hedging instruments in a hedging relationship pursuant to IFRS 9. Embedded derivatives, separated from the main contract, are classified as financial instruments held for trading, unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. Financial liabilities are designated at fair value with changes recognised in the income statement from the date of initial recognition, only if the criteria of IFRS 9 are met.

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

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

Policy for conversion of foreign currency items
Receivables and payables originally expressed in foreign currencies are converted into euro at the exchange rates in force on the date of the transactions originating them. Forex differences realised upon collection of receivables and payment of payables in foreign currency are posted in the income statement. Income and costs relating to foreign-currency transactions are converted at the rate in force on the transaction date.
At year-end, assets and liabilities expressed in foreign currencies, with the exception of non-current items, are posted at the spot exchange rate in force at the end of the reporting period and related foreign exchange gains and losses are posted in the income statement. If conversion generates a net gain, this value constitutes a non-distributable reserve until it is effectively realised.

Derivative instruments and hedge accounting
The Group's business is exposed to financial risks relating to changes in exchange rates, commodity prices and interest rates. The company uses derivative instruments (mainly forward contracts on currencies and commodity options) to hedge risks stemming from changes in foreign currencies relating to irrevocable commitments or to planned future transactions.
Derivatives are initially recognised at cost and are then adjusted to fair value on subsequent closing dates.
Changes in the fair value of derivatives designated and recognised as effective for hedging future cash flows relating to the Group's contractual commitments and planned transactions are recognised directly in shareholders' equity, while the ineffective portion is immediately posted in the income statement. If the contractual commitments or planned transactions materialise in the recognition of assets or liabilities, when such assets or liabilities are recognised, the gains or losses on the derivative that were directly recognised in equity are factored back into the initial valuation of the cost of acquisition or carrying value of the asset or liability. For cash flow hedges that do not lead to recognition of assets or liabilities, the amounts that were directly recognised in equity are included in the income statement in the same period when the contractual commitment or planned transaction hedged impacts profit and loss – for example, when a planned sale actually takes place.
For effective hedges of exposure to changes in fair value, the item hedged is adjusted for the changes in fair value attributable to the risk hedged and recognised in the income statement. Gains and losses stemming from the derivative's valuation are also posted in the income statement.
Changes in the fair value of derivatives not designated as hedging instruments are recognised in the income statement in the period when they occur.
Hedge accounting is discontinued when the hedging instrument expires, is sold or is exercised, or when it no longer qualifies as a hedge. At this time, the cumulative gains or losses of the hedging instrument recognised in equity are kept in the latter until the

planned transaction actually takes place. If the transaction hedged is not expected to take place, cumulative gains or losses recognised directly in equity are transferred to the year's income statement.
Embedded derivatives included in other financial instruments or contracts are treated as separate derivatives when their risks and characteristics are not strictly related to those of their host contracts and the latter are not measured at fair value with posting of related gains and losses in the income statement.

Revenue from contracts with customers

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

Financial income

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

Financial expenses

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

Income taxes for the year

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

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

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

Equity-settled transactions
Some Group employees receive part of the remuneration in the form of share-based payments; therefore, employees provide services in exchange for shares ("equity-settled transactions"). The cost of equity-settled transactions is determined by the fair value at the date on which the assignment is made using an appropriate measurement method, as explained in more detail in Note 37.

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

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

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

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

Earnings per share
Basic EPS is calculated by dividing the profit or loss attributable to the direct parent company's shareholders by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is calculated by dividing the profit or loss

attributable to the direct parent company's shareholders by the weighted average number of shares outstanding, adjusted to take into account the effects of all potential ordinary shares with a dilutive effect.

Use of estimates

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

Recoverable amount of tangible and intangible assets

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

Provisions for bad debts

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

Provisions for inventory obsolescence

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

Employee benefits

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

Share-based payments

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

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

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

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

New accounting standards

Accounting standards, amendments and interpretations applicable from 1 January 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 Group 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 Group 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 Group’s consolidated 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 Group’s consolidated 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 consolidated financial statements insofar as the Group, 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 Group's consolidated financial statements, insofar as the Group 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 Group's consolidated 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 Group's consolidated 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 Group's current practice is in line with these amendments, the Group did not recognise any impact resulting from said amendments on its consolidated 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 Group's current practice is in line with these amendments, the Group did not recognise any impact resulting from said amendments on its consolidated financial statements.

IFRS and IFRIC accounting standard, amendments approved by the European Union, not yet universally applicable and not adopted early by the Group at 31 December 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 Group 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 Group's consolidated financial statements through the adoption of these changes.

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

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

- 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 Group's consolidated financial statements.

Adoption of the accounting standard IFRS 16 “Leases”

The Group 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 Group analysed all agreements in force since 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, the initial recognition of which is equal to the present value of remaining future payments at the transition date. The liability for leased assets is subsequently increased by the interest accruing on that liability and decreased in correlation with the lease payments;
- a right of use, the value of which was initially set equal to the value of the financial liability and subsequently depreciated on a straight-line basis until the end of the useful life of the asset or the end of the lease term, whichever comes first.

In adopting IFRS 16, the Group 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	25
Fork lifts	Low-value asset	10
Property	Short-term leases	25
Company cars	Short-term leases	24
Machinery	Short-term leases	9
Printers	Low-value asset	6
Total value of agreements subject matter of the exemption		***98***

When evaluating the lease liabilities, the Group discounted the payments due for the lease using the incremental borrowing rate, the weighted average of which was 7.56% on 1 January 2019 and 7.08% on 31 December 2019. The rate was defined taking also account of the currency in which the lease agreements are denominated and the country in which the leased asset is located.

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, upon first time adoption the Group adopted some practical expedients provided for by the Standard:

- 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 Group did not change the carrying value of assets and liabilities at the date of first-time adoption for leases previously classified as finance leases, i.e. the right-of-use assets and lease liabilities are measured at the same value as they were when applying IAS 17.

