

INTERIM MANAGEMENT STATEMENT

AT 31 MARCH 2019



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

Companies consolidated on a line-by-line basis

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%
Okida Elektronik Sanayi ve Ticaret A.S	100%

Non-consolidated companies

Sabaf US Corp.	100%
Handan ARC Burners Co., Ltd.	35%

Board of Directors

Chairman	Giuseppe Saleri
Vice Chairman (*)	Nicla Picchi
Chief Executive Officer	Pietro Iotti
Director	Gianluca Beschi
Director	Claudio Bulgarelli
Director	Alessandro Potestà
Director (*)	Carlo Scarpa
Director (*)	Daniela Toscani
Director (*)	Stefania Triva

(*) independent directors

Board of Statutory Auditors

Chairman	Alessandra Tronconi
Statutory Auditor	Luisa Anselmi
Statutory Auditor	Mauro Vivenzi

Consolidated statement of financial position

(€/000)	31/03/2019	31/12/2018	31/03/2018
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	70,479	70,765	72,493
Investment property	4,198	4,403	5,553
Intangible assets	37,849	39,054	9,263
Equity investments	375	380	281
Non-current financial assets	120	120	180
Non-current receivables	233	188	221
Deferred tax assets	4,946	6,040	4,848
Total non-current assets	118,200	120,950	92,839
CURRENT ASSETS			
Inventories	37,676	39,179	35,130
Trade receivables	44,769	46,932	46,092
Tax receivables	3,439	3,043	2,604
Other current receivables	1,776	1,534	1,675
Current financial assets	60	3,511	72
Cash and cash equivalents	12,478	13,426	12,899
Total current assets	100,198	107,625	98,472
ASSETS HELD FOR SALE	0	0	0
TOTAL ASSETS	218,398	228,575	191,311
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	11,533	11,533	11,533
Retained earnings, Other reserves	105,061	90,555	98,740
Net profit for the period	2,115	15,614	3,353
<i>Total equity interest of the Parent Company</i>	<i>118,709</i>	<i>117,702</i>	<i>113,626</i>
<i>Minority interests</i>	<i>1,686</i>	<i>1,644</i>	<i>1,508</i>
Total shareholders' equity	120,395	119,346	115,124
NON-CURRENT LIABILITIES			
Loans	41,515	42,406	24,988
Other financial liabilities	1,938	1,938	1,943
Post-employment benefit and retirement reserves	2,783	2,632	2,872
Provisions for risks and charges	704	725	441
Deferred tax liabilities	2,915	3,030	797
Total non-current liabilities	49,855	50,731	31,041
CURRENT LIABILITIES			
Loans	17,208	18,435	12,354
Other financial liabilities	370	7,682	129
Trade payables	20,746	21,215	23,837
Tax payables	2,769	3,566	1,460
Other payables	7,055	7,600	7,356
Total current liabilities	48,148	58,498	45,136
LIABILITIES HELD FOR SALE	0	0	0
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	218,398	228,575	191,311

Consolidated Income Statement

	Q1 2019		Q1 2018		12M 2018	
<i>(€/000)</i>						
INCOME STATEMENT COMPONENTS						
OPERATING REVENUE AND INCOME						
Revenue	37,635	100.0%	38,503	100.0%	150,642	100.0%
Other income	672	1.8%	703	1.8%	3,369	2.2%
Total operating revenue and income	38,307	101.8%	39,206	101.8%	154,011	102.2%
OPERATING COSTS						
Materials	(14,279)	-37.9%	(16,844)	-43.7%	(62,447)	-41.5%
Change in inventories	(1,265)	-3.4%	2,425	6.3%	4,603	3.1%
Services	(7,334)	-19.5%	(8,144)	-21.2%	(31,297)	-20.8%
Payroll costs	(8,860)	-23.5%	(9,024)	-23.4%	(34,840)	-23.1%
Other operating costs	(363)	-1.0%	(333)	-0.9%	(1,670)	-1.1%
Costs for capitalised in-house work	411	1.1%	435	1.1%	1,599	1.1%
Total operating costs	(31,690)	-84.2%	(31,485)	-81.8%	(124,052)	-82.3%
OPERATING PROFIT BEFORE DEPRECIATION & AMORTISATION, CAPITAL GAINS/LOSSES, AND WRITE-DOWNS/WRITE-BACKS OF NON-CURRENT ASSETS (EBITDA)						
	6,617	17.6%	7,721	20.1%	29,959	19.9%
Depreciations and amortisation	(3,312)	-8.8%	(3,169)	-8.2%	(12,728)	-8.4%
Capital gains/(losses) on disposals of non-current assets	45	0.1%	(1)	0.0%	28	0.0%
Write-downs/write-backs of non-current assets	0	0.0%	0	0.0%	(850)	-0.6%
OPERATING PROFIT (EBIT)	3,350	8.9%	4,551	11.8%	16,409	10.9%
Financial income	108	0.3%	59	0.2%	373	0.2%
Financial expenses	(340)	-0.9%	(216)	-0.6%	(1,206)	-0.8%
Exchange rate gains and losses	(397)	-1.1%	235	0.6%	5,384	3.6%
Profits and losses from equity investments	0	0.0%	0	0.0%	0	0.0%
PROFIT BEFORE TAXES	2,721	7.2%	4,629	12.0%	20,960	13.9%
Income taxes	(565)	-1.5%	(1,228)	-3.2%	(5,162)	-3.4%
NET PROFIT FOR THE PERIOD	2,156	5.7%	3,401	8.8%	15,798	10.5%
of which						
Minority interests	41	0.1%	48	0.1%	184	0.1%
PROFIT ATTRIBUTABLE TO THE GROUP	2,115	5.6%	3,353	8.7%	15,614	10.4%

