

SABAF GROUP

*CONSOLIDATED FINANCIAL
STATEMENTS
AT 31 DECEMBER 2017*

GROUP STRUCTURE AND CORPORATE BODIES

Group structure

Parent company

SABAF S.p.A.

Subsidiaries and equity interest owned by the Group

Faringosi-Hinges S.r.l.	100%
Sabaf Immobiliare s.r.l.	100%
Sabaf do Brasil Ltda.	100%
Sabaf US Corp.	100%
Sabaf Appliance Components (Kunshan) Co., Ltd.	100%
Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki (Sabaf Turkey)	100%
Sabaf Appliance Components Trading (Kunshan) Co. Ltd. in liquidation	100%
A.R.C. s.r.l.	70%

Associate companies and equity interest owned by the Group

Handan ARC Burners Co., Ltd.	35%
------------------------------	-----

Board of Directors

Chairman	Giuseppe Saleri
Vice Chairman	Cinzia Saleri
Vice Chairman	Ettore Saleri
Vice Chairman	Roberta Forzanini
Chief Executive Officer	Pietro Iotti
Director	Gianluca Beschi
Director (*)	Renato Camodeca
Director (*)	Giuseppe Cavalli
Director (*)	Fausto Gardoni
Director (*)	Anna Pendoli
Director (*)	Nicla Picchi
Director	Alessandro Potestà

(*) Independent directors

Board of Statutory Auditors

Chairman	Antonio Passantino
Statutory Auditor	Luisa Anselmi
Statutory Auditor	Enrico Broli

Independent Auditor

Deloitte & Touche S.p.A.

Consolidated statement of financial position

Notes 31/12/2017 31/12/2016(*)

(€/000)

ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	1	73,069	73,445
Investment property	2	5,697	6,270
Intangible assets	3	9,283	9,077
Equity investments	4	281	306
Non-current financial assets	10	180	0
Non-current receivables	5	196	262
Deferred tax assets	21	5,096	4,781
Total non-current assets		93,802	94,141
CURRENT ASSETS			
Inventories	6	32,929	31,484
Trade receivables	7	42,263	36,842
Tax receivables	8	3,065	3,163
Other current receivables	9	1,057	1,419
Current financial assets	10	67	0
Cash and cash equivalents	11	11,533	12,143
Total current assets		90,914	85,051
ASSETS HELD FOR SALE		0	0
TOTAL ASSETS		184,716	179,192
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	12	11,533	11,533
Retained earnings, other reserves		87,227	90,471
Profit for the year		14,835	8,994
<i>Total equity interest of the Parent Company</i>		<i>113,595</i>	<i>110,998</i>
<i>Minority interests</i>		<i>1,460</i>	<i>1,379</i>
Total shareholders' equity		115,055	112,377
NON-CURRENT LIABILITIES			
Loans	14	17,760	18,892
Other financial liabilities	15	1,943	1,762
Post-employment benefit and retirement reserves	16	2,845	3,086
Provisions for risks and charges	17	385	434
Deferred tax liabilities	21	804	870
Total non-current liabilities		23,737	25,044
CURRENT LIABILITIES			
Loans	14	17,288	14,612
Other financial liabilities	15	75	335
Trade payables	18	19,975	18,977
Tax payables	19	1,095	1,190
Other payables	20	7,491	6,657
Total current liabilities		45,924	41,771
LIABILITIES HELD FOR SALE		0	0
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		184,716	179,192

(*) figures recalculated pursuant to IFRS 3, in order to retrospectively take into account the effects resulting from the fair value measurement of A.R.C's assets and liabilities, at the acquisition date previously considered provisional.

Consolidated income statement

	Notes	2017	2016(*)
<i>(€/000)</i>			
INCOME STATEMENT COMPONENTS			
OPERATING REVENUE AND INCOME			
Revenue	23	150,223	130,978
Other income	24	3,361	2,819
Total operating revenue and income		153,584	133,797
OPERATING COSTS			
Materials	25	(59,794)	(47,346)
Change in inventories		2,380	(754)
Services	26	(30,227)	(27,983)
Payroll costs	27	(35,328)	(32,112)
Other operating costs	28	(1,134)	(1,078)
Costs for capitalised in-house work		1,474	841
Total operating costs		(122,629)	(108,432)
OPERATING PROFIT BEFORE DEPRECIATION AND AMORTISATION, CAPITAL GAINS/LOSSES, AND WRITE-DOWNS/WRITE-BACKS OF NON-CURRENT ASSETS			
		30,955	25,365
Depreciations and amortisation	1, 2, 3	(12,826)	(12,882)
Capital gains on disposals of non-current assets		(12)	18
		0	0
EBIT		18,117	12,501
Financial income		214	101
Financial expenses	29	(804)	(620)
Exchange rate gains and losses	30	274	435
Profits and losses from equity investments		3	0
PROFIT BEFORE TAXES		17,804	12,417
Income tax	31	(2,888)	(3,342)
PROFIT FOR THE YEAR		14,916	9,075
of which:			
Minority interests		81	81
PROFIT ATTRIBUTABLE TO THE GROUP		14,835	8,994
EARNINGS PER SHARE (EPS)	32		
Base		1.323 euro	0.791 euro
Diluted		1.323 euro	0.791 euro

(*) figures recalculated pursuant to IFRS 3, in order to retrospectively take into account the effects resulting from the fair value measurement of A.R.C's assets and liabilities, at the acquisition date previously considered provisional.

Consolidated statement of comprehensive income

<i>(€/000)</i>	2017	2016(*)
PROFIT FOR THE YEAR	14,916	9,075
<i>Total profits/losses that will not be subsequently reclassified under profit (loss) for the year</i>		
Actuarial post-employment benefit reserve evaluation	82	(41)
Tax effect	(20)	10
	62	(31)
<i>Total profits/losses that will be subsequently reclassified under profit (loss) for the year</i>		
Forex differences due to translation of financial statements in foreign currencies	(4,806)	(340)
Total other profits/(losses) net of taxes for the year	(4,744)	(371)
TOTAL PROFIT	10,172	8,704

(*) figures recalculated pursuant to IFRS 3, in order to retrospectively take into account the effects resulting from the fair value measurement of A.R.C's assets and liabilities, at the acquisition date previously considered provisional.

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
<i>(€/000)</i>											
Balance at 31 Dec 2015	11,533	10,002	2,307	(723)	(7,048)	(581)	86,552	8,998	111,040	0	111,040
Allocation of 2015 profit											
- dividends paid out								(5,467)	(5,467)		(5,467)
- carried forward							3,531	(3,531)	0		0
ARC acquisition and consolidation										1,210	1,210
IFRS 3 effect on ARC acquisition								(15)	(15)	83	68
ARC put option							(1,522)		(1,522)		(1,522)
Purchase of treasury shares				(1,676)					(1,676)		(1,676)
Total profit at 31 Dec 2016					(340)	(31)		9,009	8,638	86	8,724
Balance at 31 Dec 2016(*)	11,533	10,002	2,307	(2,399)	(7,388)	(612)	88,561	8,994	110,998	1,379	112,377
Allocation of 2016 profit											
- dividends paid out								(5,384)	(5,384)		(5,384)
- carried forward							3,610	(3,610)	0		0
Purchase of treasury shares				(2,110)					(2,110)		(2,110)
Total profit at 31 Dec 2017					(4,806)	62		14,835	10,091	81	10,172
Balance at 31 Dec 2017	11,533	10,002	2,307	(4,509)	(12,194)	(550)	92,171	14,835	113,595	1,460	115,055

(*) figures recalculated pursuant to IFRS 3, in order to retrospectively take into account the effects resulting from the fair value measurement of A.R.C's assets and liabilities, at the acquisition date previously considered provisional.

