

SABAF S.p.A.

SEPARATE FINANCIAL STATEMENTS

AT 31 DECEMBER 2019

CORPORATE BODIES

Board of Directors

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

(*) Independent directors

Board of Statutory Auditors

| | |
|--------------------------|---------------------|
| Chairman | Alessandra Tronconi |
| Statutory Auditor | Luisa Anselmi |
| Statutory Auditor | Mauro Vivenzi |

Independent Auditors

EY S.p.A.

Statement of financial position

(in €)

NOTES 31/12/2019 31/12/2018

| ASSETS | | | |
|---|----|--------------------|--------------------|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 1 | 51,470,506 | 30,497,881 |
| Investment property | 2 | 3,975,991 | 1,261,716 |
| Intangible assets | 3 | 2,452,857 | 3,094,293 |
| Equity investments | 4 | 57,950,775 | 58,150,073 |
| Non-current financial assets | 5 | 5,340,310 | 5,366,725 |
| - of which from related parties | 35 | 5,280,310 | 5,246,725 |
| Non-current receivables | | 19,871 | 19,871 |
| Deferred tax assets | 21 | 4,276,366 | 3,471,716 |
| Total non-current assets | | 125,486,676 | 101,862,275 |
| CURRENT ASSETS | | | |
| Inventories | 6 | 19,862,180 | 26,627,854 |
| Trade receivables | 7 | 28,563,314 | 35,157,543 |
| - of which from related parties | 35 | 9,094,290 | 6,080,706 |
| Tax receivables | 8 | 1,736,169 | 2,377,224 |
| - of which from related parties | 35 | 0 | 1,083,666 |
| Other current receivables | 9 | 588,494 | 764,471 |
| Current financial assets | 10 | 2,832,998 | 5,110,000 |
| - of which from related parties | 35 | 1,600,000 | 1,600,000 |
| Cash and cash equivalents | 11 | 8,343,105 | 1,958,805 |
| Total current assets | | 61,926,260 | 71,995,897 |
| ASSETS HELD FOR SALE | | 0 | 0 |
| TOTAL ASSETS | | 187,412,936 | 173,858,172 |
| SHAREHOLDERS' EQUITY AND LIABILITIES | | | |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 12 | 11,533,450 | 11,533,450 |
| Retained earnings, Other reserves | | 93,399,901 | 72,464,975 |
| Profit for the year | | 3,821,876 | 8,040,214 |
| Total shareholders' equity | | 108,755,227 | 92,038,639 |
| NON-CURRENT LIABILITIES | | | |
| Loans | 14 | 35,485,756 | 33,669,253 |
| Other financial liabilities | 15 | 1,233,000 | 120,000 |
| Post-employment benefit and retirement provisions | 16 | 2,064,001 | 2,083,922 |
| Provisions for risks and charges | 17 | 1,064,482 | 1,088,183 |
| Deferred tax liabilities | 21 | 1,733,755 | 106,646 |
| Total non-current liabilities | | 41,580,994 | 37,068,004 |
| CURRENT LIABILITIES | | | |
| Loans | 14 | 13,994,308 | 17,330,136 |
| Other financial liabilities | 15 | 331,505 | 1,795,310 |
| Trade payables | 18 | 15,734,266 | 18,944,590 |
| - of which to related parties | 35 | 761,431 | 3,858,114 |
| Tax payables | 19 | 695,008 | 589,828 |
| - of which to related parties | 35 | 74,375 | 0 |
| Other payables | 20 | 6,321,628 | 6,091,665 |
| Total current liabilities | | 37,076,715 | 44,751,529 |
| LIABILITIES HELD FOR SALE | | 0 | 0 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 187,412,936 | 173,858,172 |

