SABAF S.p.A.

SEPARATE FINANCIAL STATEMENTS

AT 31 DECEMBER 2017

CORPORATE BODIES

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.

Statement of financial position

(in €)	NOTES	31/12/2017	31/12/2016
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	**1**	31,610,510	31,092,204
Investment property	**2**	1,453,564	1,645,412
Intangible assets	**3**	3,370,260	3,095,000
Equity investments	**4**	49,451,811	50,098,459
Non-current financial assets	**5**	1,847,639	2,137,353
- of which from related parties	**36**	*1,667,639*	*1,897,353*
Non-current receivables		19,871	11,621
Deferred tax assets	**21**	3,455,483	3,315,263
Total non-current assets		**91,209,138**	**91,395,312**
CURRENT ASSETS			
Inventories	**6**	24,768,927	23,492,840
Trade receivables	**7**	31,154,012	27,465,436
- of which from related parties	**36**	*1,208,883*	*1,191,581*
Tax receivables	**8**	2,229,708	2,477,294
- of which from related parties	**36**	*1,083,666*	*1,083,666*
Other current receivables	**9**	721,529	1,039,324
Current financial assets	**10**	1,067,429	1,060,000
- of which from related parties	**36**	*1,000,000*	*1,000,000*
Cash and cash equivalents	**11**	2,696,664	1,796,980
Total current assets		**62,638,269**	**57,331,874**
ASSETS HELD FOR SALE		**0**	**0**
TOTAL ASSETS		**153,847,407**	**148,727,186**
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS’ EQUITY			
Share capital	**12**	11,533,450	11,533,450
Retained earnings, other reserves		72,552,367	77,530,764
Profit for the year		8,001,327	2,459,688
Total shareholders’ equity		**92,087,144**	**91,523,902**
NON-CURRENT LIABILITIES			
Loans	**14**	16,297,969	17,281,379
Other financial liabilities	**15**	180,000	240,000
Post-employment benefit and retirement reserves	**16**	2,199,523	2,435,538
Provisions for risks and charges	**17**	369,482	322,979
Deferred tax liabilities	**21**	67,983	129,289
Total non-current liabilities		**19,114,957**	**20,409,185**
CURRENT LIABILITIES			
Loans	**14**	18,927,558	14,054,604
- of which from related parties	**36**	*2,100,000*	*0*
Other financial liabilities	**15**	74,849	298,161
Trade payables	**18**	16,569,390	16,010,381
- of which from related parties	**36**	*509,631*	*104,142*
Tax payables	**19**	623,013	641,944
Other payables	**20**	6,450,496	5,789,009
Total current liabilities		**42,645,306**	**36,794,099**
LIABILITIES HELD FOR SALE		**0**	**0**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**153,847,407**	**148,727,186**

Income statement

(in €)	NOTES	2017	2016
INCOME STATEMENT COMPONENTS			
OPERATING REVENUE AND INCOME			
Revenue	**23**	115,687,029	101,523,407
- of which from related parties	**36**	*10,238,606*	*6,680,209*
Other income	**24**	2,647,542	2,278,649
Total operating revenue and income		**118,334,571**	**103,802,056**
OPERATING COSTS			
Materials	**25**	(46,554,625)	(36,875,454)
Change in inventories		1,276,087	(1,182,000)
Services	**26**	(27,603,637)	(26,031,824)
- of which by related parties	**36**	*(3,966,399)*	*(4,151,074)*
Payroll costs	**27**	(28,734,310)	(26,382,450)
Other operating costs	**28**	(715,296)	(647,178)
Costs for capitalised in-house work		1,474,322	841,526
Total operating costs		**(100,857,459)**	**(90,277,380)**
OPERATING PROFIT BEFORE DEPRECIATION AND AMORTISATION, CAPITAL GAINS/LOSSES, WRITE-DOWNS/WRITE-BAC OF NON-CURRENT ASSETS		**17,477,112**	**13,524,676**
Depreciations and amortisation	**1,2,3**	(8,843,617)	(9,020,829)
Capital gains/(losses) on disposals of non-current assets		97,873	87,113
Write-downs/write-backs of non-current assets	**29**	(681,628)	(521,021)
- of which by related parties	**36**	*(681,628)*	*(521,021)*
EBIT		**8,049,740**	**4,069,939**
Financial income		88,754	84,559
Financial expenses	**30**	(482,136)	(512,872)
Exchange rate gains and losses	**31**	(88,145)	(48,356)
Profits and losses from equity investments	**32**	1,503,354	0
PROFIT BEFORE TAXES		**9,071,567**	**3,593,270**
Income tax	**33**	(1,070,240)	(1,133,582)
PROFIT FOR THE YEAR		**8,001,327**	**2,459,688**

Comprehensive income statement

(in €)	2017	2016
PROFIT FOR THE YEAR	**8,001,327**	**2,459,688**
Total profits/losses that will not be subsequently reclassified under profit (loss) for the year		
Actuarial post-employment benefit reserve evaluation	73,372	(35,894)
Tax effect	(17,609)	8,615
Total other profits/(losses) net of taxes for the year	**55,763**	**(27,279)**
TOTAL PROFIT	**8,057,090**	**2,432,409**

Statement of changes in shareholders' equity

(€/000)	Share Capital	Share premium reserve	Legal reserve	Treasury shares	Actuarial post-employment benefit reserve evaluation	Other reserves	Profit for the year	Total shareholders' equity
Balance at 31 Dec 2015	**11,533**	**10,002**	**2,307**	**(723)**	**(506)**	**67,979**	**5,642**	**96,234**
Allocation of 2015 profit								
- dividends paid out							(5,467)	(5,467)
- to reserve						175	(175)	
Purchase of treasury shares				(1,676)				(1,676)
Total profit at 31 Dec 2016					(27)		2,460	2,433
Balance at 31 Dec 2016	**11,533**	**10,002**	**2,307**	**(2,399)**	**(533)**	**68,154**	**2,460**	**91,524**
2017 dividend payment						(2,924)	(2,460)	(5,384)
Purchase of treasury shares				(2,110)				(2,110)
Total profit at 31 Dec 2017					56		8,001	8,057
Balance at 31 Dec 2017	**11,533**	**10,002**	**2,307**	**(4,509)**	**(477)**	**65,230**	**8,001**	**92,087**

