

INTERIM MANAGEMENT STATEMENT

AT 30 SEPTEMBER 2017



SABAF S.p.A.

Via dei Carpini, 1 – OSPITALETTO (BS)

Fully paid-in share capital: 11,533,450

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%

Unconsolidated companies

Sabaf US Corp.	100%
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

Consolidated statement of financial position

(€/000)	30.09.2017	31.12.2016(*)	30.09.2016(*)
ASSETS			
NON-CURRENT ASSETS			
Property, plant, and equipment	73,564	73,445	74,419
Investment property	5,805	6,270	6,380
Intangible assets	9,114	9,077	9,052
Equity investments	281	306	311
Financial assets	180	0	0
Non-current receivables	324	262	536
Deferred tax assets	4,793	4,781	4,793
Total non-current assets	94,061	94,141	95,491
CURRENT ASSETS			
Inventories	36,719	31,484	32,706
Trade receivables	44,043	36,842	39,448
Tax receivables	2,316	3,163	2,350
Other current receivables	1,177	1,419	1,332
Financial assets	178	0	53
Cash and cash equivalents	6,348	12,143	6,724
Total current assets	90,781	85,051	82,613
ASSETS HELD FOR SALE	0	0	0
TOTAL ASSETS	184,842	179,192	178,104
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	11,533	11,533	11,533
Retained earnings, other reserves	89,144	90,471	91,847
Net profit for the period	10,229	8,994	6,290
<i>Total equity interest of the Parent Company</i>	<i>110,906</i>	<i>110,998</i>	<i>109,670</i>
<i>Minority interests</i>	<i>1,444</i>	<i>1,379</i>	<i>1,239</i>
Total shareholders' equity	112,350	112,377	110,909
NON-CURRENT LIABILITIES			
Loans	15,031	18,892	7,980
Other financial liabilities	1,702	1,762	1,762
Post-employment benefit and retirement reserves	3,011	3,086	3,077
Provisions for risks and charges	388	434	331
Deferred tax liabilities	798	870	846
Total non-current liabilities	20,930	25,044	13,996
CURRENT LIABILITIES			
Loans	17,203	14,612	26,465
Other financial liabilities	80	335	107
Trade payables	23,585	18,977	17,316
Tax payables	2,638	1,190	1,772
Other payables	8,056	6,657	7,539
Total current liabilities	51,562	41,771	53,199
LIABILITIES HELD FOR SALE	0	0	0
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	184,842	179,192	178,104

(*) 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

	Q3 2017		Q3 2016(*)		9M 2017		9M 2016(*)	
<i>(€/000)</i>								
INCOME STATEMENT COMPONENTS								
OPERATING REVENUE AND INCOME								
Revenues	35,541	100.0%	33,206	100.0%	112,777	100.0%	98,059	100.0%
Other income	937	2.6%	606	1.8%	2,518	2.2%	1,956	2.0%
Total operating revenue and income	36,478	102.6%	33,812	101.8%	115,295	102.2%	100,015	102.0%
OPERATING COSTS								
Materials	(14,491)	-40.8%	(11,026)	-33.2%	(47,530)	-42.1%	(36,396)	-37.1%
Change in inventories	765	2.2%	(1,858)	-5.6%	5,960	5.3%	638	0.7%
Services	(7,267)	-20.4%	(6,743)	-20.3%	(23,181)	-20.6%	(21,111)	-21.5%
Payroll costs	(8,258)	-23.2%	(7,608)	-22.9%	(26,675)	-23.7%	(24,185)	-24.7%
Other operating costs	(233)	-0.7%	(208)	-0.6%	(821)	-0.7%	(659)	-0.7%
Costs for capitalised in-house work	324	0.9%	212	0.6%	1,052	0.9%	645	0.7%
Total operating costs	(29,160)	-82.0%	(27,231)	-82.0%	(91,195)	-80.9%	(81,068)	-82.7%
OPERATING PROFIT BEFORE DEPRECIATION & AMORTISATION, CAPITAL GAINS/LOSSES, AND WRITE-DOWNS/WRITE-BACKS OF NON-CURRENT ASSETS (EBITDA)								
	7,318	20.6%	6,581	19.8%	24,100	21.4%	18,947	19.3%
Depreciation and amortisation	(3,195)	-9.0%	(3,279)	-9.9%	(9,664)	-8.6%	(9,610)	-9.8%
Capital gains/(losses) on disposals of non-current assets	(20)	-0.1%	10	0.0%	(13)	0.0%	18	0.0%
Write-downs/write-backs of non-current assets	0	0.0%	0	0.0%	0	0.0%	0	0.0%
OPERATING PROFIT (EBIT)								
	4,103	11.5%	3,312	10.0%	14,423	12.8%	9,355	9.5%
Financial income	23	0.1%	17	0.1%	152	0.1%	49	0.0%
Financial expenses	(141)	-0.4%	(159)	-0.5%	(424)	-0.4%	(444)	-0.5%
Exchange rate gains and losses	(9)	0.0%	78	0.2%	92	0.1%	204	0.2%
Profits and losses from equity investments	3	0.0%	0	0.0%	3	0.0%	0	0.0%
PROFIT BEFORE TAXES								
	3,979	11.2%	3,248	9.8%	14,246	12.6%	9,164	9.3%
Income tax	(1,165)	-3.3%	(864)	-2.6%	(3,952)	-3.5%	(2,845)	-2.9%
NET PROFIT FOR THE PERIOD								
	2,814	7.9%	2,384	7.2%	10,294	9.1%	6,319	6.4%
of which:								
Profit attributable to minority interests	37	0.1%	29	0.1%	65	0.1%	29	0.0%
PROFIT ATTRIBUTABLE TO THE GROUP								
	2,777	7.8%	2,355	7.1%	10,229	9.1%	6,290	6.4%