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 and investment property	75,168	1,209	76,377
Liabilities			
Loans beyond 12 months	44,344	914	42,258
Loans within 12 months	26,117	295	26,412
Shareholders' equity			
Retained earnings, Other reserves	90,555	-	90,555

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 and investment property	76,718	3,143	79,861
Liabilities			
Loans beyond 12 months	49,174	2,255	51,429
Loans within 12 months	22,688	964	23,652
Shareholders' equity			
Retained earnings, Other reserves	92,557	23	92,580

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
Income Statement 12 months 2019			
Costs for services	30,230	(742)	29,488
Depreciations and amortisation	14,478	705	15,183
Financial expenses	1,249	90	1,339
Economic and financial indicators			
Shareholders' equity	121,134	(29)	121,105
Net financial debt	51,909	3,219	55,128
EBITDA	26,291	742	27,033
EBIT	11,859	37	11,896
Net profit for the period	9,967	(52)	9,915

Comments on significant balance sheet items

1. PROPERTY, PLANT AND EQUIPMENT

	Property	Plant and equipment	Other assets	Assets under construction	Total
Cost					
At 31 December 2017	**52,061**	**189,883**	**41,818**	**3,322**	**287,084**
Increases	309	6,120	1,703	3,250	11,382
Disposals	-	(1,644)	(125)	-	(1,769)
Change in the scope of consolidation	-	350	340	-	690
Reclassifications	5	1,647	84	(1,770)	(34)
Forex differences	(868)	(1,840)	(563)	(114)	(3,385)
At 31 December 2018	**51,507**	**194,516**	**43,257**	**4,688**	**293,968**
Increases	236	3,946	3,932	3,282	11,396
Disposals	-	(1,224)	(767)	-	(1,991)
First-time adoption of IFRS16	362	-	1,035	-	1,397
Change in the scope of consolidation	2,900	15,183	6,034	137	24,254
Reclassifications	1,376	3,742	91	(4,850)	359
Forex differences	(307)	(532)	(154)	(93)	(1,086)
At 31 December 2019	**56,074**	**215,631**	**53,428**	**3,164**	**328,297**
Accumulated depreciations					
At 31 December 2017	**18,284**	**159,042**	**36,689**	**-**	**214,015**
Depreciations for the year	1,466	7,781	2,125	-	11,372
Eliminations for disposals	-	(1,178)	(92)	-	(1,270)
Change in the scope of consolidation	-	289	212		501
Reclassifications	4	40	28	-	72
Forex differences	(151)	(956)	(380)	-	(1,487)
At 31 December 2018	**19,603**	**165,018**	**38,582**	**-**	**223,203**
Depreciations for the year	1,681	8,168	2,339	-	12,188
Eliminations for disposals	-	(1,593)	(159)	-	(1,752)
Change in the scope of consolidation	1,314	12,334	5,301	-	18,949
Reclassifications	256	49	28	-	333
Forex differences	(75)	(312)	(122)	-	(509)
At 31 December 2019	**22,779**	**183,664**	**45,969**	**-**	**252,412**
Net carrying value					
At 31 December 2019	**33,295**	**31,967**	**7,459**	**3,164**	**75,885**
At 31 December 2018	**31,904**	**29,498**	**4,675**	**4,688**	**70,765**

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

	31/12/2019	**31/12/2018**	**Change**
Land	6,659	6,699	(40)
Industrial buildings	26,636	25,205	1,431
Total	**33,295**	**31,904**	**1,391**

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	362	-	736	1,098
Increases	-	-	298	298
Change in the scope of consolidation	1,516	513	-	2,029
Decreases	-	-	-	-
Depreciations	(74)	-	(253)	(327)
Foreign exchange differences	(28)	-	-	(28)
Other changes including reclassifications	-	-	-	-
At 31 December 2019	**1,776**	**513**	**781**	**3,070**

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.
At 31 December 2019, the Group found no endogenous or exogenous indicators of impairment of its property, plant and equipment. As a result, the value of property, plant and equipment was not submitted to impairment testing.

2. INVESTMENT PROPERTY

Cost	
At 31 December 2017	**12,937**
Increases	-
Disposals	(19)
At 31 December 2018	**12,918**
Increases	-
Disposals	(1,191)
First-time adoption of IFRS16	109
At 31 December 2019	**11,836**

Depreciations and write-downs	
At 31 December 2017	**7,240**
Depreciations for the year	427
Write-downs for the year	850
Eliminations for disposals	(2)
At 31 December 2018	**8,515**
Depreciations for the year	430
Write-downs for the year	-
Eliminations for disposals	(1,085)
At 31 December 2019	**7,860**

Net carrying value	
At 31 December 2019	3,976
At 31 December 2018	4,403

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

	Investment property
1 January 2019	**-**
First-time adoption of IFRS16	109
Increases	-
Decreases	-
Depreciations	(36)
Foreign exchange differences	-
Other changes including reclassifications	-
At 31 December 2019	**73**

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

At 31 December 2019, the Group found no other endogenous or exogenous indicators of impairment of its investment property. As a result, the value of investment property was not submitted to impairment testing.

3. INTANGIBLE ASSETS

	Goodwill	Patents and software	Development costs	Other intangible assets	Total
Cost					
At 31 December 2017	**10,778**	**6,859**	**5,372**	**793**	**23,802**
Increases	-	227	340	22	589
Decreases	-	-	(59)	(19)	(78)
Change in the scope of consolidation	18,632	136	-	11,983	30,751
Reclassifications	-	-	-	-	-
Forex differences	-	(18)	-	-	(18)
At 31 December 2018	**29,410**	**7,204**	**5,653**	**12,779**	**55,046**
Increases	292	356	460	200	1,308
Decreases	-	(8)	(102)	(11)	(121)
Change in the scope of consolidation	3,680	1,425	717	13,664	19,486
Reclassifications	(24)	-	-	(643)	(667)
Forex differences	(1,743)	(15)	-	(1,030)	(2,788)
At 31 December 2019	**31,615**	**8,962**	**6,728**	**24,959**	**72,264**
Amortisation/Write-downs					
At 31 December 2017	**4,563**	**6,254**	**3,041**	**661**	**14,519**
Amortisation for the year	-	261	367	288	916
Decreases	-	-	-	(12)	(12)
Change in the scope of consolidation	-	52	-	525	577
Reclassifications	-		-	-	
Forex differences	-	(8)	-	-	(8)
At 31 December 2018	**4,563**	**6,559**	**3,408**	**1,462**	**15,992**
Amortisation for the year		296	371	1,048	1,715
Decreases			-	-	-
Change in the scope of consolidation		1,337	559	1,337	3,233
Reclassifications	(17)		-	(250)	(267)
Forex differences		(13)	-	(64)	(77)
At 31 December 2019	**4,546**	**8,179**	**4,338**	**3,533**	**20,596**
Net carrying value					
At 31 December 2019	**27,069**	**783**	**2,390**	**21,426**	**51,668**
At 31 December 2018	**24,847**	**645**	**2,245**	**11,317**	**39,054**

Goodwill

Goodwill recognised at 31 December 2019 is allocated:
- to the “Hinges” (CGU) cash generating units of €4.414 million;
- to the “Professional burners” CGU of €1.770 million;
- to the “Electronic components” CGU of €17.205 million;
- to the “C.M.I. hinges” CGU of €3.680 million.

