4th asset

THE KNOW-HOW OF SABAF GROUP.

Reference year
2019

Intellectual capital

Capitalized **R&D** investments

€/000
460

Hours dedicated to **product development**/total worked hours

%
1.0%

Hours dedicated to **process engeneering**/total worked hours

(hours dedicated to internal orders for the construction of new machines for new products or to increase production capacity/ total worked hours)

%
2.2%

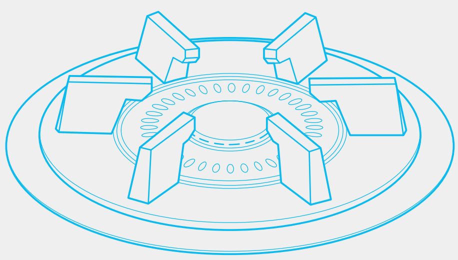
Total Net Investments

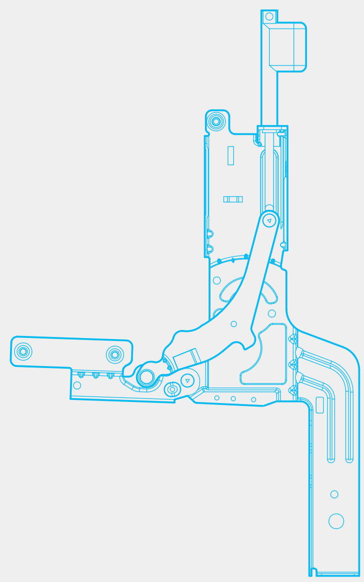
€/000
12,014

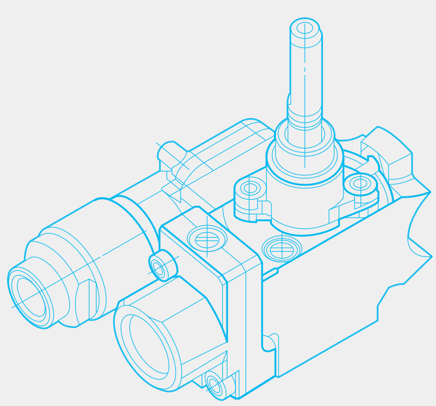
Patents

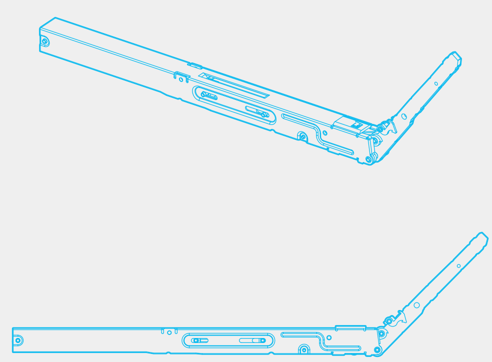
N°96 TOT

Active patents
as of 31 Dec 2019









N°11

Patents registered
in 2019

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**

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.

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***

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[5]		pro-forma[5]
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.

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.

[5] 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.

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 finacial 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.

DISCLOSURE OF NON FINANCIAL INFORMATION

Starting from 2017, the Sabaf Group publishes the Disclosure of non financial information required by Legislative Decree no. 254/2016 in a report separate from this Management Report. The Disclosure of non financial information provides all the information needed to ensure understanding of the Group's activities, performance, results and impact, with particular reference to environmental, social and personnel issues, respect for human rights and the fight against active and passive corruption, which are relevant considering the Group's activities and characteristics.
The Disclosure of non financial information is included in the same file in which the management report, the consolidated financial statements, the separate financial statements of the parent company Sabaf S.p.A. and the remuneration report are published.
It should be noted that since 2005, the Sabaf Group has drawn up an Annual Report on its economic, social and environmental sustainability performance.

PERSONNEL

In 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 Disclosure of non financial information.

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 Disclosure of non financial information.

CORPORATE GOVERNANCE

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

INTERNAL CONTROL SYSTEM ON FINANCIAL REPORTING

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

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

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 [6]	*120,147*	*96,495*
Non-current financial assets	*5,340*	*5,367*
Short-term assets [7]	*50,750*	*64,927*
Short-term liabilities [8]	(22,751)	(25,626)
Working capital [9]	*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**

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

(€/000)	2019	2018
Opening liquidity	***2,169*** [10]	***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.

[6] Excluding Financial assets.
[7] Sum of Inventories, Trade receivables, Tax receivables and Other current receivables.
[8] Sum of Trade payables, Tax payables and Other liabilities.
[9] Difference between short-term assets and short-term liabilities.
[10] 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.

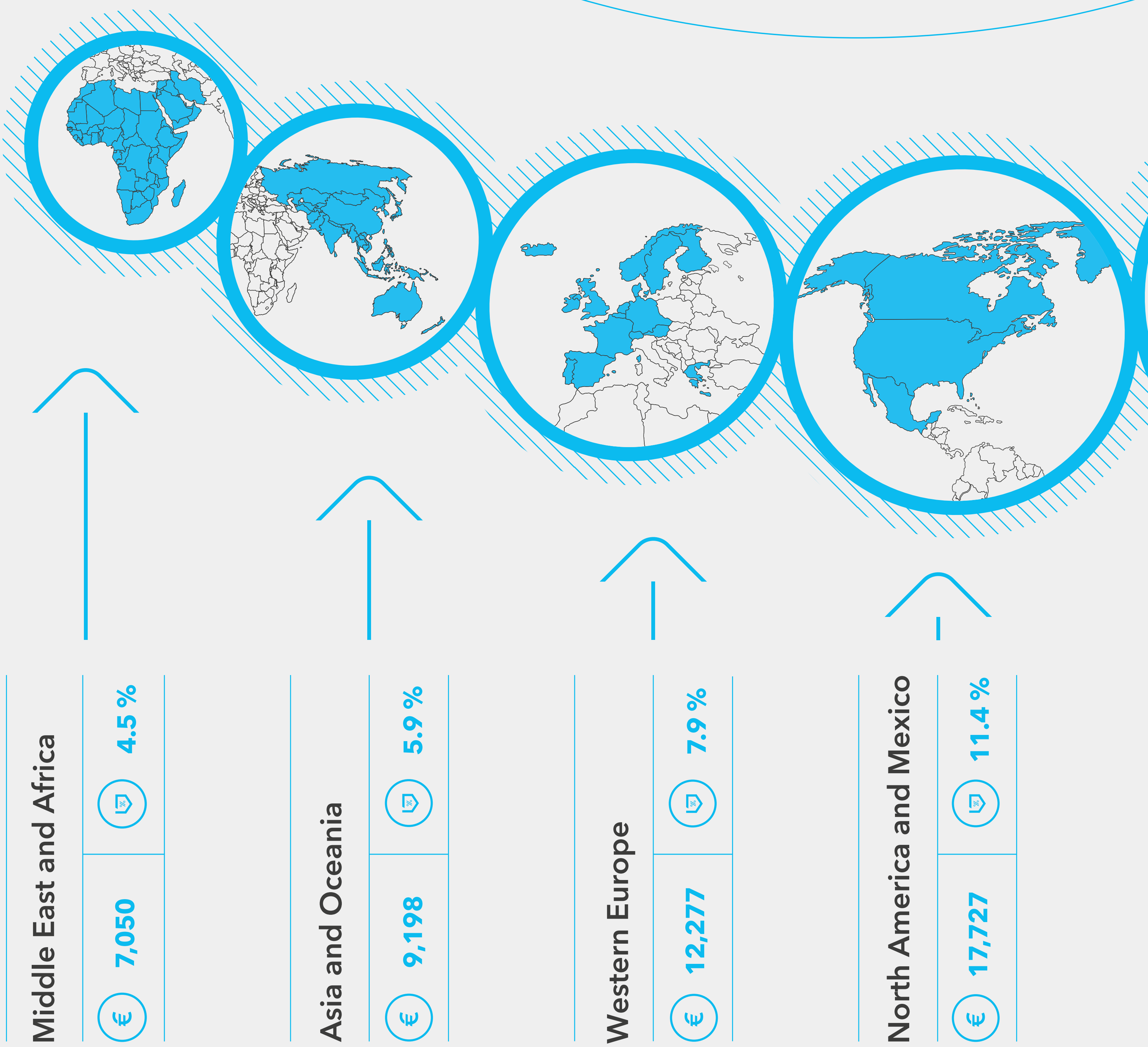
Ospitaletto, 24 March 2020

The Board of Directors

5th asset

THE MARKETS.

Sales by area



South America

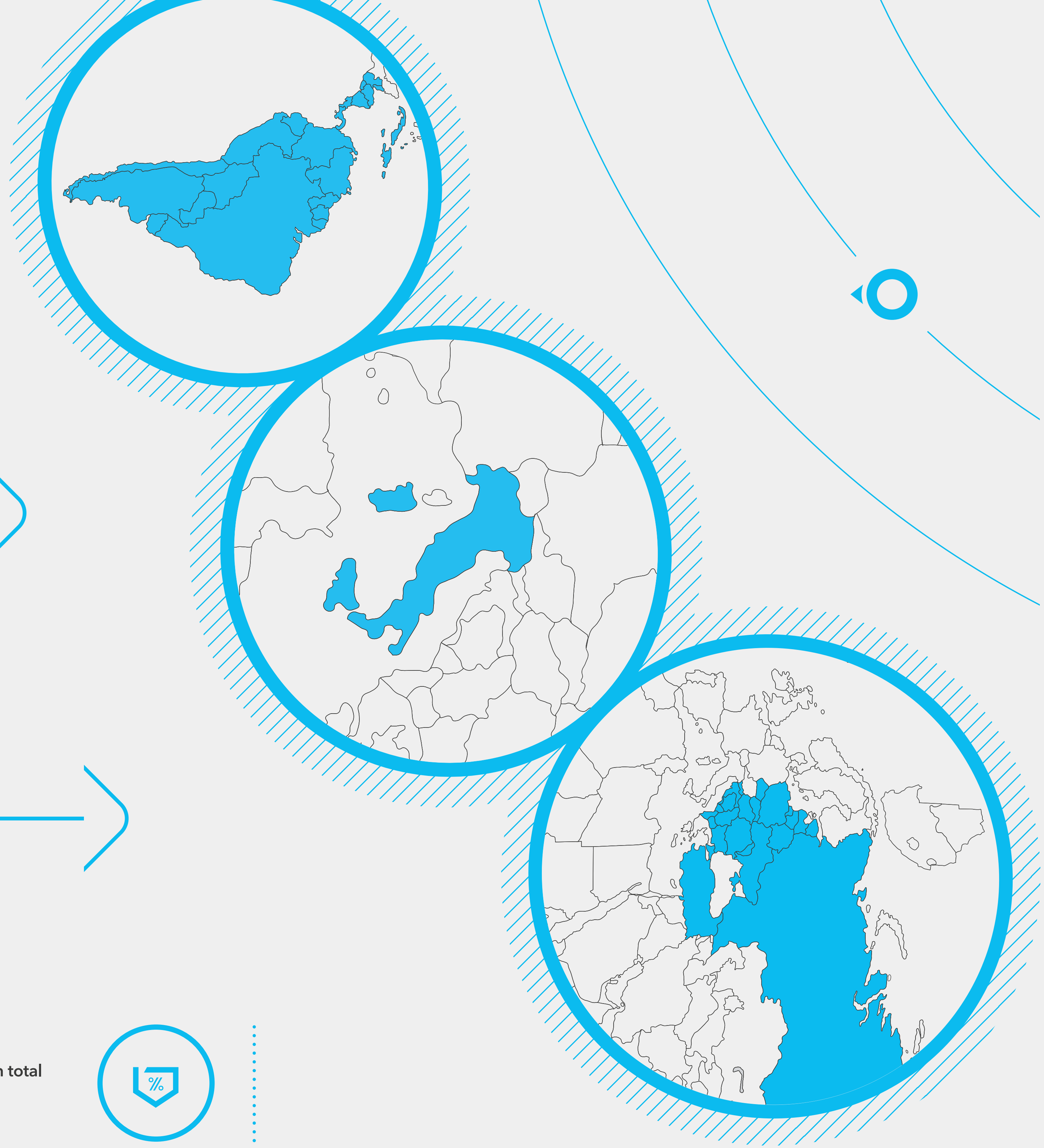
€ 23,451	15 %

Italy

€ 31,161	20 %

Eastern Europe and Turkey

€ 55,059	35.3 %



Sales in thousands of Euros

Percentage on total Group sales

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 Trading (Kunshan) Co., Ltd.	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 not 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

	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

(€/000)	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 Trading (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 IFRS 16 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 IFRS 16	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 IFRS 16	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 IFRS 16	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 IFRS 16	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. s.r.l., 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 A.R.C. Burners Co. Ltd. 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, 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

	PEB
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 diffrences	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	Goodwill	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**	***100.0%***	***+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 cotracts	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 C.M.I 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 probability of business objective achievement	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 probability of business objective achievement	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 intial 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 probability of business objective achievement	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 probability of business objective achievement	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 probability of objectives achievement	50%	50%

Total value on individual objectives	6.83	Fair Value	2.05
Rights on individual objectives	30%		

Fair value per share at intial 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)	EUR 90,000	Sabaf S.p.A.	100%
Sabaf do Brasil Ltda	Jundiaì (SP, Brazil)	BRL 24,000,000	Sabaf S.p.A.	100%
Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki	Manisa (Turkey)	TRY 28,000,000	Sabaf S.p.A.	100%
Sabaf Appliance Components Ltd.	Kunshan (China)	EUR 4,900,000	Sabaf S.p.A.	100%
A.R.C. s.r.l.	Campodarsego (PD)	EUR 45,000	Sabaf S.p.A.	70%
Okida Elektronik Sanayi ve Tickaret A.S	Istanbul (Turkey)	TRY 5,000,000	Sabaf S.p.A.	30%
			Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki	70%

COMPANIES CONSOLIDATED USING THE LINE-BY-LINE CONSOLIDATION METHOD				
COMPANY NAME	REGISTERED OFFICES	SHARE CAPITAL	SHAREHOLDERS	OWNERSHIP %
Sabaf US Corp.	Plainfield (USA)	USD 200,000	Sabaf S.p.A.	100%
C.M.I. Cerniere Meccaniche Industriali s.r.l	Valsamoggia (BO)	EUR 1,000,000	Sabaf S.p.A.	68.5%
C.G.D. s.r.l.	Valsamoggia (BO)	EUR 26,000	C.M.I. s.r.l.	100%
CMI Polska sp. z.o.o.	Myszków (Polonia)	PLN 40,000	C.M.I. s.r.l.	97.5%
			C.G.D. s.r.l.	2.5%

COMPANIES CONSOLIDATED USING THE EQUITY METHOD					
COMPANY NAME	REGISTERED OFFICES	SHARE CAPITAL	SHAREHOLDERS	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 Carpini, 1 25035 - Ospitaletto (Brescia)
Contacts	Tel: +39 030 - 6843001
	Fax: +39 030 - 6848249
	E-mail: info@sabaf.it
	www.sabaf.it
Tax information	R.E.A. 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[2]
	EY network	Foreign subsidiaries	11[3]
Total			**173**

[2] Auditing procedures agreement relating to interim management reports; limited review of consolidated Disclousure of non-financial information.