Consolidated cash flow statement

	2017	2016(*)
<i>Cash and cash equivalents at beginning of year</i>	12,143	3,991
Profit for the year	14,916	9,075
Adjustments for:		
- Depreciation and amortisation	12,826	12,882
- Realised gains	12	(18)
- Net financial income and expenses	590	519
- Income tax	2,888	3,350
Change in post-employment benefit reserve	(189)	(184)
Change in risk provisions	(49)	39
<i>Change in trade receivables</i>	<i>(5,421)</i>	<i>5,107</i>
<i>Change in inventories</i>	<i>(1,445)</i>	<i>416</i>
<i>Change in trade payables</i>	<i>998</i>	<i>(1,286)</i>
Change in net working capital	(5,868)	4,237
Change in other receivables and payables, deferred tax	1,029	1,268
Payment of taxes	(3,058)	(4,762)
Payment of financial expenses	(532)	(576)
Collection of financial income	214	101
Cash flow from operations	22,779	25,931
Investments in non-current assets		
- intangible	(860)	(477)
- tangible	(13,604)	(11,465)
- financial	0	5
Disposal of non-current assets	520	175
Cash flow absorbed by investments	(13,944)	(11,762)
Repayment of loans	(16,526)	(33,141)
Raising of loans	17,751	37,321
Short-term financial assets	(247)	69
Purchase of treasury shares	(2,110)	(1,676)
Payment of dividends	(5,384)	(5,467)
Cash flow absorbed by financing activities	(6,516)	(2,894)
A.R.C. acquisition	0	(2,614)
Foreign exchange differences due to translation	(2,929)	(509)
Net financial flows for the year	(610)	8,152
<i>Cash and cash equivalents at end of year (Note 10)</i>	11,533	12,143
Current financial debt	17,363	14,947
Non-current financial debt	19,703	20,654
<i>Net financial debt (Note 22)</i>	25,533	23,458

(*) figures recalculated pursuant to IFRS 3, in order to retrospectively take into account the effects resulting from the fair value measurement of A.R.C's assets and liabilities, at the acquisition date previously considered provisional.

Explanatory Notes

ACCOUNTING STANDARDS

Statement of compliance and basis of presentation

The consolidated financial statements of the Sabaf Group for the financial year 2017 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. The report consists 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 financial 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 2017 comprises the parent company Sabaf S.p.A. and the following companies controlled by Sabaf S.p.A.:

- Faringosi-Hinges s.r.l.
- Sabaf Immobiliare 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.
- Sabaf Appliance Components (Kunshan) Co., Ltd.
- A.R.C. s.r.l.

Sabaf U.S. is not consolidated since it is irrelevant for the purposes of the consolidation.

Handan A.R.C. Ltd, Chinese company in which the Group holds a 35% share, was measured at cost in that at 31 December 2017 operations are still in the early stages, and therefore the company is considered irrelevant for consolidation purposes.

The companies in which Sabaf S.p.A. simultaneously possesses 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. If these subsidiaries exercise a significant influence, they are consolidated as from the date in which control begins until the date in which control ends so as to provide a correct representation of the Group's operating results, financial position and cash flows.

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 100% 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, the Group has changed the accounting treatment of goodwill on a prospective basis as from the transition date. Therefore, 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 intercompany 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

Upon completion of the valuation of the assets and liabilities of A.R.C. at the acquisition date, pursuant to IFRS 3, previously considered provisional, the temporary figures of the tangible assets acquired recorded at the time in the consolidated financial statements at the date of first consolidation (30 June 2016) were increased by € 410,000, subsequent to a technical analysis carried out by experts on plants, machinery and equipment to identify their fair value. Furthermore, provisions for deferred tax liabilities were increased by € 114,000 in order to record the relevant tax effect. The Group has used the option provided by IFRS 3 in order to finalise the

allocation within 12 months from the purchase date given that the technical analysis on plants, machinery and equipment was not previously complete and available.

Final goodwill of € 1,770,000 reflects the net change of € 296,000 described above, net of the allocation made to minority interests (€ 89,000), during the measurement period to the temporary values of tangible assets and deferred tax liabilities. At 31 December 2017, goodwill was tested for impairment, as described in detail in Note 3 below.

As required by IFRS 3, the comparative financial statements at 31 December 2016 have been restated to retrospectively take into account the effects resulting from the higher value of the assets acquired (€ 381,000) and the related tax effect (€ 106,000), as well as the reduction in goodwill (€ 207,000). This entry resulted in a reduction in 2016 consolidated net income and consolidated shareholders' equity of € 21,000, of which € 15,000 owned by the Group.

	Original values acquired assets/liabilities	Measuremen t at fair value	Fair Value acquired assets/liabilities
Non-current assets			
Property, plant and equipment and intangible assets	303	410	713
Financial fixed assets	107		107
Non-current receivables and deferred tax assets	145		145
Current assets			
Inventories	891		891
Trade receivables	1,525		1,525
Other receivables	234		234
Cash and cash equivalents	2,186		2,186
Total assets	5,391	410	5,801
Non-current liabilities			
Post-employment benefit reserve	(238)		(238)
Deferred tax liabilities reserve	-	(114)	(114)
Current liabilities			
Trade payables	(813)		(813)
Sundry payables	(308)		(308)
Total liabilities	(1,359)	(114)	(1,473)
Fair value of net assets acquired			
- % pertaining to Sabaf (70%) (a)	2,823	207	3,030
Total cost of acquisition (b)	4,800		4,800
Goodwill deriving from acquisition (b-a) (Note 3)	1,977	(207)	1,770
Acquired cash and cash equivalents (c)	2,186		2,186
Total cash outlay (b-c)	2,614		2,614

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 statements of each foreign entity are 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 31/12/17	Average exchange rate 2017	Exchange rate in effect at 31/12/2016	Average exchange rate 2016
Brazilian real	3.9729	3.6048	3.4305	3.8576
Turkish lira	4.5464	4.1207	3.7072	3.3435
Chinese renminbi	7.8044	7.6289	7.3202	7.3512

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

Description	31/12/2017		31/12/2016(*)	
	Profit for the year	Shareholders' equity	Profit for the year	Shareholders' equity
Profit and shareholders' equity of parent company Sabaf S.p.A.	8,001	92,087	2,460	91,524
Equity and consolidated company results	7,971	67,929	6,175	66,276
Elimination of consolidated equity investments' carrying value	682	(48,596)	521	(49,900)
Goodwill	0	6,215	0	6,215
Put option on A.R.C. minorities	(241)	(1,763)	0	(1,522)
IFRS 3 effect on A.R.C. acquisition	0	0	(21)	275
Intercompany eliminations	(1,497)	(817)	(60)	(491)
Minority interests	(81)	(1,460)	(81)	(1,379)
Profit and shareholders' equity attributable to the Group	14,835	113,595	8,994	110,998

(*) figures recalculated pursuant to IFRS 3, in order to retrospectively take into account the effects resulting from the fair value measurement of A.R.C.'s assets and liabilities, at the acquisition date previously considered provisional.

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.

Accounting policies

The accounting standards and policies applied for the preparation of the consolidated financial statements at 31 December 2017, unchanged versus the previous year, 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, 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

Assets acquired via finance lease contracts are accounted for using the financial method and are reported with assets at their purchase value, less depreciation. Depreciation of such assets is reflected in the consolidated annual financial statements applying the same policy followed for Company-owned property, plant and equipment. Set against recognition of such assets, the amounts payable to the financial lessor are posted among short- and medium-/long-term payables. In addition, financial charges pertaining to the period are charged to the income statement.

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).

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.

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.

Impairment of value

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 of the value 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 value individually, the Group estimates the recoverable value of the cash generating unit (CGU) to which the asset belongs.

In particular, the recoverable value 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 fair 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 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 of the cash-generating unit) - with the exception of goodwill - is increased to the new value resulting from the estimate of its recoverable value, but not beyond the net carrying value that the asset would have had if it had not been written down for impairment of value. 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 of value. 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 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 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 of value. 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.

