SABAF GROUP

REPORT ON OPERATIONS

Business and Financial situation of the Group

(€/000)	2019	%	2018	%	2019-2018 change	% change
Sales revenue	155,923	100%	150,642	100%	5,281	+3.5%
EBITDA	27,033	17.3%	29,959	19.9%	(2,926)	-9.8%
EBIT	11,896	7.6%	16,409	10.9%	(4,513)	-27.5%
Pre-tax profit	9,776	6.3%	20,960	13.9%	(11,184)	-53.4%
Profit attributable to the Group	9,915	6.4%	15,614	10.4%	(5,699)	-36.5%
Basic earnings per share (€)	0.895		1.413		(0.518)	-36.7%
Diluted earnings per share (€)	0.895		1.413		(0.518)	-36.7%

In 2019, the Sabaf Group reported a sales revenue of €155.9 million, an increase of 3.5% versus the figure of €150.6 million in 2018 (-8.9% taking into consideration the same scope of consolidation). The slowdown in organic activity partly affected profitability, which, however, is at a high level: 2019 EBITDA amounted to €27 million, equivalent to 17.3% of turnover, compared to €30 million (19.9% of turnover) in 2018, EBIT reached €11.9 million, equivalent to 7.6% of turnover, compared to €16.4 million (10.9%) in 2018. Net profit of 2019, equal to €9.9 million (6.4% of turnover), is 36.5% lower than the €15.6 million of 2018.

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

(€/000)	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 household gas parts	116,771	74.9%	130,838	86.9%	-10.8%
Professional gas parts	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%***	**150,642**	***100%***	***+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.

The geographical breakdown of revenues is shown below:

(€/000)	**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%***	**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).

Average sales prices in 2019 were 0.7% lower than in 2018, offset by a corresponding reduction in average purchase prices of the main raw materials (aluminium alloys, steel and brass)

The impact of labour cost on sales increased from 23.1% in 2018 to 23.8% in 2019.

The ratio of net financial expenses to turnover remained low, equal to 0.5% of turnover (0.6% in 2018). During the year, the Group recorded in the income statement negative forex differences of €1.4 million, mainly due to fluctuations in exchange rates with the Turkish lira (€5.4 million of positive forex differences were recognised in 2018).

In 2019, the Group recognised positive income taxes of €0.4 million, which include non-recurring income of €1.1 million, following the favourable outcome of a tax dispute in Turkey and other tax benefits relating to investments made in Italy and Turkey, illustrated in Note 31 to the consolidated financial statements.

The Group's statement of financial position, reclassified based on financial criteria, is illustrated below[1]:

(€/000)	**31/12/2019**	**31/12/2018**
Non-current assets	*138,506*	*119,527*
Short-term assets[2]	88,189	92,111
Short-term liabilities[3]	(38,496)	(32,381)
Working capital[4]	*49,693*	*59,730*
Provisions for risks and charges, Post-employment benefits, deferred taxes	*(11,966)*	*(6,387)*
Net invested capital	**176,233**	**172,870**
Short-term net financial position	(3,698)	(9,180)
Medium/long-term net financial position	(51,430)	(44,344)
Net financial debt	**(55,128)**	**(53,524)**
Shareholders' equity	**121,105**	**119,346**

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

(€/000)	**2019**	**2018**
Opening liquidity	*13,426*	*11,533*
Operating cash flow	*40,932*	*25,814*
Cash flow from investments	*(12,014)*	*(11,467)*
Free cash flow	28,918	14,347
Cash flow from financing activities	(12,080)	21,579
Acquisitions	(10,792)	(24,077)
Foreign exchange differences	482	(9,956)
Cash flow for the period	6,528	1,893
Closing liquidity	*19,954*	*13,426*

1 Net financial debt and liquidity shown in the tables below are defined in compliance with the net financial position detailed in Note 22 of the consolidated financial statements, as required by CONSOB memorandum of 28 July 2006
2 Sum of Inventories, Trade receivables, Tax receivables and Other current receivables
3 Sum of Trade payables, Tax payables and Other liabilities
4 Difference between short-term assets and short-term liabilities

In 2019, the Group generated free cash flow of €28.9 million (€14.3 million in 2018). The financial management benefited from a reduction in net working capital of €16.3 million: in addition to the lower levels of activity, the improvement in net working capital was achieved as a result of structural actions on internal logistics, which allowed a significant reduction of work in progress stocks.