[3] Tax assistance.

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

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

To the Shareholders of
Sabaf S.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Sabaf Group (the Group), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated income statement, the consolidated statement of comprehensive income, the statement of changes in consolidated shareholders' equity and the consolidated cash flow statement for the year then ended, and the explanatory notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

Basis for Opinion

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

Key Audit Matters

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

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We identified the following key audit matters:

Key Audit Matters	Audit Responses
Valuation of the purchase price allocation related to CMI acquisition	
During the year 2019 the Group acquired the C.M.I. Group. The acquisition has been accounted for pursuant to IFRS 3, Business Combination, including the related purchase price allocation (hereinafter, "PPA"). The PPA is aimed to determine, at the acquisition date, the fair value of the identifiable assets and liabilities acquired. The fair value of such identified assets and liabilities has been estimated based on complex assumptions that, by their nature, required judgments from management. The PPA resulted in a residual goodwill. Considering the significance of the transaction and the amounts involved in the PPA, the complexity of the assumptions assumed in the calculation of the fair value of the acquired assets and liabilities, and the level of judgement exercised by management, we determined this area represents a key audit matter. The note "Information related to IFRS 3" of the consolidated financial statements as of December 31, 2019 include the description of the process followed by Group management and the impacts on the consolidated financial statements.	Our audit procedures in response to the key audit matter included, among others: (i) the analysis of the agreements signed within the C.M.I. Group acquisition process and the assessment of the related accounting treatment adopted by Sabaf Group; (ii) the assessment of the valuation reports prepared by the external specialist who supported the Company in the calculation of the fair valuation of the assets and liabilities identified, and in the purchase price allocation process, (iii) the assessment of the key assumptions used by management in performing the aforementioned procedures. In performing our audit procedures, we involved EY internal valuation specialists who assisted us in the assessment of the key assumptions and methodology adopted by management. Lastly, we evaluated the appropriateness of the disclosures included in the explanatory notes of the consolidated financial statements and the consistency of the related disclosure provided in the Report on Operations.

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Valuation of goodwill

Goodwill at December 31, 2019 amounted to Euro 27.1 million, and was allocated to the following Group's Cash Generating Units (CGU): - "Hinges" CGU for Euro 4.4 million; - "Professional burners" CGU for Euro 1.8 million; - "Electronic components" CGU for Euro 17.2 million; - "CMI Hinges" CGU for Euro 3.7 million. The processes and methodologies to valuate and determine the recoverable amount of each CGU, in terms of value in use, are based on complex assumptions that, due to their nature, imply the use of judgement by management, in particular with reference to the future cash flow forecasts in the period covered by the Group business plan, the assessment of the normalized cash flows used to estimate the terminal value and the long term growth and discount rates applied to the future cash flow forecasts. Considering the level of judgement and complexity of the assumptions applied in estimating the recoverable amount of goodwill we determined that this area represents a key audit matter. The disclosures related to the valuation of goodwill are included in paragraph "Goodwill" and in note "3 - Intangible Assets".	Our audit procedures in response to this key audit matter included, among others: (i) assessment of the process and key controls implemented by the Group in connection with the valuation of goodwill; (ii) assessment of the CGUs perimeter and the allocation of the carrying amounts of assets and liabilities to each CGU; (iii) assessment of the key assumptions underlying future cash flow forecasts; (iv) test of the consistency of the future cash flow forecasts allocated to each CGU against the 2020-2024 Group business plan; (v) assessment of the accuracy of cash flow projections as compared to historical results; (vi) assessment of the long term growth rates and discount rates. In performing our analysis, we engaged our experts in valuation techniques, who have independently performed calculation and sensitivity analyses of key assumptions in order to determine any changes in assumptions that could materially impact the valuation of the recoverable amount. Lastly, we evaluated the appropriateness of the disclosures included in the explanatory notes of the consolidated financial statements and the consistency of the related disclosure provided in the Report on Operations.

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

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

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

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

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

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

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

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

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

4

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

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

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

The shareholders of Sabaf S.p.A., in the general meeting held on May 8, 2018, engaged us to perform the audits of the consolidated financial statements for each of the years ending December 31, 2018 to December 31, 2026.

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

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

Report on compliance with other legal and regulatory requirements

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

The Directors of Sabaf S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure of Group Sabaf as at December 31, 2019, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements of Sabaf Group as at December 31, 2019 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operations and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of Sabaf Group as at December 31, 2019 and comply with the applicable laws and regulations.

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

EY
Building a better working world

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

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

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

Milan, April 3, 2020

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

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

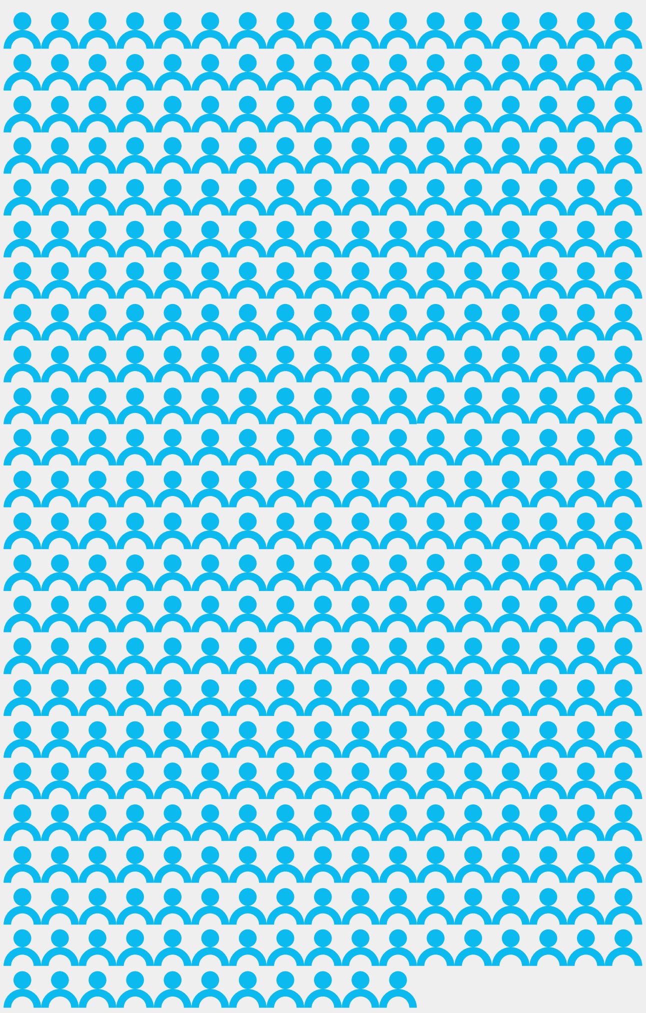
6th asset

THE CUSTOMERS OF SABAF GROUP.

Reference year
2019

N°402 TOT

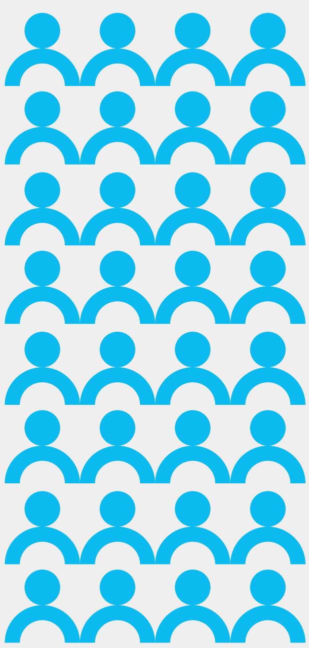
Customers from **55 countries** throughout the world



Figures based on cusotmers with sales over 1,000 Euros

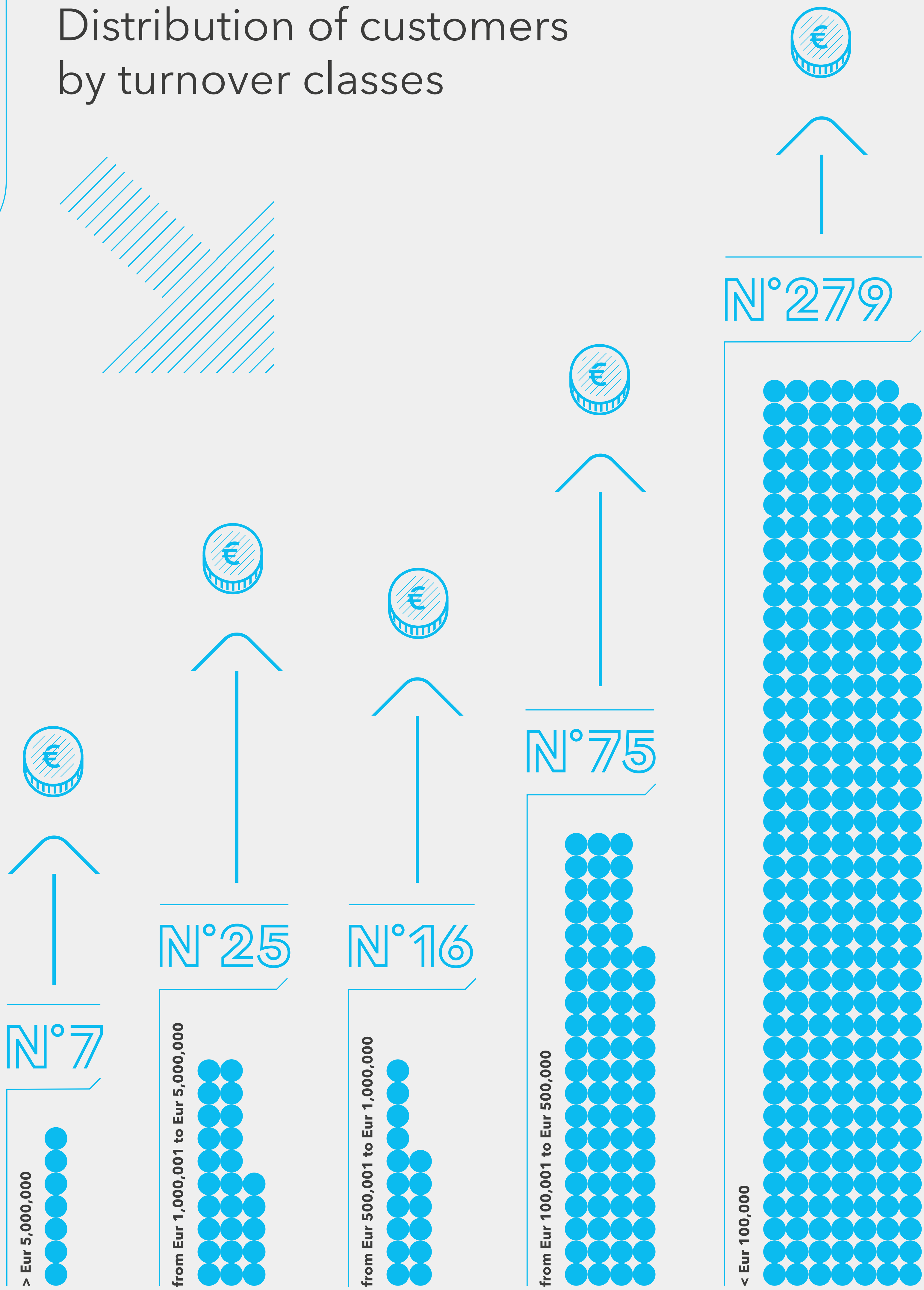
N°32

Customers with sales **over 1 million EUR**



> Eur 1,000,000

Distribution of customers by turnover classes



Separate financial statements at 31 December 2019

Corporate bodies

Board of Directors

Chairman	Giuseppe Saleri
Vice Chairman*	Nicla Picchi
Chief Executive Officer	Pietro Iotti
Director	Gianluca Beschi
Director	Claudio Bulgarelli
Director	Alessandro Potestà
Director*	Carlo Scarpa
Director*	Daniela Toscani
Director*	Stefania Triva

* Independent directors

Board of Statutory Auditors

Chairman	Alessandra Tronconi
Statutory Auditor	Luisa Anselmi
Statutory Auditor	Mauro Vivenzi

Independent Auditors

EY S.p.A.