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

Goodwill allocated to the Hinges CGU

In 2019, the Hinges CGU achieved very positive and better results - in terms of sales and profitability - both compared to the previous year and compared to the budget. The 2020-2024 forward plan envisages a further increase in sales and the maintenance of high levels of profitability. At 31 December 2019, the Group tested - with the support of independent experts - the carrying value of its CGU Hinges for impairment, determining its recoverable amount, considered to be equivalent to its usable value, by discounting expected future cash flow in the forward plan drafted by the management. Cash flows for the period from 2020 to 2024 were augmented by the so-called terminal value, which expresses the operating flows that the CGU is expected to generate from the sixth year to infinity and determined based on the perpetual income. The value of use was calculated based on a discount rate (WACC) of 9.54% (10.45% in the impairment test carried out while preparing the consolidated 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 €17.182 million, compared with a carrying value of the assets allocated to the Hinges unit of €7.923 million; consequently, the value recorded for goodwill 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%	18,807	19,376	19,988	20,649	21,365
9.04%	17,749	17,965	18,485	19,043	19,645
9.54%	16,317	16,736	17,182	17,659	18,170
10.04%	15,293	15,657	16,043	16,454	16,892
10.54%	14,383	14,702	15,038	15,395	15,775

Goodwill allocated to the Professional burners CGU

At 31 December 2019, the Group tested - with the support of independent experts - the carrying value of its Professional burners CGU for impairment, determining its recoverable amount, considered to be equivalent to its usable value, by discounting expected future cash flow in the forward plan drafted at the beginning of 2020. Cash flows for the period from 2020 to 2024 were augmented by the so-called terminal value, which expresses the operating flows that the CGU is expected to generate from the sixth year to infinity and determined based on the perpetual income. The value of use was calculated based on a discount rate (WACC) of 6.07% (7.73% in the impairment test carried out while preparing the consolidated financial statements at 31 December 2018) and a growth rate (g) of 1.50%, unchanged from the 2018 impairment test.

The recoverable amount calculated on the basis of the above-mentioned assumptions and valuation techniques is €8.961 million, compared with a carrying value of the assets allocated to the Professional burners unit of €2.917 million (including minority interests); consequently, the value recorded for goodwill 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%	10,348	10,973	11,687	12,507	13,461
5.57%	9,129	9,613	10,156	10,769	11,469
6.07%	8,152	8,536	8,961	9,435	9,968
6.57%	7,352	7,662	8,003	8,379	8,796
7.07%	6,684	6,939	7,218	7,522	7,857

Goodwill allocated to the Electronic components CGU
At 31 December 2019, the Group tested - with the support of independent experts - the carrying value of its CGU Electronic components for impairment, determining its recoverable amount, considered to be equivalent to its usable value, by discounting expected future cash flow in the forward plan drafted by the management. Cash flows for the period from 2020 to 2024 were augmented by the so-called terminal value, which expresses the operating flows that the CGU is expected to generate from the fifth year to infinity and determined based on the perpetual income. The value of use was calculated based on a discount rate (WACC) of 12.92% (11.05% in the impairment test carried out while preparing the consolidated financial statements at 31 December 2018) and a growth rate (g) of 2.50%, unchanged from the 2018 impairment test.

The recoverable amount calculated on the basis of the above-mentioned assumptions and valuation techniques is €31.366 million, compared with a carrying value of the assets allocated to the Electronic components unit of €25.780 million; consequently, the value recorded for goodwill 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%	33,568	34,206	34,877	35,586	36,334
12.42%	31,869	32,436	33,032	33,659	34,318
12.92%	30,328	30,835	31,366	31,923	32,508
13.42%	28,923	29,377	29,853	30,351	30,872
13.92%	27,637	28,046	28,474	28,921	29,388

Goodwill allocated to the C.M.I. Hinges CGU.
At 31 December 2019, the Group tested - with the support of independent experts - the carrying value of its CGU Hinges C.M.I. for impairment, determining its recoverable amount, considered to be equivalent to its usable value, by discounting expected future cash flow in the forward plan drafted by the management. Cash flows for the period from 2020 to 2022 were augmented by the so-called terminal value, which expresses the operating flows that the CGU 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 recoverable amount calculated on the basis of the above-mentioned assumptions and valuation techniques is €32.030 million, compared with a carrying value of the assets allocated to the C.M.I. Hinges unit of €26.211 million; consequently, the value recorded for goodwill 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%	32,449	34,089	35,926	37,997	40,349
10.00%	30,775	32,238	33,867	35,691	37,748
10.50%	29,263	30,576	32,030	33,648	35,460
11.00%	27,892	29,076	30,380	31,824	33,431
11.50%	26,643	27,715	28,891	30,186	31,621

Patents and software
Software investments are related to the extension of the application and corporate scope of the Group management system (SAP).

Development costs
The main investments in the year relate to the development of new products, including special burners and personalised burners for some customers (research and development activities carried out during the year are set out in the Report on Operations).

Other intangible assets
The other intangible assets recorded in these consolidated financial statements mainly derive from the Purchase Price Allocation carried out following the acquisition of Okida Elektronik and of C.M.I. Srl, the latter described in the previous paragraph "Information related to IFRS 3".

The net carrying value of intangible assets is broken down as follows:

	31/12/2019	31/12/2018	Change
Customer Relationship	11,355	8,477	2,878
Brand	5,055	1,174	3,881
Know-how	933	1,081	(148)
Patents	3,960	-	3,960
Other	123	585	(462)
Total	**21,426**	**11,317**	**10,109**

At 31 December 2019, the recoverability of the amount of other intangible assets was verified as part of the impairment test of the related goodwill described in the previous paragraph.

4. EQUITY INVESTMENTS

	31/12/2018	Change in scope of consolidation/consolidation criteria	Disposals	31/12/2019
Sabaf US	139	(139)	-	-
Handan ARC Burners Co.	201	(120)	-	81
Other equity investments	40	-	(6)	34
Total	**380**	**(259)**	**(6)**	**115**

The negative changes shown in the Table concern, as previously indicated in the paragraph "Scope of consolidation", the consolidation according to the line-by-line method of the subsidiary Sabaf U.S. and the consolidation according to the equity method of Handan A.R.C. Burners Co. Ltd., whose pro-rata result contributed €39,000 negatively to the Group's result.

Handan ARC Burners Co. is a Chinese joint venture with the aim to produce and market in China burners for professional cooking. The Group's share is 35.7%, held through ARC s.r.l. - which owns a 51% interest in the share capital of the joint venture.