Consolidated statement of comprehensive income

(€/000)	Q1 2019	Q1 2018	12M 2018
NET PROFIT FOR THE PERIOD	2,156	3,401	15,798
<i>Total profits/losses that will not be subsequently reclassified under profit (loss) for the year</i>			
Actuarial post-employment benefit reserve evaluation	0	0	32
Tax effect	0	0	(8)
	0	0	24
<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	(1,319)	(1,556)	(3,940)
Total other profits/(losses) net of taxes for the year	(1,319)	(1,556)	(3,916)
TOTAL PROFIT	837	1,845	11,882
of which			
Minority interests	41	48	184
TOTAL PROFIT	796	1,797	11,698

Statement of changes in consolidated shareholders' equity

<i>(€/000)</i>	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
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
Allocation of 2017 profit											
- 2017 Dividends paid out								(6,071)	(6,071)		(6,071)
- Carried forward							8,764	(8,764)	0		0
Purchase of treasury shares				(2,359)					(2,359)		(2,359)
Stock grant plan							321		321		321
Other changes					518				518		518
Total profit at 31 December 2018					(3,422)	24		15,614	11,698	184	11,882
Balance at 31 December 2018	11,533	10,002	2,307	(6,868)	(15,616)	(526)	101,256	15,614	117,702	1,644	119,346
Retained earnings FY 2018							15,614	(15,614)	0		0
Stock grant plan							129		129		129
Other changes							82		82		82
Total profit at 31 December 2018					(1,319)			2,115	796	42	838
Balance at 31 March 2019	11,533	10,002	2,307	(6,868)	(16,935)	(526)	117,081	2,115	118,709	1,686	120,395

Consolidated statement of cash flows

<i>(€ / 000)</i>	Q1 2019	Q1 2018	12M 2018
<i>Cash and cash equivalents at beginning of period</i>	13,426	11,533	11,533
Net profit/(loss) for the period	2,156	3,401	15,798
Adjustments for:			
- Depreciation and amortisation for the period	3,312	3,169	12,728
- Write-downs of non-current assets	0	0	850
- Realised gains/losses	(45)	1	(28)
- Financial income and expenses	232	157	833
- IFRS 2 measurement stock grant plan	129	0	321
- Income tax	565	1,228	5,162
Change in post-employment benefit reserve	144	(31)	(241)
Change in risk provisions	(21)	107	340
<i>Change in trade receivables</i>	<i>2,163</i>	<i>(3,829)</i>	<i>(3,003)</i>
<i>Change in inventories</i>	<i>1,503</i>	<i>(2,201)</i>	<i>(4,374)</i>
<i>Change in trade payables</i>	<i>(469)</i>	<i>3,862</i>	<i>556</i>
Change in net working capital	3,197	(2,168)	(6,821)
Change in other receivables and payables, deferred taxes	(887)	(683)	2,537
Payment of taxes	(642)	(254)	(4,860)
Payment of financial expenses	(333)	(209)	(1,178)
Collection of financial income	108	59	373
Cash flow from operations	7,915	4,777	25,814
Net investments	(1,616)	(2,975)	(11,467)
Repayment of loans	(12,885)	(7,720)	(19,579)
New loans	2,368	10,066	52,972
Change in financial assets	3,451	(5)	(3,384)
Purchase of treasury shares	0	(1,766)	(2,359)
Payment of dividends	0	0	(6,071)
Cash flow from financing activities	(7,066)	575	21,579
Okida acquisition	(317)	0	(24,077)
Foreign exchange differences	136	(1,011)	(9,956)
Net cash flows for the period	(948)	1,366	1,893
<i>Cash and cash equivalents at end of period</i>	12,478	12,899	13,426
Current financial debt	17,518	12,411	22,606
Non-current financial debt	43,453	26,931	44,344
Net financial debt	48,493	26,443	53,524

