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SABAF GROUP

REPORT ON OPERATIONS

Impacts from the COVID-19 pandemic

The coronavirus pandemic presented our Group - like all organisations - with new challenges, requiring resilience and immediate reaction to unpredictable and rapidly changing scenarios.

In the first half of 2020, with the rapid and global spread of health emergencies, our priorities were to protect the health and safety of people: to this end, all Sabaf Group companies adopted every preventive measure useful to eliminate the risks of contagion. Aware of the strategic importance of our role in the household appliance chain, we have also taken all possible measures to ensure continuity of supply even during the period in which some Group companies were forced to temporarily stop production.

Since the second half of the year, the allocation of a greater share of consumer budgets to household goods has led to a significant increase in the final demand for household appliances in all geographical areas from which the Sabaf Group is also benefiting. Such a rapid rebound in consumption once again required us to react without delay and with maximum flexibility: in the last part of the year, all plants were called upon to operate at full capacity.

Overall, we believe that we have demonstrated the ability to take the right decisions in a timely manner and to activate the management leverage to deal with such an extraordinary period. As described in detail in the following sections of this report, the Group ended the year with excellent results, both in terms of growth, profitability and financial management.

We confirmed our strategy of further expanding our international presence and carried out all the organic investments that had been planned for 2020, investing a total of more than €17 million. For 2021, total investments were planned in line with those made in 2020.

Due in part to restrictions on mobility, we did not conclude any transactions in 2020 aimed at developing the business through acquisitions, but these remain an integral part of our strategy for future growth.

After a temporary increase in working capital during the second quarter caused by some delays in the collection of trade receivables, the situation gradually normalised during the year. With regard to suppliers, the Group continued always to meet its commitments in full compliance with the established contractual terms.
At the end of the financial year, the ratio of working capital to revenue is entirely physiological and in line with the figure for the end of 2019.

The Group incurred higher costs estimated at approximately €700,000 for protection devices, sanitisation activities and one-off economic support paid to employees. The public contributions obtained were not significant.

The Group did not avail itself of the liquidity support measures for Italian companies provided for in the legislative decrees issued by the Government during the year.

The Shareholders' Meeting of 4 May 2020, in accordance with the proposal made by the Board of Directors, resolved to allocate the entire 2019 net profit to reserves. This proposal was made, on a prudential basis, in view of the uncertainties of the period that was then experiencing its most critical phase. The reassuring results at 30 June 2020 and the positive business trend in the following months subsequently allowed the distribution of a dividend of €0.35 per share (total dividends of approximately €3.9 million), approved by the shareholders' meeting on 29 September and paid on 14 October.

The Group took into account the uncertainties related to the current situation when making estimates for the purposes of preparing this annual report, especially with regard to the recoverability of the value of intangible assets and the evaluation of receivables and inventories. The evaluations carried out did not result in significant write-downs or incremental provisions. Details for each financial statement item are provided in the Explanatory Notes.

Demand volatility is likely to remain high with the consequent need to respond quickly to rapidly changing operating environments. The Sabaf Group believes that its business model - oriented towards long-term sustainability and characterised by a high level of verticalization of production and production facilities close to the main markets - is adequate to face future challenges and new scenarios.

Business and Financial situation of the Group

(€/000)	**2020**	**%**	**2019**	**%**	2020-2019 change	% change
Sales revenue	184,906	100%	155,923	100%	28,983	+18.6%
EBITDA	37,097	20.1%	27,033	17.3%	10,064	+37.2%
EBIT	20,093	10.9%	11,896	7.6%	8,197	+68.9%
Pre-tax profit	14,509	7.8%	9,776	6.3%	4,733	+48.4%
Profit attributable to the Group	13,961	7.6%	9,915	6.4%	4,046	+40.8%
Basic earnings per share (€)	1.240		0.895		0.345	+38.5%
Diluted earnings per share (€)	1.240		0.895		0.345	+38.5%

The 2020 financial year ended with revenues 18.6% higher than in 2019 (+8.4% on a like-for-like basis, considering that C.M.I. contributed to 2019 revenues only for the period from August to December).

The pandemic resulted in very high volatility of sales revenues during 2020. After an encouraging start to the year, from March onwards the Group's activities slowed down significantly, firstly due to the temporary interruption of activities at the Italian plants (on average for 3 weeks) and then due to the general reduction in production levels by our customers. As from July, there was a marked recovery in demand in all geographical areas, which accelerated further in the latter part of the year when the favourable market situation was accompanied by the start of new supplies of burners on a global scale to strategic customers and cross-selling between the gas and electronics divisions.