5. NON-CURRENT RECEIVABLES

	31/12/2019	31/12/2018	Change
Tax receivables	183	145	38
Guarantee deposits	98	43	55
Other	16	-	16
Total	**297**	**188**	**109**

Tax receivables relate to indirect taxes expected to be recovered after 31 December 2019.

6. INVENTORIES

	31/12/2019	31/12/2018	Change
Raw Materials	14,792	14,680	112
Semi-processed goods	9,025	11,727	(2,702)
Finished products	14,849	15,576	(727)
Provision for inventory write-downs	(3,323)	(2,804)	(519)
Total	**35,343**	**39,179**	**(3,836)**

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 write-down provision is allocated mainly to cover the risk of obsolescence. At the end of the financial year, the appropriation is adjusted based on specific analyses carried out on slow-moving and non-moving products. The following table shows the changes in the Provision for inventory write-downs during the current financial year:

31/12/2018	**2,804**
Provisions	718
Utilisation	(322)
Change in the scope of consolidation	133
Exch. rate diff.	(10)
31/12/2019	**3,323**

7. TRADE RECEIVABLES

	31/12/2019	31/12/2018	Change
Total trade receivables	48,463	48,061	402
Bad debt provision	(1,534)	(1,129)	(405)
Net total	**46,929**	**46,932**	**(3)**

Despite the change in the scope of consolidation, the amount of trade receivables at 31 December 2019 is substantially unchanged from the balance at the end of 2018 due to lower levels of activity in 2019. There were no significant changes in the payment terms agreed with customers.

The amount of trade receivables recognised in the financial statements includes approximately €25.3 million in insured receivables (€26.1 million at 31 December 2018).

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)	39,789	38,980	809
Outstanding up to 30 days	3,718	3,972	(254)
Outstanding from 30 to 60 days	2,102	1,019	1,083

Outstanding from 60 to 90 days	1,261	3,062	(1,801)
Outstanding for more than 90 days	1,593	1,028	565
Total	**48,463**	**48,061**	**402**

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	**1,129**
Provisions	509
Utilisation	(364)
Change in the scope of consolidation	266
Exch. rate diff.	(6)
31/12/2019	**1,534**

8. TAX RECEIVABLES

	31/12/2019	31/12/2018	Change
For income tax	2,563	3,435	(872)
For VAT and other sales taxes	1,708	851	857
Other tax credits	187	180	7
Total	**4,458**	**4,466**	**(8)**

At 31 December 2019, income tax receivables include €607,000 (€1,158,000 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 2006 to 2011 (Italian Decree Law 201/2011). During 2019, the Group received a partial refund of €551,000; an additional refund of €180,000 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.

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

9. OTHER CURRENT RECEIVABLES

	31/12/2019	31/12/2018	Change
Credits to be received from suppliers	141	385	(244)
Advances to suppliers	384	411	(27)
Accrued income and prepaid expenses	536	434	102
Other	398	304	94
Total	**1,459**	**1,534**	**(75)**

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

10. FINANCIAL ASSETS

	31/12/2019		31/12/2018	
	Current	**Non current**	**Current**	**Non current**
Escrow bank accounts	1,233	60	3,510	120
Currency derivatives	33	-	1	-
Total	**1,266**	**60**	**3,511**	**120**

At 31 December 2019, the following were taken out:

- a term deposit of €0.12 million, due on 30 June 2021, for the portion of the price not yet paid to the sellers of the ARC equity investment (Note 15);
- 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 (Note 15).

11. CASH AND CASH EQUIVALENTS

The item Cash and cash equivalents, equal to €18,687,000 at 31 December 2019 (€13,426,000 at 31 December 2018) refers to bank current account balances of approximately €18.6 million.

12. SHARE CAPITAL

The parent company's share capital consists of 11,533,450 shares with a par value of €1.00 each. The share capital paid in and subscribed did not change during the year.
At 31 December 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 shares of the Parent Company. The availability of the Parent Company's reserves is indicated in the separate financial statements of Sabaf S.p.A.

13. TREASURY SHARES AND OTHER RESERVES

During the financial year, Sabaf S.p.A. 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. acquired 230,669 Sabaf shares, equal to 2% of the share capital, at a unit price of €13.64 per share.

As a result of the above transactions, at 31 December 2019, the Parent Company held 169,875 treasury shares, equal to 1.473% of share capital, recorded 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 €92,580,000 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 shares of the Parent Company. For details of the Stock Grant Plan, refer to Note 37.

14. LOANS

	31/12/2019			31/12/2018		
	Current	Non current	Total	Current	Non current	Total
Leases	1,050	3,478	4,528	153	1,309	1,462
Unsecured loans	14,653	40,568	55,221	10,741	41,097	51,838
Short-term bank loans	1,783	-	1,783	5,247	-	5,247
Advances on bank receipts or invoices	1,523	-	1,523	1,942	-	1,942
Interest payable	6	-	6	44	-	44
Derivative instruments on interest rates	-	-	-	308	-	308
Total	**19,015**	**44,046**	**63,061**	**18,435**	**42,406**	**60,841**

During the year, the Group 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 consolidated financial statements at the end of the reporting period, as specified below:

- commitment to maintain a ratio of net financial position to shareholders' equity of less than 1 (residual amount of the loans at 31 December 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 consolidated financial statements include the negative fair value of the IRSs hedging rate risks of unsecured loans pending, for residual notional amounts of approximately €33.8 million and expiry until 31 December 2025. Financial expenses were recognised in the income statement with a balancing entry.

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	1,301
Payments relating to the exercise of renewal options on operating leases at 31 December 2018	-
Incremental borrowing rate at 1 January 2019	7.5%
Discounting effect	(92)
Commitments for operating leases discounted at 1 January 2019	1,209
Commitments relating to leases previously classified as finance leases	1,462
Lease liabilities at 1 January 2019	2,671
Change in the scope of consolidation (31 July 2019)	2,398
New agreements signed during 2019	298
Repayments during 2019	(804)
Forex differences	(35)
Lease liabilities at 31 December 2019	4,528

Note 35 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	-	-	7,622	-
Option on A.R.C. minorities	-	1,650	-	1,818
Option on C.M.I. minorities	4,200	4,500		
Payables to A.R.C. shareholders	60	60	60	120
Payables to C.M.I. shareholders	-	1,173	-	-
Derivative instruments on interest rates	377	-	-	-
Total	**4,637**	**7,383**	**7,682**	**1,938**

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.