Statement of financial position

(in €)	NOTES	31.12.2019	31.12.2018
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	1	51,470,506	30,497,881
Investment property	2	3,975,991	1,261,716
Intangible assets	3	2,452,857	3,094,293
Equity investments	4	57,950,775	58,150,073
Non-current financial assets	5	5,340,310	5,366,725
- of which from related parties	35	*5,280,310*	*5,246,725*
Non-current receivables		19,871	19,871
Deferred tax assets	21	4,276,366	3,471,716
TOTAL NON-CURRENT ASSETS		**125,486,676**	**101,862,275**
CURRENT ASSETS			
Inventories	6	19,862,180	26,627,854
Trade receivables	7	28,563,314	35,157,543
- of which from related parties	35	*9,094,290*	*6,080,706*
Tax receivables	8	1,736,169	2,377,224
- of which from related parties	35	*0*	*1,083,666*
Other current receivables	9	588,494	764,471
Current financial assets	10	2,832,998	5,110,000
- of which from related parties	35	*1,600,000*	*1,600,000*
Cash and cash equivalents	11	8,343,105	1,958,805
TOTAL CURRENT ASSETS		**61,926,260**	**71,995,897**
ASSETS HELD FOR SALE		**0**	**0**
TOTAL ASSETS		**187,412,936**	**173,858,172**

SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	12	11,533,450	11,533,450
Retained earnings, Other reserves		93,399,901	72,464,975
Profit for the year		3,821,876	8,040,214
TOTAL SHAREHOLDERS' EQUITY		**108,755,227**	**92,038,639**
NON-CURRENT LIABILITIES			
Loans	14	35,485,756	33,669,253
Other financial liabilities	15	1,233,000	120,000
Post-employment benefit and retirement provisions	16	2,064,001	2,083,922
Provisions for risks and charges	17	1,064,482	1,088,183
Deferred tax liabilities	21	1,733,755	106,646
TOTAL NON-CURRENT LIABILITIES		**41,580,994**	**37,068,004**
CURRENT LIABILITIES			
Loans	14	13,994,308	17,330,136
Other financial liabilities	15	331,505	1,795,310
Trade payables	18	15,734,266	18,944,590
- of which to related parties	35	*761,431*	*3,858,114*
Tax payables	19	695,008	589,828
- of which to related parties	35	*74,375*	*0*
Other payables	20	6,321,628	6,091,665
TOTAL CURRENT LIABILITIES		**37,076,715**	**44,751,529**
LIABILITIES HELD FOR SALE		**0**	**0**
TOTAL LIABILITIES AND SHAREHOLDERS'EQUITY		**187,412,936**	**173,858,172**

Income statement

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

Comprehensive income statement

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

Statement of changes in shareholders' equity

(€/000)	Share capital	Share premium reserve	Legal reserve	Treasury shares	Actuarial evalution of post-employment benefit provision	Other reserves	Profit for the year	Total Group shareholders' equity
Balance at 31 December 2017	**11,533**	**10,002**	**2,307**	**(4,509)**	**(477)**	**65,230**	**8,001**	**92,087**
2018 dividend payment						1,930	(8,001)	(6,071)
Purchase of treasury shares				(2,359)				(2,359)
Stock grant plan (IFRS 2)						322		322
Total profit at 31 December 2018					20		8,040	8,060
Balance at 31 December 2018	**11,533**	**10.002**	**2,307**	**(6,868)**	**(457)**	**67,482**	**8,040**	**92,039**
2019 dividend payment						1,980	(8,040)	(6,060)
Sale of treasury shares				4,600		208		4,808
Stock grant plan (IFRS 2)						680		680
Sabaf Immobiliare merger						13,514		13,514
Total profit at 31 December 2019					(48)		3,822	3,774
Balance at 31 December 2019	**11,533**	**10,002**	**2,307**	**(2,268)**	**(505)**	**83,864**	**3,822**	**108,755**

Statement of Cash Flows

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

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

Explanatory notes

Accounting standards

STATEMENT OF COMPLIANCE AND BASIS OF PRESENTATION

The separate financial statements of Sabaf S.p.A. for the financial year 2019 have been prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Union. Reference to IFRS also includes all current International Accounting Standards (IAS).
The separate financial statements are drawn up in euro, which is the currency in the economy in which the Company operates. The income statement, the comprehensive income statement and the statement of financial position schedules are prepared in euro, while the cash flow statement, the statement of changes in shareholders' equity and the values reported in the explanatory notes are in thousands of euro.
The financial statements have been prepared on a historical cost basis except for some revaluations of property, plant and equipment undertaken in previous years, and are considered a going concern. With reference to this assumption, the Company assessed that it is a going concern (as defined by paragraphs 25 and 26 of IAS 1), also due to the strong competitive position, high profitability and solidity of the financial structure.
Sabaf S.p.A., as the Parent Company, also prepared the consolidated financial statements of the Sabaf Group at 31 December 2019.

FINANCIAL STATEMENTS

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

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

ACCOUNTING POLICIES

The accounting standards and policies applied for the preparation of the separate financial statements at 31 December 2019, unchanged versus the previous year, with the exception of the new accounting standards adopted as from 1 January 2019 (IFRS 16 and IFRIC 23), are shown below:

Property, plant and equipment

These are recorded at purchase or manufacturing cost. The cost includes directly chargeable ancillary costs. These costs also include revaluations undertaken in the past based on monetary revaluation rules or pursuant to company mergers. Depreciation is calculated according to rates deemed appropriate to spread the carrying value of tangible assets over their useful working life. Estimated useful working life in years, unchanged compared to previous financial years, is as follows:

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

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

Investment property

Investment property is valued at cost, including revaluations undertaken in the past based on monetary revaluation rules or pursuant to company mergers.
The depreciation is calculated based on the estimated useful life, considered to be 33 years.
If the recoverable amount of the investment property – determined based on the market value of the properties – is estimated to be lower than its carrying value, the asset's carrying value is reduced to the lower recoverable amount, recognising impairment in the income statement.
When there is no longer any reason for a write-down to be maintained, the carrying value of the asset (or cash generating unit) is increased to the new value stemming from the estimate of its recoverable amount – but not beyond the net carrying value that the asset would have had if it had not been written down for impairment. Reversal of impairment loss is recognised in the income statement.

Intangible assets

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

in the year in which this is ascertained.
Such assets are measured at purchase or production cost and - if the assets concerned have a finite useful life - are amortised on a straight-line basis over their estimated useful life.
The useful life of projects for which development costs are capitalised is estimated to be 10 years.
The SAP management system is amortised over five years.

Equity investments

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

Impairment

At each end of the reporting period, Sabaf S.p.A. reviews the carrying value of its property, plant and equipment, intangible assets and equity investments to determine whether there are signs of impairment of these assets. If there is any such indication, the recoverable amount of said assets is estimated so as to determine the total of the write-down. If it is not possible to estimate the recoverable amount individually, the Company estimates the recoverable amount of the cash generating unit (CGU) to which the asset belongs. In particular, the recoverable amount of the cash generating units (which generally coincide with the legal entity to which the capitalised assets refer) is verified by determining the value of use. The recoverable amount is the higher of the net selling price and value of use. In measuring the value of use, future cash flows net of taxes, estimated based on past experience, are discounted to their present value using a pre-tax rate that reflects current market valuations of the present cost of money and specific asset risk. The main assumptions used for calculating the value of use concern the discount rate, growth rate, expected changes in selling prices and cost trends during the period used for the calculation. The growth rates adopted are based on future market expectations in the relevant sector. Changes in the sales prices are based on past experience and on the expected future changes in the market. The Company prepares operating cash flow forecasts based on the most recent budgets approved by the Boards of Directors of the investees, draws up four-year forecasts and determines the terminal value (current value of perpetual income), which expresses the medium and long term operating flows in the specific sector.
Furthermore, the Company checks the recoverable amount of its investees at least once a year when the separate financial statements are prepared.
If the recoverable amount of an asset (or CGU) is estimated to be lower than its carrying value, the asset's carrying value is reduced to the lower recoverable amount, recognising impairment of value in the income statement. When there is no longer any reason for a write-down to be maintained, the carrying value of the asset (or cash generating unit) is increased to the new value stemming from the estimate of its recoverable amount – but not beyond the net carrying value that the asset would have had if it had not been written down for impairment. Reversal of impairment loss is recognised in the income statement.

Inventories

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

Trade receivables and other financial assets

Initial recognition

Upon initial recognition, financial assets are classified, as the case may be, on the basis of subsequent measurement methods, i.e. at amortised cost, at fair value recognised in other comprehensive income (OCI) and at fair value recognised in the income statement.
The classification of financial assets at initial recognition depends on the characteristics of the contractual cash flows of the financial assets and on the business model that the Company uses to manage them.
Trade receivables that do not contain a significant financing component are valued at the transaction price determined in accordance with IFRS 15. See the "Revenue from Contracts with Customers" paragraph.
Other financial assets are recorded at fair value plus, in the case of a financial asset not at fair value recognised in the income statement, transaction costs.
For a financial asset to be classified and measured at amortised cost or at fair value recognised in OCI, it must generate cash flows that depend solely on the principal and interest on the amount of principal to be repaid (known as 'solely payments of principal and interest (SPPI)'). This measurement is referred to as the SPPI test and is carried out at the instrument level.

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)
This category is the most important for the Company. The Company measures the financial assets at amortised cost if both of the following requirements are met:
- the financial asset is held as part of a business model whose objective is to hold financial assets for the purpose of collecting contractual cash flows

and
- the contractual terms of the financial asset envisage, at certain dates, cash flows represented solely by payments of principal and interest on the amount of principal to be repaid.

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

Financial assets at fair value through profit or loss

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

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

Derecognition

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

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

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

Provisions for risks and charges

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

Post-employment benefit

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

Trade payables and other financial liabilities

Initial recognition

All financial liabilities are initially recognised at fair value, in addition to directly attributable transaction costs in case of mortgages, loans and payables.

The Company's financial liabilities include trade payables and other payables, mortgages and loans, including current account overdrafts and derivative financial instruments.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

Loans and payables

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

Derecognition

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

Policy for conversion of foreign currency items

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

Derivative instruments and hedge accounting

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

Revenue reporting

Revenue is reported net of return sales, discounts, allowances and bonuses, as well as of the taxes directly associated with sale of goods and rendering of services.
Sales revenue is reported when the company has transferred the significant risks and benefits associated with ownership of the goods and the amount of revenue can be reliably measured.
Revenues of a financial nature are recorded on an accrual basis.

Financial income

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

Financial expenses

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

Income taxes for the year

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

Dividends

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

Treasury shares

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

Equity-settled transactions

Some of the Company employees receive part of the remuneration in the form of share-based payments, therefore employees provide services in exchange for shares ("equity-settled transactions"). The cost of equity-settled transactions is determined by the fair value at the date on which the assignment is made using an appropriate measurement method, as explained in more detail in Note 41.

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

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

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

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

Use of estimates

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

Recoverability of value of tangible and intangible assets and investments

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

Provisions for bad debts

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

Provisions for inventory obsolescence

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

Employee benefits

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

Share-based payments

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

Income taxes

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

Other provisions

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

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

New accounting standards

Accounting standards, amendments and interpretations applicable from 1 January 2019

Standard **IFRS 16 "Leases"** (published on 13 January 2016), which replaced standard IAS 17 – Leases, as well as interpretations IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard provides a new definition of lease and introduces a criterion based on the control (right of use) of an asset in order to distinguish the lease contracts from the service contracts, identifying the discriminatory ones: the identification of the asset, the right of replacement of the same, the right to obtain substantially all of the economic benefits deriving from the use of the asset and the right to direct the use of the asset underlying the contract. The standard establishes a single model of recognition and measurement of the lease agreements for the lessee which requires the recognition of the asset to be leased (operating lease or otherwise) in assets offset by a financial debt, while also providing the opportunity not to recognise as leases the agreements whose subject matter are "low-value assets" and leases with a contract duration equal to or less than 12 months. By contrast, the Standard does not include significant changes for the lessors. The impacts resulting from the first-time adoption of this standard are described in detail in the paragraph "Adoption of the accounting standard IFRS 16 "Leases"".

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

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

Amendment to **IAS 19 Plan Amendment, Curtailment or Settlement.** The amendments clarify how pension costs are determined when a change occurs in a defined benefit plan.
These amendments had no impact on the financial statements insofar as the Company, in the reference period, did hot record any amendment, curtailment or settlement of the plans.

Amendment to **IAS 28 Long-term Interests in Associates and Joint Ventures.** This document clarifies the need to apply IFRS 9, including the requirements of impairment, to other long-term interests in associate companies and joint ventures that are not accounted for under the equity method. The amendment applies from 1 January 2019 but early application is permitted.
These amendments did not have any impact on the Company's financial statements, insofar as Sabaf does not have equity investments in associates and joint ventures that are not measured with the equity method.

Document **"Annual Improvements to IFRSs 2017–2015 Cycle",** which implements the amendments to the standards as part of their annual process of improvement:

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

IFRS and IFRIC accounting standards, amendments and interpretations approved by the European Union, not yet universally applicable and not adopted early by the Company at 31 December 2019

Amendments to **IFRS 3 Definition of a Business.** In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 to support entities in determining whether or not a set of assets acquired constitutes a business. The amendments clarify the minimum requirements for having a business, remove the assessment of whether market participants can replace any missing elements, add guidelines to support entities in assessing whether an acquired process is substantial, narrow the definitions of business and output, and introduce an optional fair value concentration test.
Since the amendments apply prospectively to transactions or other events occurring on or after the date of first-time adoption, the Company is not affected by these amendments.

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

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

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

IFRS 17 Insurance Contracts. A new accounting standard for the recognition of insurance contracts that will replace IFRS 4. The new standard will be effective for the preparation of the financial statements for financial years beginning on or after 1 January 2021, unless they are postponed subsequent to their approval by the European Union. The directors do not expect the adoption of these amendments to have any impact on the Company's financial statements.

Adoption of the accounting standard IFRS 16 "Leases"

The Company applied IFRS 16 from 1 January 2019 by using the amended retrospective approach. Therefore, the cumulative effect of the adoption of IFRS 16 was recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, without recalculating the comparative information.
In particular, the Company analysed all agreements in force as of 1 January 2019 and relating to the use of third-party assets in the light of the new definition of lease contained in the standard and recognised:
- a financial liability equal to the present value of remaining future payments at the transition date;
- a right of use, the value of which was set equal to the value of the financial liability at the transition date.

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

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

(€/000)

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

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

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

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

Moreover, with reference to the transition rules, the Company adopted some practical expedients provided for by the Standard and in particular:
- agreements with a term of less than 12 months of the transition date were classified as short-term leases, therefore the related lease payments are recognised in the income statement on a straight-line basis;
- initial costs were excluded from the valuation of the asset for the right of use on the initial application date;
- the information present at the transition date was used to determine the lease term, with a special reference to the exercise of renewal and early closure options;
- payments for the use of the asset (lease component) and payments for services or maintenance (non-lease component) related to the same asset were not separated.