Consolidated net financial position

<i>(€/000)</i>	31/03/2019	31/12/2018	31/03/2018
A. Cash	18	19	14
B. Positive balances of unrestricted bank accounts	11,435	7,067	12,327
C. Other cash equivalents	1,025	6,340	558
D. Liquidity (A+B+C)	12,478	13,426	12,899
E. Current financial receivables	60	3,511	72
F. Current bank payables	6,177	7,233	4,732
G. Current portion of non-current debt	10,542	10,741	7,622
H. Other current financial payables	859	8,143	129
I. Current financial debt (F+G+H)	17,578	26,117	12,483
J. Net current financial debt (I-E-D)	5,040	9,180	(488)
K. Non-current bank payables	39,468	41,097	23,564
L. Other non-current financial payables	3,985	3,247	3,367
M. Non-current financial debt (K+L)	43,453	44,344	26,931
N. Net financial debt (J+M)	48,493	53,524	26,443

Explanatory notes

Accounting standards and scope of consolidation

The Interim Management Statement of the Sabaf Group at 31 March 2019 is prepared in compliance with the Stock Exchange (Borsa) Regulation that establishes, among the requirements for maintaining the listing on the STAR segment of the MTA, the publication of interim management reports.

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 the preparation of the consolidated financial statements at 31 December 2018, which should be consulted for reference, with the exception of the new IFRS 16 “Leases”, which came into force on 1 January 2019 and the effects of which are described below. 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 accrual basis;
- the financial statements used in the consolidation process are those prepared by the subsidiaries for the period ended 31 March 2019, 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, Okida Elektronik, Sabaf Appliance Components (Kunshan) Co., Ltd., Sabaf Appliance Components Trading (Kunshan) Co., Ltd. (in liquidation) were consolidated on a 100% line-by-line basis;
- the companies Sabaf US Corp. and Handan ARC Burners Co., Ltd. were not consolidated as they are irrelevant for the purposes of the consolidation;
- the scope of consolidation did not change compared to 31 December 2018; on the other hand, compared to the comparative data at 31 March 2018, Okida Elektronik, a company over which the Group acquired control in September 2018, was included in the consolidation.

The Interim Management Statement at 31 March 2019 has not been independently audited.

First-time adoption of IFRS 16 "Leases"

The standard, applied as from 1 January 2019, provides a new definition of lease and introduces a criterion based on the control (right of use) of an asset in order to distinguish lease agreements from service agreements, identifying as discriminating factors the identification of the asset, the right to replace it, 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 (including operating leases) 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 following table shows the effects on the consolidated statement of financial position at 31 March 2019 and on the income statement for the first quarter of 2019 of the application of IFRS 16 under the modified retrospective approach:

	Book value at 31/03/2019 in case of non- adoption of IFRS 16	Effect of IFRS 16	Book value at 31/03/2019
Assets			
Property, plant and equipment	69,399	1,080	70,479
Liabilities			
Loans beyond 12 months	40,737	778	41,515
Loans within 12 months	16,898	310	17,208
Income statement			
Costs for services	7,428	(94)	7,334
Depreciations	3,228	84	3,312
Financial expenses	322	18	340
Economic and financial indicators			
Shareholders' equity	120,403	(8)	120,395
Net financial debt	47,405	1,088	48,493
EBITDA	6,523	94	6,617
EBIT	3,340	10	3,350
Net profit for the period	2,123	(8)	2,115

Sales breakdown by geographical area (Euro x 1000)