Receivables

Receivables are recognised at their presumed realisable value. Their face value is adjusted to a lower realisable value via specific provisioning directly reducing the item based on in-depth analysis of individual positions. Trade receivables assigned without recourse, despite being transferred legally, continue to be stated with "Trade receivables" until they are collected, which is never prior to the due date. Trade receivables past due and non-recoverable assigned without recourse are recorded under "Other current receivables".

Current financial assets

Financial assets held for trading are measured at fair value, allocating profit and loss effects to finance income or expense.

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 financial 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 reserve

The post-employment benefit reserve (TFR) 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 as 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)".

Payables

Payables are recognised at face value; the portion of interest included in their face value and not yet payable at period-end is deferred to future periods.

Loans

Loans are initially recognised at cost, net of related costs of acquisition. This value is subsequently adjusted to allow for any difference between initial cost and repayment value over the loan's duration using the effective interest rate method.

Loans are classified among current liabilities unless the Group has the unconditional right to defer discharge of a liability by at least 12 months after the reference date.

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 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.

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.

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 value of tangible and intangible assets

The procedure for determining impairment of value of tangible and intangible assets described in “Impairment of value” 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 value. 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

Warehouse inventories subject to obsolescence and slow turnover are systematically valued, 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 significant effects on liabilities for pension benefits.

Income tax

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 and reserves

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 2017

- Amendment to IAS 7 “Disclosure Initiative” (published on 29 January 2016). The aim of the document is to provide some clarification to improve disclosure on financial liabilities. In particular, the amendments require providing disclosures that enable the users of financial statements to understand changes in liabilities arising from financing activities.
- Amendment to IAS 12 “Recognition of Deferred Tax Assets for Unrealised Losses” (published on 19 January 2016). The aim of the document is to provide some clarification on the recognition of deferred tax assets on unrealised losses in the measurement of financial assets in the “Available for Sale” category upon the occurrence of certain circumstances and on the estimate of taxable income for future years.

The application of these amendments did not have any effect on the Group’s 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 2017

- Standard IFRS 15 – Revenue from Contracts with Customers (published on 28 May 2014 and supplemented with further clarifications published on 12 April 2016), which is scheduled to replace IAS 18 – Revenue and IAS 11 – Construction Contracts, as well as interpretations IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers and SIC 31 – Revenues-Barter Transactions Involving Advertising Services. The standard establishes a new revenue recognition model, which will apply to all contracts signed with customers except those falling within the application of other IAS/IFRS standards, such as leases, insurance contracts and financial instruments. The fundamental passages for the recognition of revenues according to the new model are:
 - the identification of the contract with the customer;
 - the identification of the contract’s performance obligations;
 - the determination of the price;
 - the allocation of the price to the contract’s performance obligations;
 - the revenue recognition criteria when the entity satisfies each performance obligation.

The principle applies from 1 January 2018. The amendments to IFRS 15, Clarifications to IFRS 15 - Revenue from Contracts with Customers, were approved by the European Union on 6 November 2017. On the basis of the analyses carried out, the directors expect that the application of IFRS 15 will have a minor impact on the amounts recorded as revenues and on the related disclosures in the Group’s consolidated financial statements.

- Final version of IFRS 9 – Financial Instruments (published on 24 July 2014). The document includes the results of the IASB project designed to replace IAS 39:

- introduces new methods for the classification and measurement of financial assets and liabilities (together with the measurement of non-substantial changes in financial liabilities);
- with reference to the impairment model, the new standard requires that the estimate of credit losses be made on the basis of the expected losses model (and not on the basis of the incurred losses model used by IAS 39) using supportable information available without unreasonable effort or expense that include historical, current and future figures;
- introduces a new hedge accounting model (increase in the types of transactions eligible for hedge accounting, changes in the method of recognition of forward contracts and options when included in a hedge accounting report, changes in efficacy tests).

The new standard must be applied by financial statements from 1 January 2018 onwards.

On the basis of the analyses carried out, the directors expect that the application of IFRS 9 will have a minor impact on the amounts and on the related disclosures in the Group's consolidated financial statements.

- Standard IFRS 16 – Leases (published on 13 January 2016), which will replace 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 new 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 leasing 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 standard applies beginning on 1 January 2019 but early application is permitted, only for Companies that already applied IFRS 15 - Revenue from Contracts with Customers.

The directors not expect that the application of IFRS 16 can have a significant impact on the amounts and on the relevant disclosures in the Group's consolidated financial statements. However, it is not possible to provide a reasonable estimate of the effects until the Group has completed a detailed analysis of the related contracts.

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.

- Amendment to IFRS 2 "Classification and measurement of share-based payment transactions" (published on 20 June 2016), which contains some clarification on the recording of the effects of vesting conditions in the presence of cash-settled share-based payments, on the classification of share-based payments with net settlement characteristics and on the recording of amendments under the terms and conditions of a share-based payment that change their classification from cash-settled to equity-settled. The amendments apply from 1 January 2018. The directors do not expect a significant effect on the Group's consolidated financial statements through the adoption of these changes.
- Document "Annual Improvements to IFRSs: 2014-2016 Cycle", published on 8 December 2016 (including IFRS 1 First-Time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters, IAS 28 Investments in Associates and Joint Ventures – Measuring investees at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice, IFRS 12 Disclosure of Interests in Other Entities – Clarification of the scope of the Standard) which partially integrate the existing standards. Most of the amendments apply from 1 January 2018. The directors do not expect a significant effect on the Group's consolidated financial statements through the adoption of these amendments.
- IFRIC 22 Interpretation "Foreign Currency Transactions and Advance Consideration" (published on 8 December 2016). The interpretation aims to provide guidelines for foreign currency transactions if advances or non-cash payments are recognised in the financial statements, prior to the recognition of the related asset, cost or revenue. This document provides guidance on how an entity should determine the date of a transaction, and consequently, the spot exchange rate to be used when foreign currency transactions occur in which the payment is made or received in advance. IFRIC 22 is applicable from 1 January 2018.
- Amendment to IAS 40 "Transfers of Investment Property" (published on 8 December 2016). These amendments clarify the transfers of a property to, or from, investment property. In particular, an entity must reclassify a property among, or from, investment property only when there is evidence that there was a change in the intended use of the property. This change must refer to a specific event that happened and must not be limited to a change of intention by the Management of an entity. These amendments are applicable from 1 January 2018. The directors do not expect a significant effect on the Group's consolidated financial statements through the adoption of these changes.
- On 7 June 2017, IASB published the clarification document IFRIC 23 – Uncertainty over Income Tax Treatments. The document deals with uncertainties about the tax treatment of income taxes. The document requires that uncertainties in determining deferred tax assets and liabilities be reflected in the financial statements only when it is probable that the entity will pay or recover the amount in question. Moreover, the document does not contain any new disclosure requirement but emphasises that an

entity will have to determine whether it will be necessary to disclose information on management considerations and on the uncertainty relating to tax accounting in accordance with IAS 1. The new interpretation applies from 1 January 2019, but early application is permitted.

- Amendment to IFRS 9 “Prepayment Features with Negative Compensation (published on 12 October 2017). This document specifies the instruments that envisage early repayment that could comply with the "SPPI" test even if the "reasonable additional compensation" to be paid in the event of early repayment is a "negative compensation" for the lender. The amendment applies from 1 January 2019, but early application is permitted. The directors do not expect a significant effect on the Group’s consolidated financial statements through the adoption of these changes.
- Amendment to IAS 28 “Long-term Interests in Associates and Joint Ventures” (published on 12 October 2017)”. 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. The directors do not expect a significant effect on the Group’s consolidated financial statements through the adoption of these changes.
- Document “Annual Improvements to IFRSs 2015-2017 Cycle”, published on 12 December 2017 (including IFRS 3 Business Combinations and IFRS 11 Joint Arrangements – Remeasurement of previously held interest in a joint operation, IAS 12 Income Taxes – Income tax consequences of payments on financial instruments classified as equity, IAS 23 Borrowing costs Disclosure of Interests in Other Entities – Borrowing costs eligible for capitalisation) which implements changes to some standards as part of the annual process of improving them. The amendments apply from 1 January 2019 but early application is permitted. The directors do not expect a significant effect on the Group’s consolidated financial statements through the adoption of these changes.