As part of the acquisition of A.R.C. s.r.l., carried out in June 2016, and C.M.I. s.r.l., carried out in July 2019, purchase and sale options (call/put) were subscribed in favour of Sabaf. Specifically:

- Sabaf signed with Loris Gasparini (current minority shareholder by 30% of A.R.C.) an agreement that aimed to regulate Gasparini's right to leave A.R.C. and the interest of Sabaf to acquire 100% of the shares after expiry of the term of five years from the signing of the purchase agreement of 24 June 2016, by signing specific option agreements. Therefore, the agreement envisaged specific option rights to purchase (by Sabaf) and sell (by Gasparini) exercisable as from 24 June 2021, the remaining shares of 30% of A.R.C., with strike prices contractually defined on the basis of final income parameters from A.R.C. at 31 December 2020.
- Sabaf subscribed with the Chinese group Guandong Xingye Investment, seller of C.M.I., purchase options in favour of Sabaf for the remaining 31.5% of the share capital and simultaneous put options in favour of the seller, which can be exercised in two equal tranches following approval of the C.M.I. financial statements at 31 December 2019 and following approval of the C.M.I. financial statements at 31 December 2020. The strike prices are contractually defined on the basis of final income and financial parameters from the C.M.I. Group.

Pursuant to the provisions of IAS 32, the assignment of an option to sell (put option) in the terms described above required the recording of a liability corresponding to the estimated redemption value, expected at the time of any exercise of the option: to this end, a financial liability of €1.818 million was recognised in the consolidated financial statements at 31 December 2018 with reference to the option to purchase the remaining 30% of A.R.C. At 31 December 2019, the Group revalued the outlay estimate, based on the expected results of A.R.C. at 31 December 2020 in accordance with the business plan of the subsidiary prepared at the beginning of 2020. The recalculation of the fair value, in compliance with IAS 39, led to a decrease of €168,000 in the liability; financial income was recognised as a balancing entry.
With regard to C.M.I. options, a financial liability of €8.7 million was recognised in these consolidated financial statements, of which €4.2 million recognised under current financial liabilities and €4.5 million recognised under non-current financial liabilities.

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 non-interest-bearing escrow account 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 an non-interest-bearing escrow account in accordance with contractual agreements and guarantees issued by the seller.

16. POST-EMPLOYMENT BENEFIT AND RETIREMENT PROVISIONS

	Post-employment benefit
At 31 December 2018	**2,632**
Provisions	200
Financial expenses	32
Payments made	(118)
Tax effect	101
Change in the scope of consolidation	864
Forex differences	(13)
At 31 December 2019	**3,698**

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	3% - 6%	3% - 6%
Advance payouts	5% - 7% per year	5% - 7% 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**	**Change in the scope of consolidation**	**Exchange rate differences**	**31/12/2019**
Provision for agents' indemnities	217	17	(29)	-	-	205
Product guarantee fund	60	38	(38)	-	-	60
Provision for legal risks	175	36	(130)	400	1	482
Other provisions for risks and charges	273	-	-	-	(25)	248
Total	**725**	**91**	**(197)**	**400**	**(24)**	**995**

The provision for agents’ indemnities covers amounts payable to agents if the Group terminates the agency relationship.
The product guarantee fund covers the risk of returns or charges by customers for products already sold. The fund was adjusted at the end of the year, on the basis of analyses conducted and past experience.
The provision for legal risks, set aside for moderate disputes, was adjusted to reflect the outstanding disputes. Note also that following the allocation process of the price paid for the acquisition of the C.M.I. Group on the net assets acquired (Purchase Price Allocation), completed during 2019, a provision for legal risks of €400,000 was recorded.
Other provisions for risks and charges, recognised as part of the Purchase Price Allocation following the acquisition of Okida Elektronik, reflect the fair value of the potential liabilities of the acquired entity.
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	**27,560**	**21,215**	**6,345**

The increase in trade payables is related to the change in the scope of consolidation. Average payment terms did not change versus the previous year. At 31 December 2019, there were no overdue payables of a significant amount and the Group did not receive any injunctions for overdue payables.

19. TAX PAYABLES

	31/12/2019	31/12/2018	Change
For income tax	506	2,672	(2,166)
Withholding taxes	923	680	243
Other tax payables	373	214	159
Total	**1,802**	**3,566**	**(1,764)**

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

20. OTHER CURRENT PAYABLES

	31/12/2019	31/12/2018	Change
To employees	5,016	4,383	633
To social security institutions	2,403	2,148	255
To agents	231	312	(81)
Advances from customers	411	250	161
Other current payables	1,073	507	566
Total	**9,134**	**7,600**	**1,534**

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	Change
Deferred tax assets	6,505	4,617	1,888
Deferred tax liabilities	(7,273)	(3,030)	(4,243)
Net position	**(768)**	**1,587**	**(2,355)**

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

	Non-current tangible and intangible assets	Provisions and value adjustments	Fair value of derivative instruments	Good will	Tax incentives	Tax losses	Actuarial evaluation of post-employment benefit	Other temporary differences	Total
31/12/2018	**(2,216)**	**1,164**	**56**	**1,771**	**339**	**-**	**182**	**291**	**1,587**
To the income statement	760	296	10	(354)	681	586	-	(12)	1,967
To shareholders' equity	(4,501)	25	-	-	-	-	31	-	(4,445)
Forex differences	194	(4)	-	-	(66)	-	-	(1)	123
31/12/2019	**(5,763)**	**1,481**	**66**	**1,417**	**954**	**586**	**213**	**278**	**(768)**

As described in the paragraph "Information related to IFRS 3", these consolidated financial statements include deferred taxes on the fair value measurement of intangible assets recognised as a result of the Purchase Price Allocation of C.M.I. s.r.l. (shareholders' equity effect of €3,528,000).

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.

Deferred tax assets relating to tax incentives are commensurate to investments made in Turkey.

22. NET FINANCIAL POSITION

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

		31/12/2019	31/12/2018	Change
A.	Cash (Note 11)	19	19	-
B.	Positive balances of unrestricted bank accounts (Note 11)	18,590	7,067	11,523
C.	Other cash equivalents (Note 11)	79	6,340	(6,261)
D.	**Liquidity (A+B+C)**	**18,688**	**13,426**	**5,262**
E.	**Current financial receivables** (Note 10)	**1,266**	**3,511**	**(2,245)**
F.	Current bank payables (Note 14)	3,313	7,233	(3,920)
G.	Current portion of non-current debt (Note 14)	14,653	10,741	3,912
H.	Other current financial payables (Note 15)	5,686	8,143	(2,457)
I.	**Current financial debt (F+G+H)**	**23,652**	**26,117**	**(2,465)**
J.	**Net current financial debt (I-D-E)**	**3,698**	**9,180**	**(5,482)**
K.	Non-current bank payables (Note 14)	40,569	41,097	(528)
L.	Other non-current financial payables (Note 14)	10,861	3,247	7,614
M.	**Non-current financial debt (K+L)**	**51,430**	**44,344**	**7,086**
N.	**Net financial debt (J+M)**	**55,128**	**53,524**	**1,604**

The consolidated statement of cash flows, 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 €155,923,000, up by €5,281,000 (+3.51%) compared with 2018. Taking into consideration the same scope of consolidation, revenue decreased by 8.9%.

