

INTERIM MANAGEMENT STATEMENT

AT 31 DECEMBER 2017



SABAF S.p.A.

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

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%

Non-consolidated 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)	31/12/2017	30/09/2017	31/12/2016(*)
ASSETS			
NON-CURRENT ASSETS			
Property, plant, and equipment	73,069	73,564	73,445
Investment property	5,697	5,805	6,270
Intangible assets	9,283	9,114	9,077
Equity investments	281	281	306
Financial assets	180	180	0
Non-current receivables	196	324	262
Deferred tax assets	5,096	4,793	4,781
Total non-current assets	93,802	94,061	94,141
CURRENT ASSETS			
Inventories	32,929	36,719	31,484
Trade receivables	42,263	44,043	36,842
Tax receivables	3,065	2,316	3,163
Other current receivables	1,057	1,177	1,419
Financial assets	67	178	0
Cash and cash equivalents	11,533	6,348	12,143
Total current assets	90,914	90,781	85,051
ASSETS HELD FOR SALE	0	0	0
TOTAL ASSETS	184,716	184,842	179,192
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	11,533	11,533	11,533
Retained earnings, other reserves	87,227	89,144	90,471
Net profit for the period	14,835	10,229	8,994
<i>Total equity interest of the Parent Company</i>	<i>113,595</i>	<i>110,906</i>	<i>110,998</i>
<i>Minority interests</i>	<i>1,460</i>	<i>1,444</i>	<i>1,379</i>
Total shareholders' equity	115,055	112,350	112,377
NON-CURRENT LIABILITIES			
Loans	17,760	15,031	18,892
Other financial liabilities	1,943	1,702	1,762
Post-employment benefit and retirement reserves	2,845	3,011	3,086
Provisions for risks and charges	385	388	434
Deferred tax liabilities	804	798	870
Total non-current liabilities	23,737	20,930	25,044
CURRENT LIABILITIES			
Loans	17,288	17,203	14,612
Other financial liabilities	75	80	335
Trade payables	19,975	23,585	18,977
Tax payables	1,095	2,638	1,190
Other payables	7,491	8,056	6,657
Total current liabilities	45,924	51,562	41,771
LIABILITIES HELD FOR SALE	0	0	0
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	184,716	184,842	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

	Q4 2017		Q4 2016(*)		12M 2017		12M 2016(*)	
<i>(€/000)</i>								
INCOME STATEMENT COMPONENTS								
OPERATING REVENUE AND INCOME								
Revenues	37,446	100.0%	32,919	100.0%	150,223	100.0%	130,978	100.0%
Other income	843	2.3%	863	2.6%	3,361	2.2%	2,819	2.2%
Total operating revenue and income	38,289	102.3%	33,782	102.6%	153,584	102.2%	133,797	102.2%
OPERATING COSTS								
Materials	(12,264)	-32.8%	(10,950)	-33.3%	(59,794)	-39.8%	(47,346)	-36.1%
Change in inventories	(3,580)	-9.6%	(1,392)	-4.2%	2,380	1.6%	(754)	-0.6%
Services	(7,046)	-18.8%	(6,872)	-20.9%	(30,227)	-20.1%	(27,983)	-21.4%
Payroll costs	(8,653)	-23.1%	(7,927)	-24.1%	(35,328)	-23.5%	(32,112)	-24.5%
Other operating costs	(313)	-0.8%	(419)	-1.3%	(1,134)	-0.8%	(1,078)	-0.8%
Costs for capitalised in-house work	422	1.1%	196	0.6%	1,474	1.0%	841	0.6%
Total operating costs	(31,434)	-83.9%	(27,364)	-83.1%	(122,629)	-81.6%	(108,432)	-82.8%
OPERATING PROFIT BEFORE DEPRECIATION & AMORTISATION, CAPITAL GAINS/LOSSES, AND WRITE-DOWNS/WRITE-BACKS OF NON-CURRENT ASSETS (EBITDA)								
	6,855	18.3%	6,418	19.5%	30,955	20.6%	25,365	19.4%
Depreciation and amortisation	(3,162)	-8.4%	(3,272)	-9.9%	(12,826)	-8.5%	(12,882)	-9.8%
Capital gains/(losses) on disposals of non-current assets	1	0.0%	0	0.0%	(12)	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)	3,694	9.9%	3,146	9.6%	18,117	12.1%	12,501	9.5%
Financial income	62	0.2%	52	0.2%	214	0.1%	101	0.1%
Financial expenses	(380)	-1.0%	(176)	-0.5%	(804)	-0.5%	(620)	-0.5%
Exchange rate gains and losses	182	0.5%	231	0.7%	274	0.2%	435	0.3%
Profits and losses from equity investments	0	0.0%	0	0.0%	3	0.0%	0	0.0%
PROFIT BEFORE TAXES	3,558	9.5%	3,253	9.9%	17,804	11.9%	12,417	9.5%
Income tax	1,064	2.8%	(497)	-1.5%	(2,888)	-1.9%	(3,342)	-2.6%
NET PROFIT FOR THE PERIOD	4,622	12.3%	2,756	8.4%	14,916	9.9%	9,075	6.9%
of which:								
Profit attributable to minority interests	16	0.0%	52	0.2%	81	0.1%	81	0.1%
PROFIT ATTRIBUTABLE TO THE GROUP	4,606	12.3%	2,704	8.2%	14,835	9.9%	8,994	6.9%