At 31 December 2019, working capital stood at €49.7 million compared with €59.7 million at the end of the 2018: its impact on pro-forma turnover (i.e. considered the contribution of C.M.I. for the entire financial year 2019) was 29% (38% in 2018).

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

The Sabaf Group carried out organic investments of €12 million: the main investments in the financial year were aimed at increasing and automating the production capacity of special burners and the manufacturing of machinery and moulds for new burners. Investments in maintenance and replacement, so that production equipment is kept constantly up to date and efficient, are systematic.

The acquisition of the majority shareholding in C.M.I. s.r.l. (an operation described in the next paragraph of this report) involved a financial outlay of €10.5 million and the recognition of a liability of €8.7 million against put options on minority interests granted to sellers.

During the year, the Group paid dividends of €6.1 million.

On 5 December 2019, as part of the cooperation started with the Japanese group Paloma, Sabaf sold 230,669 treasury shares, equal to 2% of the share capital, for a total value of €3.1 million. A further 113,962 treasury shares were sold as part of the acquisition of the majority shareholding in C.M.I. s.r.l., in exchange for 8.5% of the shares of this company. During 2019, the Group did not purchase treasury shares.

At 31 December 2019, the net financial debt was €55.1 million, compared with €53.5 million on 31 December 2018. The change in net financial debt during the year is summarised in the table below:

Net financial debt at 31 December 2018	***(53,524)***
Free cash flow	*28,918*
Acquisitions	*(10,792)*
Financial liabilities for put options on C.M.I. minority interests	*(8,700)*
C.M.I. debt at the date of acquisition	*(4,113)*
Dividends paid out	*(6,060)*
Sale of treasury shares	*3,146*
Financial liabilities for application of IFRS 16	*(3,905)*
Foreign exchange differences and other changes	*(98)*
Net financial debt at 31 December 2019	***(55,128)***

At 31 December 2019, shareholders' equity amounted to €121.1 thousand; the ratio between the net financial debt and the shareholders’ equity was 0.46 versus 0.45 in 2018.

Economic and financial indicators

	2019		2018	
		pro-forma[1]		pro-forma[1]
Change in turnover	+3.5%	-8.9%	+0.2%	-2.4%
ROCE (return on capital employed)	6.8%	7.1%	9.5%	11.3%
Net debt/EBITDA	2.04	1.86	1.79	1.59
Net debt/equity ratio	46%		45%	
Market capitalisation (31/12)/equity ratio	1.28		1.44	
Dividends per share (€)	-		0.55	

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

The acquisition of C.M.I. s.r.l.

On 31 July 2019, the Group completed the acquisition of 68.5% of the company C.M.I. s.r.l., one of the main players in the design, production and sale of hinges for household appliances (mainly for dishwashers and ovens). The C.M.I. Group operates with production units in Italy (Crespellano, BO) and Poland and, through its subsidiary C.G.D. s.r.l., is also active in the production of presses for steel and sheet metal pressed articles. 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 C.M.I. Group was consolidated as from 31 July 2019, contributing €12.5 million to consolidated turnover in 2019, €1.9 million to consolidated EBITDA and €0.3 million to consolidated net profit attributable to the Group. The Group ended the entire 2019 financial year with sales of €30.8 million.

Risk Factors

The results of the risk identification and assessment process carried out in 2019 showed that the Sabaf Group is exposed to certain risk factors, which can be traced back to the macro-categories described below.