Income statement

| | NOTES | 2019 | 2018 |
|---|-------|---------------------|---------------------|
| <i>(in €)</i> | | | |
| INCOME STATEMENT COMPONENTS | | | |
| OPERATING REVENUE AND INCOME | | | |
| Revenue | 23 | 94,899,421 | 110,065,252 |
| - of which from related parties | 35 | 13,984,435 | 11,496,883 |
| Other income | 24 | 4,045,581 | 2,985,254 |
| Total operating revenue and income | | 98,945,002 | 113,050,506 |
| OPERATING COSTS | | | |
| Materials | 25 | (32,805,599) | (45,084,626) |
| Change in inventories | | (6,765,674) | 1,858,927 |
| Services | 26 | (20,124,041) | (27,540,143) |
| - of which to related parties | 35 | (1,698,535) | (3,991,378) |
| Personnel costs | 27 | (26,785,293) | (28,388,299) |
| Other operating costs | 28 | (926,250) | (1,852,013) |
| Costs for capitalised in-house work | | 1,588,760 | 1,599,795 |
| Total operating costs | | (85,818,097) | (99,406,359) |
| OPERATING PROFIT BEFORE DEPRECIATION AND AMORTISATION, CAPITAL GAINS/LOSSES, WRITE-DOWNS/WRITE-BACKS OF NON-CURRENT ASSETS | | | |
| | | 13,126,905 | 13,644,147 |
| Depreciations and amortisation | 1,2,3 | (9,808,641) | (8,596,924) |
| Capital gains/(losses) on disposal of non-current assets | | 130,018 | 495,659 |
| Write-downs/write-backs of non-current assets | 4 | (500,000) | 0 |
| - of which by related parties | | (500,000) | 0 |
| EBIT | | | |
| | | 2,948,282 | 5,542,882 |
| Financial income | | 211,324 | 122,845 |
| - of which from related parties | | 199,308 | 118,874 |
| Financial expenses | 29 | (816,612) | (918,213) |
| Exchange rate gains and losses | 30 | (10,015) | 157,102 |
| Profits and losses from equity investments | 31 | 1,357,665 | 4,322,070 |
| - of which from related parties | | 1,357,665 | 4,322,070 |
| PROFIT BEFORE TAXES | | | |
| | | 3,690,644 | 9,226,686 |
| Income taxes | 32 | 131,232 | (1,186,472) |
| PROFIT FOR THE YEAR | | | |
| | | 3,821,876 | 8,040,214 |

Comprehensive income statement

| | 2019 | 2018 |
|---|------------------|------------------|
| <i>(in €)</i> | | |
| PROFIT FOR THE YEAR | 3,821,876 | 8,040,214 |
| <i>Total profits/losses that will not be subsequently reclassified under profit (loss) for the year</i> | | |
| Actuarial evaluation of post-employment benefit | (63,367) | 26,538 |
| Tax effect | 15,208 | (6,369) |
| Total other profits/(losses) net of taxes for the year | (48,159) | 20,169 |
| TOTAL PROFIT | 3,773,717 | 8,060,383 |

Statement of changes in shareholders' equity

| <i>(€/000)</i> | Share Capital | Share premium reserve | Legal reserve | Treasury shares | Actuarial evaluation of post- employment benefit provision | Other reserves | Profit for the year | Total shareholders' equity |
|-------------------------------------|------------------|-----------------------------|------------------|--------------------|---|-------------------|------------------------|----------------------------------|
| Balance at 31 December 2017 | 11,533 | 10,002 | 2,307 | (4,509) | (477) | 65,230 | 8,001 | 92,087 |
| 2018 dividend payment | | | | | | 1,930 | (8,001) | (6,071) |
| Purchase of treasury shares | | | | (2,359) | | | | (2,359) |
| Stock grant plan (IFRS 2) | | | | | | 322 | | 322 |
| Total profit at 31 December 2018 | | | | | 20 | | 8,040 | 8,060 |
| Balance at 31 December 2018 | 11,533 | 10,002 | 2,307 | (6,868) | (457) | 67,482 | 8,040 | 92,039 |
| 2019 dividend payment | | | | | | 1,980 | (8,040) | (6,060) |
| Sale of treasury shares | | | | 4,600 | | 208 | | 4,808 |
| Stock grant plan (IFRS 2) | | | | | | 680 | | 680 |
| Sabaf Immobiliare merger | | | | | | 13,514 | | 13,514 |
| Total profit at 31 December 2019 | | | | | (48) | | 3,822 | 3,774 |
| Balance at 31 December 2019 | 11,533 | 10,002 | 2,307 | (2,268) | (505) | 83,864 | 3,822 | 108,755 |