(*) 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>	Q4 2017	Q4 2016(*)	12M 2017	12M 2016(*)
NET PROFIT FOR THE PERIOD	4,622	2,756	14,916	9,075
<i>Total profits/losses that will not be subsequently restated under profit (loss) for the period:</i>				
Actuarial post-employment benefit reserve evaluation	82	(41)	82	(41)
Tax effect	(20)	10	(20)	10
	62	(31)	62	(31)
<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	(1,866)	(940)	(4,806)	(340)
Total other profits/(losses) net of taxes for the year	(1,804)	(971)	(4,744)	(371)
TOTAL PROFIT	2,818	1,785	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

(€/000)	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				(2,110)					(2,110)		(2,110)
Total profit at 31 December 2017					(4,806)	62		14,835	10,091	81	10,172
Balance at 31 December 2017	11,533	10,002	2,307	(4,509)	(12,194)	(550)	92,171	14,835	113,595	1,460	115,055

(*) 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)	Q4 2017	Q4 2016(*)	12M 2017	12M 2016(*)
<i>Cash and cash equivalents at beginning of period</i>	6,348	6,724	12,143	3,991
Net profit/(loss) for the period	4,622	2,756	14,916	9,075
Adjustments for:				
- Depreciation and amortisation for the period	3,162	3,272	12,826	12,882
- Realised gains/losses	(1)	0	12	(18)
- Financial income and expenses	318	124	590	519
- Income tax	(1,064)	501	2,888	3,350
Payment of post-employment benefit reserve	(96)	(109)	(189)	(184)
Change in risk provisions	(3)	103	(49)	39
<i>Change in trade receivables</i>	<i>1,780</i>	<i>2,606</i>	<i>(5,421)</i>	<i>5,107</i>
<i>Change in inventories</i>	<i>3,790</i>	<i>1,222</i>	<i>(1,445)</i>	<i>416</i>
<i>Change in trade payables</i>	<i>(3,610)</i>	<i>1,661</i>	<i>998</i>	<i>(1,286)</i>
Change in net working capital	1,960	5,489	(5,868)	4,237
Change in other receivables and payables, deferred tax liabilities	(153)	(10)	1,029	1,268
Payment of taxes	(1,714)	(2,451)	(3,058)	(4,762)
Payment of financial expenses	(126)	(162)	(532)	(576)
Collection of financial income	62	52	214	101
Cash flow from operations	6,967	9,565	22,779	25,931
Net investments	(3,350)	(2,388)	(13,944)	(11,762)
Repayment of loans	(5,723)	(15,788)	(16,526)	(33,141)
New loans	8,533	15,075	17,751	37,321
Change in financial assets	111	69	(247)	69
Purchase/sale of treasury shares	(113)	(405)	(2,110)	(1,676)
Payment of dividends	0	0	(5,384)	(5,467)
Cash flow from financing activities	2,808	(1,049)	(6,516)	(2,894)
ARC acquisition	0	0	0	(2,614)
Foreign exchange differences	(1,240)	(709)	(2,929)	(509)
Net financial flows for the period	5,185	5,419	(610)	8,152
<i>Cash and cash equivalents at end of period</i>	<i>11,533</i>	<i>12,143</i>	<i>11,533</i>	<i>12,143</i>
Current financial debt	17,363	14,947	17,363	14,947
Non-current financial debt	19,703	20,654	19,703	20,654
Net financial debt	25,533	23,458	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.