Average sales prices in 2020 were 1.8% lower than in 2019, partially offset by a reduction in average purchase prices of the main raw materials (aluminium alloys, steel and brass)

Higher business volumes in the second half of the year and a favourable trend in the sales mix supported profitability: EBITDA was €37.1 million (20.1% of turnover), up 37.2% compared to €27 million last year (17.3% of turnover) and EBIT was €20.1 million (10.9% of turnover) with a 68.9% increase compared to €11.9 million in 2019. The net profit for 2020 was €14 million, up by 40.8% compared to the figure of €9.9 million in 2019.

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

	2020	*%*	**2019**	*%*	*% change*
Gas parts	129,834	*70.2%*	122,205	*78.4%*	+6.2%
Hinges	41,326	*22.3%*	23,774	*15.2%*	+73.8%
Electronic components	13,746	*7.4%*	9,944	*6.4%*	+38.2%
Total	**184,906**	***100%***	**155,923**	***100%***	**+18.6%**

The increase in sales of electronic components, which is benefiting from cross-selling with the traditional products in the Group's portfolio and from the strong drive to develop new components, is of particular importance.

The contribution from the acquisition of C.M.I. resulted in a sharp increase in sales of hinges; on a like-for-like basis, the increase in sales of hinges was 7.3%.

The geographical breakdown of revenues is shown below:

	2020	*%*	**2019**	*%*	*% change*
Italy	35,260	*19.1%*	31,161	*20.0%*	+13.2%
Western Europe	11,103	*6.0%*	12,277	*7.9%*	-9.6%
Eastern Europe	68,061	*36.8%*	55,059	*35.3%*	+23.6%
Middle East and Africa	12,040	*6.5%*	7,050	*4.5%*	+70.8%
Asia and Oceania	8,103	*4.4%*	9,198	*5.9%*	-11.9%
South America	27,639	*14.9%*	23,451	*15.0%*	+17.9%
North America and Mexico	22,700	*12.3%*	17,727	*11.4%*	+28.1%
Total	**184,906**	***100%***	**155,923**	***100%***	**+18.6%**

The impact of labour cost on sales decreased from 23.8% in 2019 to 23.6% in 2020.

The ratio of net financial expenses to turnover remained low, equal to 0.5% of turnover, unchanged compared to 2019. During the year, the Group recorded in the income statement negative forex differences of €4.8 million, mainly due to fluctuations in exchange rates with the Turkish lira (€1.4 million of negative forex differences were recognised in 2019).

In 2020, the Group recognised positive income taxes of €0.1 million The main impacts on the tax rate are shown in Note 32 to the consolidated financial statements.

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

(€/000)	**31/12/2020**	**31/12/2019**
Non-current assets	*131,543*	*138,506*
Short-term assets[2]	108,246	88,189
Short-term liabilities[3]	(56,017)	(38,496)
Working capital[4]	*52,229*	*49,693*
Provisions for risks and charges, Post-employment benefits, deferred taxes	*(9,643)*	*(11,966)*
Net invested capital	**174,129**	**176,233**
Short-term net financial position	(24,169)	(3,698)
Medium/long-term net financial position	(32,153)	(51,430)
Net financial debt	**(56,322)**	**(55,128)**
Shareholders' equity	**117,807**	**121,105**

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

(€/000)	**2020**	**2019**
Opening liquidity	*18,687*	*13,426*
Operating cash flow	*25,067*	*40,932*
Cash flow from investments	*(17,296)*	*(12,014)*
Free cash flow	7,771	28,918
Cash flow from financing activities	(8,133)	(13,347)
Acquisitions	(3,063)	(10,792)
Foreign exchange differences	(1,944)	482
Cash flow for the period	(5,369)	5,261
Closing liquidity	*13,318*	*18,687*

In 2020, the Group generated free cash flow of €7.8 million (€28.9 million in 2019). The higher levels of activity in the second half of the year led to an increase in working capital, which stood at €52.2 million at 31 December 2020, compared to €49.7 million at the end of 2019: moreover, its impact on turnover decreased to 28.2% compared to 28.7% pro-forma in 2019.