Statement of Cash Flows

| <i>(€/000)</i> | 2019 FY | 2018 FY |
|--|--------------------------|-----------------|
| <i>Cash and cash equivalents at beginning of year</i> | 2,169¹ | 2,697 |
| Profit for the year | 3,822 | 8,040 |
| Adjustments for: | | |
| - Depreciation and amortisation | 9,809 | 8,597 |
| - Realised gains | (130) | (496) |
| - Write-downs of non-current assets | 500 | 0 |
| - Profits and losses from equity investments | (1,358) | (4,322) |
| - Valuation of the stock grant plan | 681 | 321 |
| - Net financial income and expenses | 605 | 795 |
| - Non-monetary foreign exchange differences | 34 | 79 |
| - Income tax | (131) | 1,186 |
| Change in post-employment benefit | (94) | (139) |
| Change in risk provisions | (24) | 719 |
| <i>Change in trade receivables</i> | <i>6,610</i> | <i>(4,003)</i> |
| <i>Change in inventories</i> | <i>6,766</i> | <i>(1,859)</i> |
| <i>Change in trade payables</i> | <i>185</i> | <i>2,375</i> |
| Change in net working capital | 13,561 | (3,487) |
| Change in other receivables and payables, deferred tax liabilities | 1,325 | (407) |
| Payment of taxes | (339) | (1,319) |
| Payment of financial expenses | (790) | (895) |
| Collection of financial income | 211 | 123 |
| Cash flows from operations | 27,682 | 8,796 |
| Investments in non-current assets | | |
| - intangible | (494) | (526) |
| - tangible | (6,622) | (7,836) |
| - financial | (12,314) | (8,698) |
| Disposal of non-current assets | 1,527 | 1,841 |
| Cash flow absorbed by investments | (17,903) | (15,219) |
| Free cash flow | 9,779 | (6,423) |
| Repayment of loans | (17,376) | (14,166) |
| Raising of loans | 13,057 | 31,600 |
| Change in financial assets | 2,270 | (7,641) |
| Purchase/Sale of treasury shares | 3,146 | (2,359) |
| Payment of dividends | (6,060) | (6,071) |
| Collection of dividends | 1,358 | 4,322 |
| Cash flow absorbed by financing activities | (3,605) | 5,685 |
| <i>Total cash flows</i> | 6,174 | (738) |
| <i>Cash and cash equivalents at end of year (Note 11)</i> | 8,343 | 1,959 |
| Net current financial debt | 11,493 | 14,015 |
| Non-current financial debt | 36,719 | 33,789 |
| <i>Net financial debt (Note 22)</i> | 39,868 | 45,845 |

¹ The value of cash and cash equivalents refers to the sum of the data of Sabaf S.p.A. and Sabaf Immobiliare S.r.l.

EXPLANATORY NOTES

ACCOUNTING STANDARDS

Statement of compliance and basis of presentation

The separate financial statements of Sabaf S.p.A. for the financial year 2019 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. With reference to this assumption, 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 2019.

Financial statements

The Company 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 statement of cash flows that presents cash 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 2019, unchanged versus the previous year, with the exception of the new accounting standards adopted as from 1 January 2019 (IFRS 16 and IFRIC 23), 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, unchanged compared to previous financial 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 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 cash generating unit) is increased to the new value stemming from the estimate of its recoverable amount – but not beyond the net carrying value that the asset would have had if it had not been written down for impairment. 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

Equity investments not classified as held for sale are booked at cost, reduced for impairment.

Impairment

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 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 amount individually, the Company estimates the recoverable amount of the cash generating unit (CGU) to which the asset belongs. In particular, the recoverable amount 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 current 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 amount 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 cash generating unit) is increased to the new value stemming from the estimate of its recoverable amount – but not beyond the net carrying value that the asset would have had if it had not been written down for impairment. 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.

Trade receivables and other financial assets

Initial recognition

Upon initial recognition, financial assets are classified, as the case may be, on the basis of subsequent measurement methods, i.e. at amortised cost, at fair value recognised in other comprehensive income (OCI) and at fair value recognised in the income statement.

The classification of financial assets at initial recognition depends on the characteristics of the contractual cash flows of the financial assets and on the business model that the Company uses to manage them.

Trade receivables that do not contain a significant financing component are valued at the transaction price determined in accordance with IFRS 15. See the “Revenue from Contracts with Customers” paragraph.

Other financial assets are recorded at fair value plus, in the case of a financial asset not at fair value recognised in the income statement, transaction costs.

For a financial asset to be classified and measured at amortised cost or at fair value recognised in OCI, it must generate cash flows that depend solely on the principal and interest on the amount of principal to be repaid (known as 'solely payments of principal and interest (SPPI)'). This measurement is referred to as the SPPI test and is carried out at the instrument level.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below.

