

*INTERIM MANAGEMENT STATEMENT*

*AT 30 SEPTEMBER 2016*



**SABAF S.p.A.**

**Via dei Carpini 1 – OSPITALETTO (BS), ITALY**

**Share capital: €1,533,450 fully paid in**

**[www.sabaf.it](http://www.sabaf.it)**

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## Group structure

### *Parent company*

SABAF S.p.A.

### *Subsidiaries and equity interest owned by the Group*

#### Wholly consolidated companies

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

#### Equity investments booked at net equity

Handan ARC Burners Co., Ltd.	35%
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#### Unconsolidated companies

Sabaf US Corp.	100%
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### **Board of Directors**

Chairman	Giuseppe Saleri
Vice Chairman	Cinzia Saleri
Vice Chairman	Ettore Saleri
Vice Chairman	Roberta Forzanini
CEO	Alberto Bartoli
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 Auditors**

Chairman	Antonio Passantino
Statutory auditor	Luisa Anselmi
Statutory auditor	Enrico Broli

## Consolidated statement of financial position

(€'000)	30.09.2016	31.12.2015	30.09.2015
<b>ASSETS</b>			
NON-CURRENT ASSETS			
Tangible assets (property, plant, and equipment)	74,023	73,037	73,320
Real estate investment	6,380	6,712	6,822
Intangible assets	9,348	7,525	7,524
Equity investments	311	204	204
Non-current receivables	536	432	239
Deferred tax assets	4,793	4,887	5,409
<b>Total non-current assets</b>	<b>95,391</b>	<b>92,797</b>	<b>93,518</b>
CURRENT ASSETS			
Inventories	32,706	31,009	31,911
Trade receivables	39,448	40,425	38,530
Tax receivables	2,350	2,489	2,438
Other current receivables	1,332	1,447	1,576
Current financial assets	53	69	0
Cash and cash equivalents	6,724	3,991	5,686
<b>Total current assets</b>	<b>82,613</b>	<b>79,430</b>	<b>80,141</b>
ASSETS HELD FOR SALE	<b>0</b>	<b>0</b>	<b>0</b>
<b>TOTAL ASSETS</b>	<b>178,004</b>	<b>172,227</b>	<b>173,659</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
SHAREHOLDERS' EQUITY			
Share capital	11,533	11,533	11,533
Retained earnings, other reserves	91,847	90,509	89,329
Net profit for the period	6,297	8,998	7,747
<i>Total equity interest of the Parent Company</i>	<i>109,677</i>	<i>111,040</i>	<i>108,609</i>
<i>Minority interests</i>	<i>1,242</i>	<i>0</i>	<i>0</i>
<b>Total shareholders' equity</b>	<b>110,919</b>	<b>111,040</b>	<b>108,609</b>
NON-CURRENT LIABILITIES			
Loans	7,980	6,388	7,575
Other financial liabilities	1,762	0	0
Post-employment benefit and retirement reserves	3,077	2,914	2,968
Reserves for risks and contingencies	331	395	510
Deferred tax	736	772	740
<b>Total non-current liabilities</b>	<b>13,886</b>	<b>10,469</b>	<b>11,793</b>
CURRENT LIABILITIES			
Loans	26,465	23,480	23,750
Other financial liabilities	107	31	7
Trade payables	17,316	19,450	19,564
Tax payables	1,772	1,219	2,294
Other payables	7,539	6,538	7,642
<b>Total current liabilities</b>	<b>53,199</b>	<b>50,718</b>	<b>53,257</b>
LIABILITIES HELD FOR SALE	<b>0</b>	<b>0</b>	<b>0</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>178,004</b>	<b>172,227</b>	<b>173,659</b>