	Q1 2019	%	Q1 2018	%	% change		12M 2018	%
Italy	8,852	23.5%	9,306	24.2%	-4.9%		31,579	21.0%
Western Europe	3,409	9.1%	3,272	8.5%	+4.2%		12,337	8.2%
Eastern Europe	11,964	31.8%	11,504	29.9%	+4.0%		46,301	30.7%
Middle East and Africa	1,258	3.3%	3,606	9.4%	-65.1%		12,303	8.2%
Asia and Oceania	1,914	5.1%	1,304	3.4%	+46.8%		7,590	5.0%
South America	6,416	17.0%	6,103	15.8%	+5.1%		25,461	16.9%
North America and Mexico	3,822	10.2%	3,408	8.8%	+12.1%		15,071	10.0%
Total	37,635	100%	38,503	100%	-2.3%		150,642	100%

Sales breakdown by product category (Euro x 1000)

	Q1 2019	%	Q1 2018	%	% change		12M 2018	%
Valves and thermostats	11,238	29.8%	13,107	34.0%	-14.3%		48,463	32.2%
Burners	16,375	43.5%	17,607	45.7%	-7.0%		66,953	44.4%
Accessories	3,416	9.1%	3,843	10.0%	-11.1%		15,422	10.3%
<i>Total domestic gas parts</i>	<i>31,029</i>	<i>82.4%</i>	<i>34,557</i>	<i>89.8%</i>	<i>-10.2%</i>		<i>130,838</i>	<i>86.9%</i>
<i>Professional burners</i>	<i>1,562</i>	<i>4.2%</i>	<i>1,547</i>	<i>4.0%</i>	<i>+1.0%</i>		<i>5,331</i>	<i>3.5%</i>
<i>Hinges</i>	<i>2,768</i>	<i>7.4%</i>	<i>2,399</i>	<i>6.2%</i>	<i>+15.4%</i>		<i>10,436</i>	<i>6.9%</i>
<i>Electronic components</i>	<i>2,276</i>	<i>6.0%</i>	<i>0</i>	<i>0.0%</i>	<i>n/a</i>		<i>4,037</i>	<i>2.7%</i>
Total	37,635	100%	38,503	100%	-2.3%		150,642	100%

Management Statement

The Sabaf Group recorded sales revenue of €37.6 million in the first quarter of 2019, down 2.3% from €38.5 million in the same quarter of 2018 (-8.2% taking into consideration the same scope of consolidation).

This performance is the result of a combination of growth in sales on the American continent, where the Group consolidated its positive trend in both North and South America (+12% and +5%, respectively, compared to the first quarter of 2018), and the downturn in the Middle East market (where sales were lower by €2.3 million), following the well-known political and economic reasons. In Italy, the sales performance also fell compared to the first quarter of 2018, due to the interruption of a customer's business as from April 2018.

The decrease in production volumes, more than proportional to the drop in sales, affected profitability: the EBITDA of the period was €6.6 million, equal to 17.6% of sales, down by 14.3% compared to the €7.7 million (20.1% of sales) of the first quarter of 2018. EBIT for the quarter was €3.3 million, or 8.9% of turnover, down by 26.4% compared to €4.6 million in the same period of 2018 (11.8% of turnover). Net profit for the period was €2.1 million, down by 36.9% compared to €3.4 million in the first quarter of 2018.

Net investments for the quarter came to €1.6 million (€3 million in Q1 2018 and €11.5 million for the whole of 2018).

The reduction in inventories and trade receivables led to an improvement in working capital, which stood at €57.1 million at 31 March 2019, compared with € 59.7 million at the end of 2018 (the impact of the net working capital on revenue was 37.9%, compared to 39.7% of 31 December 2018).

The financial position improved significantly: at 31 March 2019, net financial debt amounted to €48.5 million (€53.5 million at 31 December 2018).

Significant non-recurring, atypical and/or unusual transactions

During the first quarter of 2019, 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

On the basis of the results of the first quarter and the current visibility on management performance, the Group expects sales to increase in 2019 and operating profitability to remain stable, despite the difficult conditions in some markets. In detail, we expect to be able to achieve sales ranging from €155 to €160 million and a slight decrease in gross operating profitability (EBITDA %) compared to 2018,

also given the actions taken by management to contain operating costs (previous forecasts indicated sales ranging from € 160 to € 165 million and a gross operating profit of more than 20%).

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 (Consolidated Finance Act), the accounting information contained in the Interim Management Statement at 31 March 2019 of Sabaf S.p.A. corresponds to the Company's records, books and accounting entries.

Ospitaletto (BS), 14 May 2019

Financial Reporting Officer
Gianluca Beschi