Financial assets at amortised cost (debt instruments)

This category is the most important for the Company. The Company measures the financial assets at amortised cost if both of the following requirements are met:

- the financial asset is held as part of a business model whose objective is to hold financial assets for the purpose of collecting contractual cash flows and
- the contractual terms of the financial asset envisage, at certain dates, cash flows represented solely by payments of principal and interest on the amount of principal to be repaid

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the income statement when the asset is derecognised, modified or revalued.

Financial assets at amortised cost of the Company include trade receivables.

Financial assets at fair value through profit or loss

This category includes all assets held for trading, assets designated at initial recognition as financial assets measured at fair value with changes recognised in the income statement, or financial assets that must be measured at fair value. Assets held for trading are all those assets acquired for sale or repurchase in the short term. Derivatives, separated or otherwise, are classified as financial instruments held for trading, unless they are designated as effective hedging instruments. Financial assets with cash flows that are not represented solely by principal and interest payments are classified and measured at fair value through profit or loss, regardless of the business model. Financial instruments at fair value with changes recognised in the income statement are recognised in the statement of financial position at fair value and net changes in fair value through profit or loss. This category includes derivative instruments.

The Company does not hold financial assets at fair value through profit or loss with reclassification of cumulative gains and losses or financial assets at fair value through profit or loss without reversal of cumulative gains and losses upon derecognition.

Derecognition

A financial asset (or, if applicable, part of a financial asset or part of a group of similar financial assets) is firstly written off (e.g. removed from the statement of financial position of the Company) when:

- ▶ the rights to receive cash flows from the asset are extinguished, or
- ▶ the Company transferred to a third party the right to receive financial flows from the asset or has taken on the contractual obligation to pay them fully and without delay and (a) transferred substantially all the risks and benefits of the ownership of the financial asset or (b) did not substantially transfer or retain all the risks and benefits of the asset, but transferred their control.

If the Company has transferred the rights to receive financial flows from an asset or has signed an agreement on the basis of which it retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the financial flows to one or more beneficiaries (pass-through), it considers whether or to what extent it has retained the risks and benefits concerning the ownership. If it has not substantially transferred or retained all the risks and benefits or has not lost control over it, the asset continued to be recognised in the financial statements of the Company to the extent of its residual involvement in the asset itself. In this case, the company also recognises an associated liability. The transferred asset and the associated liability are measured in such a way as to reflect the rights and obligations that pertain to the Company. When the residual involvement of the entity is a guarantee in the transferred asset, the involvement is measured based on the amount of the asset or the maximum amount of the consideration received that the entity could be obliged to pay, whichever lower.

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 cash 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

The post-employment benefit 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 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)".

Trade payables and other financial liabilities

Initial recognition

All financial liabilities are initially recognised at fair value, in addition to directly attributable transaction costs in case of mortgages, loans and payables.

The Company's financial liabilities include trade payables and other payables, mortgages and loans, including current account overdrafts and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value with changes recognised in the income statement include liabilities held for trading and financial liabilities initially recognised at fair value, with changes recognised in the income statement. Liabilities held for trading are those liabilities acquired in order to discharge or transfer them in the short term. This category also includes derivative financial instruments subscribed by the Company and not designated as hedging instruments in a hedging relationship pursuant to IFRS 9. Embedded derivatives, separated from the main contract, are classified as financial instruments held for trading, unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. Financial liabilities are designated at fair value with changes recognised in the income statement from the date of initial recognition, only if the criteria of IFRS 9 are met.

Loans and payables

This is the most important category for the Company and includes interest-bearing payables and loans. After initial statement, loans are valued using the amortised cost approach, applying the effective interest rate method. Gains and losses are recognised in the income statement when the liability is discharged, as well as through the amortisation process. Amortised cost is calculated by recognising the discount or premium on the acquisition and the fees or costs that are an integral part of the effective interest rate. Amortisation at the effective interest rate is included in financial expenses in the income statement.

Derecognition

A financial liability is derecognised when the obligation underlying the liability is discharged, cancelled or fulfilled. If an existing financial liability is replaced by another from the same lender, at substantially different conditions, or if the conditions of an existing liability are substantially changed, this replacement or change is treated as a derecognition of the original liability accompanied by the recognition of a new liability, with any differences between the carrying values recognised in the income statement.

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. All the other financial expenses are recognised as costs for the year in which they are incurred.

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 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.

Equity-settled transactions

Some of the Company employees receive part of the remuneration in the form of share-based payments, therefore employees provide services in exchange for shares ("equity-settled transactions"). The cost of equity-settled transactions is determined by the fair value at the date on which the assignment is made using an appropriate measurement method, as explained in more detail in Note 41.