## Consolidated Income Statement

	Q3 2016		Q3 2015		9M 2016		9M 2015	
<i>(€ '000)</i>								
<b>CONTINUING OPERATIONS</b>								
OPERATING REVENUE AND INCOME								
Revenue	33,206	100.0%	32,060	100.0%	98,059	100.0%	104,569	100.0%
Other income	606	1.8%	873	2.7%	1,956	2.0%	2,852	2.7%
<b>Total operating revenue and income</b>	<b>33,812</b>	<b>101.8%</b>	<b>32,933</b>	<b>102.7%</b>	<b>100,015</b>	<b>102.0%</b>	<b>107,421</b>	<b>102.7%</b>
OPERATING COSTS								
Materials	(11,026)	-33.2%	(12,456)	-38.9%	(36,396)	-37.1%	(41,309)	-39.5%
Change in inventories	(1,858)	-5.6%	205	0.6%	638	0.7%	2,082	2.0%
Services	(6,743)	-20.3%	(6,925)	-21.6%	(21,111)	-21.5%	(22,888)	-21.9%
Payroll costs	(7,608)	-22.9%	(7,555)	-23.6%	(24,185)	-24.7%	(24,615)	-23.5%
Other operating costs	(208)	-0.6%	(364)	-1.1%	(659)	-0.7%	(1,116)	-1.1%
Costs for capitalised in-house work	212	0.6%	311	1.0%	645	0.7%	938	0.9%
<b>Total operating costs</b>	<b>(27,231)</b>	<b>-82.0%</b>	<b>(26,784)</b>	<b>-83.5%</b>	<b>(81,068)</b>	<b>-82.7%</b>	<b>(86,908)</b>	<b>-83.1%</b>
<b>OPERATING PROFIT BEFORE DEPRECIATION &amp; AMORTISATION, CAPITAL GAINS/LOSSES, AND WRITE-DOWNS/WRITE-BACKS OF NON-CURRENT ASSETS (EBITDA)</b>								
	<b>6,581</b>	<b>19.8%</b>	<b>6,149</b>	<b>19.2%</b>	<b>18,947</b>	<b>19.3%</b>	<b>20,513</b>	<b>19.6%</b>
Depreciation & amortisation	(3,265)	-9.8%	(3,042)	-9.5%	(9,596)	-9.8%	(9,061)	-8.7%
Capital gains/(losses) on disposals of non-current assets	10	0.0%	14	0.0%	18	0.0%	59	0.1%
Write-downs/write-backs of non-current assets	0	0.0%	0	0.0%	0	0.0%	0	0.0%
<b>EBIT</b>								
	<b>3,326</b>	<b>10.0%</b>	<b>3,121</b>	<b>9.7%</b>	<b>9,369</b>	<b>9.6%</b>	<b>11,511</b>	<b>11.0%</b>
Financial income	17	0.1%	26	0.1%	49	0.0%	44	0.0%
Financial expense	(159)	-0.5%	(157)	-0.5%	(444)	-0.5%	(462)	-0.4%
Exchange rate gains and losses	78	0.2%	280	0.9%	204	0.2%	400	0.4%
Profits and losses from equity investments	0	0.0%	0	0.0%	0	0.0%	0	0.0%
<b>PROFIT BEFORE TAXES</b>								
	<b>3,262</b>	<b>9.8%</b>	<b>3,270</b>	<b>10.2%</b>	<b>9,178</b>	<b>9.4%</b>	<b>11,493</b>	<b>11.0%</b>
Income tax	(868)	-2.6%	(978)	-3.1%	(2,849)	-2.9%	(3,746)	-3.6%
Minority interests	(32)	-0.1%	0	0.0%	(32)	0.0%	0	0.0%
<b>NET PROFIT FOR THE PERIOD</b>								
	<b>2,362</b>	<b>7.1%</b>	<b>2,292</b>	<b>7.1%</b>	<b>6,297</b>	<b>6.4%</b>	<b>7,747</b>	<b>7.4%</b>

## Consolidated statement of comprehensive income

<i>(€ '000)</i>	Q3 2016	Q3 2015	9M 2016	9M 2015
<b>NET PROFIT FOR THE PERIOD</b>	<b>2,362</b>	<b>2,292</b>	<b>6,297</b>	<b>7,747</b>
<i>Overall earnings/losses that will be subsequently restated under profit (loss) for the period:</i>				
Forex differences due to translation of financial statements in foreign currencies	(778)	(3,757)	600	(5,088)
<b>Total other profits/(losses) net of taxes for the year</b>	<b>(778)</b>	<b>(3,757)</b>	<b>600</b>	<b>(5,088)</b>
<b>TOTAL PROFIT</b>	<b>1,584</b>	<b>(1,465)</b>	<b>6,897</b>	<b>2,659</b>