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 2015	51,225	176,529	37,149	2,059	266,962
Increases	95	8,417	2,275	1,101	11,888
Disposals	(1)	(3,075)	(312)	-	(3,388)
Change in the scope of consolidation ¹	-	1,745	584	-	2,329
Reclassifications	1	875	177	(1,476)	(423)
Forex differences	(52)	657	430	86	1,121
At 31 December 2016	51,268	185,148	40,303	1,770	278,489
Increases	1,589	7,050	2,487	2,782	13,908
Disposals	-	(1,002)	(538)	-	(1,540)
Reclassifications	118	587	192	(1,201)	(304)
Forex differences	(914)	(1,900)	(626)	(29)	(3,469)
At 31 December 2017	52,061	189,883	41,818	3,322	287,084
Accumulated depreciations					
At 31 December 2015	15,470	146,059	32,396	-	193,925
Depreciations for the year	1,442	7,961	2,328	-	11,731
Eliminations for disposals	-	(3,066)	(231)	-	(3,297)
Change in scope of consolidation	-	1,174	492	-	1,666
Reclassifications	5	40	21	-	66
Forex differences	59	588	306	-	953
At 31 December 2016	16,976	152,756	35,312	-	205,044
Depreciations for the year	1,459	8,047	2,260	-	11,766
Eliminations for disposals	-	(800)	(479)	-	(1,279)
Reclassifications	5	41	30	-	76
Forex differences	(156)	(1,002)	(434)	-	(1,592)
At 31 December 2017	18,284	159,042	36,689	-	214,015
Net carrying value					
At 31 December 2017	33,777	30,841	5,129	3,322	73,069
At 31 December 2016	34,292	32,392	4,991	1,770	73,445

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

	31/12/2017	31/12/2016	Change
Land	6,877	6,688	189
Industrial buildings	26,900	27,604	(704)
Total	33,777	34,292	(515)

The net carrying value of industrial property includes an amount of € 2,125,000 (€ 2,211,000 at 31 December 2016) relating to industrial buildings held under finance leases.

¹ figures recalculated pursuant to IFRS 3, in order to retrospectively take into account the effects resulting from the fair value measurement of A.R.C's assets and liabilities, at the acquisition date previously considered provisional.

The main investments in the financial year were aimed at automation of the assembly lines for light alloy valves and at the interconnection of production plants with management systems (Industry 4.0). The building in Campodarsego (PD) was acquired, where A.R.C., formerly rented, operates. In Brazil, the factory was expanded, against increased production volumes; while in Turkey all the die-casting machines were robotised. Other investments were made in the production of presses 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 2017, 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 2015	13,136
Increases	-
Disposals	-
At 31 December 2016	13,136
Increases	-
Disposals	(199)
At 31 December 2017	12,937
Accumulated depreciations	
At 31 December 2015	6,424
Depreciations for the year	442
Eliminations for disposals	-
At 31 December 2016	6,866
Depreciations for the year	436
Eliminations for disposals	(62)
At 31 December 2017	7,240
Net carrying value	
At 31 December 2017	5,697
At 31 December 2016	6,270

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

At 31 December 2017, the Group 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

	Goodwill	Patents, software and know- how	Development costs	Other intangible assets	Total
Cost					
At 31 December 2015	9,008	6,231	4,685	799	20,723
Increases	-	155	314	18	487
Change in the scope of consolidation	1,770	13	-	19	1,802
Reclassifications	-	62	(44)	(30)	(12)
Decreases	-	-	-	(15)	(15)
Forex differences	-	6	-	-	6
At 31 December 2016	10,778	6,467	4,955	791	22,991
Increases	-	420	496	23	939
Reclassifications	-	-	(79)	-	(79)
Decreases	-	(14)	-	(13)	(27)
Forex differences	-	(14)	-	(8)	(22)
At 31 December 2017	10,778	6,859	5,372	793	23,802
Amortisation/Write-downs					
At 31 December 2015	4,563	5,732	2,347	556	13,198
Amortisation for the year	-	266	352	98	716
Change in the scope of consolidation	-	3	-	8	11
Decreases	-	-	-	(15)	(15)
Forex differences	-	4	-	-	4
At 31 December 2016	4,563	6,005	2,699	647	13,914
Amortisation for the year	-	272	342	22	636
Decreases	-	(14)	-	-	(14)
Forex differences	-	(9)	-	(8)	(17)
At 31 December 2017	4,563	6,254	3,041	661	14,519
Net carrying value					
At 31 December 2017	6,215	605	2,331	132	9,283
At 31 December 2016	6,215	462	2,256	144	9,077

Goodwill

Goodwill recognised at 31 December 2017 is allocated:

- to “Hinges” (CGU) cash generating units of € 4.445 million;
- to the “Professional burners” CGU of € 1.770 million².

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

Goodwill allocated to the Hinges CGU

In 2017, 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

² figure recalculated pursuant to IFRS 3, in order to retrospectively take into account the effects resulting from the fair value measurement of A.R.C's assets and liabilities, at the acquisition date previously considered provisional.

2018-2022 forward plan, drafted at the beginning of 2018, envisages a further increase in sales. Profitability is expected to decline in 2018, following the devaluation of the dollar (the currency in which more than 40% of sales are denominated) and the increase in the price of steel, before gradually recovering in subsequent years. At 31 December 2017, the Group tested the carrying value of its CGU Hinges for impairment, determining its recoverable value, 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 2018 to 2022 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 9.18% (7.76% in the impairment test conducted while preparing the consolidated financial statements at 31 December 2016) and a growth rate (g) of 1.50%, which is in line with historical data.

The recoverable value calculated on the basis of the above-mentioned assumptions and valuation techniques is € 12.680 million, compared with a carrying value of the assets allocated to the Hinges unit of € 7.427 million; consequently, the value recorded for goodwill at 31 December 2017 was deemed recoverable.

Sensitivity analysis

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

<i>(€/000)</i>	<i>growth rate</i>				
<i>discount rate</i>	1.00%	1.25%	1.50%	1.75%	2.00%
8.18%	13,890	14,312	14,765	15,254	15,782
8.68%	12,902	13,263	13,649	14,063	14,508
9.18%	12,036	12,348	12,680	13,035	13,414
9.68%	11,272	11,543	11,831	12,138	12,464
10.18%	10,592	10,830	11,081	11,348	11,631

Goodwill allocated to the Professional burners CGU

At 31 December 2017, the Group tested the carrying value of its Professional burners CGU for impairment, determining its recoverable value, considered to be equivalent to its usable value, by discounting expected future cash flow in the forward plan drafted at the beginning of 2018. Cash flows for the 2018-2022 period were augmented by the so-called terminal value, which expresses the operating flows that the CGU 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 6.90% (5.79% in the impairment test conducted while preparing the consolidated financial statements at 31 December 2016) and a growth rate (g) of 1.50%.

The recoverable value calculated on the basis of the above-mentioned assumptions and valuation techniques is € 11.345 million, compared with a carrying value of the assets allocated to the Professional burners unit of € 4.409 million (including minority interests); consequently, the value recorded for goodwill at 31 December 2017 was deemed recoverable.