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

ADOPTION OF IFRS 16 - EFFECTS AT 1 JANUARY 2019	BOOK VALUE AT 01.01.2019 IN CASE OF NON-ADOPTION OF IFRS 16	EFFECT OF IFRS 16	BOOK VALUE AT 01.01.2019
Assets			
Property, plant and equipment	30,498	688	31,186
Liabilities			
Loans beyond 12 months	33,789	460	34,249
Loans within 12 months	19,125	228	19,353
Shareholders' equity			
Retained earnings, Other reserves	72,465	-	72,465

ADOPTION OF IFRS 16 - EFFECTS AT 31 DECEMBER 2019	BOOK VALUE AT 31.12.2019 IN CASE OF NON-ADOPTION OF IFRS 16	EFFECT OF IFRS 16	BOOK VALUE AT 31.12.2019
Assets			
Property, plant and equipment	50,737	733	51,470
Liabilities			
Loans beyond 12 months	36,239	480	36,719
Loans within 12 months	14,068	258	14,326
Shareholders' equity			
Retained earnings, Other reserves	93,400	-	93,400
Income Statement 12 months 2019			
Costs for services	20,382	(258)	20,124
Depreciations	9,556	253	9,809
Financial expenses	807	10	817
Economic and financial indicators			
Shareholders' equity	108,760	5	108,755
Net financial debt	41,963	738	42,701
EBITDA	12,369	(258)	12,627
EBIT	2,943	(5)	2,948
Net profit for the period	3,827	5	3,822

Merger of Sabaf Immobiliare s.r.l.

On 25 June 2019, the Board of Directors of Sabaf S.p.A. approved, pursuant to Article 2505, paragraph 2 of the Italian Civil Code, the plan for the merger through incorporation into Sabaf S.p.A. of Sabaf Immobiliare s.r.l., a single-member company subject to the management and coordination of Sabaf S.p.A..
Sabaf Immobiliare s.r.l. was engaged in the management of the real estate assets of the Sabaf Group. In detail, Sabaf Immobiliare s.r.l. owned industrial buildings leased to Sabaf S.p.A. Moreover, the Company managed other residential investment properties intended for rent or sale.
On 18 November 2019, the merger was carried out with effect from 29 November 2019. The transactions of the merged company Sabaf Immobiliare s.r.l. were booked to the financial statements of the merging company Sabaf S.p.A. with effect from 1 January 2019, with the same effect for tax purposes.
The operation meets the requirement to concentrate the activities of the two companies in order to optimise the management of resources, synergies and economic and financial flows.
A merger through incorporation of a wholly-owned company is excluded from the scope of IFRS 3 Business Combinations in that it does not involve the merging company gaining control of the other participating company. The approach adopted is in accordance with the ASSIREVI Preliminary Guidelines on IFRS (OPI no. 2 – Revised), concerning the accounting treatment of mergers in the financial statements, resulted in retaining the continuity of values with respect to the consolidated financial statements.

A merger of a restructuring nature results in the convergence of the consolidated financial statements of the merging company at the merger date with the separate financial statements of merging company after the merger, implementing the legal consolidation. Moreover, the merger of wholly-owned subsidiaries, which determines the transition from indirect to direct control and the continuity of values with respect to the consolidated financial statements, involves the backdating in the accounts of the effects of the merger also with reference to the costs and revenues of the merged company from the beginning of the financial year.
In view of the backdating of the accounting effects of the merger to 1 January 2019, reclassified financial statements at 31 December 2018 were prepared, as if the merger had taken place from the beginning of the comparative year:

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

The effects are shown in the table below:

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

Reclassified statement of financial position at 31 December 2018

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

Reclassified Income Statement at 31 December 2018

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

Reclassified statement of cash flows at 31 December 2018

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

Comments on the main items of the statement of financial position

1. PROPERTY, PLANT AND EQUIPMENT

	PROPERTY	PLANT AND EQUIPMENT	OTHER ASSETS	ASSETS UNDER CONSTRUCTION	TOTAL
COSTS					
At 31 December 2017	**6,401**	**163,568**	**33,218**	**2,296**	**205,483**
Increases	164	4,772	960	1,940	7,836
Disposals	-	(3,436)	(129)	-	(3,565)
Reclassification	5	1,552	19	(1,589)	(13)
At 31 December 2018	**6,570**	**166,456**	**34,068**	**2,647**	**209,741**
Increases	152	3,132	1,723	1,893	6,900
Sabaf Immobiliare merger	35,896	4,723	367	-	40,986
IFRS 16 assets	-	-	878	-	878
Disposals	-	(1,998)	(642)	-	(2,640)
Reclassification	706	3,073	53	(2,323)	1,509
At 31 December 2019	**43,324**	**175,386**	**36,447**	**2,217**	**257,374**

	PROPERTY	PLANT AND EQUIPMENT	OTHER ASSETS	ASSETS UNDER CONSTRUCTION	TOTAL
ACCUMULATED DEPRECIATION					
At 31 December 2017	**3,064**	**140,843**	**29,965**	**-**	**173,872**
Depreciations for the year	180	6,049	1,433	-	7,662
Eliminations for disposals	-	(2,175)	(116)	-	(2,291)
At 31 December 2018	**3,244**	**144,717**	**31,282**	**-**	**179,243**
Depreciations for the year	1,210	6,131	1,479	-	8,820
Sabaf Immobiliare merger	13,613	4,198	367	-	18,178
Eliminations for disposals	-	(1,642)	(44)	-	(1,686)
Reclassification	464	884	-	-	1,348
At 31 December 2019	**18,531**	**154,288**	**33,084**	**-**	**205,903**

	PROPERTY	PLANT AND EQUIPMENT	OTHER ASSETS	ASSETS UNDER CONSTRUCTION	TOTAL
NET CARRYING VALUE					
At 31 December 2019	**24,793**	**21,098**	**3,363**	**2,217**	**51,471**
At 31 December 2018	**3,326**	**21,739**	**2,786**	**2,647**	**30,498**

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

	31.12.2019	31.12.2018	CHANGE
Land	5,404	1,291	4,113
Industrial buildings	19,389	2,035	17,354
Total	**24,793**	**3,326**	**21,456**

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

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

	PROPERTY	PLANT AND EQUIPMENT	OTHER ASSETS	TOTAL
1 January 2019	**-**	**-**	**-**	**-**
First-time adoption of IFRS 16	108	-	580	688
Increases	-	-	298	298
Decreases	-	-	-	-
Depreciations	(35)	-	(218)	(253)
Foreign exchange differences	-	-	-	-
Other changes including reclassifications	-	-	-	-
At 31 December 2019	**73**	**-**	**660**	**733**

The main investments in the financial year were aimed at increasing and automating the production capacity of special burners. Other investments were made in the production of moulds for new burners. Investments in maintenance and replacement, so that production equipment is kept constantly up to date and efficient, are systematic.
Decreases mainly relate to the disposal of machinery no longer in use. Assets under construction include machinery under construction and advance payments to suppliers of capital equipment.

The reclassification mainly refers to the recalculation of the "Improvements on third-party assets" class in the respective "buildings" and "plant" asset classes, an operation carried out following the merger through incorporation of Sabaf Immobiliare s.r.l..
At 31 December 2019, the Company found no endogenous or exogenous indicators of impairment of its property, plant and equipment. As a result, the value of property, plant and equipment was not submitted to impairment testing.

2. INVESTMENT PROPERTY

COST	
At 31 December 2017	**6,675**
Increases	-
Disposals	-
At 31 December 2018	**6,675**
Increases	-
Sabaf Immobiliare merger	5,052
IFRS 16 assets	108
Disposals	-
At 31 December 2019	**11,835**

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

NET CARRYING VALUE	
At 31 December 2019	**3,976**
At 31 December 2018	**1,262**

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

INVESTMENT PROPERTY	
1 January 2019	**-**
First-time adoption of IFRS 16	108
Increases	-
Decreases	-
Depreciations	(35)
Foreign exchange differences	-
Other changes including reclassifications	-
At 31 December 2019	**73**

This item includes non-operating buildings owned by the Company.
At 31 December 2019, the Company found no endogenous or exogenous indicators of impairment of its investment property. As a result, the value of investment property was not submitted to impairment testing.

3. INTANGIBLE ASSETS

	PATENTS, KNOW-HOW AND SOFTWARE	DEVELOPMENT COSTS	OTHER INTANGIBLE ASSETS	TOTAL
COST				
At 31 December 2017	**6,603**	**5,264**	**2,369**	**14,236**
Increases	153	284	89	526
Reclassifications	-	-	-	-
Decreases	-	(59)	-	(59)
At 31 December 2018	**6,756**	**5,489**	**2,458**	**14,703**
Increases	34	460	-	494
Decreases	-	-	(11)	(11)
Reclassifications	-	(101)	(1,812)	(1,913)
At 31 December 2019	**6,790**	**5,848**	**635**	**13,273**
AMORTISATION AND WRITE-DOWNS				
At 31 December 2017	**6,101**	**3,038**	**1,727**	**10,866**
Amortisation	220	362	161	743
Decreases	-	-	-	-
At 31 December 2018	**6,321**	**3,400**	**1,888**	**11,609**
Amortisation	187	367	5	559
Decreases	-	-	-	-
Reclassifications	-	-	(1,348)	(1,348)
At 31 December 2019	**6,508**	**3,767**	**545**	**10,820**
NET CARRYING VALUE				
At 31 December 2019	**282**	**2,081**	**90**	**2,453**
At 31 December 2018	**435**	**2,089**	**570**	**3,094**

Intangible assets have a finite useful life and, as a result, are amortised throughout their life. The main investments in the year relate to the development of new products, mainly related to the expansion of the range of burners (research and development activities carried out during the financial year are set out in the Report on Operations).
The reclassification mainly refers to the recalculation of the "Improvements on third-party assets" class in the respective "buildings" and "plant" asset classes, an operation carried out following the merger through incorporation of Sabaf Immobiliare s.r.l..

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

4. EQUITY INVESTMENTS

	31.12.2019	31.12.2018	CHANGE
In subsidiaries	57,917	58,116	(199)
Other equity investments	34	34	-
Total	**57,951**	**58,150**	**(199)**

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

	SABAF IMMOBILIARE	FARINGOSI HINGES	SABAF DO BRASIL	SABAF U.S.	SABAF APPLIANCE COMPONENTS (CHINA)	SABAF A.C. KUNSHAN (CHINA)	SABAF TURKEY	A.R.C. S.R.L.	OKIDA	C.M.I. S.R.L.	TOTAL
HISTORICAL COST											
31.12.17	**13,475**	**10,329**	**8,469**	**139**	**4,400**	**200**	**12,005**	**4,800**	**-**	**-**	**53,817**
Purchase	-	-	-	-	-	-	-	-	8,698	-	8,698
31.12.18	**13,475**	**10,329**	**8,469**	**139**	**4,400**	**200**	**12,005**	**4,800**	**8,698**	**-**	**62,515**
Purchase	-	-	-	-	500	-	-	-	84	13,392	13,976
Liquidation	-	-	-	-	-	(200)	-	-	-	-	(200)
Merger	(13,475)	-	-	-	-	-	-	-	-	-	(13,475)
31.12.19	**0**	**10,329**	**8,469**	**139**	**4,900**	**0**	**12,005**	**4,800**	**8,782**	**13,392**	**62,816**
PROVISION FOR WRITE-DOWNS											
31.12.17	**0**	**0**	**0**	**0**	**4,400**	**0**	**0**	**0**	**0**	**0**	**4,400**
Write-downs	-	-	-	-	-	-	-	-	-	-	-
31.12.18	**0**	**0**	**0**	**0**	**4,400**	**0**	**0**	**0**	**0**	**0**	**4,400**
Write-downs	-	-	-	-	500	-	-	-	-	-	500
31.12.19	**0**	**0**	**0**	**0**	**4,900**	**0**	**0**	**0**	**0**	**0**	**4,900**
NET CARRYING VALUE											
31.12.19	**0**	**10,329**	**8,469**	**139**	**0**	**0**	**12,005**	**4,800**	**8,782**	**13,392**	**57,916**
31.12.18	**13,475**	**10,329**	**8,469**	**139**	**0**	**200**	**12,005**	**4,800**	**8,698**	**0**	**58,116**
PORTION OF SHAREHOLDERS' EQUITY (CALCULATED IN COMPLIANCE WITH IFRS)											
31.12.19	**0**	**7,319**	**11,524**	**(51)**	**(772)**	**0**	**25,109**	**3,965**	**1,785**	**5,103**	**53,982**
31.12.18	**27,674**	**7,248**	**10,870**	**(28)**	**(697)**	**248**	**23,425**	**3,630**	**1,719**	**0**	**74,089**
DIFFERENCE BETWEEN SHAREHOLDERS' EQUITY AND CARRYING VALUE											
31.12.19	**0**	**(3,010)**	**3,055**	**(190)**	**(772)**	**0**	**13,104**	**(835)**	**(6,997)**	**(8,289)**	**(3,934)**
31.12.18	**14,199**	**(3,081)**	**2,401**	**(167)**	**(697)**	**48**	**11,420**	**(1,170)**	**(6,979)**	**0**	**15,974**

Faringosi Hinges s.r.l.

In 2019, the Faringosi Hinges achieved very positive and better results - in terms of sales and profitability - both compared to the previous year and compared to the budget. The 2020-2024 forward plan, drafted at the beginning of 2020, envisages a further increase in sales. At 31 December 2019, Sabaf S.p.A. tested - with the support of independent experts - the carrying value of the equity investment for impairment, determining its recoverable amount considered to be equivalent to its value of use plus available liquidity, by discounting expected future cash flows in the forward plan drafted by the management. Cash flows for the period from 2020 to 2024 were augmented by the terminal value, which expresses the operating flows that the investee is expected to generate from the sixth year to infinity and determined based on the perpetual income. The value of use was calculated based on a discount rate (WACC) of 9.54% (10.45% in the impairment test carried out while preparing the Separate financial statements at 31 December 2018) and a growth rate (g) of 2% (1.5% at 31 December 2018).

The recoverable amount calculated on the basis of the above-mentioned assumptions and valuation techniques is € 16,904 million, compared with a carrying value of the equity investment of € 10,329 million; consequently, the amount recorded for equity investment at 31 December 2019 was deemed recoverable.

Sensitivity analysis

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

(€/000)	GROWTH RATE				
DISCOUNT RATE	**1.50%**	**1.75%**	**2.00%**	**2.25%**	**2.50%**
8.54%	18,500	19,069	19,682	20,343	21,058
9.04%	17,186	17,672	18,192	18,751	19,352
9.54%	16,039	16,457	16,904	17,380	17,891
10.04%	15,028	15,391	15,777	16,188	16,627
10.54%	14,131	14,449	14,786	15,143	15,522

Sabaf do Brasil

In 2019, Sabaf do Brasil continued to obtain positive results. Shareholders' equity (converted into euros at the end-of-year exchange rate) is higher than the carrying amount of the investment.