## Statement of changes in consolidated shareholders' equity

(€ '000)	Share capital	Share premium reserve	Legal Reserve	Treasury shares	Translation reserve	Updated post-employment benefit reserve	Other reserves	Net profit for the year	Total Group shareholders' equity	Minority interests	Total shareholders' equity
<b>Balance at 31 December 2014</b>	<b>11,533</b>	<b>10,002</b>	<b>2,307</b>	<b>(5)</b>	<b>(3,648)</b>	<b>(616)</b>	<b>82,827</b>	<b>8,338</b>	<b>110,738</b>	<b>0</b>	<b>110,738</b>
Allocation of 2014 earnings											
- dividends paid out								(4,613)	(4,613)		(4,613)
- carried forward							3,725	(3,725)	0		0
Purchase of treasury shares				(718)					(718)		(718)
Total profit at 31 December 2015					(3,400)	35		8,998	5,633		5,633
<b>Balance at 31 December 2015</b>	<b>11,533</b>	<b>10,002</b>	<b>2,307</b>	<b>(723)</b>	<b>(7,048)</b>	<b>(581)</b>	<b>86,552</b>	<b>8,998</b>	<b>111,040</b>	<b>0</b>	<b>111,040</b>
Allocation of 2015 earnings											
- dividends paid out								(5,467)	(5,467)		(5,467)
- carried forward							3,531	(3,531)			
Purchase of treasury shares				(1,271)					(1,271)		(1,271)
ARC consolidation										1,210	1,210
Put option 30% ARC							(1,522)		(1,522)		(1,522)
Total profit at 30 September 2016					600			6,297	6,897	32	6,929
<b>Balance at 30 September 2016</b>	<b>11,533</b>	<b>10,002</b>	<b>2,307</b>	<b>(1,994)</b>	<b>(6,448)</b>	<b>(581)</b>	<b>88,561</b>	<b>6,297</b>	<b>109,677</b>	<b>1,242</b>	<b>110,919</b>

## Consolidated statement of cash flows

(€ '000)	Q3 2016	Q3 2015	9M 2016	9M 2015
<b><i>Cash and cash equivalents at beginning of period</i></b>	<b>5,105</b>	<b>5,288</b>	<b>3,991</b>	<b>3,675</b>
Net profit/(loss) for the period	2,362	2,292	6,297	7,747
Adjustments for:				
- Depreciation and amortisation for the period	3,265	3,042	9,596	9,061
- Realised gains/losses	(10)	(14)	(18)	(59)
- Financial income and expenses	142	131	395	418
- Income tax	868	978	2,849	3,746
Payment of post-employment benefit reserve	(22)	(8)	(75)	(92)
Change in risk provisions	(42)	(52)	(64)	(95)
<i>Change in trade receivables</i>	<i>4,181</i>	<i>5,680</i>	<i>2,501</i>	<i>2,002</i>
<i>Change in inventories</i>	<i>1,937</i>	<i>386</i>	<i>(806)</i>	<i>(1,072)</i>
<i>Change in trade payables</i>	<i>(4,659)</i>	<i>(4,127)</i>	<i>(2,947)</i>	<i>56</i>
Change in net working capital	1,459	1,939	(1,252)	986
Change in other receivables and payables, deferred tax	539	537	1,314	232
Payment of taxes	(753)	(3,008)	(2,311)	(3,777)
Payment of financial expenses	(149)	(121)	(414)	(402)
Collection of financial income	17	26	49	44
<b>Cash flow from operations</b>	<b>7,676</b>	<b>5,742</b>	<b>16,366</b>	<b>17,809</b>
<b>Net investments</b>	<b>(2,414)</b>	<b>(1,670)</b>	<b>(9,374)</b>	<b>(9,603)</b>
Repayment of loans	(6,270)	(5,727)	(17,353)	(15,228)
New loans	3,200	4,465	22,246	16,669
Purchase/sale of own shares	(139)	(175)	(1,271)	(175)
Payment of dividends	0	0	(5,467)	(4,613)
<b>Cash flow from financing activities</b>	<b>(3,209)</b>	<b>(1,437)</b>	<b>(1,845)</b>	<b>(3,347)</b>
ARC acquisition	0	0	(2,614)	0
Foreign exchange differences	(434)	(2,237)	200	(2,848)
<b>Net financial flows for the period</b>	<b>1,619</b>	<b>398</b>	<b>2,733</b>	<b>2,011</b>
<b><i>Cash and cash equivalents at end of period</i></b>	<b>6,724</b>	<b>5,686</b>	<b>6,724</b>	<b>5,686</b>
Current financial debt	26,572	23,757	26,572	23,757
Non-current financial debt	9,742	7,575	9,742	7,575
<b>Net financial debt</b>	<b>29,590</b>	<b>25,646</b>	<b>29,590</b>	<b>25,646</b>