Sensitivity analysis

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

<i>(€/000)</i>	<i>growth rate</i>				
<i>discount rate</i>	1.00%	1.25%	1.50%	1.75%	2.00%
5.90%	12,794	13,396	14,066	14,816	15,663
6.40%	11,549	12,033	12,566	13,156	13,814
6.90%	10,516	10,917	11,345	11,820	12,343
7.40%	9,646	9,975	10,333	10,721	11,146
7.90%	8,903	9,180	9,479	9,802	10,153

Patents, software and know-how

Software investments include the implementation of a production scheduler and the application development 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).

4. EQUITY INVESTMENTS

	31/12/2016	Disposals	31/12/2017
Sabaf US	139	-	139
ARC Handan Burners Co.	101	-	101
Other equity investments	66	(25)	40
Total	306	(25)	281

The subsidiary Sabaf U.S. operates as a commercial base for North America. The carrying value of the investment is deemed recoverable taking into consideration expected developments on the North American market.

Handan ARC Burners Co. is a Chinese joint venture built at the end of 2015, in which A.R.C. s.r.l. holds 50% (therefore, the Group's share is 35%). The aim of Handan ARC Burners is to produce and market in China burners for professional cooking; production of the first pre-series began in 2017.

5. NON-CURRENT RECEIVABLES

	31/12/2017	31/12/2016	Change
Tax receivables	153	225	(72)
Guarantee deposits	43	37	6
Total	196	262	(66)

Tax receivables relate to indirect taxes expected to be recovered after 31 December 2018.

6. INVENTORIES

	31/12/2017	31/12/2016	Change
Commodities	11,459	9,740	1,719
Semi-processed goods	11,180	10,893	287
Finished products	13,448	13,308	140
Obsolescence provision	(3,158)	(2,457)	(701)
Total	32,929	31,484	1,445

The value of final inventories at 31 December 2017 increased compared to the end of the previous year to meet the higher volumes of activity. The obsolescence provision is mainly 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.

7. TRADE RECEIVABLES

	31/12/2017	31/12/2016	Change
Total trade receivables	43,002	37,576	5,426
Bad debt provision	(739)	(734)	(5)
Net total	42,263	36,842	5,421

Trade receivables at 31 December 2017 were higher than at the end of 2016 subsequent to higher sales. There were no significant changes in payment terms agreed with customers.

At 31 December 2017, trade receivables included balances totalling USD 6,826,000, booked at the EUR/USD exchange rate in effect on 31 December 2017, i.e. 1.1993. The amount of trade receivables recognised in the financial statements includes approximately € 28.2 million of insured receivables (€ 22.4 million at 31 December 2016).

The bad debt provision was adjusted to the better estimate of the credit risk at the end of the reporting period.

	31/12/2017	31/12/2016	Change
Current receivables (not past due)	38,282	32,616	5,666
Outstanding up to 30 days	2,802	3,296	(494)
Outstanding from 30 to 60 days	868	218	650
Outstanding from 60 to 90 days	594	136	458
Outstanding for more than 90 days	456	1,310	(854)
Total	43,002	37,576	5,426

8. TAX RECEIVABLES

	31/12/2017	31/12/2016	Change
For income tax	1,998	2,186	(188)
For VAT and other sales taxes	682	533	149
Other tax credits	385	444	(59)
Total	3,065	3,163	(98)

The income tax receivables derives for € 1,153,000 from the full deductibility of IRAP from IRES relating to the expenses incurred for employees for the 2006-2011 period (Italian Legislative Decree 201/2011), for which an application for a refund was presented and, for the residual part, to the payments on account on 2017 income, for the part exceeding the tax to be paid.

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

9. OTHER CURRENT RECEIVABLES

	31/12/2017	31/12/2016	Change
Credits to be received from suppliers	360	706	(346)
Advances to suppliers	155	168	(13)
Other	542	545	(3)
Total	1,057	1,419	(362)

At 31 December 2017, credits to be received from suppliers included € 248,000 related to the relief due to the parent company as an energy-intensive business (so-called “energy-intensive bonuses”) for the years 2016 and 2017. “Energy-intensive bonuses” due for the years 2014 and 2015 were regularly collected during 2017.

10. CURRENT FINANCIAL ASSETS

	31/12/2017		31/12/2016	
	Current	Non current	Current	Non current
Escrow bank accounts	60	180	-	-
Derivative instruments on interest rates	7	-	-	-
Total	67	180	0	0

The item Derivative instruments on interest rates refers to the positive fair value of an IRS hedging rate risks of an unsecured loan pending, for a notional amount of approximately € 4 million and expiry until 31 December 2021. Financial income was recognised in the income statement with a balancing entry.

11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents, which amounted to € 11,533,000 at 31 December 2017 (€ 12,143,000 at 31 December 2016) consisted of bank current account balances of approximately € 11 million and sight deposits of approximately € 0.5 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.

13. TREASURY SHARES

During the financial year Sabaf S.p.A. acquired 148,630 treasury shares at an average unit price of € 14.20; there have been no sales.

At 31 December 2017, the parent company Sabaf S.p.A. held 381,769 treasury shares, equal to 3.31% of share capital (233,139 treasury shares at 31 December 2016), reported in the financial statements as an adjustment to shareholders' equity at a unit value of € 11.81 (the market value at year-end was € 19.91).

There were 11,151,681 outstanding shares at 31 December 2017 (11,300,311 at 31 December 2016).

14. LOANS

	31/12/2017		31/12/2016	
	Current	Non current	Current	Non current
Property leasing	149	1,462	145	1,611
Unsecured loans	5,982	16,298	6,656	17,281
Short-term bank loans	9,477	-	7,802	-
Advances on bank receipts or invoices	1,678	-	2	-
Interest payable	2	-	7	-
Total	17,288	17,760	14,612	18,892

To manage interest rate risk, unsecured loans are either fixed-rate or hedged by IRS.

Two of the outstanding unsecured loans, amounting to € 9 million at 31 December 2017, 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
- Commitment to maintain a ratio of net financial position to EBITDA of less than 2

both widely observed at 31 December 2017.

All outstanding bank loans are denominated in euro, with the exception of a short-term loan of USD 2 million and a short-term loan of 1.4 million Turkish lira.

Note 35 provides information on financial risks, pursuant to IFRS 7.

15. OTHER FINANCIAL LIABILITIES

	31/12/2017		31/12/2016	
	Current	Non current	Current	Non current
Option on minorities	-	1,763	-	1,522
Payables to A.R.C. shareholders	60	180	60	240
Currency derivatives	-	-	238	-
Derivative instruments on interest rates	15	-	37	-
Total	75	1,943	335	1,762

In June 2016, as part of the acquisition of 70% of A.R.C. S.r.l., 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.

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 € 1.522 million was recognised in the consolidated financial statements at 31 December 2016. At 31 December 2017, 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 2018. The recalculation of the fair value, in compliance with IAS 39, led to an increase of € 241,000 in the liability; financial expenses were recognised as a balancing entry (Note 29).

The payable to the A.R.C. shareholders of € 240,000 at 31 December 2017 is related to the part of the price still to be paid to the sellers, which was deposited on an escrow account and will be released in favour of the sellers at constant rates in 4 years, in accordance with contractual agreements and guarantees issued by the sellers.

Other financial liabilities also include the negative fair value of two IRSs hedging rate risks of unsecured loans pending, for residual notional amounts of approximately € 5.4 million and expiry until 31 December 2021. Financial expenses in the same amount were recognised in the income statement.