(*) 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>	Q3 2017	Q3 2016(*)	9M 2017	9M 2016(*)
NET PROFIT FOR THE PERIOD	2,814	2,384	10,294	6,319
<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	(726)	(778)	(2,940)	600
Total other profits/(losses) net of taxes for the year	(726)	(778)	(2,940)	600
TOTAL PROFIT	2,088	1,606	7,354	6,919

(*) 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

<i>(€/000)</i>	Share capital	Share premium reserve	Legal reserve	Treasury shares	Translation reserve	Updated post-employment benefit reserve	Other reserves	Profit for the year	Total Group shareholders' equity	Minority interests	Total Shareholders' equity
Balance at 31 December 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
Purchase of treasury shares				(1,676)					(1,676)		(1,676)
ARC acquisition and consolidation										1,210	1,210
IFRS 3 effect on ARC acquisition								(15)	(15)	83	68
ARC option							(1,522)		(1,522)		(1,522)
Total profit at 31 December 2016					(340)	(31)		9,009	8,638	86	8,724
Balance at 31 December 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				(1,997)					(1,997)		(1,997)
Total profit at 30 September 2017					(2,940)			10,229	7,289	65	7,354
Balance at 30 September 2017	11,533	10,002	2,307	(4,396)	(10,328)	(612)	92,171	10,229	110,906	1,444	112,350

(*) 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 cash flows

(€/000)	Q3 2017	Q3 2016(*)	9M 2017	9M 2016(*)
Cash and cash equivalents at beginning of period	5,588	5,105	12,143	3,991
Net profit/(loss) for the period	2,814	2,384	10,294	6,319
Adjustments for:				
- Depreciation for the period	3,195	3,279	9,664	9,610
- Realised gains/losses	20	(10)	13	(18)
- Financial income and expenses	118	142	272	395
- Income tax	1,165	868	3,952	2,849
Payment of post-employment benefit reserve	(76)	(22)	(93)	(75)
Change in risk provisions	(60)	(42)	(46)	(64)
<i>Change in trade receivables</i>	<i>5,070</i>	<i>4,181</i>	<i>(7,201)</i>	<i>2,501</i>
<i>Change in inventories</i>	<i>(673)</i>	<i>1,937</i>	<i>(5,235)</i>	<i>(806)</i>
<i>Change in trade payables</i>	<i>(2,237)</i>	<i>(4,659)</i>	<i>4,608</i>	<i>(2,947)</i>
Change in net working capital	2,160	1,459	(7,828)	(1,252)
Change in other receivables and payables, deferred tax liabilities	163	503	1,182	1,278
Payment of taxes	(138)	(753)	(1,344)	(2,311)
Payment of financial expenses	(135)	(149)	(406)	(414)
Collection of financial income	23	17	152	49
Cash flow from operations	9,249	7,676	15,812	16,366
Net investments	(3,558)	(2,414)	(10,594)	(9,374)
Repayment of loans	(4,800)	(6,270)	(10,803)	(17,353)
New loans	1,342	3,200	9,218	22,246
Change in financial assets	15	0	(358)	0
Purchase/sale of treasury shares	(1,060)	(139)	(1,997)	(1,271)
Payment of dividends	0	0	(5,384)	(5,467)
Cash flow from financing activities	(4,503)	(3,209)	(9,324)	(1,845)
ARC acquisition	0	0	0	(2,614)
Foreign exchange differences	(428)	(434)	(1,689)	200
Net financial flows for the period	760	1,619	(5,795)	2,733
Cash and cash equivalents at end of period	6,348	6,724	6,348	6,724
Current financial debt	17,283	26,572	17,283	26,572
Non-current financial debt	16,733	9,742	16,733	9,742
Net financial debt	27,668	29,590	27,668	29,590