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

1 The change in pro-forma turnover is calculated taking into consideration the same scope of consolidation. The return on capital employed and the pro-forma net debt/EBITDA ratio are calculated considering, for the companies acquired and included in the scope of consolidation during the year, the EBIT and EBITDA for the entire year.

Strategic risks
Strategic risks that could negatively impact Sabaf's medium-term performance, including, for example, risks related to increasing product customisation and the loss of business opportunities in the Chinese market.

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

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

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

Performance of the sector
The Group's financial position, results and cash flows are affected by several factors related to the performance of the sector, including:
- general macro-economic performance: the household appliance market is affected by macro-economic factors such as gross domestic product, consumer and business confidence, interest rate trend, the cost of raw materials, the unemployment rate and the ease of access to credit;
- concentration of the end markets: as a result of mergers and acquisitions, customers have acquired bargaining power;
- stagnation of demand in mature markets (i.e. Europe) in favour of growth in emerging Countries, characterised by different sales conditions and a more unstable macro-economic environment;
- increasing competition, which in some cases imposes aggressive pricing policies.

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

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

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

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

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

In recent years, the Group carried out strategic operations aimed at reducing the dependence of its business on the gas cooking sector, concluding significant acquisitions of companies operating in related sectors (Okida, C.M.I.).

Moreover, the Group is analysing the opportunity to enter the induction hob market, verifying its technical and commercial feasibility.

Finally, the development of new gas cooking components able to satisfy the needs that lead some consumers to prefer induction continues (aesthetic factors, practicality and ease of cleaning, technological integration with electronic components).

Loss of business opportunities in the Chinese market
With a production of over 20 million hobs per year, China is one of the world's most important markets. After many years of commercial presence only, in 2015 Sabaf started a small production unit, which still does not guarantee an adequate economic return.

The Group is reviewing its strategy for approaching the Chinese market and intends to:
- implement shortly a plan suitable for using growth opportunities offered by the local market;
- continue to develop product lines in accordance with the needs of the Chinese market and in compliance with local regulations;
- adopt and maintain a quality-price mix in line with the expectations of potential local customers.

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

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

Risks related to coronavirus pandemic
The spread of the new coronavirus, which occurred in China from January 2020, initially had a negligible impact on the Group's production and commercial activities, also in view of the Group's limited exposure to China both as a procurement market and as a sales area.

The subsequent spread of the virus, first in Northern Italy and then in many other areas, is significantly changing the scenario. The Group set up a dedicated task force and implemented mitigation actions to reduce the economic consequences while safeguarding the safety and health of workers. At the date of this report, the development of the situation presents elements of uncertainty such that the potential impacts cannot be reasonably quantified.

Research and Development

The most important research and development projects carried out in 2019 were as follows:

Gas parts

- various models of customised burners were developed;
- product variants are being developed for specific markets or market segments from existing special burner platforms;
- valve variants are being developed to meet the specific technical requirements of some customers.

Hinges

- a hinge model for dishwashers was developed to allow the front panel to be moved;
- a hinge model for dishwashers with integrated brake and balancing system was developed;
- a motorised hinge fitted in the oven was developed for built-in ovens;
- a hinge model for cover is being developed;
- a modular hinge model for oven door is being developed;
- a soft hinge model for large oven doors is being developed.

Electronic components

- a new product was developed for the electronic control system of radiant pyroceram hobs;
- an electronic control system for pyrolytic ovens with meat probe has been implemented;
- an electronic control platform for ovens with steam and microwave function is being developed.

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

Development costs to the tune of €460,000 were capitalised, as all the conditions set by international accounting standards were met; in other cases, they were charged to the income statement.

Non-financial statement

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

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

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

Personnel

In 2019, the Sabaf Group suffered no on-the-job deaths or serious accidents that led to serious or very serious injuries to staff for which the Group was definitively held responsible, nor was it held responsible for occupational illnesses of employees or former employees or causes of mobbing.