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

In 2020, Sabaf Group carried out organic investments of €17.3 million: the main investments for the year were aimed at industrialising new products to significantly increase shares with certain strategic customers. Investments in maintenance and replacement, so that production equipment is kept constantly up to date and efficient, are systematic.

During the financial year, the Group paid dividends for €3.9 million and purchased treasury shares for €2.1 million.

At 31 December 2020, the net financial debt was €56.3 million, compared with €55.1 million on 31 December 2019. The change in net financial debt during the year is summarised in the table below:

Net financial debt at 31 December 2019	***(55,128)***
Free cash flow	7,771
Dividends paid out	(3,924)
Buy-back of shares	(2,073)
Fair value adjustment of financial liabilities for put options on minority interests	456
Financial liabilities IFRS 16 - new contracts entered into in 2020	(1,706)
Hedge accounting for currency derivatives	247
Foreign exchange differences and other changes	(1,965)
Net financial debt at 31 December 2020	***(56,322)***

At 31 December 2020, shareholders' equity amounted to €117.8 thousand; the ratio between the net financial debt and the shareholders' equity was 0.48 versus 0.46 in 2019.

Economic and financial indicators

	2020		**2019**	
		pro-forma[1]		pro-forma[1]
Change in turnover	+18.6%	+8.4%	+3.5%	-8.9%
ROCE (return on capital employed)	11.5%		6.8%	7.1%
Net debt/EBITDA	1.52		2.04	1.86
Net debt/equity ratio	48%		46%	
Market capitalisation (31/12)/equity ratio	1.49		1.28	

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

1 The change in pro-forma turnover is calculated ma: on a like-for-like basis. 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.

Risk Factors

Risks related to coronavirus pandemic
The coronavirus pandemic, which so deeply affected the world in 2020, presented all organisations with new challenges. The Sabaf Group believes that, in the current scenario, the following risks have emerged or become more significant:

- risks related to the health of people
- the risk arising from possible local or national lockdowns, with the consequent impossibility of guaranteeing the continuity of the company's activities
- the risk arising from a temporary reduction in personnel availability
- risks related to supplier reliability and possible interruptions in the supply chain
- risks related to violent fluctuations in demand and failure to comply with contractual agreements with customers.

The Group promptly implemented several counteracting and mitigating actions to minimise the impact on the business. All control units continue to be activated, as well as the constant monitoring of any element that may modify the risk factors related to the development of the pandemic and its direct and indirect effects on business activities.

As part of its periodic risk assessment process, the Group also identified and assessed the following main risks:

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.

Strategic risks
Strategic risks that could negatively impact Sabaf's medium-term performance, including, for example, risks related to low profitability of certain product lines 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 and from fluctuations in exchange rates), 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/or the difficulty of replacing them) and Information Technology risks.

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

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

Performance of the sector
The Group's financial position, results and cash flows are affected by several factors related to the performance of the sector, including:

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

To cope with this situation, the Group aims to retain and reinforce its leadership position wherever possible through:

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

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

Sabaf has taken the following measures to mitigate the above risk factors:

- diversifying investments at international level, setting different strategic priorities that, in addition to business opportunities, also consider the different associated risk profiles;
- monitoring of the economic and social performance of the target countries, also through a local network of agents and collaborators;
- timely assessment of (potential) impacts of any business interruption on the markets of Emerging countries;

- adoption of contractual sales conditions that protect the Group (e.g. insuring business loans or advance payments).

The presence of Sabaf in Turkey, the country that represents the main production hub of household appliances at European level, is of particular importance: over the years, local industry attracted heavy foreign investments and favoured the growth of important manufacturers. In this context, the Sabaf Group created a production plant in Turkey in 2012 that realises today 10% of total production. In 2018, the Group also acquired 100% of Okida Elektronik, a leader in Turkey in the design, manufacture and sale of electronic control boards for household appliances. Turkey represents approximately 15% of the Group's production and 23% 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 is mainly active in the production of gas cooking components (valves and burners); therefore, there is the risk of not correctly assessing the threats and opportunities deriving from the competition of alternative products (such as induction), with the consequence of not adequately making use of any market opportunities and/or suffering from negative impacts on margins and turnover.

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

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

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

Loss of business opportunities in the Chinese market

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

The Group is reviewing its strategy for approaching the Chinese market and intends to:

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

Financial risks
The Sabaf Group is exposed to a series of financial risks, due to:

- **Commodity price volatility**: 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, 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.