Revenue by geographical area

	2019	%	2018	%	% change
Italy	31,161	*20.0%*	31,579	*21.0%*	-1.3%
Western Europe	12,277	*7.9%*	12,337	*8.2%*	-0.5%
Eastern Europe	55,059	*35.3%*	46,301	*30.7%*	+18.9%
Middle East and Africa	7,050	*4.5%*	12,303	*8.2%*	-42.7%
Asia and Oceania	9,198	*5.9%*	7,590	*5.0%*	+21.2%
South America	23,451	*15.0%*	25,461	*16.9%*	-7.9%
North America and Mexico	17,727	*11.4%*	15,071	*10.0%*	+17.6%
Total	**155,923**	***100.0%***	**150,642**	***100%***	**+3.5%**

The trend in revenue was affected by the overall uncertainty of the macroeconomic scenario. In Turkey, main destination market, the Group recorded a 10% decrease in sales - taking into consideration the same scope of consolidation - which was more pronounced in the first half 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 South America, where the crisis in Argentina and the stagnation of demand in Brazil weighed heavily. Among the markets that showed a positive trend was China, where revenue benefited from new supply contracts to primary customers. The acquisition of C.M.I. also led to an increase in the weight of North America and Eastern Europe in the distribution of sales. North America accounted for more than 11% of total Group sales in 2019 (+18% compared to 2018).

Revenue by product family

	2019	%	2018	%	% change
Valves and thermostats	39,989	*25.6%*	48,463	*32.2%*	-17.5%
Burners	63,858	*41.0%*	66,953	*44.4%*	-4.6%
Accessories	12,924	*8.3%*	15,422	*10.2%*	-16.2%
Total gas parts	*116,771*	*74.9%*	*130,838*	*86.9%*	*-10.8%*
Professional burners	5,434	*3.5%*	5,331	*3.5%*	+1.9%
Hinges	23,774	*15.2%*	10,436	*6.9%*	+127.8%
Electronic components	9,944	*6.4%*	4,037	*2.7%*	+146.3%
Total	**155,923**	***100.0%***	**150,642**	***100.0%***	**+3.5%**

The contribution from recent acquisitions resulted in a sharp increase in sales of hinges and electronic components, which more than offset the decline in sales of components for domestic gas cooking appliances.

Average sales prices in 2019 were on average 0.7% lower compared with 2018.

24. OTHER INCOME

	2019	2018	Change
Sale of trimmings	2,072	2,507	(435)
Contingent income	336	88	248
Rental income	118	88	30
Use of provisions for risks and charges	64	71	(7)
Other income	1,031	615	416
Total	**3,621**	**3,369**	**252**

Other income includes revenue from the sale of moulds and government grants.

25. MATERIALS

	2019	2018	Change
Commodities and outsourced components	52,241	56,347	(4,106)
Consumables	5,223	6,100	(877)
Total	**57,464**	**62,447**	**(4,983)**

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	8,659	10,017	(1,358)
Natural gas and power	4,425	4,561	(136)
Maintenance	4,375	4,468	(93)
Transport	2,182	2,340	(158)
Advisory services	2,384	2,326	58
Travel expenses and allowances	740	780	(40)
Commissions	765	736	29
Directors’ fees	723	685	38
Insurance	568	545	23
Canteen	437	393	44
Other costs	4,230	4,446	(216)
Total	**29,488**	**31,297**	**(1,809)**

The main outsourced processing carried out by the Group's Italian companies include aluminium die-casting, hot moulding of brass and steel blanking as well as some mechanical processing and assembly. The reduction in costs for outsourced processing reflects the lower levels of activity compared to the previous year.

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	25,080	23,141	1,939
Social Security costs	7,905	7,429	476
Temporary agency workers	1,394	2,121	(727)
Post-employment benefit and other costs	2,043	1,828	215
Stock grant plan	681	321	360
Total	**37,103**	**34,840**	**2,263**

The number of Group employees at 31 December 2019 was 1,035, 854 at 31 December 2018: the increase in the number of employees compared to the previous year was 181, of which 170 following the acquisition of C.M.I..
The number of temporary staff was 42 at 31 December 2019 (57 in 31 December 2018).
The item "Stock Grant Plan" included the measurement at 31 December 2019 of the fair value of rights to the assignment of shares of the Parent Company attributed to Group employees. For details of the Stock Grant Plan, refer to Note 37.

28. OTHER OPERATING COSTS

	2019	2018	Change
Non-income taxes	501	506	(5)
Other operating expenses	496	371	125
Contingent liabilities	101	217	(116)
Losses and write-downs of trade receivables	509	421	88
Provisions for risks	74	127	(53)
Other provisions	17	28	(11)
Total	**1,698**	**1,670**	**28**

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

29. FINANCIAL EXPENSES

	2019	2018	Change
Interest paid to banks	890	829	61
Interest paid on finance lease contracts	102	17	85
Banking expenses	275	287	(12)
Adjustment to the fair value of the ARC option (Note 15)	-	55	(55)
Other financial expense	72	18	54
Total	**1,339**	**1,206**	**133**

The increase in interest paid on leases is related to the change in the scope of consolidation and the application of IFRS 16 as described in the specific paragraph

"Adoption of the accounting standard IFRS 16 "Leases"" starting from the current financial year. Interest paid to banks includes IRS spreads payable that hedge interest rate risks (Note 35).

30. EXCHANGE RATE GAINS AND LOSSES

In 2019, the Group reported net foreign exchange losses of €1,380,000 (net gains of €5,384,000 in 2018). The main portion of 2019 foreign exchange losses were recorded by Sabaf Turkey and is related to financial payables taken out in euro and reflects the devaluation of the Turkish lira during the current financial year.