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

Environment

In 2019 there was no:

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

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

Corporate Governance

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

Internal Control System on Financial Reporting

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

With reference to the "conditions for listing shares of parent companies set up and regulated by the law of states not belonging to the European Union" pursuant to articles 36 and 39 of the Market Regulations, the Company and its subsidiaries have administrative and accounting systems that can provide the public with the accounting situations prepared for drafting the consolidated report of the companies that fall within the scope of this regulation and can regularly supply management and the auditors of the Parent Company with the data necessary for drafting the consolidated financial statements. The Sabaf Group has also set up an effective information flow to the independent auditor as well as continuous information on the composition of the corporate bodies of the subsidiaries, together with information on the offices held, and requires the systematic and centralised gathering as well as regular updates of the formal documents relating to the articles of association and granting of powers to corporate bodies. The conditions exist as required by article 36, letters a), b) and c) of the Market Regulations issued by CONSOB. During the year, the financial reporting system of Okida Elektronik, a Turkish-based company acquired in September 2018, was fully integrated.

Model 231

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

Personal data protection

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

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

Atypical or unusual transactions
Sabaf Group companies did not execute any unusual or atypical transactions in 2019.

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

Management and coordination
Sabaf S.p.A. is not subject to management and coordination by other companies.
Sabaf S.p.A. exercises management and coordination activities over its Italian subsidiaries, Faringosi Hinges s.r.l., A.R.C. s.r.l., C.M.I. s.r.l. and C.G.D. s.r.l.

Intra-group transactions and related-party transactions
The relationships between the Group companies, including those with the parent company, are regulated under market conditions, as well as the relationships with related parties, defined in accordance with the accounting standard IAS 24. The details of intra-group transactions and other related-party transactions are given in Note 36 of the consolidated financial statements and in Note 35 of the separate financial statements of Sabaf S.p.A..

Significant events after the end of the reporting period and business outlook

Based on the negotiations concluded with its main customers, the Group prepared a budget that projected sales of €185 million (+19% over 2019) and a solid improvement in gross operating profitability (EBITDA %) compared with 2019. The trend in orders and production in the first quarter of 2020 was confirming a strong recovery in the level of activity at even higher rates than budgeted.

The rapid spread of the coronavirus epidemic is impacting areas where Sabaf has important production units (Lombardy). The management set up a dedicated task force that constantly monitors the development of the situation and works to manage its effects. A number of measures have been taken to prevent and combat the possibility of contagion and the Ospitaletto (Brescia) and Bareggio (Milan) plants, which account for about 60% of the Group's total production, suspended production from 16. As a result of the legislative measures adopted, the other Italian plants have also stopped operating as of yesterday 23 March. To date, in the foreign plants (Turkey, Brazil, Poland and China), production is proceeding at full capacity.

As things stand, the elements of uncertainty regarding the worldwide spread of the epidemic and the effectiveness of the countermeasures adopted in the various countries are such that it is not possible to quantify the effects on the activities of the Group and the markets in which it operates, and at the moment it is not possible to confirm the previous estimates for 2020.

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

(€/000)	**2019**	**2018**	**Change**	**% change**
Sales revenue	94,899	110,065	(15,166)	-13.8%
EBITDA	13,127	13,644	(517)	-3.8%
EBIT	2,948	5,543	(2,595)	-46.8%
Pre-tax profit (EBT)	3,691	9,227	(5,536)	-60.0%
Net Profit	3,822	8,040	(4,218)	-52.5%

The reclassification based on financial criteria is illustrated below:

(€/000)	**31/12/2019**	**31/12/2018**
Non-current assets [1]	*120,147*	*96,495*
Non-current financial assets	*5,340*	*5,367*
Short-term assets[2]	50,750	64,927
Short-term liabilities[3]	(22,751)	(25,626)
Working capital[4]	*27,999*	*39,301*
Provisions for risks and charges, Post-employment benefits, deferred taxes	*(4,862)*	*(3,278)*
Net invested capital	**148,624**	**138,885**
Short-term net financial position	(3,149)	(12,056)
Medium/long-term net financial position	(36,719)	(33,789)
Net financial position	**(39,868)**	**(45,845)**
Shareholders' equity	**108,755**	**92,040**