For more information on financial risks and the related management methods, see Note 36 of the consolidated financial statements as regards disclosure for the purposes of IFRS 7.

Research and Development

The most important research and development projects carried out in 2020 were as follows:

Gas parts

- new customised burner versions were developed
- a new multi-ring burner was developed
- the study of an electronic ignition microswitch was launched
- some versions of valves for special applications are nearing completion

Hinges

- the development of motorised hinges for built-in ovens continued
- a new soft-close hinge for the oven door is being developed
- a modular hinge model for the oven door is being developed
- a dual soft hinge model for large oven doors is being developed
- a new hinge for various flap sizes is being developed
- an automatic opening system for the dishwasher door is being developed

Electronic components

- new platforms were developed to extend the range of electronic controls for pyrolytic ovens
- new IOT hood controls that can communicate with other appliances via WiFi and Bluetooth are being developed
- development of innovative electronic control solutions for gas cooking

The improvement in production processes continued throughout the Group, also in order to minimise set-up times and make production more flexible. The Group also develops and manufactures its own machinery, equipment and moulds.

Development costs to the tune of €465,000 were capitalised, as all the conditions set by international accounting standards were met; in other cases, they were charged to the income statement.

Consolidated disclosure of Non-financial Information
Starting from 2017, the Sabaf Group publishes the Consolidated disclosure of non-financial information required by Legislative Decree no. 254/2016 in a report separate from this Report on Operations. The non-financial statement provides all the information needed to ensure understanding of the Group's activities, performance, results and impact, with particular reference to environmental, social and personnel issues, respect for human rights and the fight against active and passive corruption, which are relevant considering the Group's activities and characteristics.
The consolidated disclosure of non-financial information is included in the same file in which the report on operations, 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 2020, the Sabaf Group suffered no on-the-job deaths or serious accidents that led to serious or very serious injuries to staff for which the Group was definitively held responsible, nor was it held responsible for occupational illnesses of employees or former employees, or causes of mobbing.
For all other information, please refer to the Consolidated disclosure of Non-Financial Information.

Environment
In 2020 there was no:
- damage caused to the environment for which the Group was held definitively responsible;
- definitive fines or penalties imposed on the Group for environmental crimes or damage.

For all other information, please refer to the Consolidated disclosure of Non-Financial Information.

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

Internal Control System on Financial Reporting
The internal control system on financial reporting is described in detail in the report on corporate governance and on ownership structure.
With reference to the "conditions for listing shares of parent companies set up and regulated by the law of states not belonging to the European Union" pursuant to articles 36 and 39 of the Market Regulations, the Company and its subsidiaries have administrative and accounting systems that can provide the public with the accounting situations prepared for drafting the consolidated report of the companies that fall within the scope of this regulation and can regularly supply management and the auditors of the Parent Company with the data necessary for drafting the consolidated financial statements. The Sabaf Group has also set up an effective

information flow to the independent auditor as well as continuous information on the composition of the corporate bodies of the subsidiaries, together with information on the offices held, and requires the systematic and centralised gathering as well as regular updates of the formal documents relating to the articles of association and granting of powers to corporate bodies. The conditions exist as required by article 36, letters a), b) and c) of the Market Regulations issued by CONSOB.

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

Sabaf S.p.A. has an Organisational Model for the management and protection of personal data 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 36 of the consolidated financial statements.

Atypical or unusual transactions

Sabaf Group companies did not execute any unusual or atypical transactions in 2020.

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 37 of the consolidated financial statements and in Note 35 of the separate financial statements of Sabaf S.p.A.

Business outlook

In the first half of 2021, sales and orders will remain at the high levels of the end of 2020, considering that all markets continue to show very strong demand. This trend is expected to continue in the third quarter, fuelled, for the Sabaf Group, by the supply contracts launched in 2020 and the business plans in progress.

Therefore, for the whole of 2021, it is believed that it will be possible to achieve revenues of more than €210 million, up 14% on 2020. Furthermore, it is expected that the diversification of the Group's offer, the favourable trend in sales prices and the full utilisation of the production capacity will be able to balance the increase in the cost of raw materials and a possible unfavourable exchange rate trend, allowing the Group to maintain an operating profitability (EBITDA %) of at least 20% of sales.