31. INCOME TAXES

	2019	2018	Change
Current/deferred taxes for the year	727	5,142	(4,415)
Taxes related to previous financial years	(1,135)	21	(1,114)
Total	**(408)**	**5,163**	**(5,571)**

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	2,386	5,030
Permanent tax differences	(216)	937
Taxes related to previous financial years	(1,135)	18
Tax effect from different foreign tax rates	23	(25)
Effect of non-recoverable tax losses	137	154
“Patent box” tax benefit	(306)	(323)
“Super e Iperammortamento” tax benefit	(653)	(449)
Tax incentives for investments in Turkey	(709)	(710)
Other differences	(206)	22
Income taxes booked in the accounts, excluding IRAP and withholding taxes (current and deferred)	**(680)**	**4,654**
IRAP (current and deferred)	272	509
Total	**(408)**	**5,163**

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 consolidated financial statements, the Group recognised:

- the tax benefit related to the Patent Box for 2019 of €356,000 (€306,000 for IRES and €50,000 for IRAP);
- the tax benefits relating to "Superammortamento" (Super amortisation) and "Iperammortamento" (Hyper amortisation), related to the investments made in Italy, amounting to €653,000 (€449,000 in 2018);

- the tax benefits deriving from the investments made in Turkey amounting to €709,000 (€710,000 in 2018).

Positive taxes relating to previous financial years of €1,135,000 include €1,110,000 for the benefit resulting from the favourable outcome in the first instance of a tax dispute in Turkey. The Group expects the judgement to be upheld at subsequent instances.

No significant tax disputes were pending at 31 December 2019.

32. EARNINGS PER SHARE

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

Earnings

(€/000)	**2019**	**2018**
Profit for the year	10,296	15,614

Number of shares

(€/000)	**2019**	**2018**
Weighted average number of ordinary shares for determining basic earnings per share	11,363,575	11,051,570
Dilutive effect from potential ordinary shares	-	-
Weighted average number of ordinary shares for determining diluted earnings per share	11,363,575	11,051,570

Earnings per share (€)

(€/000)	**2019**	**2018**
Basic earnings per share	0.895	1.413
Diluted earnings per share	0.895	1.413

Basic earnings per share are calculated on the average number of outstanding shares minus treasury shares, equal to 169,875 in 2019 (481,880 in 2018).
Diluted earnings per share are calculated taking into account any shares approved but not yet subscribed, of which there were none in 2019 and 2018.

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 of the parent company Sabaf S.p.A. entirely to the extraordinary reserve.

34. INFORMATION BY BUSINESS SEGMENT

Information by business segment for 2019 and 2018 is provided below

2019 FY	Gas parts (household and professional)	Hinges	Electronic components	Total
Sales	122,223	23,779	9,921	**155,923**
Ebit	8,364	1,879	1,653	**11,896**

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

35. INFORMATION ON FINANCIAL RISK

Categories of financial instruments

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

	31/12/2019	31/12/2018
Financial assets		
Amortised cost		
Cash and cash equivalents	18,687	13,426
Escrow bank deposits	1,293	3,630
Trade receivables and other receivables	48,685	48,654
Income statement fair value		
Derivative to hedge cash flows	33	1
Financial liabilities		
Amortised cost		
Loans	63,061	60,533
Other financial liabilities	1,293	7,802
Trade payables	27,560	21,215
Income statement fair value		
ARC put option (Note 15)	1,650	1,818
C.M.I. put options (Note 15)	8,700	-
Derivative to hedge cash flows	377	308

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

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

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

Credit risk management

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

The Group 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 key currencies other than the euro to which the Group is exposed are the US dollar, the Brazilian real and the Turkish lira, in relation to sales made in dollars (chiefly on some Asian and American markets) and the production units in Brazil and Turkey. Sales in US dollars represented 23% of total turnover in 2019, while purchases in dollars represented 5% of total turnover. During the year, operations in dollars were partially hedged through forward sales contracts; at 31 December 2019, the Group had in place forward sales contracts for a total of USD 2 million, maturing in April 2020.

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 €804,000.

Interest rate risk management

Owing to the current trend in interest rates, the Group favours fixed-rate indebtedness: medium to long-term loans originated at a variable rate are converted to a fixed rate by entering into interest rate swaps (IRS) when the loan is opened. At 31 December 2019, IRS totalling €33.8 million were in place, mirrored in mortgages with the same residual debt, through which the Group transformed the floating rate of the mortgages into fixed rate. The derivative contracts were not designated as a cash flow hedge and were therefore recognised using the “income statement fair value” method.

Sensitivity analysis

Considering the IRS in place, at the end of 2019 almost all of the Group'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 Group's purchase costs is represented by aluminium, steel and brass. Sale prices of products are generally renegotiated annually; as a result, the Group is unable to pass on to customers any changes in the prices of commodities during the year. The Group protects itself from the risk of changes in the price of aluminium, steel and brass with supply contracts signed with suppliers for delivery up to twelve months in advance or, alternatively, with derivative financial instruments. In 2019 and 2018, the Group did not use financial derivatives on commodities. To stabilise the rising costs of commodities, Sabaf preferred to execute transactions on the physical market, fixing prices with suppliers for immediate and deferred delivery.

Liquidity risk management
The Group operates with a debt ratio considered physiological (net financial debt / shareholders' equity at 31 December 2019 of 46%, net financial debt / pro-forma EBITDA 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**
Short-term bank loans	3,689	3,689	3,689	-	-	-
Unsecured loans	55,221	56,474	2,073	13,048	40,126	1,227
Finance leases	4,528	4,898	352	895	3,088	563
Payables to ARC shareholders	120	120	-	60	60	-
Payables to former Okida shareholders	1,173	1,173	-	-	1,173	-
ARC option	1,650	1,650	-	-	1,650	-
C.M.I. option	8,700	8,700	-	4,200	4,500	-
Total financial payables	**75,081**	**76,704**	**6,114**	**18,203**	**50,597**	**1,790**
Trade payables	27,560	27,560	25,993	1,567	-	-
Total	**102,641**	**104,264**	**32,107**	**19,770**	**50,597**	**1,790**

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

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 financial 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 assets (currency derivatives)	-	33	-	-
Total assets	**-**	**33**	**-**	**-**
Other financial liabilities (interest rate derivatives)	-	377	-	377
Other financial liabilities (ARC and C.M.I. put options)	-	-	10,350	10,350
Total liabilities	**-**	**377**	**10,350**	**10,727**

36. RELATED-PARTY TRANSACTIONS

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

Impact of related-party transactions on balance sheet items

	Total 2019	Giuseppe Saleri S.a.p.A.	Non-consolidated subsidiaries	Other related parties	Total related parties	Impact on the total
Trade receivables	46,929	-	-	-	-	0.00%
Tax receivables	4,458	-	-	-	-	0.00%
Trade payables	27,560	-	-	4	4	0.01%

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

Impact of related-party transactions on income statement items

	Total 2019	Giuseppe Saleri S.a.p.A.	Non-consolidated subsidiaries	Other related parties	Total related parties	Impact on the total
Other income	3,621	-	-	-	-	0.00%
Services	(29,488)	-	-	(21)	(21)	0.07%

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

Transactions are regulated by specific contracts regulated at arm's length conditions.