Sabaf U.S.

The subsidiary Sabaf U.S. operates as a commercial support for North America.

The difference between the carrying value and the shareholders' equity of the investee is attributable to the non-durable losses taking into consideration expected development on the North American market.

Sabaf Appliance Components

Sabaf Appliance Components (Kunshan) Co., Ltd. has been producing burners for the Chinese market since 2015. Furthermore, the company has performed the function as distributor on the Chinese market of Sabaf products manufactured in Italy and Turkey. Low production volumes have enabled the company to reach the break-even point in 2019. A share capital increase of € 500,000 was made during the year; a write-down of the same amount was made against the loss for the year. At 31 December 2019, a provision for risks on equity investments of € 780,000 (€ 80,000 of which allocated in 2019) was also recognised, in line with the negative equity value of the investee company. For further details, refer to Note 36.

Sabaf Appliance Components Trading

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

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

Sabaf Turkey achieved extremely satisfactory results in 2019 as well. The shareholders' equity remains well above the carrying value of the equity investment.

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

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

At 31 December 2019, the Company tested - with the support of independent experts - the carrying value of the equity investment for impairment, determining its recoverable amount considered to be equivalent to its value of use plus available liquidity, by discounting expected future

cash flows in the forward plan drafted at the beginning of 2020. Cash flows for the period from 2020 to 2024 were augmented by the terminal value, which expresses the operating flows that the investee is expected to generate from the fourth year to infinity and determined based on the perpetual income. The value of use was calculated based on a discount rate (WACC) of 6.07% (7.73% in the impairment test carried out while drafting the separate financial statements at 31 December 2018) and a growth rate (g) of 1.50%, in line with last year.
The portion pertaining to Sabaf S.p.A. of the recoverable amount calculated on the basis of the above-mentioned assumptions and valuation techniques is € 10.906 million (70% of total recoverable amount, equal to € 15.580 million), compared with a carrying value of the equity investment of € 4.8 million; consequently, the carrying value recorded for equity investment at 31 December 2019 was deemed recoverable.

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

(€/000)	GROWTH RATE				
DISCOUNT RATE	**1.00%**	**1.25%**	**1.50%**	**1.75%**	**2.00%**
5.07%	12,285	12,911	13,624	14,445	15,398
5.57%	11,071	11,554	12,097	12,711	13,411
6.07%	10,097	10,481	10,906	11,380	11,913
6.57%	9,300	9,611	9,952	10,329	10,745
7.07%	8,636	8,892	9,170	9,48	9,809

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

The option for the purchase of the residual 30% of A.R.C. represents a derivative instrument; since the strike price defined by contract was considered representative of the fair value of the portion that can be potentially acquired, no value was recorded in the separate financial statements at 31 December 2019.

Okida Elektronik Sanayi Limited Sirket

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

At 31 December 2019, the Company tested - with the support of independent experts - the carrying value of the equity investment for impairment, determining its recoverable amount by discounting expected future cash flows in the forward plan drafted at the beginning of 2020. Cash flows for the period from 2020 to 2024 were augmented by the terminal value, which expresses the operating flows that the company is expected to generate from the fifth year to infinity and determined based on the perpetual income.

The value of use was calculated based on a discount rate (WACC) of 12.92% (11.05% in the impairment test carried out while preparing the separate financial statements at 31 December 2018) and a growth rate (g) of 2.50%, unchanged from the 2018 impairment test.

The portion pertaining to Sabaf S.p.A. of the recoverable amount calculated on the basis of the above-mentioned assumptions and valuation techniques is € 9.464 million (30% of total equity value, equal to € 31.547 million), compared with a carrying value of the equity investment of € 8.782 million; consequently, the carrying value recorded for equity investment at 31 December 2019 was deemed recoverable.

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

(€/000)	GROWTH RATE				
DISCOUNT RATE	**2.00%**	**2.25%**	**2.50%**	**2.75%**	**3.00%**
11.92%	10,113	10,304	10,506	10,718	10,943
12.42%	9,610	9,780	9,959	10,147	10,345
12.92%	9,154	9,306	9,464	9,632	9,808
13.42%	8,738	8,874	9,017	9,166	9,323
13.92%	8,358	8,481	8,609	8,743	8,883

C.M.I. s.r.l.

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

At 31 December 2019, the Company tested - with the support of independent experts - the carrying value of the equity investment for impairment, determining its recoverable amount by discounting expected future cash flows in the forward plan drafted by the management. Cash flows for the period from 2020 to 2022 were augmented by the terminal value, which expresses the operating flows that the company is expected to generate from the third year to infinity and determined based on the perpetual income. The value of use was calculated based on a discount rate (WACC) of 10.49% and a growth rate (g) of 1.15%, representative of expected future growth rates for the reference market.

The portion pertaining to Sabaf S.p.A. of the recoverable amount calculated on the basis of the above-mentioned assumptions and valuation techniques is € 19.102 million (68.5% of total equity value , equal to € 27.886 million), compared with a carrying value of the equity investment of € 13.392 million; consequently, the carrying value recorded for equity investment at 31 December 2019 was deemed recoverable.

Sensitivity analysis

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

(€/000)	GROWTH RATE				
DISCOUNT RATE	**0.15%**	**0.65%**	**1.15%**	**1.65%**	**2.15%**
9.50%	19,389	20,513	21,771	23,190	24,801
10.00%	18,242	19,245	20,361	21,521	23,019
10.50%	17,207	18,107	19,102	20,211	21,452
11.00%	16,268	17,079	17,972	18,961	20,062
11.50%	15,412	16,147	16,952	17,840	18,822

The option for the purchase of the residual 31.5% of C.M.I. represents a derivative instrument; since the strike price defined by contract was considered representative of the fair value of the portion that can be potentially acquired, no value was recorded in the separate financial statements at 31 December 2019.

5. NON-CURRENT FINANCIAL ASSETS

	31.12.2019	31.12.2018	CHANGE
Financial receivables from subsidiaries	5,280	5,247	33
Escrow bank account	60	120	(60)
Total	**5,340**	**5,367**	**(27)**

At 31 December 2019, financial receivables from subsidiaries consist of:

- an interest-bearing loan of USD 2 million (€ 1.780 million at the end-of-year exchange rate), granted to the subsidiary Sabaf do Brasil with the aim of optimising the Group's exposure to foreign exchange rate risk and whose maturity at the beginning of 2019 was postponed to March 2021;
- an interest-bearing loan of € 3.5 million to the subsidiary Sabaf Turkey, disbursed during the year 2018 as part of the coordination of the Group's financial management, with maturity in August 2021.

As part of the acquisition of 70% of A.R.C., in 2016, Sabaf S.p.A. paid to a non-interest-bearing escrow bank account the total amount of € 300,000. This amount, deducted from the consideration agreed to guarantee the commitments assumed by the sellers, is released in favour of the sellers at constant rates in 5 years (Note 15). At 31 December 2019, the portion due beyond 12 months amounted to € 60,000, whereas the portion due within 12 months amounted to € 60,000 (Note 10).

6. INVENTORIES

	31.12.2019	31.12.2018	CHANGE
Raw Materials	7,248	9,358	(2,110)
Semi-processed goods	6,071	9,633	(3,561)
Finished products	7,833	9,231	(1,398)
Provision for inventory write-downs	(1,290)	(1,594)	304
Total	**19,862**	**26,628**	**(6,765)**

The value of final inventories at 31 December 2019 is significantly lower than the value of the previous year. This improvement was achieved thanks to structural actions on internal logistics, which made it possible to significantly reduce the stocks of work in progress. The provision for write-downs is allocated for hedging the obsolescence risk, quantified on the basis of specific analyses carried out at the end of the year on slow-moving and non-moving products, and refers to raw materials for € 453,000, semi-finished products for € 326,000 and finished products for € 511,000. The following table shows the changes in the Provision for inventory write-downs during the current financial year:

31.12.2018	**1,594**
Provisions	18
Utilisation	(322)
31.12.2019	**1,290**

7. TRADE RECEIVABLES

	31.12.2019	31.12.2018	CHANGE
Total trade receivables	**29,413**	**36,157**	**(6,744)**
Bad debt provision	(850)	(1,000)	150
Net total	**28,563**	**35,157**	**(6,594)**

At 31 December 2019, trade receivables included balances totalling USD 3,214,000, booked at the EUR/USD exchange rate in effect on 31 December 2019, i.e. 1.1234. The amount of trade receivables recognised in the financial statements includes approximately € 15 million in insured receivables (€ 18 million at 31 December 2018).
There were no significant changes in average payment terms agreed with customers.

Receivables assigned to factors without recourse are eliminated from the Statement of Financial Position in that the reference contract provides for the assignment of ownership of the receivables, together with ownership of the cash flows generated by the receivable, as well as of all risks and benefits, to the assignee.

	31.12.2019	31.12.2018	CHANGE
Current receivables (not past due)	21,929	29,966	(8,038)
Outstanding up to 30 days	2,530	1,996	534
Outstanding from 31 to 60 days	1,935	494	1,441
Outstanding from 61 to 90 days	1,958	3,030	(1,072)
Outstanding for more than 90 days	1,061	671	390
Total	**29,413**	**36,157**	**(6,745)**

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

	31.12.2018	PROVISIONS	UTILISATION	31.12.2019
Bad debt provision	1,000	42	(192)	850

8. TAX RECEIVABLES

	31.12.2019	31.12.2018	CHANGE
For income tax	1,323	2,002	(679)
for VAT	413	375	38
Total	**1,736**	**2,377**	**(641)**

At 31 December 2019, income tax receivables include € 559,000 (€ 1,083,000 at 31 December 2018) for the residual amount of the receivable originating from the full deduction from IRES of IRAP relating to expenses incurred for employees and similar for the period from 2009 to 2011 (Italian Decree Law 201/2011).

During 2019, the Company received a partial refund of € 524,000; an additional refund of € 168,000 was received at the beginning of 2020. Income tax receivables also include payments on account on 2019 income, for the part exceeding the tax to be paid.

9. OTHER CURRENT RECEIVABLES

	31.12.2019	31.12.2018	CHANGE
Credits to be received from suppliers	127	374	(247)
Advances to suppliers	104	112	(8)
Due from INAIL	31	10	21
Other	326	268	58
Total	**588**	**764**	**(176)**

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

10. CURRENT FINANCIAL ASSETS

	31.12.2019	31.12.2018	CHANGE
Financial receivables from subsidiaries	1,600	1,600	-
Escrow bank accounts	1,233	3,510	(2,277)
Total	**2,833**	**5,110**	**(2,277)**

Financial receivables from subsidiaries consist of an interest-bearing loan with a duration of 12 months to Sabaf Appliance Components Co., Ltd. to support the Chinese subsidiary's working capital.
At 31 December 2019, the following were taken out:

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

11. CASH AND CASH EQUIVALENTS

The item Cash and cash equivalents, equal to € 8,343,000 at 31 December 2019 (€ 1,959,000 at 31 December 2018), refers almost exclusively to bank current account balances.

12. SHARE CAPITAL

The Company's share capital consists of 11,533,450 shares with a par value of € 1.00 each. The share capital paid in and subscribed did not change during the year.
At 31 December 2019, the structure of the share capital is shown in the table below.

	NO. OF SHARES	% OF SHARE CAPITAL	RIGHTS AND OBLIGATIONS
Ordinary shares	7,065,449	61.26%	--
Ordinary shares with increased vote	4,468,001	38.74%	Two voting rights per share
TOTAL	**11,533,450**	**100%**	

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

13. TREASURY SHARES AND OTHER RESERVES

During the financial year, Sabaf S.p.A. sold 344,631 treasury shares with reference to the following transactions:

- acquisition of 68.5% of the share capital of C.M.I. Cerniere Meccaniche Industriali s.r.l. on 31 July 2019, following which 8.5% of the share capital was acquired through the sale of 113,962 Sabaf shares, equal to 0.99% of the share capital, at a unit price of 14.5815 per share;
- partnership agreement with the Japanese group Paloma, active globally in the gas equipment sector. Paloma Rheem Investments Inc. purchased 230,669 Sabaf shares, equal to 2% of the share capital, at a unit price of € 13.64 per share.

At 31 December 2019, the Company held 169,875 treasury shares, equal to 1.473% of share capital (514,506 treasury shares at 31 December 2018), reported in the financial statements as an adjustment to shareholders' equity at a unit value of € 13.35 (the market value at year-end was € 13.40).

There were 11,363,575 outstanding shares at 31 December 2019 (11,018,944 at 31 December 2018).

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

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

14. LOANS

	31.12.2019			31.12.2018		
	Current	Non current	Total	Corrent	Non current	Total
Leases	297	1,750	2,047	-	-	-
Unsecured loans	11,904	33,736	45,640	9,911	33,669	43,580
Short-term bank loans	1,793	-	1,793	7,188	-	7,188
Derivative instruments on interest rates	-	-	-	231	-	231
TOTAL	**13,994**	**35,486**	**49,480**	**17,330**	**33,669**	**50,999**

During the year, the Company took out new unsecured loans for a total of € 12 million to finance the investments made, with particular reference to the acquisition of C.M.I. All loans are signed with an original maturity of ranging from 5 to 6 years and are repayable in instalments.
Some of the outstanding unsecured loans have covenants, defined with reference to the financial statements at the end of the reporting period, as specified below:

- commitment to maintain a ratio of net financial position to shareholders' equity of less than 1 (residual amount of the loans at 31 December 2019 equal to € 19 million)
- commitment to maintain a ratio of net financial position to EBITDA of less than 2.5 (residual amount of the loans at 31 December 2019 equal to € 31 million) widely observed at 31 December 2019.

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

To manage interest rate risk, unsecured loans are either fixed-rate or hedged by IRS. These separate financial statements include the negative fair value of the IRSs hedging rate risks of unsecured loans pending, for residual notional amounts of approximately € 33.2 million and expiry until 30 June 2025. Financial expenses were recognised in the income statement with a balancing entry.

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

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

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

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

15. OTHER FINANCIAL LIABILITIES

	31.12.2019		31.12.2018	
	Current	Non current	Current	Non current
Payables to former Okida shareholders	-	-	1,735	-
Payables to A.R.C. shareholders	60	60	60	120
Payables to C.M.I. shareholders	-	1,173	-	-
Derivative instruments on interest rates	271	-	-	-
TOTAL	**331**	**1,233**	**1,795**	**120**

As part of the acquisition of 100% of Okida Elektronik, the parties agreed that the payment of part of the price would be subject to adjustment and postponed compared to the effective date of the transaction (4 September 2018). The payables to Okida shareholders recorded at 31 December 2018, representing the remaining part of the price, was paid in March 2019.