(*) 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 net financial position

<i>(€/000)</i>	30.09.2017	31.12.2016	30.09.2016
A. Cash	19	12	19
B. Positive balances of unrestricted bank accounts	5,636	8,376	5,042
C. Other cash equivalents	693	3,755	1,663
D. Liquidity (A+B+C)	6,348	12,143	6,724
E. Current bank overdrafts	11,635	7,811	22,119
F. Current portion of non-current debt	5,568	6,801	4,346
G. Other current financial payables	80	335	107
H. Current financial debt (E+F+G)	17,283	14,947	26,572
I. Net current financial debt (H-D)	10,935	2,804	19,848
J. Non-current bank payables	13,532	17,281	6,332
K. Other non-current financial payables	3,201	3,373	3,410
L. Non-current financial debt (J+K)	16,733	20,654	9,742
M. Net financial debt (L+I)	27,668	23,458	29,590

Explanatory notes

Accounting standards and area of consolidation

The Interim Management Statement of the Sabaf Group at 30 September 2017 was prepared in pursuance of the Italian Stock-exchange regulations that establish the publication of interim management statements as one of the requirements for maintaining a listing in the STAR segment of the MTA (Electronic Stock Market).

This report, drafted in continuity with the past, does not contain the information required in accordance with IAS 34.

Accounting standards and policies are the same as those adopted for preparation of the consolidated financial statements at 31 December 2016, 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 “discrete method of accounting” whereby the quarter in question is treated as a separate financial period. In this respect, the quarterly income statement reflects the income statement components 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 2017, adjusted to comply with Group accounting policies, where necessary;
- the parent company, Sabaf S.p.A., and the subsidiaries Faringosi-Hinges S.r.l., A.R.C. S.r.l., Sabaf Immobiliare S.r.l., Sabaf do Brasil Ltda, Sabaf Turkey, Sabaf Appliance Components (Kunshan) Co., Ltd and Sabaf Appliance Components Trading (Kunshan) Co., Ltd. (in liquidation) have been consolidated on a 100% line-by-line basis;
- the subsidiary companies Sabaf US Corp. and Handan ARC Ltd. were not consolidated as they are irrelevant for the purposes of the consolidation.

The Interim Management Statement at 30 September 2017 has not been independently audited.

Sales breakdown by geographical area (Euro x 1000)

<i>(amounts in €000)</i>	Q3 2017	Q3 2016	% change	9M 2017	9M 2016	% change	FY 2016
Italy	7,146	7,448	-4.1%	28,124	28,414	-1.0%	36,365
Western Europe	2,670	2,445	+9.2%	8,682	5,996	+44.8%	8,553
Eastern Europe	10,841	8,488	+27.7%	31,912	25,576	+24.8%	34,123
Middle East and Africa	3,116	3,129	-0.4%	9,526	8,039	+18.5%	11,698
Asia and Oceania	2,963	2,467	+20.1%	7,976	5,568	+43.2%	8,088
South America	5,376	6,097	-11.8%	16,916	15,858	+6.7%	20,847
North America and Mexico	3,429	3,132	+9.5%	9,641	8,608	+12.0%	11,304
Total	35,541	33,206	+7.0%	112,777	98,059	+15.0%	130,978