Fees to directors, statutory auditors and executives with strategic responsibilities

Please see the 2019 Report on Remuneration for this information.

37. SHARE-BASED PAYMENTS

In order to adopt a medium and long-term incentive instrument for directors and employees of the Sabaf Group, on the proposal of the Remuneration and Nomination Committee, the Board of Directors of Sabaf S.p.A. prepared a specific free allocation plan of shares (the "Plan") with the characteristics described below.
The Plan was approved by the Shareholders' Meeting on 8 May 2018 and the related Regulations by the Board of Directors on 15 May 2018, subsequently amended as resolved by the Board of Directors on 14 May 2019.

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

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

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

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, 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	Fair Value	1.53
Rights on ROI	33.40%		

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	Fair Value	2.35
Rights on EBITDA	33.30%		

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	Fair Value	2.52
Rights on TSR	33.30%		

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 on these consolidated financial statements are illustrated in Note 13 and Note 27.

38. CAPITAL MANAGEMENT

For the purposes of managing the Group's capital, it has been defined that this includes the issued share capital, the share premium reserve and all other capital reserves attributable to the shareholders of the Parent Company. The main objective of capital management is to maximise the value for shareholders. In order to maintain or correct its financial structure, the Group may intervene in dividends paid to shareholders, purchase its own shares, redeem capital to shareholders or issue new shares. The Group controls equity using a gearing ratio consisting of the ratio of net financial debt (as defined in Note 22) to shareholders' equity. The Group's policy is to keep this ratio below 1. In order to achieve this objective, the management of the Group's capital aims, among other things, to ensure that the covenants, linked to loans, which define the capital structure requirements, are complied with. Violations of covenants would allow banks to demand immediate repayment of loans (Note 14). During the current financial year, there were no breaches of the covenants linked to interest-bearing loans.
In the years ended 31 December 2019 and 2018, no changes were made to the objectives, policies and procedures for capital management.

39. SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

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

	Shareholders' equity attributable to the Group	**Profit attributable to the Group**	**Net financial debt**	**Cash flows**
Financial statement values (A)	**121,105**	**9,915**	**55,128**	**6,528**
Recording of tax income Turkey (B)	(1,110)	(1,110)	-	-
Financial statement notional value (A + B)	119,995	8,805	55,128	6,528

As described in Note 31, in these consolidated financial statements the Group recorded non-recurring income under income taxes following the favourable outcome of a tax dispute in Turkey.

The effects of the acquisition of C.M.I. are described in detail in the paragraph - "Information related to IFRS 3".

40. ATYPICAL AND/OR UNUSUAL TRANSACTIONS

Pursuant to CONSOB memorandum of 28 July 2006, the Group declares that no atypical and/or unusual transactions as defined by the CONSOB memorandum were executed during 2019.

41. COMMITMENTS

Guarantees issued

The Sabaf Group has issued sureties to guarantee consumer and mortgage loans granted by banks to Group employees for a total of €4,024,000 (€4,734,000 at 31 December 2018).

42. SCOPE OF CONSOLIDATION AND SIGNIFICANT EQUITY INVESTMENTS

COMPANIES CONSOLIDATED USING THE LINE-BY-LINE CONSOLIDATION METHOD

Company name	Registered offices	Share capital	Shareholders	ownership %
Faringosi Hinges s.r.l.	Ospitaletto (BS)	€ 90,000	Sabaf S.p.A.	100%
Sabaf do Brasil Ltda	Judicatio (SP, Brazil)	BRL 24,000,000	Sabaf S.p.A.	100%
Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki	Anisa (Turkey)	TRY 28,000,000	Sabaf S.p.A.	100%
Sabaf Appliance Components Ltd.	Kunshan (China)	€ 4,900,000	Sabaf S.p.A.	100%
A.R.C. s.r.l.	Camptosar (PD) - Italy	€ 45,000	Sabaf S.p.A.	70%
Okida Elektronik Sanayi ve Tickaret A.S	Istanbul (Turkey)	TRY 5,000,000	Sabaf S.p.A. Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki	30% 70%
Sabaf US Corp.	Plainfield (USA)	USD 200,000	Sabaf S.p.A.	100%
C.M.I. Cerniere Meccaniche Industriali s.r.l.	Vasalgia (BO)	€ 1,000,000	Sabaf S.p.A.	68.5%
C.G.D. s.r.l.	Vasalgia (BO)	€ 26,000	C.M.I. s.r.l.	100%
CMI Polska sp. zoo	Yosizo (Poland)	PLN 40,000	C.M.I. s.r.l. C.G.D. s.r.l.	97.5% 2.5%

COMPANIES CONSOLIDATED USING THE EQUITY METHOD

Company name	Registered offices	Share capital	Sharehold ers	ownership %	holding %
Handan ARC Burners Co., Ltd.	Handan (China)	RMB 3,000,000	A.R.C. s.r.l.	51%	35.7%

43. GENERAL INFORMATION ON THE PARENT COMPANY

Registered and administrative office:			Via dei Car pini, 1 25035 Ospitaletto (Brescia)
Contacts:	Tel:		+39 030 - 6843001
	Fax:		+39 030 - 6848249
	E-mail:		info@sabaf.it
	Web site:		www.sabaf.it
Tax information:		REA Brescia	347512
		Tax Code	03244470179
		VAT number	01786910982

Appendix

Information as required by Article 149-*duodecimos* 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 and for services other than auditing provided by the Independent Auditors and their network.

(€/000)	Party providing the service	Recipient	Fees pertaining to the 2019 financial year
Audit	EY S.p.A.	Parent company	43
	EY S.p.A.	Italian subsidiaries	46
	EY network	Foreign subsidiaries	35
Other services	EY S.p.A.	Parent company	38[1)]
	EY network	Foreign subsidiaries	11[2)]
Total			*173*

(1) auditing procedures agreement relating to interim management reports; limited review of consolidated Non-financial Statement
(2) tax assistance

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

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

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

of the administrative and accounting procedures for the formation of the consolidated financial statements during the 2019 financial year.

They also certify that:

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

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

Ospitaletto, 24 March 2020

Chief Executive Officer
Pietro Iotti

The Financial Reporting Officer
Gianluca Beschi