## Consolidated net financial position

<i>(€ '000)</i>	30.09.2016	31.12.2015	30.09.2015
A. Cash	19	11	15
B. Positive balances of unrestricted bank accounts	5,042	3,822	5,376
C. Other cash equivalents	1,663	158	295
<b>D. Liquidity (A+B+C)</b>	<b>6,724</b>	<b>3,991</b>	<b>5,686</b>
E. Current bank overdrafts	22,119	19,697	19,985
F. Current portion of non-current debt	4,346	3,783	3,765
G. Other current financial payables	107	31	7
<b>H. Current financial debt (E+F+G)</b>	<b>26,572</b>	<b>23,511</b>	<b>23,757</b>
<b>I. Current net financial debt (H-D)</b>	<b>19,848</b>	<b>19,520</b>	<b>18,071</b>
J. Non-current bank payables	6,332	4,632	5,782
K. Other non-current financial payables	3,410	1,756	1,793
<b>L. Non-current financial debt (J+K)</b>	<b>9,742</b>	<b>6,388</b>	<b>7,575</b>
<b>M. Net financial debt (L+I)</b>	<b>29,590</b>	<b>25,908</b>	<b>25,646</b>

## **Explanatory notes**

### **Accounting standards and area of consolidation**

The Interim Management Statement of the Sabaf Group at 30 September 2016 was prepared in accordance with Italian Stock Exchange Regulations, which stipulate that the publication of quarterly reports is one of the requirements for maintaining a listing in the STAR segment of the MTA (Electronic Stock Market). The present report, prepared in continuity with the past, does not contain the information required under IAS 34.

Accounting standards and policies are the same as those adopted for preparation of the consolidated financial statements at 31 December 2015, which should be consulted for reference. All the amounts contained in the statements included in this Interim Management Statement are expressed in thousands of euro.

We also draw attention to the following points:

- The Interim Management Statement was prepared according to the “separation-of-periods principle” whereby the quarter in question is treated as a separate financial period. This means that the quarterly income statement reflects the ordinary and non-recurring items pertaining to the period on an accruals basis;
- the financial statements used in the consolidation process are those prepared by the subsidiaries for the period ended 30 September 2016, adjusted to comply with Group accounting policies, where necessary;
- the parent company, Sabaf S.p.A., and the subsidiaries Faringosi-Hinges S.r.l., Sabaf Immobiliare S.r.l., Sabaf do Brasil Ltda, Sabaf Turkey, Sabaf Appliance Components Trading (Kunshan) Co. Ltd (in liquidation) and Sabaf Appliance Components (Kunshan) Co., Ltd have been consolidated on a 100% line-by-line basis.
- As of June 30, 2016, A.R.C. s.r.l. was also consolidated. This company is active in the production of burners for professional cooking and the Group acquired control of it at the end of June 2016. In this interim management statement, therefore, the economic results of A.R.C. have contributed to the profit for the Sabaf Group only in 3Q 2016;
- The evaluation of A.R.C. in accordance with IFRS 3 revised, namely recognizing the fair value of assets, liabilities and contingent liabilities at the acquisition date, is to be considered temporary for the moment, since, in accordance with IFRS 3 revised, the evaluation becomes final within 12 months of the acquisition date;
- the subsidiary Sabaf US Corp. has not been consolidated as its contribution is considered immaterial for the purposes of consolidation.

The Interim Management Statement at 30 September 2016 has not been independently audited.

*Sales breakdown by geographical area (Euro x 1000)*

<i>(amounts in € '000)</i>	<b>Q3 2016</b>	<b>Q3 2015</b>	% change	<b>9M 2016</b>	<b>9M 2015</b>	% change	<b>FY 2015</b>
Italy	7,448	8,810	-15.5%	28,414	31,472	-9.7%	41,244
Western Europe	2,445	1,694	+44.3%	5,996	5,662	+5.9%	7,438
Eastern Europe	8,488	8,564	-0.9%	25,576	27,511	-7.0%	35,125
Middle East and Africa	3,129	3,326	-5.9%	8,039	12,328	-34.8%	16,759
Asia and Oceania	2,467	1,516	+62.7%	5,568	4,667	+19.3%	7,019
South America	6,097	5,372	+13.5%	15,858	15,793	+0.4%	20,815
North America and Mexico	3,132	2,778	+12.7%	8,608	7,136	+20.6%	9,603
<b>Total</b>	<b>33,206</b>	<b>32,060</b>	<b>+3.6%</b>	<b>98,059</b>	<b>104,569</b>	<b>-6.2%</b>	<b>138,003</b>