The payable to the A.R.C. shareholders of € 120.000 at 31 December 2019 is related to the part of the price still to be paid to the sellers, which was deposited on an fixed account (Note 5) and will be released in favour of the sellers at constant rates in 2 years, in accordance with contractual agreements and guarantees issued by the sellers.

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

16. POST-EMPLOYMENT BENEFIT

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

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

Post-employment benefits are calculated as follows:

FINANCIAL ASSUMPTIONS		
	31.12.2019	31.12.2018
Discount rate	0.40%	1.30%
Inflation	1.20%	1.70%

DEMOGRAPHIC THEORY		
	31.12.2019	31.12.2018
Mortality rate	IPS55 ANIA	ISTAT 2016 M/F
Disability rate	INPS 2000	INPS 1998 M/F
Staff turnover	6%	6%
Advance payouts	5% per year	5% per year
Retirement age	pursuant to legislation in force on 31 December 2019	pursuant to legislation in force on 31 December 2018

17. PROVISIONS FOR RISKS AND CHARGES

	31.12.2018	PROVISIONS	UTILISATION	31.12.2019
Provision for agents' indemnities	208	17	(27)	198
Product guarantee fund	60	38	(38)	60
Provision for risks on equity investments	700	80	-	780
Provision for legal risks	120	36	(130)	26
Total	**1,088**	**171**	**(195)**	**1,064**

The provision for agents' indemnities covers amounts payable to agents if the Company terminates the agency relationship.
The product guarantee fund covers the risk of returns or charges by customers for products already sold. The fund was adjusted at the end of the year, on the basis of analyses conducted and past experience.
The provision for risks on equity investments was set aside to cover future outlays to restore the shareholders' equity of the Chinese subsidiary Sabaf Appliance Components, which was negative at 31 December 2019.

The provision for legal risks, set aside for moderate disputes, was adjusted to reflect the outstanding disputes.
The provisions for risks, which represent the estimate of future payments made based on historical experience, have not been discounted because the effect is considered negligible.

18. TRADE PAYABLES

	31.12.2019	31.12.2018	CHANGE
Total	**15,734**	**18,945**	**(3,211)**

Average payment terms did not change versus the previous year. The amount of trade payables in currencies other than the euro is not significant. At 31 December 2019, there were no overdue payables of a significant amount and the Company did not receive any injunctions for overdue payables.

19. TAX PAYABLES

	31.12.2019	31.12.2018	CHANGE
To inland revenue for IRPEF tax deductions	621	590	31
Other tax payables	74	-	74
Total	**695**	**590**	**105**

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

20. OTHER CURRENT PAYABLES

	31.12.2019	31.12.2018	CHANGE
To employees	3,697	3,649	48
To social security institutions	1,806	1,901	(95)
Advances from customers	165	91	74
To agents	193	235	(42)
Other current payables	461	216	245
Total	**6,322**	**6,092**	**230**

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

21. DEFERRED TAX ASSETS AND LIABILITIES

	31.12.2019	31.12.2018
Deferred tax assets	4,276	3,472
Deferred tax liabilities	(1,734)	(107)
Net position	**2,542**	**3,365**

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

	AMORTISATION AND LEASING	PROVISIONS AND VALUE ADJUSTMENTS	FAIR VALUE OF DERIVATIVE INSTRUMENTS	GOODWILL	TAX LOSS	ACTUARIAL EVALUATION OF POST-EMPLOYMENT BENEFIT	OTHER TEMPORARY DIFFERENCES	TOTAL
At 31 December 2017	**347**	**919**	**2**	**1,771**	**-**	**159**	**189**	**3,387**
Through profit or loss	69	(45)	53	-	-	-	(93)	(16)
To shareholders' equity	-	-	-	-	-	(6)	-	(6)
At 31 December 2018	**416**	**874**	**55**	**1,771**	**-**	**153**	**96**	**3,365**
Through profit or loss	219	22	10	(354)	419	-	(43)	273
To shareholders' equity	(1,111)	-	-	-	-	15	-	(1,096)
At 31 December 2019	**(476)**	**896**	**65**	**1,417**	**419**	**168**	**53**	**2,542**

Deferred tax assets relating to goodwill refer to the exemption of the value of the investment in Faringosi Hinges s.r.l. made in 2011 pursuant to Italian law Decree 98/2011, deductible in ten instalments starting in 2018.
The change in shareholders' equity relating to the item Amortisation and leasing of approximately Euro 1.111 million relates to the merger of Sabaf Immobiliare s.r.l..

22. NET FINANCIAL POSITION

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

		31.12.2019	31.12.2018	CHANGE
A.	Cash (Note 11)	8	6	2
B.	Positive balances of unrestricted bank accounts (Note 11)	8,335	1,953	6,382
C.	Other cash equivalents	-	-	-
D.	**Liquidity (A+B+C)**	**8,343**	**1,959**	**6,384**
E.	**Current financial receivables**	**2,833**	**5,110**	**(2,277)**
F.	Current bank payables (Note 14)	1,793	7,419	(5,626)
G.	Current portion of non-current debt (Note 14)	12,201	9,911	2,290
H.	Other current financial payables (Note 15)	331	1,795	(1,464)
I.	**Current financial debt (F+G+H)**	**14,325**	**19,125**	**(4,800)**
J.	**Net current financial debt (I-D-E)**	**3,149**	**12,056**	**(8,907)**
K.	Non-current bank payables (Note 14)	35,486	33,669	1,817
L.	Other non-current financial payables	1,233	120	1,113
M.	**Non-current financial debt (K+L)**	**36,719**	**33,789**	**2,930**
N.	**Net financial debt (J+M)**	**39,868**	**45,845**	**(5,977)**

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

Comments on key income statement items

23. REVENUE

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

Revenue by geographical area

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

The trend in revenue was affected by the overall uncertainty of the macroeconomic scenario. In Turkey, main destination market, the Company recorded a 20% decrease in sales in 2019, more pronounced in the first part of the year and showed a clear recovery in recent months.

In Italy, sales suffered from the reduction in the production of domestic appliances. Downturns were also recorded in the Middle East and Africa. Among the markets that have shown a positive trend is China, thanks to the launch of new supply contracts to primary customers.

Revenue by product family

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

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

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

24. OTHER INCOME

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

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

25. MATERIALS

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

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

26. COSTS FOR SERVICES

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

The main outsourced processing carried out by the Company include aluminium die-casting, hot moulding of brass and some mechanical processing and assembly. The reduction in costs for outsourced processing reflects the lower levels of activity compared to the previous year.
As a result of the merger of Sabaf Immobiliare, property rental costs were zeroed.
Other costs included expenses for the registration of patents, waste disposal, cleaning, leasing third-party assets and other minor charges.

27. PERSONNEL COSTS

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

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

28. OTHER OPERATING COSTS

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

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

29. FINANCIAL EXPENSES

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

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

30. EXCHANGE RATE GAINS AND LOSSES

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

31. PROFITS AND LOSSES FROM EQUITY INVESTMENTS

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

This item includes dividends received from investee companies.

32. INCOME TAXES

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

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

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

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

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

In these separate financial statements, the Company recognised the tax benefit related to the Patent Box for 2019 of € 356,000 (€ 306,000 for IRES and € 50,000 for IRAP).

No tax disputes were pending at 31 December 2019.

33. DIVIDENDS

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

34. SEGMENT REPORTING

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

35. INFORMATION ON FINANCIAL RISK

Categories of financial instruments
In accordance with IFRS 7, a breakdown of the financial instruments is shown below, among the categories set forth in IFRS 9.

	31.12.2019	31.12.2018
Financial assets		
Amortised cost		
Cash and cash equivalents	8,343	1,959
Trade receivables and other receivables	29,152	35,922
Non-current loans	1,780	5,246
Current loans	1,600	1,600
Other financial assets	1,293	3,630
Financial liabilities		
Fair Value through profit or loss		
Derivative cash flow hedges (on interest rates)	271	231
Amortised cost		
Loans	49,480	50,999
Other financial liabilities	1,293	1,915
Trade payables	15,734	18,945

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

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

Credit risk management

Trade receivables involve producers of domestic appliances, multinational groups and smaller manufacturers in a few or single markets. The Company assesses the creditworthiness of all its customers at the start of supply and systemically at least on an annual basis. After this assessment, each customer is assigned a credit limit.
The Company factors receivables with factoring companies based on without recourse agreements, thereby transferring the related risk.
A credit insurance policy is in place, which guarantees cover for approximately 54% of trade receivables.
Credit risk relating to customers operating in emerging economies is generally attenuated by the expectation of revenue through letters of credit.

Forex risk management

The main exchange rate to which the Company is exposed is the euro/US dollars in relation to sales made in dollars (mainly in North America) and, to a lesser extent, to some purchases (mainly from Asian manufacturers). Sales in US dollars represented 14% of total turnover in 2019, while purchases in dollars represented 3% of total turnover. During the year, operations in dollars were partially hedged through forward sales contracts; no currency derivatives were pending at 31 December 2019.

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

Interest rate risk management

Owing to the current trend in interest rates, the Company favours fixed-rate indebtedness: medium to long-term loans originated at a variable rate are converted to a fixed rate by entering into interest rate swaps (IRS) at the same time as the loan is opened. At 31 December 2019, IRS totalling € 33.2 million were in place, mirrored in mortgages with the same residual debt, through which the Company transformed the floating rate of the mortgages into fixed rate. The derivative contracts were not designated as a cash flow hedge and were therefore recognised using the "fair value through profit or loss" method.

Sensitivity analysis
Considering the IRS in place, at the end of 2019 almost all of the Company's financial debt was at a fixed rate. Therefore, at 31 December 2019 no sensitivity analysis was carried out in that the exposure to interest rate risk, linked to a hypothetical increase (decrease) in interest rates, is not significant.

Commodity price risk management

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

Liquidity risk management

The management of liquidity and financial debt is coordinated at Group level. The Group operates with a debt ratio considered physiological (net financial debt / shareholders' equity at 31 December 2019 of 46%, net financial debt / pro-forma EBITDA[2] of 1.86) and has unused short-term lines of credit. To minimise the risk of liquidity, the Administration and Finance Department:

- maintains a correct balance of net financial debt, financing investments with capital and with medium to long-term debt;
- verifies systematically that the short-term accrued cash flows (amounts received from customers and other income) are expected to accommodate the deferred cash flows (short-term financial debt, payments to suppliers and other outgoings);
- regularly assesses expected financial needs in order to promptly take any corrective measures. An analysis by expiry date of financial payables at 31 December 2019 and 31 December 2018 is shown below.

AT 31 DECEMBER 2019	Carrying value	Contractual cash flows	Within 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years
Unsecured loans	47,687	48,588	1,723	11,009	33,251	2,605
Short-term bank loans	1,793	1,793	1,793	-	-	-
Payables to A.R.C. shareholders	120	120	-	60	60	-
Payables to former C.M.I. shareholders	1,173	1,173	-	-	1,173	-
Total financial payables	**50,773**	**51,674**	**3,516**	**11,069**	**34,484**	**2,605**
Trade payables	15,734	15,734	15,707	27	-	-
Total	**66,507**	**67,408**	**19,223**	**11,096**	**34,484**	**2,605**

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

The various due dates are based on the period between the end of the reporting period and the contractual expiry date of the commitments, the values indicated in the table correspond to non-discounted cash flows.

Cash flows include the shares of principal and interest; for floating rate liabilities, the shares of interest are determined based on the value of the reference parameter at the end of the reporting period and increased by the spread set forth in each contract.

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

Hierarchical levels of fair value assessment

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

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

The following table shows the assets and liabilities valued at fair value at 31 December 2019, by hierarchical level of fair value assessment.

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

36. RELATIONS BETWEEN GROUP COMPANIES AND WITH RELATED PARTIES

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

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

	TOTAL 2019	SUBSIDIARIES	GIUSEPPE SALERI SAPA	OTHER RELATED PARTIES	TOTAL RELATED PARTIES	IMPACT ON THE TOTAL
Non-current financial assets	5,340	5,280	-	-	5,280	98.88%
Trade receivables	28,563	9,676	-	-	9,676	33.88%
Current financial assets	3,421	1,600	-	-	1,600	46.77%
Trade payables	15,734	765	-	4	769	4.89%

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

Impact of related-party transactions on income statement items

	TOTAL 2019	SUBSIDIARIES	GIUSEPPE SALERI SAPA	OTHER RELATED PARTIES	TOTAL RELATED PARTIES	IMPACT ON THE TOTAL
Revenue	94,899	11,820	-	-	11,820	12.46%
Other income	4,045	1,760	-	-	1,760	43.51%
Materials	32,806	1,852	-	-	1,852	5.65%
Services	20,124	465	-	21	486	2.42%
Capital gains on non-current assets	130	90	-	-	90	69.23%
Other operating costs	926	80	-	-	80	8.64%
Write-downs of non-current assets	500	500	-	-	500	100%
Financial income	211	175	-	-	175	82.94%

	TOTAL 2018	SUBSIDIARIES	GIUSEPPE SALERI SAPA	OTHER RELATED PARTIES	TOTAL RELATED PARTIES	IMPACT ON THE TOTAL
Revenue	110,065	11,520	-	-	11,520	10.46%
Other income	2,985	800	40	-	840	28.14%
Materials	45,085	1,417	-	-	1,147	3.14%
Services	27,540	3,991	-	22	4,013	14.57%
Capital gains on non-current assets	496	467	-	-	467	94.15%
Other operating costs	1,852	640	-	-	640	34.56%
Financial income	123	119	-	-	119	96.75%

Relations with subsidiaries mainly consist of:

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

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

37. SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

Pursuant to the CONSOB memorandum of 28 July 2006, note that no significant non-recurring events or transactions, as defined by the memorandum, took place in 2019.

38. ATYPICAL AND/OR UNUSUAL TRANSACTIONS

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

39. COMMITMENTS

Guarantees issued

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

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

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

41. SHARE-BASED PAYMENTS

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

The Plan was approved by the Shareholders' Meeting on 8 May 2018 and the related Regulations by the Board of Directors on 15 May 2018, subsequently amended as resolved by the Board of Directors on 14 May 2019.