16. POST-EMPLOYMENT BENEFIT AND RETIREMENT RESERVES

	31/12/2017	31/12/2016	Change
Post-employment benefit reserve	2,720	2,961	(241)
Retirement reserve	125	125	-
Total	2,845	3,086	(241)

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

	31/12/2017	31/12/2016
Discount rate	1.15%	1.15%
Inflation	1.80%	1.75%

Demographic theory

	31/12/2017	31/12/2016
Mortality rate	ISTAT 2016 M/F	ISTAT 2010 M/F
Disability rate	INPS 1998 M/F	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 2017	pursuant to legislation in force on 31 December 2016

17. PROVISIONS FOR RISKS AND CHARGES

	31/12/2016	Provisions	Utilisation	Release of excess portion	Exchange rate differences	31/12/2017
Reserve for agents' indemnities	231	15	(15)	(21)	-	210
Product guarantee fund	60	11	(11)	-	-	60
Reserve for legal risks	143	-	(7)	-	(21)	115
Total	434	26	(33)	(21)	(21)	385

The reserve 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 reserve for legal risks, set aside for moderate disputes, was adjusted to reflect the outstanding disputes.

The provisions booked to 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

	31/12/2017	31/12/2016	Change
Total	19,975	18,977	998

Average payment terms did not change versus the previous year. At 31 December 2017, there were no overdue payables of a significant amount and the Group did not receive any injunctions for overdue payables.

19. TAX PAYABLES

	31/12/2017	31/12/2016	Change
For income tax	240	361	(121)
Withholding taxes	656	788	(132)
Other tax payables	199	41	158
Total	1,095	1,190	(95)

20. OTHER CURRENT PAYABLES

	31/12/2017	31/12/2016	Change
To employees	4,552	3,965	587
To social security institutions	2,304	2,139	165
To agents	195	268	(73)
Advances from customers	94	181	(87)
Other current payables	346	104	242
Total	7,491	6,657	834

At the beginning of 2018, payables due to employees and social security institutions were paid in accordance with the scheduled expiry dates.

21. DEFERRED TAX ASSETS AND LIABILITIES

	31/12/2017	31/12/2016
Deferred tax assets	5,096	4,781
Deferred tax liabilities	(804)	(870)
Net position	4,293	3,911

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

	Depreciation and amortisation and leasing	Provisions and value adjustments	Fair value of derivative instruments	Goodwill	Tax incentives	Actuarial post-employment benefit reserve evaluation	Other temporary differences	Total
At 31 December 2016	(83)	1,062	67	1,771	595	210	289	3,911
To the income statement	(37)	105	(64)	-	159	(2)	423	584
To shareholders' equity	-	-	-	-	-	(19)	-	(19)
Forex differences	-	(17)	-	-	(125)	-	(41)	(183)
At 31 December 2017	(120)	1,150	3	1,771	629	189	671	4,293

Deferred tax assets relating to goodwill, equal to € 1,771,000, refer to the exemption of the value of the equity investment in Faringosi Hinges s.r.l. made in 2011 pursuant to Italian law Decree 98/2011. The future tax benefit can be made in ten annual portions starting in 2018.

Deferred tax assets relating to tax incentives are commensurate to investments made in Turkey, for which the Group benefited from reduced taxation recognised on income generated in Turkey.

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:

	31/12/2017	31/12/2016	Change
A. Cash (Note 11)	14	12	2
B. Positive balances of unrestricted bank accounts (Note 11)	11,009	8,376	2,633
C. Other cash equivalents	510	3,755	(3,245)
D. Liquidity (A+B+C)	11,533	12,143	(610)
E. Current bank payables (Note 14)	11,157	7,811	3,346
F. Current portion of non-current debt (Note 14)	6,131	6,801	(670)
G. Other current financial payables (Note 15)	75	335	(260)
H. Current financial debt (E+F+G)	17,363	14,947	2,416
I. Net current financial debt (H-D)	5,830	2,804	3,026
J. Non-current bank payables (Note 14)	16,298	17,281	(983)
K. Other non-current financial payables (Note 14)	3,405	3,373	32
L. Non-current financial debt (J+K)	19,703	20,654	(951)
M. Net financial debt (I+L)	25,533	23,458	2,075

The consolidated cash flow statement shows changes in cash and cash equivalents (letter D of this schedule).

Comments on key income statement items

23. REVENUE

In 2017, sales revenues totalled € 150,223,000, up by € 19,245,000 (+14.7%) compared with 2016. Taking into consideration the same scope of consolidation, revenue increased by 12.9%.

Revenue by product family

	2017	%	2016	%	% change
Brass valves	5,991	4.0%	9,007	6.9%	-33.5%
Light alloy valves	39,351	26.2%	32,393	24.7%	+21.5%
Thermostats	7,376	4.9%	7,699	5.9%	-4.2%
Standard burners	41,070	27.3%	37,338	28.5%	+10.0%
Special burners	27,184	18.1%	21,215	16.2%	+28.1%
Accessories	15,267	10.2%	12,613	9.6%	+21.0%
<i>Household gas parts</i>	<i>136,239</i>	<i>90.7%</i>	<i>120,265</i>	<i>91.8%</i>	<i>+13.3%</i>
<i>Professional gas parts</i>	<i>5,079</i>	<i>3.4%</i>	<i>2,289</i>	<i>1.8%</i>	<i>+121.9%</i>
<i>Hinges</i>	<i>8,905</i>	<i>5.9%</i>	<i>8,424</i>	<i>6.4%</i>	<i>+5.7%</i>
Total	150,223	100%	130,978	100%	+14.7%

Revenue by geographical area

	2017	%	2016	%	% change
Italy	36,523	24.3%	36,365	27.8%	+0.4%
Western Europe	11,678	7.8%	8,553	6.5%	+36.5%
Eastern Europe	42,824	28.5%	34,123	26.1%	+25.5%
Middle East and Africa	13,009	8.6%	11,698	8.9%	+11.2%
Asia and Oceania	10,516	7.0%	8,088	6.2%	+30.0%
South America	22,938	15.3%	20,847	15.9%	+10.0%
North America and Mexico	12,735	8.5%	11,304	8.6%	+12.7%
Total	150,223	100%	130,978	100%	+14.7%

An analysis of sales by product category shows the strong growth of special burners, the family where product innovation has been strongest in recent years. The trend in sales of light alloy valves, which have now almost completely replaced brass valves, was also very positive. All other product lines also recorded good growth rates, with the exception of thermostats.

In 2017, all markets recorded double-digit growth rates; Italy, where sales remained stable after years of decline due to the sharp reduction in the production of domestic appliances, is an exception. Very positive sales growth rates have been recorded in other European markets, where Sabaf is consolidating its leadership. The Middle East market showed a strong recovery compared to 2016; Asia, North and South America confirmed a positive underlying trend.

Average sales prices in 2017 were on average 0.8% lower compared with 2016.

24. OTHER INCOME

	2017	2016	Change
Sale of trimmings	2,261	1,684	577
Contingent income	311	146	165
Rental income	89	85	4
Use of provisions for risks and charges	36	67	(31)
Other income	664	837	(173)
Total	3,361	2,819	542

The increase in income from the sale of trimmings is directly related to higher production volumes and to the increase in the price of raw materials.

25. MATERIALS

	2017	2016	Change
Commodities and outsourced components	54,179	42,540	11,639
Consumables	5,615	4,806	809
Total	59,794	47,346	12,448

In 2017, the effective purchase prices of the main raw materials (aluminium alloys, steel and brass) were on average higher than in 2016, with a negative impact of 0.9% of sales. Consumption (purchases plus change in inventories) as a percentage of sales was 38.2% in 2017, compared with 36.7% in 2016.

26. COSTS FOR SERVICES

	2017	2016	Change
Outsourced processing	9,779	8,435	1,344
Natural gas and power	4,485	4,622	(137)
Maintenance	4,474	4,071	403
Transport	2,221	1,848	373
Advisory services	2,106	1,639	467
Directors' fees	1,084	1,181	(97)
Travel expenses and allowances	715	693	22
Commissions	637	648	(11)
Insurance	537	675	(138)
Canteen	394	395	(1)
Temporary agency workers	199	125	74
Other costs	3,596	3,651	(55)
Total	30,227	27,983	2,244

The higher costs for outsourced processing were related to the increase in production volumes in Italy. The reduction in energy costs is due to the recognition of the "energy-intensive bonuses" for 2016 and 2017 for a total of € 248,000, which was not recognised in the 2016 financial statements because the collectability was uncertain at the end of the reporting period. The increase in maintenance costs was due to activities in progress for the ongoing adaptation of plants, machinery and equipment at the premises of all the factories of the Group. Other costs included expenses for the

registration of patents, waste disposal, cleaning, leasing third-party assets and other minor charges.