These forecasts assume a macroeconomic scenario not affected by unpredictable events. If the scenario were to change significantly, actual figures might diverge from forecasts.

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

(€/000)	**2020**	**2019**	**Change**	**% change**
Sales revenue	102,583	94,899	7,684	+8.1%
EBITDA	15,820	13,127	2,693	+20.5%
EBIT	6,610	2,948	3,662	+124.2%
Pre-tax profit (EBT)	6,304	3,691	2,613	+70.8%
Net Profit	6,410	3,822	2,588	+67.7%

The reclassification based on financial criteria is illustrated below:

(€/000)	**31/12/2020**	**31/12/2019**
Non-current assets [1]	*123,679*	*120,147*
Non-current financial assets	*5,537*	*5,340*
Short-term assets[2]	69,738	50,750
Short-term liabilities[3]	(36,520)	(22,751)
Working capital[4]	*33,218*	*27,999*
Provisions for risks and charges, Post-employment benefits, deferred taxes	*(3,013)*	*(4,862)*
Net invested capital	**159,421**	**148,624**
Short-term net financial position	(22,602)	(3,149)
Medium/long-term net financial position	(26,891)	(36,719)
Net financial position	**(49,493)**	**(39,868)**
Shareholders' equity	**109,928**	**108,755**

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

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

(€/000)	**2020**	**2019**
Opening liquidity	***8,343***	***2,169***[1]
Operating cash flow	*9,590*	*27,682*
Cash flow from investments	*(13,381)*	*(17,903)*
Free cash flow	(3,791)	9,779
Cash flow from financing activities	(2,957)	(3,605)
Cash flow for the period	(6,748)	6,174
Closing liquidity	***1,595***	***8,343***

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 2020 financial year ended with a turnover 8.1% higher than in 2019, benefiting from increased portions on certain strategic customers and a generalised recovery in demand during the second half of the year.

In 2020, Sabaf S.p.A. invested around €4 million (net of divestments) in machinery and equipment, mainly aimed at improving production processes and industrialising new burners. The company also invested approximately €9 million in its subsidiaries as a capital increase or to increase its shareholding.

At 31 December 2020, working capital stood at €33.2 million compared with €283 million at the end of the previous year: its percentage impact on turnover stood at 32.4% from 29.5% at the end of 2019.

The net financial debt was €49.5 million, compared with €39.9 million at 31 December 2019.

At the end of the year, shareholders' equity amounted to €109.9 million, compared with €108.8 million in 2019. The ratio between the net financial debt and the shareholders' equity was 45%; it was 36.7% at the end of 2019.

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

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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 2020 financial year and Group shareholders' equity at 31 December 2020 with the same values of the parent company Sabaf S.p.A. is given below:

	31/12/2020		31/12/2019	
Description	Profit for the year	Shareholders' equity	Profit for the year	Shareholders' equity
Profit and shareholders' equity of parent company Sabaf S.p.A.	**6,410**	**109,928**	**3,822**	**108,755**
Equity and consolidated company results	8,734	90,566	7,833	105,637
Derecognition of the carrying value of consolidated equity investments	620	(73,816)	580	(81,502)
Put options on minorities	456	(6,831)	168	(10,350)
Intercompany eliminations	(1,758)	(1,778)	(2,189)	(931)
Other adjustments	(103)	(262)	(31)	(124)
Minority interests	(398)	(4,809)	(268)	(7,077)
Profit and shareholders' equity attributable to the Group	**13,961**	**112,998**	**9,915**	**114,408**

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 2020 financial statements. The shareholders' meeting must also resolve on the election of the members of the administration and control bodies and must therefore be convened at least 40 days in advance pursuant to Article 125-*bis* of the TUF. The Shareholders' Meeting will be convened (single call) on 6 May 2021.

Proposal for allocation of 2020 profit

As we thank our employees, the Board of Statutory Auditors, the independent auditors and the Supervisory Authorities for their effective collaboration, we ask the shareholders to approve the financial statements for the year ended 31 December 2020, with the proposal to allocate the profit for the year of €6,409,674 in the following manner:

- a dividend of €0.55 per share to be paid to shareholders as from 2 June 2021 (ex-date 31 May 2021 and record date 1 June 2021). With regard to treasury shares, we invite you to allocate an amount corresponding to the dividend on the shares held in portfolio on the ex-date to the Extraordinary Reserve;
- the remainder to the Extraordinary Reserve.