Cash flow Statement

(€/000)	**2017 FY**	**2016 FY**
Cash and cash equivalents at beginning of year	**1,797**	**1,090**
Profit for the year	8,001	2,460
Adjustments for:		
- Depreciation and amortisation	8,844	9,021
- Realised gains	(98)	(87)
- Write-downs/write-backs of non-current assets	622	521
- Profits and losses from equity investments	(1,503)	
- Net financial income and expenses	393	428
- Non-monetary foreign exchange differences	23	(60)
- Income tax	1,070	1,133
Change in post-employment benefit reserve	(263)	(131)
Change in risk provisions	47	(3)
Change in trade receivables	*(3,689)*	*5,405*
Change in inventories	*(1,276)*	*1,182*
Change in trade payables	*559*	*(2,192)*
Change in net working capital	(4,406)	4,395
Change in other receivables and payables, deferred tax	830	367
Payment of taxes	(847)	(2450)
Payment of financial expenses	(456)	(474)
Collection of financial income	89	85
Cash flow from operations	**12,554**	**15,205**
Investments in non-current assets		
- intangible	(1,099)	(735)
- tangible	(8,670)	(7,298)
- financial	-	(4,800)
Disposal of non-current assets	449	242
Cash flow absorbed by investments	**(9,319)**	**(12,591)**
Repayment of loans	(10,607)	(19,077)
Raising of loans	14,273	24,243
Change in financial assets	(7)	69
Sale of treasury shares	(2,110)	(1,675)
Payment of dividends	(5,384)	(5,467)
Collection of dividends	1,500	-
Cash flow absorbed by financing activities	**(2,335)**	**(1,907)**
Total financial flows	**900**	**707**
Cash and cash equivalents at end of year (Note 11)	**2,697**	**1,797**
Net current financial debt	15,239	11,496
Non-current financial debt	16,478	17,521
Net financial debt (Note 22)	**31,717**	**29,017**

EXPLANATORY NOTES

ACCOUNTING STANDARDS

Statement of compliance and basis of presentation

The separate financial statements of Sabaf S.p.A. 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 adopted by the European Union. Reference to IFRS also includes all current International Accounting Standards (IAS).

The separate financial statements are drawn up in euro, which is the currency in the economy in which the Company operates. The income statement, the comprehensive income statement and the statement of financial position schedules are prepared in euro, while the cash flow statement, the statement of changes in shareholders' equity and the values reported in the explanatory notes are in thousands of euro.

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 Company 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.

Sabaf S.p.A., as the Parent Company, also prepared the consolidated financial statements of the Sabaf Group at 31 December 2017.

Financial statements

The Company 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 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 Company's capital, business and financial status.

Accounting policies

The accounting standards and policies applied for the preparation of the separate 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
Furniture	8
Electronic equipment	5
Vehicles and other transport means	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.

Investment property
Investment property is valued at cost, including revaluations undertaken in the past based on monetary revaluation rules or pursuant to company mergers.
The depreciation is calculated based on the estimated useful life, 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 of the cash-generating unit) is increased to the new value stemming 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.

Intangible assets
As established by IAS 38, 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.

Equity investments and non-current receivables
Equity investments not classified as held for sale are booked at cost, reduced for impairment.
Non-current receivables are stated at their presumed realisable value.

Impairment of value
At each end of the reporting period, Sabaf S.p.A. reviews the carrying value of its property, plant and equipment, intangible assets and equity investments 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 the recoverable value individually, the Company 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 Company prepares operating cash flow forecasts based on the most recent budgets approved by the Boards of Directors of the investees, draws up four-year forecasts and determines the terminal value (current value of perpetual income), which expresses the medium and long term operating flows in the specific sector.
Furthermore, the Company checks the recoverable value of its investees at least once a year when the separate financial statements are prepared.
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) is increased to the new value stemming 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.

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. Advance payments obtained with regard to the sale of trade receivables are recognised under current loans.

Current and non-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 Company 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 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 Company's business is exposed to financial risks relating to changes in exchange rates, commodity prices and interest rates. The Company may decide to use derivative financial instruments to hedge these risks.

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 Company'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 Company'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 that emerge from the taxable base of an asset or liability and its book value. 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 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 in a specific reserve 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.

Use of estimates
Preparation of the separate financial statements 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 at the end of the reporting period. Actual results might differ from these estimates. Estimates are used to measure tangible and intangible assets and investments subject to impairment testing, as described earlier, as well as to measure the ability to recover prepaid tax assets, provisions for bad debts, for inventory obsolescence, depreciation and amortisation, asset write-downs, employee benefits, taxes, other provisions and reserves. Specifically:

Recoverability of value of tangible and intangible assets and investments
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 an effect on liabilities for pension benefits.
Income tax
Determining liabilities for Company 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 Company 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 adoption of these amendments did not have any effect on the Company's separate financial statements.

IFRS and IFRIC accounting standards, amendments and interpretations approved by the European Union, not yet universally applicable and not adopted early by the Company 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 Company's separate 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 Company's separate 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 expect that the application of IFRS 16 can have a significant impact on the amounts and on the relevant disclosures in the Company's separate statements. However, it is not possible to provide a reasonable estimate of the effects until the Company 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 separate 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 Company's separate 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 Company's separate 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 Company's separate 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 Company's separate 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 Company's separate 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 Company's separate financial statements through the adoption of these changes.