Costs for advisory services related to technical (€ 568,000), sales (€ 343,000) and legal, administrative and general (€ 1,195,000) services.

27. PAYROLL COSTS

	2017	2016	Change
Salaries and wages	23,987	22,284	1,703
Social Security costs	7,585	7,088	497
Temporary agency workers	1,910	1,216	694
Post-employment benefit reserve and other costs	1,846	1,524	322
Total	35,328	32,112	3,216

The average Group headcount in 2017 was 760 employees compared to 755 in 2016. The average number of temporary staff was 60 in 2017 (40 in 2016).

During the financial year, the Group made only negligible use of the solidarity contract and temporary lay-off scheme, whereas in 2016 these institutions, used in periods characterised by low production requirements, made it possible to save personnel costs of € 689,000.

28. OTHER OPERATING COSTS

	2017	2016	Change
Non-income taxes	539	488	51
Other operating expenses	331	205	126
Contingent liabilities	145	69	76
Losses and write-downs of trade receivables	93	189	(96)
Provisions for risks	11	127	(116)
Other provisions	15	-	15
Total	1,134	1,078	56

Non-income taxes chiefly relate to property tax.

Provisions refer to the allocations to the reserves described in Note 17.

29. FINANCIAL EXPENSES

	2017	2016	Change
Interest paid to banks	260	243	17
Interest paid on finance lease contracts	19	22	(3)
IRS spreads payable	10	37	(27)
Banking expenses	240	263	(23)
Adjustment to the fair value of the ARC option (Note 15)	241	-	241
Other financial expense	34	55	(22)
Total	804	620	183

30. EXCHANGE RATE GAINS AND LOSSES

In 2017, the Group reported net foreign exchange gains of € 274,000, versus net gains of € 435,000 in 2016.

31. INCOME TAXES

	2017	2016	Change
Current taxes	3,836	3,454	382
Deferred tax liabilities	(452)	73	(525)
Taxes related to previous financial years	(496)	(176)	(320)
Total	2,888	3,351	(463)

The current income taxes include the IRES of € 2,448,000, the IRAP of € 545,000 and foreign income taxes of € 843,000 (€ 2,078,000, € 452,000 and € 924,000 respectively in 2016).

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:

	2017	2016
Theoretical income tax	4,272	3,280
Permanent tax differences	172	202
Taxes related to previous financial years	91	(138)
Tax effect from different foreign tax rates	5	(109)
Effect of non-recoverable tax losses	172	162
“Patent box” tax benefit	(1,151)	-
“Super ammortamento” tax benefit	(179)	-
Tax incentives for investments in Turkey	(950)	(408)
Other differences	10	(71)
Income taxes booked in the accounts, excluding IRAP and withholding taxes (current and deferred)	2,442	2,918
IRAP (current and deferred)	446	433
Total	2,888	3,351

Theoretical taxes were calculated applying the current corporate income tax (IRES) rate, i.e. 24% (27.50% in 2016), to the pre-tax result.

Following the prior agreement signed with the Revenue Agency, in 2017 the Group recognised the tax benefit relating to the Patent Box for the three-year period 2015 to 2017, for a total of € 1,324,000 (€ 1,151,000 for IRES and € 173,000 for IRAP), of which € 772,000 for 2015 and 2016 (Note 38) and € 552,000 for 2017.

In 2018, the Group also recognised € 950,000 in tax benefits deriving from investments made in Turkey, of which € 582,000 deriving from investments made in previous years for which access to the incentive was only established in 2017 (Note 38).

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.

No significant tax disputes were pending at 31 December 2017.

32. EARNINGS PER SHARE

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

<i>Earnings</i>	2017	2016
	<i>(€/000)</i>	<i>(€/000)</i>
Profit for the year	14,835	8,994
<i>Number of shares</i>	2017	2016
Weighted average number of ordinary shares for determining basic earnings per share	11,208,062	11,376,320
Dilutive effect from potential ordinary shares	-	-
Weighted average number of ordinary shares for determining diluted earnings per share	11,208,062	11,376,320
<i>Earnings per share (€)</i>	2017	2016
Basic earnings per share	1.323	0.791
Diluted earnings per share	1.323	0.791

Basic earnings per share are calculated on the average number of outstanding shares minus treasury shares, equal to 325,388 in 2017 (157,130 in 2016).

Diluted earnings per share are calculated taking into account any shares approved but not yet subscribed, of which there were none in 2017 and 2016.

33. DIVIDENDS

On 31 May 2017, shareholders were paid an ordinary dividend of € 0.48 per share (total dividends of € 5,384,000).

The Directors have recommended payment of a dividend of € 0.55 per share this year. This dividend is subject to approval of shareholders in the annual Shareholders' Meeting and was not included under liabilities in these financial statements.

The dividend proposed is scheduled for payment on 30 May 2018 (ex-date 28 May and record date 29 May).

34. INFORMATION BY BUSINESS SEGMENT

Below is the information by business segment for 2017 and 2016.

	2017 FY			2016 FY		
	Gas parts (household and professional)	Hinges	Total	Gas parts (household and professional)	Hinges	Total
Sales	141,280	8,943	150,223	122,636	8,342	130,978
Ebit	16,974	1,143	18,117	11,643	887	12,530

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.

	31/12/2017	31/12/2016
Financial assets		
<i>Amortised cost</i>		
Cash and cash equivalents	11,533	12,143
Escrow bank deposits	240	-
Trade receivables and other receivables	43,516	38,523
<i>Income statement fair value</i>		
Derivative to hedge cash flows	7	-
Financial liabilities		
<i>Amortised cost</i>		
Loans	35,048	33,504
Other financial liabilities	240	300
Trade payables	19,975	18,977
<i>Income statement fair value</i>		
ARC put option	1,763	1,522
Derivative to hedge cash flows	15	275

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 Company assesses the creditworthiness of all its customers at the start of supply and systemically on at least an annual basis. After this assessment, each customer is assigned a credit limit.

A credit insurance policy is in place, which guarantees cover for approximately 65% 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 14% of total revenue in 2017, while purchases in dollars represented 4% of total revenue. During the year, operations in dollars were partially hedged through forward sales contracts; no currency derivatives were pending at 31 December 2017.

Sensitivity analysis

With reference to financial assets and liabilities in US dollars at 31 December 2017, a hypothetical and immediate revaluation of 10% of the euro against the dollar would have led to a loss of € 475,000.

Interest rate risk management

At 31 December 2017, gross financial debt of the Group was at a floating rate for approximately 35% and at a fixed rate for approximately 65%; to reach an optimum mix of floating and fixed rates in the structure of the loans, the Group also used derivative financial instruments. At 31 December 2017, three interest rate swap (IRS) contracts totalling € 9.4 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. Considering the IRS in place, at the end of 2017, the fixed-rate portion amounted to approximately 90% of the total financial debt. The derivative contracts were not designated as a cash flow hedge and were therefore recognised using the “fair value in the income statement” method.

Sensitivity analysis

At 31 December 2017, the sensitivity analysis concerned financial leases and the floating rate portion of the short-term financial debt. The Group is not exposed to interest rate risk as regards medium/long-term bank debt, since the floating rate of loans has been transformed into a fixed rate by means of the interest rate swap contracts in place.