This cost, together with the corresponding increase in shareholders' equity, is recorded under personnel costs (Note 27) over the period in which the conditions relating to the achievement of objectives and/or the provision of the service are met. The cumulative costs recognised for such transactions at the end of each reporting period up to the vesting date are commensurate with the expiry of the vesting period and the best estimate of the number of equity instruments that will actually vest.

Service or performance conditions are not taken into account when defining the fair value of the plan at the assignment date. However, the probability of these conditions being met is taken into account when defining the best estimate of the number of equity instruments that will vest. Market conditions are reflected in the fair value at the assignment date. Any other condition related to the plan that does not involve a service obligation is not considered to be a vesting condition. Non-vesting conditions are reflected in the fair value of the plan and result in the immediate recognition of the cost of the plan, unless there are also service or performance conditions.

No cost is recognised for rights that do not vest in that the performance and/or service conditions are not met. When the rights include a market condition or a non-vesting condition, these are treated as if they had vested regardless of whether the market conditions or other non-vesting conditions to which they are subject are met or not, it being understood that all other performance and/or service conditions must be met.

If the conditions of the plan are changed, the minimum cost to be recognised is the fair value at the assignment date in the absence of the change in the plan itself, on the assumption that the original conditions of the plan are met. Moreover, a cost is recognised for each change that results in an increase in total fair value of the payment plan, or that is in any case favourable for employees; this cost is measured with reference to the date of change. When a plan is cancelled, any remaining element of the plan's fair value is immediately expensed to the income statement.

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. Specifically:

Recoverability of value of tangible and intangible assets and investments

The procedure for determining impairment losses of tangible and intangible assets described in “Impairment” 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 amount. 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

Inventories subject to obsolescence and slow turnover are systematically measured 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.

Share-based payments

Estimating the fair value of share-based payments requires the determination of the most appropriate valuation model, which depends on the terms and conditions under which these instruments are granted. This also requires the identification of data to feed into the valuation model, including assumptions about the exercise period of the options, volatility and dividend yield. The Company uses a binomial model for the initial measurement of the fair value of share-based payments with employees.

Income taxes

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

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 2019

- Standard **IFRS 16 "Leases"** (published on 13 January 2016), which replaced 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 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 lease 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 impacts resulting from the first-time adoption of this standard are described in detail in the paragraph "Adoption of the accounting standard IFRS 16 "Leases"".
- Interpretation of **IFRIC 23 - Uncertainty over income tax treatments**. The Interpretation defines the accounting treatment of income taxes when the tax treatment involves uncertainties that have an effect on the application of IAS 12 and does not apply to taxes or duties that do not fall within the scope of IAS 12. The Company defines whether to consider each uncertain tax treatment separately or together with other uncertain tax treatments and uses the approach that provides better predictions of the resolution of the uncertainty.
At the time the interpretation was adopted, the Company examined the existence of uncertain tax positions and determined that its tax treatment (including that of its subsidiaries) is likely to be accepted by the tax authorities. Therefore, the interpretation had no impact on the Company's financial statements.
- Amendment to **IFRS 9 Prepayment Features with Negative Compensation**. Under IFRS 9, a debt instrument may be measured at amortised cost or at fair value through other comprehensive income (FVOCI), on condition that the contractual cash flows are "solely payments of principal and interest on the reference amount" (the SPPI criterion) and that the instrument is classified in the appropriate business model. The amendments to IFRS 9 clarify that a financial asset meets the SPPI criterion regardless of the event of the circumstance that caused the early termination of the contract and regardless of which is the party paying or receiving a reasonable compensation for the early termination of the contract. These amendments had no impact on the Company's financial statements.
- Amendment to **IAS 19 Plan Amendment, Curtailment or Settlement**. The amendments clarify how pension costs are determined when a change occurs in a defined benefit plan.

These amendments had no impact on the financial statements insofar as the Company, in the reference period, did not record any amendment, curtailment or settlement of the plans.

- Amendment to **IAS 28 Long-term Interests in Associates and Joint Ventures**. 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.

These amendments did not have any impact on the Company's financial statements, insofar as Sabaf does not have equity investments in associates and joint ventures that are not measured with the equity method.