Comments on the main items of the statement of financial position

1. PROPERTY, PLANT AND EQUIPMENT

	Property	Plant and equipment	Other assets	Assets under construction	Total
Cost					
At 31 December 2015	**6,275**	**155,364**	**30,574**	**1,672**	**193,885**
Increases	53	5,325	1,462	758	7,598
Disposals	(1)	(2,982)	(236)	-	(3,219)
Reclassification	-	684	19	(1,003)	(300)
At 31 December 2016	**6,327**	**158,391**	**31,819**	**1,427**	**197,964**
Increases	56	5,347	1,770	1,785	8,958
Disposals	-	(721)	(430)	(33)	(1,184)
Reclassification	18	551	59	(883)	(255)
At 31 December 2017	**6,401**	**163,568**	**33,218**	**2,296**	**205,483**
Accumulated depreciation					
At 31 December 2015	**2,711**	**131,920**	**27,314**	**-**	**161,945**
Depreciations for the year	176	6,200	1,702	-	8,078
Eliminations for disposals	-	(2,973)	(178)	-	(3,151)
At 31 December 2016	**2,887**	**135,147**	**28,838**	**-**	**166,872**
Depreciations for the year	177	6,221	1,521	-	7,920
Eliminations for disposals	-	(525)	(395)	-	(920)
At 31 December 2017	**3,064**	**140,843**	**29,965**	**-**	**173,872**
Net carrying value					
At 31 December 2017	3,337	22,725	3,253	2,296	31,611
At 31 December 2016	3,440	23,244	2,981	1,427	31,092

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

	31/12/2017	**31/12/2016**	**Change**
Land	1,291	1,291	-
Industrial buildings	2,046	2,149	(103)
Total	**3,337**	**3,440**	**(103)**

The main investments in the financial year were aimed at the further automation of production of light alloy valves and interconnection of production plants with management systems (Industry 4.0). 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 Company 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	**6,675**
Increases	-
Disposals	-
At 31 December 2016	**6,675**
Increases	-
Disposals	-
At 31 December 2017	**6,675**

Accumulated depreciations	
At 31 December 2015	**4,838**
Depreciations for the year	192
At 31 December 2016	**5,030**
Depreciations for the year	191
At 31 December 2017	**5,221**

Net carrying value	
At 31 December 2017	1,454
At 31 December 2016	1,645

This item includes non-operating buildings owned by the Group. During the year this item did not undergo any changes except for depreciations for the year. At 31 December 2017, the Company 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

	Patents, know-how and software	Development costs	Other intangible assets	Total
Cost				
At 31 December 2015	**6,113**	**4,676**	**1,807**	**12,596**
Increases	108	313	53	474
Reclassifications	54	(87)	207	174
Decreases	-	-	-	-
At 31 December 2016	**6,275**	**4,902**	**2,067**	**13,244**
Increases	243	441	161	845
Reclassifications	99		155	254
Decreases	(14)	(79)	(14)	(107)
At 31 December 2017	**6,603**	**5,264**	**2,369**	**14,236**
Amortisation and write-downs				
At 31 December 2015	**5,619**	**2,347**	**1,432**	**9,398**
Amortisation	254	350	147	751
Decreases	-	-	-	-
At 31 December 2016	**5,873**	**2,697**	**1,579**	**10,149**
Amortisation	242	341	148	731
Decreases	(14)	-	-	(14)
At 31 December 2017	**6,101**	**3,038**	**1,727**	**10,866**
Net carrying value				
At 31 December 2017	**502**	**2,226**	**642**	**3,370**
At 31 December 2016	**402**	**2,205**	**488**	**3,095**

Intangible assets have a finite useful life and, as a result, are amortised throughout their life. The main investments in the year relate to the development of new products, mainly related to the expansion of the range of burners (research and development activities carried out during the financial year are set out in the Report on Operations). Software investments include the implementation of a production scheduler and the application development of the Group management system (SAP). Other intangible assets refer, in the main, to improvements to third-party leased assets.
At 31 December 2017, the Company found no endogenous or exogenous indicators of impairment of its intangible assets. As a result, the value of property, plant and equipment was not submitted to impairment testing.

4. EQUITY INVESTMENTS

	31/12/2017	31/12/2016	Change
In subsidiaries	49,417	50,039	(622)
Other equity investments	34	59	(25)
Total	**49,451**	**50,098**	**(647)**

The change in equity investments in subsidiaries is broken down in the table below:

	Sabaf Immobiliare	Faringosi Hinges	Sabaf do Brasil	Sabaf U.S.	Sabaf Appliance Components (China)	Sabaf A.C. Trading (China)	Sabaf Turkey	A.R.C. s.r.l.	Total
Historical cost									
At 31 December 2015	**13,475**	**10,329**	**8,469**	**139**	**4,400**	**200**	**12,005**	**0**	**49,017**
Purchase of equity investments	-	-	-	-	-	-	-	4,800	4,800
At 31 December 2016	**13,475**	**10,329**	**8,469**	**139**	**4,400**	**200**	**12,005**	**4,800**	**53,817**
Purchase of equity investments	-	-	-	-	-	-	-	-	0
At 31 December 2017	**13,475**	**10,329**	**8,469**	**139**	**4,400**	**200**	**12,005**	**4,800**	**53,817**
Provision for write-downs									
At 31 December 2015	**0**	**0**	**0**	**0**	**3,257**	**0**	**0**	**0**	**3,257**
Write-downs (Note 28)	-	-	-	-	521	-	-	-	521
At 31 December 2016	**0**	**0**	**0**	**0**	**3,778**	**0**	**0**	**0**	**3,778**
Write-downs (Note 28)	-	-	-	-	622	-	-	-	622
At 31 December 2017	**0**	**0**	**0**	**0**	**4,400**	**0**	**0**	**0**	**4,400**
Net carrying value									
At 31 December 2017	**13,475**	**10,329**	**8,469**	**139**	**0**	**200**	**12,005**	**4,800**	**49,417**
At 31 December 2016	**13,475**	**10,329**	**8,469**	**139**	**622**	**200**	**12,005**	**4,800**	**50,039**
Portion of shareholders' equity (calculated in compliance with IFRS)									
At 31 December 2017	**30,061**	**6,248**	**10,409**	**(79)**	**(60)**	**251**	**16,449**	**3,200**	**66,479**
At 31 December 2016	**30,027**	**5,546**	**10,628**	**(25)**	**683**	**266**	**14,805**	**3,025**	**64,955**
Difference between shareholders' equity and carrying value									
At 31 December 2017	**16,586**	**(4,081)**	**1,940**	**(218)**	**(60)**	**51**	**4,444**	**(1,600)**	**17,062**
At 31 December 2016	**16,552**	**(4,783)**	**2,159**	**(164)**	**61**	**66**	**2,800**	**(1,775)**	**14,916**

Faringosi-Hinges S.r.l.