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 and of the Group.

Beneficiaries of the plan

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

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

The Board of Directors, in its meeting of 15 May 2018, identified the Beneficiaries of Cluster 1 of the Plan to whom a total of 185,600 rights were assigned; and the Board of Directors in its meeting of 14 May 2019, identified the Beneficiaries of Cluster 2 of the Plan to whom a total of 184,400 rights were assigned.

Subject-matter of the plan

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

The free allocation of Sabaf S.p.A. shares is conditional, among other things, on the achievement, in whole or in part, with progressiveness, of the business objectives related to the ROI, EBITDA and TSR indicators and Individual objectives, i.e. performance objectives of each beneficiary determined by the Board of Directors at the suggestion of the Remuneration and Nomination Committee.

Deadline of the Plan

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

Fair Value measurement methods

Considering the allocation mechanism described above, it was necessary to measure at fair value the rights assigned to receive shares of the Parent Company. In line with the date of assignment of the rights and terms of the plan, the grant date was set at 15 May 2018 for Cluster 1 and 14 May 2019 for Cluster 2. The main assumptions made at the beginning of the vesting period are illustrated below:

CLUSTER 1

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

	2018	2019	2020	2018-2020
Share price at the start of the vesting period	19.48	19.48	19.48	19.48
Expected probability of business objective achievement	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 probability of business objective achievement	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 probability of business objective achievement	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 probability of business objective achievement	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 probability of objective achievement	50%	50%

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

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

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

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

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

STATUTORY REFERENCES	CONTRIBUTION VALUE	DISBURSING SUBJECT
Patent Box	356	Italian State
Super/Iper ammortamento (Super/ Hyper amortisation)	581	Italian State
Energy-intensive contributions	468	Italian State
Total	**1,405**	

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

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

Energy-intensive contributions: accessible grants for companies that consume a lot of electricity, whose regulatory reference is the MISE Decree of 21 December 2017.

LIST OF INVESTMENTS WITH ADDITIONAL INFORMATION REQUIRED BY CONSOB (COMMUNICATION DEM6064293 of 28 July 2006)

IN SUBSIDIARIES[3]

COMPANY NAME	REGISTERED OFFICES	SHARE CAPITAL AT 31 DECEMBER 2019	SHAREHODERS	OWNERSHIP %	SHAREHOLDERS' EQUITY AT 31 DECEMBER 2019	2019 PROFIT (LOSS)
Faringosi Hinges s.r.l.	Ospitaletto (BS)	EUR 90,000	Sabaf S.p.A.	100%	EUR 7,318,972	EUR 1,076,057
Sabaf do Brasil Ltda	Jundiaì (Brazil)	BRL 24,000,000	Sabaf S.p.A.	100%	BRL 52,039,450	BRL 3,734,068
Sabaf US Corp.	Plainfield (USA)	USD 200,000	Sabaf S.p.A.	100%	USD -56,826	USD 71,516
Sabaf Appliance Components (Kunshan) Co., Ltd.	Kunshan (China)	EUR 4,900,000	Sabaf S.p.A.	100%	CNY -6,037,256	CNY-4,420,172
Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki	Manisa (Turkey)	TRY 28,000,000	Sabaf S.p.A.	100%	TRY 167,844,599	TRY 25,918,705
A.R.C. s.r.l.	Campodarsego (PD)	EUR 45,000	Sabaf S.p.A.	70%	EUR 5,663,939	EUR 571,572
Okida Elektronik Sanayi ve Tickaret A.S	Istanbul (Turkey)	TRY 5,000,000	Sabaf S.p.A.	30%	TRY 39,770,099	TRY 12,807,253
			Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki	70%		
C.M.I s.r.l.	Valsamoggia (BO)	EUR 1,000,000	Sabaf S.p.A.	68.5%	EUR 7,450,225	EUR 481,009

OTHER SIGNIFICANT EQUITY INVESTMENTS

None.

[3] Values taken from the separate financial statements of subsidiaries, prepared in accordance with locally applicable accounting standards.

Origin, possibility of utilisation and availability of reserves

DESCRIPTION	AMOUNT	POSSIBILITY OF UTILISATION	AVAILABLE SHARE	AMOUNT SUBJECT TO TAXATION FOR THE COMPANY IN CASE OF DISTRIBUTION
CAPITAL RESERVES:				
Share premium reserve	10,002	A, B, C	10,002	0
Revaluation reserve, Law 413/91	42	A, B, C	42	42
Revaluation reserve, Law 342/00	1,592	A, B, C	1,592	1,592
RETAINED EARNINGS:				
Legal reserve	2,307	B	0	0
Other retained earnings	78,960	A, B, C	78,960	0
VALUATION RESERVE:				
Post-employment benefit actuarial provision	(505)		0	0
Reserve for stock grant plan	1,002		0	0
TOTAL	**93,400**		**90,596**	**1,634**

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

Statement of revaluations of equity assets at 31 December 2019

		GROSS VALUE	CUMULATIVE DEPRECIATION	NET VALUE
Investment property	Law 72/1983	137	(137)	0
	1989 merger	516	(484)	32
	Law 413/1991	47	(44)	3
	1994 merger	1,483	(1,136)	347
	Law 342/2000	2,870	(2,540)	330
		5,053	**(4,341)**	**712**
Plant and machinery	Law 576/75	205	(205)	0
	Law 72/1983	2,219	(2,219)	0
	1989 merger	6,140	(6,140)	0
	1994 merger	6,820	(6,820)	0
		15,384	**(15,384)**	**0**
Industrial and commercial equipment	Law 72/1983	**161**	**(161)**	**0**
Other assets	Law 72/1983	**50**	**(50)**	**0**
TOTAL		**20,648**	**(19,936)**	**712**

GENERAL INFORMATION

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

Registered and administrative office	Via dei Carpini, 1 25035 - Ospitaletto (Brescia)
Contacts	Tel: +39 030 - 6843001
	Fax: +39 030 - 6848249
	E-mail: info@sabaf.it
	Website: www.sabaf.it
Tax information	R.E.A. Brescia 347512
	Tax Code 03244470179
	VAT Number 01786910982

APPENDIX

Information as required by Article 149-duodecies of the CONSOB Issuers' Regulation

The following table, prepared pursuant to Article 149-duodecies of the CONSOB Issuers' Regulation, shows fees relating to 2019 for auditing services and for services other than auditing provided by the Independent Auditors. No services were provided by entities belonging to the network.

(€/000)	PARTY PROVIDING THE SERVICE	FEES PERTAINING TO THE 2019 FINANCIAL YEAR
Audit	EY S.p.A.	47
Certification services	EY S.p.A.	---
Other services	EY S.p.A.	39 [4]
Total		**86**

[4] auditing procedures agreement relating to interim management reports.

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CERTIFICATION OF SEPARATE FINANCIAL STATEMENTS

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

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

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

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

They also certify that:

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

Ospitaletto, 24 March 2020

Chief Executive Officer	The Financial Reporting Officer
Pietro Iotti	Gianluca Beschi

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

To the Shareholders of
Sabaf S.p.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Sabaf S.p.A. (the Company), which comprise the statement of financial position as at December 31, 2019, and the income statement, the comprehensive income statement, the statement of changes in shareholders' equity and the cash flows statement for the year then ended, and the explanatory notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

Basis for Opinion

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

Key Audit Matters

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

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We identified the following key audit matter:

Key Audit Matter	Audit Responses
Valuation of investments	
The balance of investments at December 31, 2019 amounted to Euro 57,9 million. The most significant investments are: - C.M.I. S.r.l.: Euro13,4 million; - Faringosi Hinges S.p.A.: Euro 10,3 million; - Sabaf do Brasil: Euro 8,5 million; - Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited: Euro 12 million; - A.R.C. S.r.l.: € Euro 4,8 million; - Okida Elektronik Sanayi Limited Sirket: Euro 8,7 million. Management assesses the existence of impairment indicators on investments at least annually, in line with its strategy in managing each separate entity within the group and, if present, such investments are subject to an impairment test. The processes and methodologies to valuate and determine the recoverable amount of investments are based on complex assumptions that, due to their nature, imply the use of judgement by management, in particular with reference to the assumptions underlying future cash flow forecasts in the period covered by the business plan, the estimate of the terminal value and the calculation of the long-term growth and discount rates applied to the future cash flow forecasts. Considering the level of judgement and complexity of the assumptions applied in estimating the recoverable amount of investments, we determined that this area represents a key audit matter. The disclosures related to the valuation of investments are included in paragraph "Use of estimates" and in note "4 Equity Investments".	Our audit procedures in response to this key audit matter included, among others: (i) assessment of the process and key controls implemented by the Company in connection with the valuation of investments; (ii) assessment of the assumptions underlying future cash flow forecasts; (iii) test of the consistency of the investments future cash flow forecasts against the 2020-2024 business plan approved by the Board of Directors; (iv) assessment of the accuracy of cash flow projections as compared to historical results; (v) assessment of the long-term growth rates and discount rates. In performing our analysis, we engaged our experts in valuation techniques, who have independently performed calculation and sensitivity analyses of key assumptions in order to determine any changes in assumptions that could materially impact the valuation of the recoverable amount. Lastly, we evaluated the appropriateness of the disclosures included in the explanatory notes of the consolidated financial statements and the consistency of the related disclosure provided in the Report on Operations.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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However, future events or conditions may cause the Company to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

The shareholders of Sabaf S.p.A., in the general meeting held on May 8, 2018, engaged us to perform the audits of the financial statements for each of the years ending December 31, 2018 to December 31, 2026.

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

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

Report on compliance with other legal and regulatory requirements

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

The Directors of Sabaf S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure of Sabaf S.p.A. as at December 31, 2019, including their consistency with the related financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the financial statements of Sabaf S.p.A. as at December 31, 2019 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

EY
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In our opinion, the Report on Operations and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the financial statements of Sabaf S.p.A. as at December 31, 2019 and comply with the applicable laws and regulations.

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

Milan, April 3, 2020

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

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

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

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

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

Introduction

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

Note, first of all, that the Board of Directors decided to make use of the longer term envisaged in Art. 2364 of the Italian Civil Code and Art. 8 of the Articles of Association for the call of the Shareholders' Meeting to approve the 2019 financial statements, owing to the existence of the relative conditions. The financial statements report is in any case made available to the public in full within the terms of Art. 154-ter of the TUF (within four months from the end of the financial year). The decision was taken by the Board, as explained in the Report on Operations, as SABAF is required to prepare the consolidated financial statements, in consideration of requirements related to the relevant obligations and fulfilments. In any case, note that, due to the situation regarding the spread of the health emergency related to COVID-19, pursuant to Article 106 of Italian Decree Law no. 18 of 2020 "the ordinary shareholders' meeting is convened within one hundred and eighty days from the end of the reporting period", as an exception to the ordinary rules on the subject.

During the year ended 31 December 2019 and up to date, the Board of Statutory Auditors carried out its supervisory activities in compliance with Law provisions, Rules of Behaviour of the Board of Statutory Auditors of listed companies issued by the Italian Board of Certified Public Accountants and Bookkeepers, the CONSOB provisions on corporate controls, the Corporate Governance Code, as well as by the provisions contained in Art. 19 of Italian Legislative Decree 39/2010.

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

The Company's Financial Statements were prepared in accordance with the law and accompanied by the documents required by the Italian Civil Code and the TUF. Moreover, in accordance with law provisions, the Company prepared the Consolidated financial statements and the consolidated Disclosure of non-financial information for the year 2019.

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

Appointment and Independence of the Board of Statutory Auditors

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

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

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

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

The outcome of the check was communicated (pursuant to Art. 144-novies, paragraph 1-ter of CONSOB Regulation no. 11971 of 1999, Art. 8.C.1 of the Corporate Governance Code and Standard Q.1.1 of the

Rules of Behaviour of listed companies) to the Board of Directors, which issued the relevant press release on 26 June 2018.
This assessment was carried out again on 12 March 2019 and 17 March 2020 and consequently communicated to the Board of Directors, which disclosed it in the Report prepared pursuant to Art. 123-bis of the TUF of both financial years.

This assessment was carried out again on 12 March 2019 and 17 March 2020 and consequently communicated to the Board of Directors, which disclosed it in the Report prepared pursuant to Art. 123-bis of the TUF of both financial years.

Supervision and control of the Board of Statutory Auditors

Supervisory activity on compliance with the law and articles of association

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

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

- attended the meetings of the Shareholders and Board of Directors, monitoring compliance with the statutory, legislative and regulatory provisions regulating the operation of the Company's bodies as well as compliance with the principles of proper management;
- supervised, for what of direct concern, the adequacy of the Company's organisational structure and compliance with the principles of proper management, through direct observation, gathering information from heads of the corporate functions and meetings with the Independent auditors to exchange data and information;
- assessed and supervised the adequacy of the internal control system and the administrative and accounting system, as well as its reliability in providing a fair presentation of operational transactions, through the information of the heads of the respective functions, the examination of company documents and the analysis of the results of the work carried out by the Independent Auditors;
- held 9 meetings during the year, lasting approximately 2 hours and a half, and also attended all the meetings of the Board of Directors, as well as of the board committees (Control and Risk Committee, Remuneration and Nomination Committee);
- supervised the adequacy of the reciprocal flow of information between SABAF and its subsidiaries pursuant to Art. 114, paragraph 2, of Italian Legislative Decree no. 58 of 1998, ensured by the instructions issued by the Company's management to Group companies;
- supervised compliance with the rules of "Market abuse", "Protection of savings" and "Internal Dealing", with a special reference to the processing of inside information and the procedure for the dissemination of statements and information to the public. The adjustment of the procedure adopted by the Company for the management of inside relevant information, drawn up in the light of CONSOB Guidelines no. 1/2017, was monitored.