Sales breakdown by product category (Euro x 1000)

<i>(amounts in €000)</i>	Q3 2017	Q3 2016	% change	9M 2017	9M 2016	% change	FY 2016
Brass valves	1,319	2,502	-47.3%	4,905	7,042	-30.3%	9,007
Light alloy valves	9,071	7,774	+16.7%	29,461	24,907	+18.3%	32,393
Thermostats	1,497	1,532	-2.3%	5,553	5,958	-6.8%	7,699
Standard burners	9,686	9,388	+3.2%	30,697	27,548	+11.4%	37,338
Special burners	6,705	5,739	+16.8%	20,625	15,642	+31.9%	21,215
Accessories	3,618	3,056	+18.4%	11,176	9,488	+17.8%	12,613
<i>Total gas parts</i>	<i>31,896</i>	<i>29,991</i>	<i>+6.4%</i>	<i>102,417</i>	<i>90,585</i>	<i>+13.1%</i>	<i>120,265</i>
<i>Professional burners</i>	<i>1,322</i>	<i>1,196</i>	<i>+10.5%</i>	<i>3,723</i>	<i>1,196</i>	<i>+211.3%</i>	<i>2,289</i>
<i>Hinges</i>	<i>2,323</i>	<i>2,019</i>	<i>+15.1%</i>	<i>6,637</i>	<i>6,278</i>	<i>+5.7%</i>	<i>8,424</i>
Total	35,541	33,206	+7.0%	112,777	98,059	+15.0%	130,978

Management Statement

Results of operations

In Q3 2017, the Sabaf Group reported revenue of €35.5 million, an increase of 7% versus the figure of €33.2 million in the corresponding period of the previous year. Even if some markets have been less toned compared to the first half of the year, the Group continued to benefit from the expansion of the share of supply to some of the main customers. The increase in Eastern Europe, where the Group recorded sales of €10.8 million, up by 27.7% compared to the third quarter of 2016, was particularly significant.

EBITDA for the third quarter of 2017 was €7.3 million, or 20.6% of sales, up by 11.2% compared to €6.6 million (19.8% of sales) of the third quarter of 2016. EBIT was €4.1 million, equivalent to 11.5% of sales, and 23.9% higher than €3.3 million of the same quarter in 2016 (10% of sales). Profit before taxes was €4 million, up by 22.5% compared to €3.2 million in Q3 2016. The net profit for the period was €2.8 million, up by 17.9% compared to the figure of €2.4 million in Q3 2016.

In the first nine months of 2017, revenues totalled €112.8 million, up by 15% over the same period of 2016 (taking into consideration the same scope of consolidation, the growth in revenues is 12.6%). EBITDA was €24.1 million (or 21.4% of sales), up by 27.2%, EBIT totalled €14.4 million (or 12.8% of sales) up by 54.2%, and the net profit owned by the Group was €10.2 million, up by 62.6% compared to the first nine months of 2016.

Equity and cash flow

Quarter investments totalled €3.6 million, bringing total investments for the year to €10.6 million; of which around €2 million are due to the expansion of the production site in Brazil and to the acquisition of the factory of A.R.C.. In the first 9 months of 2016, the investments made amounted to €9.4 million.

At 30 September 2017, net financial debt was €27.7 million (€31.9 million at 30 June 2017), against a shareholders' equity of €112.4 million.

Significant non-recurring, atypical and/or unusual transactions

During the third quarter of 2017, 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

With the positive sales performance in October and the orders taken for November and December, the return to a double-digit growth rate in revenues is expected during the fourth quarter of 2017, over the same period of 2016. Therefore, the Group confirms the sales expectation of around €150 million for the whole of 2017, corresponding to a 14.5% growth compared to €131 million in 2016, and expects to be able to reach a gross operating margin (EBITDA %) of around 21% (compared to 19.4% in 2016).

These forecasts 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

The Financial Reporting Officer, Gianluca Beschi, declares that, pursuant to paragraph 2, Article 154-bis of Italian Legislative Decree 58/1998 (Consolidated Finance Act), the accounting information contained in the Interim Management Statement at 30 September 2017 of Sabaf S.p.A. corresponds to the Company's records, books and accounting entries.

Ospitaletto (BS), 14 November 2017

Financial Reporting Officer
Gianluca Beschi