In 2017, the Faringosi Hinges achieved very positive and better results, in terms of sales and profitability, both compared to the previous year and compared to the budget. The 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, Sabaf S.p.A. tested the carrying value of the equity investment for impairment, determining its recoverable value, considered to be equivalent to its usable value plus available liquidity, by discounting expected future cash flows 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 investee 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 drafting the separate 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 € 12.279 million, compared with a carrying value of the equity investment of € 10.329 million; consequently, the value recorded for equity investment 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:

(€/000)					
			growth rate		
discount rate	**1.00%**	**1.25%**	**1.50%**	**1.75%**	**2.00%**
8.18%	13,466	13,888	14,341	14,830	15,358
8.68%	12,490	12,851	13,237	13,651	14,096
9.18%	11,635	11,847	12,279	12,634	13,013
9.68%	10,882	11,154	11,442	11,748	12,074
10.18%	10,213	10,451	10,703	10,969	11,252

Sabaf do Brasil
In 2017, Sabaf do Brasil continued to obtain positive results, which improved compared with 2016. The decrease in shareholders' equity (converted into euros at the end-of-year exchange rate) is entirely attributable to the devaluation of the Brazilian real.

Sabaf U.S.
The subsidiary Sabaf U.S. operates as a commercial support for North America.
The difference between the carrying value and the shareholders' equity of the investee is attributable to the non-durable losses taking into consideration expected development on the North American market.

Sabaf Appliance Components
Sabaf Appliance Components (Kunshan) Co., Ltd. has been producing burners for the Chinese market since 2015. Furthermore, the company has performed the function as distributor on the Chinese market of Sabaf products manufactured in Italy and Turkey. Low production volumes have enabled the company to reach the break-even point in 2017. At 31 December 2017, the

value of the equity investment decreased by € 622,000, zeroing the value of shareholders' equity at the end of the year, in that the loss was considered permanent.

Sabaf Appliance Components Trading

Sabaf Appliance Components Trading (Kunshan) Co., Ltd., was founded during 2012 in order to perform the function as distributor. During 2015, this activity was centralised at Sabaf Appliance Components; however, the company went into liquidation; the process of liquidation will end in 2018.

Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki (Sabaf Turkey)

Sabaf Turkey achieved extremely satisfactory results in 2017 as well. The conversion into euro of the shareholders' equity at the end of the financial year was affected by the strong devaluation of the Turkish lira at the end of 2017; however, the shareholders' equity remains higher than the carrying value of the equity investment.

A.R.C. s.r.l.

In June 2016, the Company acquired the controlling share (70%) of A.R.C. s.r.l., leading company in the production of burners for professional cooking. The transaction allowed Sabaf to enter into a new sector, contiguous with the traditional sector of components for household gas cooking appliances, and to enhance the consolidated international presence of the Sabaf Group.

At 31 December 2017, the Company tested the carrying value of the equity investment for impairment, determining its recoverable value, considered to be equivalent to its usable value plus available liquidity, by discounting expected future cash flows in the forward plan drafted at the beginning of 2018. Cash flows for the period from 2018 to 2022 were augmented by the so-called terminal value, which expresses the operating flows that the investee 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 carried out while drafting the separate financial statements at 31 December 2016) and a growth rate (g) of 1.50%, in line with last year.

The portion pertaining to Sabaf S.p.A. of the recoverable value calculated on the basis of the above-mentioned assumptions and valuation techniques is € 8.746 million (70% of total recoverable value, equal to € 12.495 million), compared with a carrying value of the equity investment of € 4.8 million; consequently, the carrying value recorded for equity investment 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:

(€/000)					
			growth rate		
discount rate	**1.00%**	**1.25%**	**1.50%**	**1.75%**	**2.00%**
5.90%	13,929	14,531	15,201	15,951	16,798
6.40%	12,692	13,176	13,709	14,299	14,957
6.90%	11,667	12,063	12,495	12,970	13,493
7.40%	10,804	11,133	11,490	11,879	12,303
7.90%	10,067	10,345	10,643	10,967	11,317

As part of the acquisition of 70% of A.R.C. S.r.l., Sabaf S.p.A. 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.

The option for the purchase of the residual 30% of A.R.C. represents a derivative instrument; since the exercise price defined by contract was considered representative of the fair value of the portion that can be potentially acquired, no value was recorded in the separate financial statements ended 31 December 2017.

5. NON-CURRENT FINANCIAL ASSETS

	31/12/2017	31/12/2016	Change
Financial receivables from subsidiaries	1,668	1,897	(229)
Escrow bank account	180	240	(60)
Total	**1,848**	**2,137**	**(289)**

At 31 December 2017 and at 31 December 2016, financial receivables from subsidiaries consist of an interest-bearing loan of USD 2 million, granted to the subsidiary Sabaf do Brasil with the aim of optimising the Group's exposure to foreign exchange rate risk and whose maturity, originally expected for 31 March 2017, was postponed to 14 March 2019.
As part of the acquisition of 70% of A.R.C., Sabaf S.p.A. deposited in an escrow account the total amount of € 300,000. This amount was deducted from the consideration agreed to guarantee the commitments assumed by the sellers and will be released in favour of the sellers at constant rates in 4 years (Note 15). At 31 December 2017, the portion due beyond 12 months amounted to € 180,000.

6. INVENTORIES

	31/12/2017	31/12/2016	Change
Commodities	8,795	7,455	1,340
Semi-processed goods	9,115	9,310	(195)
Finished products	8,789	8,773	16
Obsolescence provision	(1,930)	(2,045)	115
Total	**24,769**	**23,493**	**1,276**

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, and refers to raw materials for € 453,000, semi-finished products for € 536,000 and finished products for € 941,000.

7. TRADE RECEIVABLES

	31/12/2017	31/12/2016	Change
Total trade receivables	**31,754**	**28,065**	**3,689**
Bad debt provision	(600)	(600)	0
Net total	**31,154**	**27,465**	**3,689**

At 31 December 2017, trade receivables included balances totalling USD 3,656,000, 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 € 22 million of insured receivables (€ 14 million at 31 December 2016).
The bad debt provision is considered adequate to cover the credit risk at the end of the reporting period, unchanged from the previous year.
Trade receivables at 31 December 2017 were higher than at the end of 2016 subsequent to higher sales. There were no significant changes in average payment terms agreed with customers.