Consolidated net financial position

<i>(€/000)</i>	31/12/2017	30/09/2017	31/12/2016
A. Cash	14	19	12
B. Positive balances of unrestricted bank accounts	11,009	5,636	8,376
C. Other cash equivalents	510	693	3,755
D. Liquidity (A+B+C)	11,533	6,348	12,143
E. Current bank payables	11,157	11,635	7,811
F. Current portion of non-current debt	6,131	5,568	6,801
G. Other current financial payables	75	80	335
H. Current financial debt (E+F+G)	17,363	17,283	14,947
I. Net current financial debt (H-D)	5,830	10,935	2,804
J. Non-current bank payables	16,298	13,532	17,281
K. Other non-current financial payables	3,405	3,201	3,373
L. Non-current financial debt (J+K)	19,703	16,733	20,654
M. Net financial debt (L+I)	25,533	27,668	23,458

Explanatory notes

Accounting standards and area of consolidation

The Interim Management Statement of the Sabaf Group at 31 December 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. 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 31 December 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 31 December 2017 has not been independently audited.

Sales breakdown by geographical area (Euro x 1000)

<i>(amounts in €000)</i>	Q4 2017	Q4 2016	% change	12M 2017	12M 2016	% change
Italy	8,399	7,951	+5.6%	36,523	36,365	+0.4%
Western Europe	2,996	2,557	+17.2%	11,678	8,553	+36.5%
Eastern Europe	10,912	8,547	+27.7%	42,824	34,123	+25.5%
Middle East and Africa	3,483	3,659	-4.8%	13,009	11,698	+11.2%
Asia and Oceania	2,540	2,520	+0.8%	10,516	8,088	+30.0%
South America	6,022	4,989	+20.7%	22,938	20,847	+10.0%
North America and Mexico	3,094	2,696	+14.8%	12,735	11,304	+12.7%
Total	37,446	32,919	+13.8%	150,223	130,978	+14.7%

Sales breakdown by product category (Euro x 1000)

<i>(amounts in €000)</i>	Q4 2017	Q4 2016	% change	12M 2017	12M 2016	% change
Brass valves	1,086	1,965	-44.7%	5,991	9,007	-33.5%
Light alloy valves	9,890	7,486	+32.1%	39,351	32,393	+21.5%
Thermostats	1,823	1,741	+4.7%	7,376	7,699	-4.2%
Standard burners	10,373	9,790	+6.0%	41,070	37,338	+10.0%
Special burners	6,559	5,573	+17.7%	27,184	21,215	+28.1%
Accessories	4,091	3,125	+30.9%	15,267	12,613	+21.0%
<i>Total gas parts</i>	<i>33,822</i>	<i>29,680</i>	<i>+14.0%</i>	<i>136,239</i>	<i>120,265</i>	<i>+13.3%</i>
<i>Professional burners</i>	<i>1,356</i>	<i>1,093</i>	<i>+24.1%</i>	<i>5,079</i>	<i>2,289</i>	<i>+121.9%</i>
<i>Hinges</i>	<i>2,268</i>	<i>2,146</i>	<i>+5.7%</i>	<i>8,905</i>	<i>8,424</i>	<i>+5.7%</i>
Total	37,446	32,919	+13.8%	150,223	130,978	+14.7%