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

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

(€/000)	**2019**	**2018**
Opening liquidity	***2,169***[1]	***2,697***
Operating cash flow	*27,682*	*8,796*
Cash flow from investments	*(17,903)*	*(15,219)*
Free cash flow	9,779	(6,423)
Cash flow from financing activities	(3,605)	5,685
Cash flow for the period	6,174	(738)
Closing liquidity	***8,343***	***1,959***

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

The 2019 financial year ended with a turnover 13.8% lower than 2018 due to the slowdown in demand in some of the main markets in which the Company operates (Turkey, Middle East, South America).

Due to the merger through incorporation of Sabaf Immobiliare s.r.l., whose accounting effects have been backdated to 1 January 2019, the economic data for the year is not directly comparable with that of 2018. Please refer to the Explanatory Notes to the Separate Financial Statements for a detailed analysis of the performance of the individual items in the company's financial statements.

In 2019, Sabaf S.p.A. invested approximately €7 million. The main investments in the financial year were aimed at increasing and automating the production capacity of special burners and making moulds for new burners. Investments in maintenance and replacement, so that production equipment is kept constantly up to date and efficient, are systematic.

At 31 December 2019, working capital stood at €28 million compared with €39.3 million at the end of the previous year: its percentage impact on turnover stood at 29.5% from 35.7% at the end of 2018.

The net financial debt was €39.9 million, compared with €45.8 million on 31 December 2018.

At the end of the year, shareholders' equity amounted to €108.8 million, compared with €92 million in 2018. The ratio between the net financial debt and the shareholders' equity was 36.7%; it was 49.8% at the end of 2018.

[1] The value of cash and cash equivalents refers to the pro-forma financial statements at 31 December 2018 including Sabaf Immobiliare S.r.l.

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

Pursuant to the CONSOB memorandum of 28 July 2006, a reconciliation statement of the result of the 2019 financial year and Group shareholders' equity at 31 December 2019 with the same values of the parent company Sabaf S.p.A. is given below:

		31/12/2019			**31/12/2018**	
Description		Profit for the year	Shareholders' equity		Profit for the year	Shareholders' equity
Profit and shareholders' equity of parent company Sabaf S.p.A.		**3,822**	**108,755**		**8,040**	**92,039**
Equity and consolidated company results		7,833	105,637		15,324	113,123
Elimination of the carrying value of consolidated equity investments		580	(81,502)		640	(83,622)
Put options on minorities		168	(10,350)		55	(1,818)
Intercompany eliminations		(2,189)	(931)		(8,005)	(427)
Other adjustments		(31)	(124)		(256)	51
Minority interests		(268)	(7,077)		(184)	(1,644)
Profit and shareholders' equity attributable to the Group		**9,915**	**114,408**		**15,614**	**117,702**

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

Pursuant to the second paragraph of Article 2364 of the Italian Civil Code, in consideration of the need to consolidate the financial statements of Group companies and to prepare all supporting documentation, the directors intend to use the longer time limits granted to companies required to prepare the consolidated financial statements for calling the ordinary shareholders' meeting to approve the 2019 financial statements. The Shareholders' Meeting will be convened on a single date for 4 May 2020.

Proposal for allocation of 2019 profit

As we thank our employees, the Board of Statutory Auditors, the Independent Auditors and the supervisory authorities for their invaluable cooperation, we would kindly ask the shareholders to approve the financial statements ended 31 December 2019 with a profit for the year of €3,821,876.

The Board of Directors, having acknowledged the significant change in the global economic scenario following the spread of the coronavirus pandemic, on a prudential basis, proposes to allocate the profit for 2019 of the parent company Sabaf S.p.A. entirely to the extraordinary reserve.

Ospitaletto, 24 March 2020
The Board of Directors