Moreover, the Board:

- obtained from the Directors adequate information on the business carried on and major economic and financial operations carried out by the Company and its subsidiaries pursuant to Art. 150, paragraph 1 of the TUF. In this regard, the Board of Statutory Auditors paid special attention to the fact that the transactions approved and implemented complied with the law and the Articles of Association and were not imprudent or risky, in contrast with the resolutions adopted by the Shareholders' Meeting, in potential conflict of interest or such as to compromise the integrity of the Company's assets;
- held meetings with representatives of the Independent Auditors pursuant to Art. 150, paragraph 3 of the TUF and there were no significant data and/or information to be reported;
- had exchanges of information with corresponding control bodies (if any) of the companies directly or indirectly controlled by SABAF S.p.A. pursuant to Art. 151, paragraph 1 and 2 of the TUF;
- supervised the procedures for effective implementation of the corporate governance rules envisaged in the Corporate Governance Code complied with, as adequately represented in the Report on Corporate Governance and Ownership Structure, in compliance with Art. 124-ter of the TUF and Art. 89-bis of the Issuers' Regulations;
- checked, in relation to the periodic assessment to be carried out pursuant to Application Principle 3.C.5 of the Corporate Governance Code, as part of the supervision of the procedures for effective implementation of the corporate governance rules, the correct application of the assessment criteria and procedures adopted by the Board of Directors, with regard to the positive assessment of the independence of the Directors.

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

The Board also acknowledges that it has issued:

- its favourable opinion on the appointment and remuneration to be assigned to the head of the Internal Audit Department as required by Application Principle 7.C.1 of the Corporate Governance Code;
- its favourable opinion with regard to the annual Audit Plan prepared by the Head of the Internal Audit Department;
- its consent, pursuant to Article 5, paragraph 4, of Regulation (EU) 2014/537, on two occasions, to the provision by the Independent Auditors EY S.p.A. of services other than the external audit to the Company and to companies belonging to the SABAF Group, after having carefully assessed the potential risks for the independence of the auditor.

The Board of Statutory Auditors also gave its consent, pursuant to Art. 2426, paragraph 1, number 5, of the Italian Civil Code, to the recognition in the financial statements of development costs with a multi-year use of € 460,000.

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

Pursuant to Art. 19 of Italian Legislative Decree 39/2010 (Consolidated External Audit Act), the Board of Statutory Auditors is required to supervise:
- the financial reporting process;
- the effectiveness of the internal control and risk management systems;
- the External audit of annual accounts and consolidated accounts;
- the independence of the Independent Auditors, specifically as far as the provision of non-audit services is concerned.

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

Financial reporting process

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

The Financial Reporting Officer is supported by the Internal Audit Department to check the operation of the administrative and accounting procedures through control testing. In this regard, note that, in order to take account of the developments in the company's business and bring the procedures into line with current operating practices, during 2019 two administrative-accounting procedures drawn up pursuant to Italian Law 262/2005 were updated, approved by the Financial Reporting Officer, and reported to the Board of Directors in December.

The Board of Statutory Auditors acknowledges that it has received adequate information on the monitoring of business processes with an administrative and accounting impact within the Internal Control System, carried out both during the year in relation to the regular management reports, and during the closing of the accounts for the preparation of the Financial Statements, in compliance with the monitoring and certification requirements to which SABAF S.p.A. is subject pursuant to Italian Law no. 262/2005. In particular, the Board of Statutory Auditors acknowledged the Risk Assessment for 2019, as well as the periodic update on testing activities pursuant to Italian Law no. 262/2005.

The adequacy of the administrative and accounting system was also assessed through the acquisition of information from the heads of the respective departments and the analysis of the results of the work carried out by the Independent Auditors.

No particular critical issues or elements hindering the issue of the certification by the Financial Reporting Officer and by the Chief Executive Officer concerning the adequacy of the administrative and accounting procedures for the preparation of the financial statements of SABAF S.p.A. and the Consolidated Financial Statements for the year 2019 emerged.

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

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

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

The Board also acknowledges that the Independent Auditors EY S.p.A. issued their opinions on the Consolidated Financial Statements and the Separate Financial Statements on 3 April 2020 and also issued on the same date the Additional Report to the Internal Control and Audit Committee pursuant to Article 11 of Regulation (EU) 2014/537.

The reports on the Separate financial statements and the Consolidated financial statements do not give rise to any observations or requests for information.
It is also acknowledged that the Independent Auditors expressed, in the reports mentioned above, a positive opinion with regard to consistency with the financial statements and compliance with the law with reference:
- to the Management report;
- to the information referred to in Art. 123-bis, paragraph 4, Italian Legislative Decree 58/98 contained in the Report on corporate governance and ownership structure.

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

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

ACTIVITIES	AMOUNT EUR
Audit	124
Certification services	-
Other services	49
Total	**173**

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

Note that in 2019 there were changes in the scope of the audit, in relation to the inclusion in the consolidation area of the company C.M.I. S.r.l. and of the companies controlled by it (C.G.D S.r.l. and C.M.I. Polska Sp. Zoo) as a result of the acquisition, by SABAF, of the C.M.I. group, on 31 July 2019. The companies of the C.M.I. group contributed Euro 12.5 million to consolidated turnover.

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

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

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

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

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

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

- the periodic reports on the activities carried out, prepared by the Control and Risks Committee and the Internal Audit department;
- the reports drawn up at the end of the verification and monitoring activities by the Internal Audit department, with the relative results, the recommended actions and the controls on the implementation of the aforesaid actions;
- periodic updates on the development of the risk management process, the outcome of the monitoring and assessment activities carried out by Internal Audit and the objectives achieved.

The Board of Statutory Auditors then reviewed every six months the periodic reports on the activities carried out by the Supervisory Body and examined the activity plan and the budget allocated for 2019. Similarly, the Board of Statutory Auditors acknowledged the compliance with the provisions of Italian Legislative Decree no. 231/2001 and the activity plan for 2019, examining and agreeing with the amendments made during the year to the Organisation and Management Model pursuant to Italian Legislative Decree no. 231/2001.

Following the activities carried out during the 2019 financial year, as detailed above, the Board of Statutory Auditors shared the positive assessment expressed by the Control and Risk Committee with regard to the adequacy of the Internal Control and Risk Management System.
With reference to the internal control system, the Board of Statutory Auditors acknowledges that, on 5 February 2019, Emma Marcandalli, Head of the Internal Audit department and member of the Supervisory Body, resigned, effective as from 1 May 2019. On 25 June 2019, the Board of Directors resolved to entrust the Group Internal Audit Department, for the period between 1 July 2019 and 31 December 2021, to PricewaterhouseCoopers S.p.A. (PwC) and to appoint Giuseppe Garzillo as Head of the Internal Audit Department for the same period. Giusepe Garzillo was also appointed member of the Supervisory Body until May 2021. The Supervisory Body is now composed of Nicla Picchi (Chairman) and Giuseppe Garzillo.

Supervisory activity on compliance the principles of proper management

The main transactions carried out by the Company during the year, with respect to which the Board of Statutory Auditors monitored compliance with the principles of proper management, are summarised below.

On 25 June 2019, the Board of Directors of SABAF S.p.A. approved, pursuant to Article 2505, paragraph 2 of the Italian Civil Code, the plan for the merger through incorporation into SABAF S.p.A. of Sabaf Immobiliare s.r.l.. The company was entrusted with the management of the real estate assets of the Sabaf Group; the operation was put in place in order to optimise the management of resources, synergies and economic and financial flows.
The merger deed was signed on 18 November 2019 effective as from 1 January 2019. This transaction generated a merger surplus of € 13.5 million, which was recorded in a special equity reserve.

Moreover, in line with the 2018-2022 Business Plan, SABAF carried out an important operation aimed at achieving growth through acquisitions of the Group: as described in the Report on Operations, 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. 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. allowed the SABAF Group to achieve a leadership position on a global scale in the sector of hinges. The acquisition of the majority shareholding in C.M.I. involved a total investment of € 13.4 million. In this regard, note that the agreement signed with the seller provides for a call option, for SABAF, and a put option, for the counterparty, for the remaining 31.5% of the capital of CMI S.r.l., against which, in application of IAS 32, a financial liability of € 8.7 million was recorded in the consolidated financial statements, which resulted in a corresponding decrease in consolidated shareholders' equity.

Finally, on 5 December 2019, the Company announced that it had started an important cooperation with the Japanese group Paloma, which is part of Paloma Co. Ltd, active globally in the gas equipment sector. SABAF entered also into an agreement with Paloma Rheem Investments, Inc. for the sale of treasury shares for a total of about 2% of SABAF's share capital (230,669 SABAF shares), at a unit price of € 13.64 per share, in accordance with the shareholders' resolution of 7 May 2019. This transaction is considered the basis for new business opportunities and strategic development for both the SABAF Group and the Paloma Group.

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

The Sabaf Group also carried out organic investments of € 12 million mainly aimed at increasing and automating the production capacity of special burners and the manufacturing of machinery and moulds for new burners. Part of these investments was instead allocated to maintenance and replacement activities to keep the production equipment constantly updated and efficient.

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

- during the course of the activity carried out, no omissions, irregularities or reprehensible or significant facts that would require reporting to the control bodies or mention in this Report emerged;
- no reports were received by the Board of Statutory Auditors pursuant to Art. 2408 of the Italian Civil Code, nor has it received any complaints from third parties;
- no transactions have been identified with third parties, intra-group and/or related parties such as to highlight atypical and/or unusual profiles, in terms of content, nature, size and timing;
- all the transactions and management choices adopted are inspired by the principle of proper management and reasonableness, and comply with the 2018-2022 Business Plan approved by the Board of Directors.

Supervisory activity on implementation of the corporate governance rules

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

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

With regard to the Separate financial statements for the year ended 31 December 2019, the Consolidated financial statements for the year ended on the same date and the related Report on operations, note the following:

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

  In this regard, note that the Independent Auditors, in their reports, accurately described the audit procedures carried out with reference to the impairment tests, as "key aspects of the audit" and to which, therefore, the Board of Statutory Auditors refers. Therefore, the Board of Statutory Auditors supports the procedures adopted and the results obtained, which show values in use that are significantly higher than the carrying values of the equity investments and assets;
- in pursuance of CONSOB Resolution 15519/2006, the effects of transactions with related parties are expressly indicated in the financial statements. In pursuance of this Resolution in the Explanatory Notes, it is specified that during the year there were no significant non-recurring events or operations and no transactions deriving from atypical and/or unusual operations were carried out;
- the Financial statements are in keeping with the facts and information of which the Board of Statutory Auditors has become aware within its supervisory duties and its control and inspection powers;
- as far as the Board of Statutory Auditors is aware, the Directors, when preparing the financial statements, did not depart from the law provisions pursuant to Art. 2423, paragraph 5 of the Italian Civil Code;
- the Chief Executive Officer and the Financial Reporting Officer issued the certificate, pursuant to Art. 81-ter of CONSOB Regulation no. 11971/1999 as amended and Art. 154-bis of the TUF;
- the Report on Operations complies with legal requirements and is consistent with the data and results of the Financial Statements; it provides the necessary information on the activities and significant transactions of which the Board of Statutory Auditors was informed during the year, on the main risks of the Company and its subsidiaries, on intra-group and related-party transactions, as well as on the process of adapting the corporate organisation to the principles of corporate governance, in accordance with the Corporate Governance Code for listed companies;

- pursuant to the provisions of Art. 123-ter of the TUF, the Remuneration Report is presented to the Shareholders' Meeting (for approval in its first section, for reporting purposes in its second section): the Board of Statutory Auditors examined and agreed with the approach followed in preparing this report, at a joint meeting with the Remuneration Committee.

In relation to the presentation of the consolidated Disclosure of non-financial information, the Board of Statutory Auditors, in compliance with Italian Legislative Decree no. 254 of 30 December 2016, supervised compliance with the provisions set out in the decree itself and in CONSOB resolution no. 20267 of 18 January 2018 for the preparation of the statements in question, also acquiring the certification issued by the appointed auditor EY S.p.A. on 3 April 2020. This activity did not reveal any facts that could be reported in this report.

Supervisory activity on relationships with Subsidiaries

The Board of Statutory Auditors supervised the adequacy of the instructions given by the Company to the subsidiaries, in accordance with Art. 114, paragraph 2 of Italian Legislative Decree 58/1998.
Periodic meetings with the management and the company in charge of Internal Audit did not reveal any critical elements to be reported in this report.
Finally, we acknowledged that to date no communications have been received from the Control Bodies of the Subsidiaries containing findings to be noted in this report.

Supervisory activity on related-party transactions

In relation to the provisions of Art. 2391-bis of the Italian Civil Code, the Board of Statutory Auditors acknowledges that the Board of Directors adopted a procedure for the regulation of Related-Party Transactions, whose main objective is to define the guidelines and criteria for identifying related-party transactions and setting out roles, responsibilities and operating methods so as to guarantee, for such transactions, adequate information transparency and the related procedural and substantial correctness.
That procedure was prepared in compliance with what was established by the CONSOB Regulation on Related Parties (no. 17221 dated 21 March 2010) and was last updated by the Board of Directors on 25 September 2018.
The Board of Statutory Auditors supervised the effective application of the rules by the Company and has no observations to make in this regard in this Report.

Risks related to the Coronavirus pandemic

In the Report on Operations, the Company highlighted the initiatives taken to contain the impact on the Company of the worldwide spread of the pandemic caused by the COVID-19 virus. Note that the (DPCM) decree of the prime minister of 22 March 2020 imposed the closure until 3 April 2020 of the production units of the Company and its Italian subsidiaries. The SABAF Group set up a dedicated task force to deal with this emergency situation and is implementing mitigation actions to reduce the economic consequences while safeguarding the safety and health of workers. At the date of the Report on Operations, 24 March 2020, the development of the above-mentioned situation presented elements of uncertainty such that the potential impacts on the Group's activities and markets could not be reasonably quantified and the estimates for 2020 could not be confirmed. The situation now described does not appear to have changed significantly in the period between 24 March and today.
The Board of Directors, following the above considerations, deemed it appropriate, as a matter of prudence, to propose to the Shareholders' Meeting to allocate the Company's profit for 2019 entirely to the extraordinary reserve, with the clarification that, as announced to the market on 24 March 2020, the distribution of a dividend on the profit for 2019 will be reviewed when the situation related to the Coronavirus is overcome.

Proposal to the Shareholders' Meeting

The Board of Statutory Auditors expresses its favourable opinion for the approval of the Separate financial statements at 31 December 2019 and has no objections to make to the draft resolution presented by the Board of Directors as formulated in the Directors' Report on Operations.

Ospitaletto, 6 April 2020

The Board of Statutory Auditors

Chairman
Alessandra Tronconi

Statutory Auditor
Luisa Anselmi

Statutory Auditor
Mauro Vivenzi