Management Statement

Results of operations

In Q4 2017, the Sabaf Group reported revenue of €37.4 million, an increase of 13.8% versus the figure of €32.9 million in the corresponding period of the previous year. Therefore, sales performance confirmed the strong growth already recorded in the first nine months of the year, following the increase of the share of supply to the main customers, the introduction of innovative products and a generally positive tone of reference markets.

EBITDA for the fourth quarter of 2017 was €6.9 million, or 18.3% of sales, up by 6.8% compared to the figure of €6.4 million (19.5% of sales) in the fourth quarter of 2016. Profitability in the quarter was affected by the unfavourable exchange rate trend, which had a negative effect equal to 0.9% of sales, and by the increase in the prices of the main raw materials (negative effect equal to 0.6% of sales). EBIT was €3.7 million, equivalent to 9.9% of sales, and 17.4% higher than the €3.1 million recorded in the same quarter of 2016 (9.6% of sales).

Profit before taxes was €3.6 million, up by 9.4% compared to the €3.3 million recorded in Q4 2016. In the fourth quarter, financial expenses of €0.24 million were recognised, following the fair value adjustment of the financial liability corresponding to the estimated outlay value at the time when the option to sell the minority share (30%) of the equity investment in A.R.C. was exercised by the current shareholder.

The net profit for the period was €4.6 million, up by 70.3% compared to the figure of €2.7 million in Q4 2016. In the fourth quarter, the Group recorded the tax benefit relating to the Patent Box for the three-year period from 2015 to 2017, following the advance agreement signed with the Tax Authorities. Consequently, in the current quarter, income taxes decreased by €1.3 million, of which €0.8 million related to the 2015 and 2016 financial years.

Therefore, the 2017 financial year ended with significantly improved results, both in terms of increased sales and profitability. Revenues amounted to €150.2 million, 14.7% higher than 2016 (taking into consideration the same area of consolidation, revenues increased by 12.9%), EBITDA amounted to €31 million (equivalent to 20.6% of sales), up by 22% compared to the figure of €25.4 million in 2016 (19.4% of sales), EBIT reached €18.1 million (equivalent to 12.1% of sales) up by 44.9% compared to the figure of €12.5 million in 2016 (when it was 9.6% of sales), and the net profit owned by the Group was €14.8 million, up 64.9% on the figure of €9 million in 2016.

Equity and cash flow

Quarter investments totalled €3.3 million, bringing total investments for the year to €13.9 million (€11.8 million in 2016).

At 31 December 2017, net financial debt was €25.5 million, compared with €27.7 million at 30 September 2017 and €23.5 million at 31 December 2016.

Significant non-recurring, atypical and/or unusual transactions

During the fourth 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

The start of 2018 shows a moderate increase in sales compared to the same period of 2017. After a year characterised by a growth rate that is clearly higher than the average trend of recent years and despite the still challenging competitive scenario, the Group estimates that revenues for the entire financial year 2018 will increase ranging from 3% to 5% compared to 2017. The Group also believes that the adjustment of sales prices and further improvements in operating efficiency will enable it to balance the negative impacts associated with the weakening of the dollar and the rise in commodity prices, and therefore estimates operating profitability (EBITDA%) to be in line with 2017.

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 Legislative Decree 58/1998 (TUF or Consolidated Finance Act), the accounting information contained in the Interim Management Statement at 31 December 2017 of Sabaf S.p.A. corresponds to the Company's records, books and accounting entries.

Ospitaletto (BS), 13 February 2018

Financial Reporting Officer
Gianluca Beschi