	31/12/2017	31/12/2016	Change
Current receivables (not past due)	28,591	24,378	4,213
Outstanding up to 30 days	1,524	2,242	(718)
Outstanding from 31 to 60 days	754	184	570
Outstanding from 61 to 90 days	519	64	455
Outstanding for more than 90 days	366	1,197	(831)
Total	**31,754**	**28,065**	**3,689**

8. TAX RECEIVABLES

	31/12/2017	31/12/2016	Change
For income tax	1,644	2,075	(431)
For VAT and other sales taxes	586	402	184
Total	**2,230**	**2,477**	**(247)**

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.

9. OTHER CURRENT RECEIVABLES

	31/12/2017	31/12/2016	Change
Credits to be received from suppliers	351	678	(327)
Advances to suppliers	28	54	(26)
Due from INAIL	21	58	(37)
Other	322	249	73
Total	**722**	**1,039**	**(317)**

At 31 December 2017, credits to be received from suppliers included € 248,000 related to the relief due to the 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	Change
Financial receivables from subsidiaries	1,000	1,000	-
Escrow bank account (Note 5)	60	60	-
Interest rates derivatives	7	-	7
Total	**1,067**	**1,060**	**7**

At 31 December 2017 and at 31 December 2016, financial receivables from subsidiaries consist of an interest-bearing loan of € 1 million to Sabaf Appliance Components Co., Ltd. to support the Chinese subsidiary's working capital. The loan has a term of 12 months and was renewed in December 2017 for the same period. The receivable is considered recoverable in that the Chinese subsidiary is expected to generate sufficient cash flows to repay this loan in future years.

11. CASH AND CASH EQUIVALENTS

The item Cash and cash equivalents, equal to € 2,697,000 at 31 December 2017 (€ 1,797,000 at 31 December 2016) refers almost exclusively to bank current account balances.

12. SHARE CAPITAL

At 31 December 2017, the 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 Company 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
Unsecured loans	5,982	16,298	6,656	17,281
Short-term bank loans	10,846	-	7,397	-
Sabaf Turkey loan	2,100	-	-	-
Advances on bank receipts or invoices	-	-	2	-
Total	**18,928**	**16,298**	**14,055**	**17,281**

During the financial year, the Company signed an unsecured loan totalling € 5 million repayable in five years in quarterly fixed instalments, at a fixed rate of 1.02%.
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 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.
As part of the Group's financial management, in 2017 a loan agreement was also signed with the Turkish subsidiary for a total amount of € 2,100,000, expiring on 21 September 2018.
Note 36 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
Payables to A.R.C. shareholders	60	180	60	240
Currency derivatives	-	-	201	-
Derivative instruments on interest rates	15	-	37	-
Total	**75**	**180**	**298**	**240**

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 (Note 5) 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 RESERVE

	31/12/2017	31/12/2016	Change
Post-employment benefit reserve	2,200	2,436	(236)
Total	**2,200**	**2,436**	**(236)**

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	6%	6%
Advance payouts	5% per year	5% 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	31/12/2017
Reserve for agents' indemnities	213	15	(11)	(18)	199
Product guarantee fund	60	11	(11)	-	60
Provision for risks on equity investments	-	60	-	-	60
Reserve for legal risks	50	-	-	-	50
Total	**323**	**86**	**(22)**	**(18)**	**369**

The reserve for agents' indemnities covers amounts payable to agents if the Company terminates the agency relationship.
The product guarantee fund covers the risk of returns or charges by customers for products already sold.
The provision for risks on equity investments was set-aside to cover future outlays to restore the shareholders' equity of the Chinese subsidiary Sabaf Appliance Components, which was negative at 31 December 2017.
The reserve for legal risks is allocated for disputes of a modest size.

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	**16,569**	**16,010**	**559**

Average payment terms did not change versus the previous year. The amount of trade payables in currencies other than the euro is not significant. At 31 December 2017, there were no overdue payables of a significant amount and the Company did not receive any injunctions for overdue payables.

19. TAX PAYABLES

	31/12/2017	31/12/2016	Change
To inland revenue for IRPEF tax deductions	569	642	(73)
Other tax payables	54	-	54
Total	**623**	**642**	**(19)**

20. OTHER CURRENT PAYABLES

	31/12/2017	31/12/2016	Change
To employees	3,931	3,472	459
To social security institutions	2,063	1,937	126
Advances from customers	64	108	(44)
To agents	165	241	(76)
Other current payables	227	31	196
Total	**6,450**	**5,789**	**661**

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	3,455	3,315
Deferred tax liabilities	(68)	(129)
Net position	**3,387**	**3,186**

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

	Amortisation and leasing	Provisions and value adjustments	Fair value of derivative instruments	Goodwill	Actuarial post-employment benefit reserve evaluation	Other temporary differences	Total
At 31 December 2015	**353**	**793**	**(19)**	**1,771**	**170**	**67**	**3,135**
To the income statement	40	(23)	76	-	-	(50)	43
To shareholders' equity	-	-	-	-	8	-	8
At 31 December 2016	**393**	**770**	**57**	**1,771**	**178**	**17**	**3,186**
To the income statement	(46)	149	(55)	-	(2)	172	218
To shareholders' equity	-	-	-	-	(17)	-	(17)
At 31 December 2017	**347**	**919**	**2**	**1,771**	**159**	**189**	**3,387**

Deferred tax assets relating to goodwill refer to the exemption of the value of the 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.

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)	5	4	1
B.	Positive balances of unrestricted bank accounts (Note 11)	2,692	1,793	899
C.	Other cash equivalents	-	-	-
D.	**Liquidity (A+B+C)**	**2,697**	**1,797**	**900**
E.	**Current financial receivables**	**1,067**	**1,060**	**7**
F.	Current bank payables (Note 14)	12,946	7,399	5,547
G.	Current portion of non-current debt (Note 14)	5,982	6,656	(674)
H.	Other current financial payables (Note 15)	75	298	(223)
I.	**Current financial debt (F+G+H)**	**19,003**	**14,353**	**4,650**
J.	**Net current financial position (I-D-E)**	**15,239**	**11,496**	**3,743**
K.	Non-current bank payables (Note 14)	16,298	17,281	(983)
L.	Other non-current financial payables	180	240	(60)
M.	**Non-current financial debt (K+L)**	**16,478**	**17,521**	**(1,043)**
N.	**Net financial debt (J+M)**	**31,717**	**29,017**	**2,700**

The 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 € 115,687,000, up by € 14,164,000 (+14%) compared with 2016.