With reference to financial assets and liabilities at variable rate at 31 December 2017 and 31 December 2016, a hypothetical increase (decrease) in the interest rate of 100 base points versus the interest rates in effect at the same date – all other variables being equal - would lead to the following effects:

	31/12/2017	31/12/2016
	Financial expenses	Financial expenses
Increase of 100 base points	31	20
Decrease of 100 base points	(31)	-

Commodity price risk management

A significant portion of the Group's purchase costs is represented by brass and aluminium alloys. 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 brass and aluminium with supply contracts signed with suppliers for delivery up to twelve months in advance or, alternatively, with derivative financial instruments. In 2017 and 2016, 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 low debt ratio (net financial debt / shareholders' equity at 31 December 2017 of 22%, net financial debt / EBITDA of 0.82) 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.

Below is an analysis by expiration date of financial payables at 31 December 2017 and 31 December 2016:

At 31 December 2017

	Carrying value	Contractual financial flows	Within 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years
Short-term bank loans	11,157	11,157	11,157	0	-	-
Unsecured loans	22,280	22,676	1,537	4,612	16,527	-
Finance leases	1,611	1,818	47	141	754	876
Payables to ARC shareholders	240	240	-	60	180	-
ARC option	1,763	1,763	-	-	1,763	-
Total financial payables	37,051	37,654	12,741	4,813	19,224	876
Trade payables	19,975	19,975	19,021	954	-	-
Total	57,026	57,629	31,762	5,767	19,224	876

At 31 December 2016

	Carrying value	Contractual financial flows	Within 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years
Short-term bank loans	7,811	7,811	5,811	2,000	-	-
Unsecured loans	23,937	24,388	1,709	5,129	17,550	-
Finance leases	1,756	2,007	47	141	754	1,065
Payables to ARC shareholders	300	300	-	60	240	-
ARC option	1,522	1,522	-	-	1,522	-
Total financial payables	35,326	36,028	7,567	7,330	20,066	1,065
Trade payables	18,977	18,977	18,340	637	-	-
Total	54,303	55,005	25,907	7,967	20,066	1,065

The various due dates are based on the period between the end of the reporting period and the contractual expiration 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 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 (prices) or indirectly (derivatives 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 2017, by hierarchical level of fair value assessment.

	Level 1	Level 2	Level 3	Total
Other financial assets (derivatives on interest rates)	-	7	-	7
Other financial liabilities (derivatives on interest rates)	-	(15)	-	(15)
Other financial liabilities (ARC put option)	-	-	(1,763)	(1,763)
Total liabilities	0	(8)	(1,763)	(1,771)

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 2017	Giuseppe Saleri S.a.p.A.	Non- consolidated subsidiaries	Other related parties	Total related parties	Impact on the total
Trade receivables	42,263	-	299	-	299	0.71%
Tax receivables	3,065	1,158	-	-	1,158	37.78%
Trade payables	19,976	-	-	2	2	0.01%

	Total 2016	Giuseppe Saleri S.a.p.A.	Non- consolidated subsidiaries	Other related parties	Total related parties	Impact on the total
Trade receivables	36,842	-	221	-	221	0.60%
Tax receivables	3,163	1,158	-	-	1,158	36.61%
Trade payables	18,977	-	-	2	2	0.01%

Impact of related-party transactions on income statement accounts

	Total 2017	Giuseppe Saleri S.a.p.A.	Non- consolidated subsidiaries	Other related parties	Total related parties	Impact on the total
Other income	3,361	10	-	-	10	0.30%
Services	(30,227)	-	(167)	(20)	(187)	0.62%

	Total 2016	Giuseppe Saleri S.a.p.A.	Non- consolidated subsidiaries	Other related parties	Total related parties	Impact on the total
Other income	2,819	10	-	-	10	0.35%
Services	(27,983)	-	(181)	(22)	(203)	0.73%

Transactions with the shareholder, Giuseppe Saleri S.a.p.A., comprise:

- administration services provided by Sabaf S.p.A. to Giuseppe Saleri S.a.p.A.;
- transactions as part of the domestic tax consolidation scheme until 2016, which generated the receivables shown in the tables.

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

Transactions with non-consolidated subsidiaries were solely of a commercial nature.

Fees to directors, statutory auditors and executives with strategic responsibilities

Please see the 2017 Report on Remuneration for this information.

37. SHARE-BASED PAYMENTS

At 31 December 2017, there were no equity-based incentive plans for the Group's directors and employees.

38. 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)	113,595	14,835	25,533	(610)
Recognition of "Patent box" tax benefit related to 2015 and 2016	(772)	(772)	-	-
Recognition of tax incentives for investments in Turkey carried out in previous financial years	(592)	(592)	-	-
Financial statement notional value (A+B)	112,231	13,471	25,533	(610)

As described in Note 31, in these consolidated financial statements, the Group recognised:

- the tax benefit relating to the Patent Box for the three-year period 2015 to 2017;
- the tax benefit on investments made in Turkey, against which a tax credit was recognised.

The tax benefits relating to previous years are considered non-recurring and are therefore shown in the table above.

39. 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 2017.

40. 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 € 5,145,000 (€ 5,510,000 at 31 December 2016).

41. SCOPE OF CONSOLIDATION AND SIGNIFICANT EQUITY INVESTMENTS

COMPANIES CONSOLIDATED USING THE FULL LINE-BY-LINE CONSOLIDATION METHOD

Company name	Registered offices	Share capital	Shareholders	ownership %
Faringosi-Hinges S.r.l.	Ospitaletto (BS)	€ 90,000	Sabaf S.p.A.	100%
Sabaf Immobiliare s.r.l.	Ospitaletto (BS)	€ 25,000	Sabaf S.p.A.	100%
Sabaf do Brasil Ltda	Jundiaí (SP, Brazil)	BRL 24,000,000	Sabaf S.p.A.	100%
Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki	Manisa (Turkey)	TRK 28,000,000	Sabaf S.p.A.	100%

Sabaf Appliance Components Trading Ltd.	Kunshan (China)	€ 200,000	Sabaf S.p.A.	100%
Sabaf Appliance Components Ltd.	Kunshan (China)	€ 4,400,000	Sabaf S.p.A.	100%
A.R.C. s.r.l.	Campodarsego (PD) - Italy	€ 45,000	Sabaf S.p.A.	70%

NON-CONSOLIDATED COMPANIES VALUED AT COST

Company name	Registered offices	Share capital	Shareholders	Ownership %	Holding %
Sabaf US Corp.	Plainfield (USA)	USD 100,000	Sabaf S.p.A.	100%	100%
Handan ARC Burners Co., Ltd.	Handan (China)	RMB 7,000,000	A.R.C. s.r.l.	50%	35%

42. 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
Email: info@sabaf.it
Website: www.sabaf.it

Tax information: R.E.A. Brescia 347512
Tax Code 03244470179
VAT number 01786910982

Appendix

Information pursuant to 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 2017 for auditing and for services other than auditing provided by the Independent Auditor and its network.

(€/000)	Party providing the service	Recipient	Fees pertaining to the 2017 financial year
Audit	Deloitte & Touche S.p.A.	Parent company	57
	Deloitte & Touche S.p.A.	Italian subsidiaries	30
	Deloitte network	Sabaf do Brasil	27
	Deloitte network	Sabaf Turkey	21
Certification services	Deloitte & Touche S.p.A.	Parent company	2 ⁽¹⁾
	Deloitte & Touche S.p.A.	Italian subsidiaries	1 ⁽¹⁾
Other services	Deloitte & Touche S.p.A.	Parent company	14 ⁽²⁾
	Deloitte network	Sabaf do Brasil	3 ⁽³⁾
<i>Total</i>			<i>155</i>

(1) signing of Unified Tax Return, IRAP and 770 forms

(2) auditing procedures agreement relating to interim management reports, auditing of statements and training activities

(3) tax assistance regarding transfer pricing

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 2017 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, 26 March 2018

Chief Executive Officer
Pietro Iotti

The Financial Reporting Officer
Gianluca Beschi