*Sales breakdown by geographical area (Euro x 1000)*

<i>(amounts in € '000)</i>	<b>Q3 2016</b>	<b>Q3 2015</b>	% change	<b>9M 2016</b>	<b>9M 2015</b>	% change	<b>FY 2015</b>
Brass valves	2,502	2,820	-11.3%	7,042	9,858	-28.6%	12,689
Light alloy valves	7,774	7,650	1.6%	24,907	25,765	-3.3%	33,784
Thermostats	1,532	2,221	-31.0%	5,958	8,092	-26.4%	10,596
Standard burners	9,388	9,273	1.2%	27,548	28,502	-3.3%	37,789
Special burners	5,739	4,982	15.2%	15,642	16,107	-2.9%	21,622
Accessories	3,056	3,012	1.5%	9,488	10,186	-6.9%	13,577
<i>Total gas parts</i>	<i>29,991</i>	<i>29,958</i>	<i>+0.1%</i>	<i>90,585</i>	<i>98,510</i>	<i>-8.0%</i>	<i>130,057</i>
<i>Professional burners</i>	1,196	0	n/a	1,196	0	n/a	0
<i>Hinges</i>	2,019	2,102	-3.9%	6,278	6,059	+3.6%	7,946
<b>Total</b>	<b>33,206</b>	<b>32,060</b>	<b>+3.6%</b>	<b>98,059</b>	<b>104,569</b>	<b>-6.2%</b>	<b>138,003</b>

## **Management Statement**

### *Earnings*

In 3Q 2016, the Sabaf Group booked sales revenue of €33.2 million, an increase of 3.6% compared with the figure of €32.1 million registered in 3Q 2015. Taking into consideration the same area of consolidation (i.e. excluding the contribution of A.R.C.), sales in the third quarter were stable compared with the same period last year. In the third quarter, the Group was again affected by the difficult economic situation in the Middle East and North Africa, which penalized both direct sales to these markets and the activity of Italian export customers in the area. By contrast, very positive results were achieved in South America, thanks to the production in Brazil of a special burner for the local market, and in North America, where Sabaf is constantly increasing its presence in the high-end market.

EBITDA for 3Q 2016 amounted to € 6.6 million, with a 19.8% margin on sales, up by 7% vs. €6.1 million (19.2% margin on sales) in 3Q 2015. EBIT was €3.3 million, equivalent to 10% of sales, and 6.6% higher than the €3.1 million of the same quarter in 2015 (9.6% of sales). Profit before taxes for the period came in at €3.3 million, largely unchanged compared with the third quarter of 2015. The net result for the period was €2.4 million, up 3.1% on the figure of €2.3 million for 3Q 2015.

In the first nine months of 2016, revenue came to €98.1 million, a decrease of 6.2% compared to the same period of 2015; EBITDA was €18.9 million (accounting for 19.3% of sales), down by 7.6%, EBIT came in at €9.4 million (accounting for 9.6% of sales), a decrease of 18.6%, and net profit was €6.3 million, down by 18.7% versus the first nine months of 2015.

### *Equity and cash flow*

Quarter investments were € 2.4 million, bringing total investments since the start of the year to €9.4 million (€9.6 million in the first nine months of 2015).

As at 30 September 2016, net financial debt was €29.6 million (€34.3 million as at 30 June 2016), while shareholders' equity amounted to €111 million.

### *Significant non-recurring, atypical and/or unusual transactions*

During the third quarter of 2016, the Group did not engage in significant transactions qualifying as non-recurring, atypical and/or unusual, as envisaged by the CONSOB communication of 28 July 2006.

### *Outlook*

Group sales in the fourth quarter are expected to be in line with the same period of 2015. The Group therefore believes that it can close 2016 with sales of approximately €132 million, down by between 4% and 5% compared with the amount of €138 million in 2015. The Group also foresees that for the full year 2016, gross operating margin (EBITDA %) will total a value similar to 2015, when it amounted to 19%.

Negotiations with customers for 2017 are still ongoing; at present, the Group expects to be able to reach sales of around €140 million and improved operating margins compared to 2016.

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

## **Statement of the Financial Reporting Officer pursuant to Article 154-bis (2) TUF**

Pursuant to Article 154-bis, paragraph 2 of Legislative Decree 58/1998 of the Italian Consolidated Finance Act (Testo Unico della Finanza), the company's Financial Reporting Officer Gianluca Beschi declares that the financial disclosure contained in the Interim Management Statement of Sabaf S.p.A. at 30 September 2016 corresponds to the company's records, books and accounting entries.

*Ospitaletto (BS), 8 November 2016*

Financial Reporting Officer  
Gianluca Beschi