Revenue by geographical area

	2017	%	2016	%	% change
Italy	29,587	25.6%	31,431	30.9%	*-5.9%*
Western Europe	8,920	7.7%	6,868	6.8%	*+29.9%*
Eastern Europe and Turkey	35,655	30.8%	27,365	26.9%	*+30.3%*
Asia and Oceania (excluding Middle East)	9,570	8.3%	7,064	7.0%	*+35.5%*
Central and South America	11,331	9.8%	10,373	10.2%	*+9.2%*
Middle East and Africa	12,703	11.0%	11,254	11.1%	*+12.9%*
North America and Mexico	7,921	6.8%	7,168	7.1%	*+10.5%*
Total	**115,687**	100%	**101,523**	100%	***+14.0%***

Revenue by product family

	2017	%	2016	%	% change
Brass valves	5,992	5.2%	9,002	8.9%	*-33.4%*
Light alloy valves	39,219	33.9%	32,406	31.9%	*+21.0%*
Thermostats	7,365	6.4%	7,690	7.6%	*-4.2%*
Total valves and thermostats	*52,576*	*45.4%*	*49,098*	*48.4%*	*7.1%*
Standard burners	25,127	21.7%	21,483	21.2%	*+17.0%*
Special burners	24,136	20.9%	19,438	19.1%	*+24.2%*
Total burners	*49,263*	*42.6%*	*40,921*	*40.3%*	*+20.4%*
Accessories and other revenues	13,848	11.9%	11,504	11.3%	*+20.4%*
Total	**115,687**	100%	**101,523**	100.0%	***+14.0%***

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 are slightly down 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 0.7% lower compared with 2016.

24. OTHER INCOME

	2017	2016	Change
Sale of trimmings	1,457	958	499
Services to subsidiaries	378	154	224
Contingent income	97	136	(39)
Rental income	89	85	4
Use of provisions for risks and charges	39	88	(49)
Services to parent company	10	10	-
Other income	578	848	(270)
Total	**2,648**	**2,279**	**369**

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.
Services to subsidiaries and to the parent company refer to administrative, commercial and technical services within the scope of the Group.
Other income includes the charge to customers for sharing the development and industrialisation of new products.

25. MATERIALS

	2017	2016	Change
Commodities and outsourced components	42,973	33,692	9,281
Consumables	3,582	3,183	399
Total	**46,555**	**36,875**	**9,680**

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 0.8% of sales. Consumption (purchases plus change in inventories) as a percentage of sales was 41.3% in 2017, compared with 37.5% in 2016.

26. COSTS FOR SERVICES

	2017	2016	Change
Outsourced processing	8,681	7,587	1,094
Property rental	3,974	3,995	(21)
Electricity and natural gas	3,314	3,526	(212)
Maintenance	3,296	2,813	483
Advisory services	1,676	1,377	299
Transport and export expenses	1,408	1,134	274
Directors' fees	881	1,061	(180)
Insurance	444	562	(118)
Commissions	533	545	(12)
Travel expenses and allowances	550	478	72
Waste disposal	358	352	6
Canteen	296	282	14
Temporary agency workers	180	99	81
Other costs	2,013	2,221	(208)
Total	**27,604**	**26,032**	**1,572**

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 "energy-intensive bonuses" for 2016 and 2017 for a total of € 248,000, of which € 78,000 relating to the "2016 energy-intensive bonuses" 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. 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 (€ 414,000), sales (€ 342,000) and legal, administrative and general (€ 920,000) services.

27. PAYROLL COSTS

	2017	2016	Change
Salaries and wages	19,540	18,322	1,218
Social Security costs	6,249	5,959	290
Temporary agency workers	1,477	845	632
Post-employment benefit reserve and other costs	1,468	1,256	212
Total	**28,734**	**26,382**	**2,352**

Average of the Company headcount in 2017 totalled 514 employees (394 blue-collars, 110 white-collars and supervisors, 10 managers), compared with 543 in 2016 (424 blue-collars, 110 white-collars and supervisors, 9 managers). The average number of temporary staff, with supply contract, was 42 in 2017 (26 in 2016).
During the financial year, the Company 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
Losses and write-downs of trade receivables	49	171	(122)
Non-income related taxes and duties	238	181	57
Contingent liabilities	138	56	82
Provisions for risks	26	85	(59)
Other operating expenses	264	154	110
Total	**715**	**647**	**68**

Non-income taxes mainly include IMU, TASI and the tax for the disposal of urban solid waste. Provisions for risks and other provisions relate to sums set aside for the risks described in Note 17.

29. WRITE-DOWNS/WRITE-BACKS OF NON-CURRENT ASSETS

	2017	2016	Change
Write-down of Sabaf Appliance Components	(622)	(521)	(101)
Allocation to risk provisions on equity investments	(60)	-	(60)
Total	**(682)**	**(521)**	**(161)**

The write-down of the equity investment in Sabaf Appliance Components and the allocation to the relevant provision are commented on in Note 4 and 17, to which reference is made.

30. FINANCIAL EXPENSES

	2017	2016	Change
Interest paid to banks	244	241	3
Banking expenses	209	229	(20)
Other financial expense	29	43	(14)
Total	**482**	**513**	**(31)**

31. EXCHANGE RATE GAINS AND LOSSES

During the 2017 financial year, the Company reported net foreign exchange losses of € 88,000 (net loss of € 48,000 in 2016).

32. PROFITS AND LOSSES FROM EQUITY INVESTMENTS

	2017	2016	Change
Dividends received from Sabaf Immobiliare	1,500	-	1,500
Other profits from equity investments	3	-	3
Total	**1,503**	**-**	**1,503**

33. INCOME TAX

	2017	2016	Change
Current taxes	1,791	1,314	477
Deferred tax assets and liabilities	(219)	(43)	(176)
Taxes related to previous financial years	(502)	(137)	(365)
Total	**1,070**	**1,134**	**(64)**

Current taxes include IRES of € 1,436,000 and IRAP of € 355,000 (€ 1,034,000 and € 280,000 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	2,177	988
Permanent tax differences	(133)	4
Taxes related to previous financial years	88	(131)
“Patent box” tax effect	(1,151)	
“Superammortamento” tax benefit	(179)	-
Other differences	9	7
IRES (current and deferred)	**811**	**868**
IRAP (current and deferred)	259	266
Total	**1,070**	**1,134**

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

Following the prior agreement signed with the Revenue Agency, in 2017 the Company 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.

No significant tax disputes were pending at 31 December 2017.

34. 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).

35. SEGMENT REPORTING

Within the Sabaf Group, the Company operates exclusively in the gas parts segment for household cooking. The information in the consolidated financial statements is divided between the various segments in which the Group operates.

36. 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		
Income statement fair value		
Derivative cash flow hedges (on currency)	7	-
Amortised cost		
Cash and cash equivalents	2,697	1,797
Trade receivables and other receivables	31,876	28,505
Non-current loans	1,668	1,897
Current loans	1,000	1,000
Other financial assets	240	300
Financial liabilities		
Income statement fair value		
Derivative cash flow hedges (on currency)	-	201
Derivative cash flow hedges (on interest rates)	15	37
Amortised cost		
Loans	35,226	31,336
Other financial liabilities	240	300
Trade payables	16,569	16,010

The Company 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 Company operations.

It is part of Sabaf'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 Company 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 70% 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 main exchange rate to which the Company is exposed is the euro/USD in relation to sales made in dollars (mainly in North America) and, to a lesser extent, to some purchases (mainly from Asian manufacturers). Sales in US dollars represented 12% of total revenue in 2017, while purchases in dollars represented 5% 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 € 210,000.

Interest rate risk management
At 31 December 2017, gross financial debt of the Company 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 Company 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 Company 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 Company is not exposed to interest rate risk with regard to medium/long-term bank debt, since the floating rate of loans has been transformed into a fixed rate through 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 purchase costs of the company is represented by brass and aluminium alloys. Sales prices of products are generally renegotiated annually; as a result, the Company is unable to immediately pass on to customers any changes in the prices of commodities during the year. The Company 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 Company 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 34%, net financial debt / EBITDA of 1.81) 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
Unsecured loans	22,280	22,676	1,537	4,612	16,527	-
Short-term bank loans	10,846	10,846	10,846	-	-	-
Short-term Sabaf Turkey loan	2,100	2,118	-	2,118	-	-
Payables to ARC shareholders	240	240	-	60	180	-
Total financial payables	**35,466**	**35,862**	**12,383**	**6,772**	**16,707**	**0**
Trade payables	16,569	16,569	15,615	954	-	-
Total	**52,035**	**52,431**	**27,998**	**7,726**	**16,707**	**0**

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
Unsecured loans	23,937	24,388	1,709	5,129	17,550	-
Short-term bank loans	7,399	7,399	5,399	2,000	-	-
Payables to ARC shareholders	300	300	-	60	240	-
Total financial payables	**31,636**	**32,087**	**7,108**	**7,189**	**17,790**	**0**
Trade payables	16,010	16,010	15,373	637	-	-
Total	**47,646**	**48,097**	**22,481**	**7,826**	**17,790**	**0**

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)
Option on minorities A.R.C.	-	-	-	-
Total assets and liabilities at fair value	**0**	**(8)**	**0**	**(8)**

37. RELATIONS BETWEEN GROUP COMPANIES AND WITH RELATED PARTIES

The table below illustrates the impact of all transactions between Sabaf S.p.A. and other related parties on the balance sheet and income statement items and related parties, with the exception of the directors' fees, auditors and key management personnel which is stated in the Report on Remuneration.

Impact of related-party transactions or positions on statement of financial position items

	Total 2017	**Subsidiaries**	**Giuseppe Saleri Sapa**	**Other related parties**	**Total related parties**	**Impact on the total**
Non-current financial assets	1,848	1,668	-	-	1,668	90.26%
Trade receivables	31,154	1,209	-	-	1,209	3.88%
Tax receivables	2,230	-	1,084	-	1,084	48.60%
Current financial assets	1,785	1,000	-	-	1,000	56.02%
Trade payables	16,573	510	-	2	512	3.09%
Current financial payables	2,100	2,100	-	-	2,100	100%

	Total 2016	**Subsidiaries**	**Giuseppe Saleri Sapa**	**Other related parties**	**Total related parties**	**Impact on the total**
Non-current financial assets	2,137	1,897	-	-	1,897	88.77%
Trade receivables	27,465	1,192	-	-	1,192	4.34%
Tax receivables	2,477	-	1,084	-	1,084	43.76%
Current financial assets	1,060	1,000	-	-	1,000	94.34%
Trade payables	16,010	104	-	2	106	0.66%

Impact of related-party transactions on income statement accounts

	Total 2017	Subsidiaries	Giuseppe Saleri Sapa	Other related parties	Total related parties	Impact on the total
Revenue	115,687	10,239	-	-	10,239	8.85%
Other income	2,648	414	10	-	424	16%
Materials	36,556	1,548	-	-	1,548	4.24%
Services	27,602	3,966	-	20	3,987	14.44%
Capital gains on non-current assets	98	97	-	-	97	99.58%
Write-downs of non-current assets	682	682	-	-	682	100%
Financial income	89	80	-	-	80	89.89%
Financial expenses	482	2	-	-	2	0.46%

	Total 2016	Subsidiaries	Giuseppe Saleri Sapa	Other related parties	Total related parties	Impact on the total
Revenue	101,523	6,680	-	-	6,680	6.58%
Other income	2,279	399	10	-	409	17.95%
Materials	36,895	916	-	-	916	2.48%
Services	26,032	4,129	-	22	4,151	15.95%
Capital gains on non-current assets	87	66	-	-	66	75.86%
Write-downs of non-current assets	521	521	-	-	521	100%
Financial income	85	82	-	-	82	96.47%

Relations with subsidiaries mainly consist of:

- trade relations, relating to the purchase and sale of semi-processed goods or finished products with Sabaf do Brasil, Faringosi Hinges, Sabaf Turkey and Sabaf Kunshan Trading;
- sales of machinery to Sabaf Brasile and Sabaf Turkey, which generated the capital gains highlighted;
- rental of property from Sabaf Immobiliare;
- intra-group loans;
- group VAT settlement.

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.

Related-party transactions are regulated by specific contracts regulated at arm's length conditions.

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	Net Profit	Net financial debt	Cash flows
Financial statement values (A)	**92,087**	**8,001**	**31,717**	**900**
Recognition of "Patent box" tax benefit related to 2015 and 2016 (B)	(772)	(772)	-	-
Financial statement notional value (A+B)	**91,315**	**7,229**	**31,717**	**900**

As described in Note 33, in these separate financial statements the Company recognised the tax benefit relating to the Patent Box for the three-year period 2015 to 2017; the share relating to previous years is considered non-recurring and is therefore shown in the table above.

39. ATYPICAL AND/OR UNUSUAL TRANSACTIONS

Pursuant to CONSOB memorandum of 28 July 2006, the Company declares that no atypical and/or unusual transactions as defined by the CONSOB memorandum were executed during 2017.

40. COMMITMENTS

Guarantees issued
Sabaf S.p.A. also issued sureties to guarantee mortgage loans granted by banks to employees for a total of € 5,145,000 (€ 5,510,000 at 31 December 2016).

41. FEES TO DIRECTORS, STATUTORY AUDITORS AND EXECUTIVES WITH STRATEGIC RESPONSIBILITIES

Fees to directors, statutory auditors and executives with strategic responsibilities are described in the Report on Remuneration that will be presented to the shareholders' meeting called to approve these separate financial statements.

42. SHARE-BASED PAYMENTS

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

LIST OF INVESTMENTS WITH ADDITIONAL INFORMATION REQUIRED BY CONSOB (COMMUNICATION DEM76064293 of 28 July 2006)

IN SUBSIDIARIES[1]

Company name	Registered offices	Share capital at 31 December 2017	Shareholders	Ownership %	Shareholders' equity at 31 December 2017	2017 profit (loss)
Faringosi-Hinges S.r.l.	Ospitaletto (BS)	€ 90,000	Sabaf S.p.A.	100%	€ 6,248,113	€ 695,664
Sabaf Immobiliare s.r.l.	Ospitaletto (BS)	€ 25,000	Sabaf S.p.A.	100%	€ 23,582,409	€ 1,673,079
Sabaf do Brasil Ltda	Jundiai (Brazil)	BRL 24,000,000	Sabaf S.p.A.	100%	BRL 41,353,284	BRL 4,894,931
Sabaf US Corp.	Plainfield (USA)	USD 100,000	Sabaf S.p.A.	100%	USD -79,482	USD -53,095
Sabaf Appliance Components (Kunshan) Co., Ltd.	Kunshan (China)	€ 4,400,000	Sabaf S.p.A.	100%	CNY 60,007	CNY -5,275,687
Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki	Manisa (Turkey)	TRY 28,000,000	Sabaf S.p.A.	100%	TRY 72,264,252	TRY 19,621,894
Sabaf Appliance Components Trading (Kunshan) Co., Ltd. in liquidation	Kunshan (China)	€ 200,000	Sabaf S.p.A.	100%	CNY 1,955,552	CNY 5,225
A.R.C. s.r.l.	Campodarsego (PD)	€ 45,000	Sabaf S.p.A.	70%	€ 4,650,017	€ 328,544

OTHER SIGNIFICANT EQUITY INVESTMENTS

None

[1] Values taken from the separate financial statements of subsidiaries, prepared in accordance with locally applicable accounting standards

ORIGIN, POSSIBILITY OF UTILISATION AND AVAILABILITY OF RESERVES

Description	Amount	Possibility of utilisation	Available share	Amount subject to taxation for the company in the case of distribution
Capital reserve:				
Share premium reserve	10,002	A, B, C	10,002	0
Revaluation reserve, Law 413/91	42	A, B, C	42	42
Revaluation reserve, Law 342/00	1,592	A, B, C	1,592	1,592
Retained earnings:				
Legal reserve	2,307	B	0	0
Other retained earnings	58,876	A, B, C	58,876	0
Valuation reserve:				
Post-employment benefit actuarial reserve	(477)		0	0
Total	72,342		70,512	1,634

Key:

A. for share capital increase
B. to hedge losses
C. for distribution to shareholders

STATEMENT OF REVALUATIONS OF EQUITY ASSETS AT 31 December 2017

		Gross value	Cumulative depreciation	Net value
Investment property	Law 72/1983	137	(137)	0
	1989 merger	516	(450)	66
	Law 413/1991	47	(42)	5
	1994 merger	1,483	(1,046)	437
	Law 342/2000	2,870	(2,368)	502
		5,053	**(4,043)**	**1,010**
Plants and machinery	Law 576/75	205	(205)	0
	Law 72/1983	2,224	(2,224)	0
	1989 merger	6,140	(6,140)	0
	1994 merger	6,820	(6,820)	0
		15,389	**(15,389)**	**0**
Industrial and commercial equipment	Law 72/1983	**161**	**(161)**	**0**
Other assets	Law 72/1983	**50**	**(50)**	**0**
TOTAL		**20,653**	**(19,643)**	**1,010**

GENERAL INFORMATION

Sabaf S.p.A. is a company organised under the legal system of the Republic of Italy.

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:	http://www.sabaf.it
Tax information:	R.E.A. Brescia	347512
	Tax Code	03244470179
	VAT Number	01786911082

Appendix

Information as required by 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 services and for services other than auditing provided by the Independent Auditor. No services were provided by entities belonging to the network.

(€/000)	Party providing the service	Fees pertaining to the 2017 financial year
Audit	Deloitte & Touche S.p.A.	57
Certification services	Deloitte & Touche S.p.A.	2(1)
Other services	Deloitte & Touche S.p.A.	14(2)
Total		*73*

(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

Certification of Separate financial statements pursuant to 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 separate financial statements during the 2017 financial year.

They also certify that:

- the separate 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 financial position and performance of the issuer;

- the report on operations contains a reliable analysis of the performance and results of operations and the situation at the issuer, along with a description of the key risks and uncertainties to which it is exposed.

Ospitaletto, 26 March 2018

Chief Executive Officer
Pietro Iotti

The Financial Reporting Officer
Gianluca Beschi