- Document "**Annual Improvements to IFRSs 2017–2015 Cycle**", which implements the amendments to the standards as part of their annual process of improvement:
 - IFRS 3 Business combinations: The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination, which is carried out in different stages, including the re-measurement of the fair value of the interest previously held in the assets and liabilities of the joint operation. In doing this, the acquirer reassess the interest previously held in the joint operation. This amendment had no impact on the Company's financial statements;
 - IFRS 11 Joint Arrangements: An entity that participates in a joint operation, without having joint control, could obtain joint control of the joint operation if its activity constitutes a business as defined in IFRS 3. The amendments clarify that previously held interests in this joint operation are not re-measured. This amendment had no impact on the Company's financial statements;
 - IAS 12 Income Taxes: The amendments clarify that the tax consequences of dividends are related to past transactions or to events that generated distributable profits rather than to distributions to shareholders. As the Company's current practice is in line with these amendments, the Company did not recognise any impact resulting from said amendments on its financial statements;
 - IAS 23 Borrowing Costs: The amendments clarify that any borrowing made, which right from the start was intended to improve an asset, must be treated by the entity as non-specific if all of the measures needed to prepare said asset for use or sale have been completed. As the Company's current practice is in line with these amendments, the Company did not recognise any impact resulting from said amendments on its 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 2019

- Amendments to **IFRS 3 Definition of a Business**. In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 to support entities in determining whether or not a set of assets acquired constitutes a business. The amendments clarify the minimum requirements for having a business, remove the assessment of whether market participants can replace any missing elements, add guidelines to support entities

in assessing whether an acquired process is substantial, narrow the definitions of business and output, and introduce an optional fair value concentration test.

Since the amendments apply prospectively to transactions or other events occurring on or after the date of first-time adoption, the Company is not affected by these amendments.

- **Amendments to IAS 1 and IAS 8 Definition of Material.** In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of "material" in standards and to clarify certain aspects of the definition. The new definition indicates that information is material if, as a result of its omission, or as a result of its incorrect or incomprehensible presentation, one could reasonably expect to influence the decisions that the main users of the financial statements would make on the basis of the financial information contained therein.

The application is required, prospectively, starting from the financial statements of the financial years starting from 1 January 2020. The directors do not expect a significant effect on the Company's financial statements through the adoption of these changes.

IFRS accounting standards, amendments and interpretations not yet approved by the European Union

On the reference date of these 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.

IFRS 17 Insurance Contracts. A new accounting standard for the recognition of insurance contracts that will replace IFRS 4. The new standard will be effective for the preparation of the financial statements for financial years beginning on or after 1 January 2021, unless they are postponed subsequent to their approval by the European Union. The directors do not expect the adoption of these amendments to have any impact on the Company's financial statements.

Adoption of the accounting standard IFRS 16 “Leases”

The Company applied IFRS 16 from 1 January 2019 by using the amended retrospective approach. Therefore, the cumulative effect of the adoption of IFRS16 was recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, without recalculating the comparative information.

In particular, the Company analysed all agreements in force as of 1 January 2019 and relating to the use of third-party assets in the light of the new definition of lease contained in the standard and recognised:

- a financial liability equal to the present value of remaining future payments at the transition date;
- a right of use, the value of which was set equal to the value of the financial liability at the transition date.

In adopting IFRS 16, the Company made use of the exemption granted in paragraph 5 a) in relation to leases with a duration of less than 12 months (known as short-term leases) and the exemption granted in paragraph 5 b) in relation to lease agreements whose underlying asset is a low-value asset. For these agreements, lease payments are recognised in the income statement on a straight-line basis for the duration of the respective agreements.

The following table summarises the main characteristics of the agreements that have been the subject matter of the above exemptions:

(€/000)

| Subject-matter of the agreement | Applied exemption | Value of the agreement |
|--|--------------------------|-------------------------------|
| Fork lifts | Short-term leases | 23 |
| Fork lifts | Low-value asset | 8 |
| Company cars | Short-term leases | 24 |
| Total value of agreements subject matter of the exemption | | 55 |

The amount of the lease payments for these types of agreements was not significant at 31 December 2019.

When evaluating the lease liabilities, Sabaf S.p.A. discounted the payments due for the lease using the incremental borrowing rate at 1 January 2019. The weighted average of the applied rate was 1.5% on 1 January 2019 and on 31 December 2019.

The lease term is calculated based on the non-cancellable period of the lease, including the periods covered by the option to extend or to terminate the lease if it is reasonably certain that those options will be exercised or not exercised, taking account of all relevant factors that create an economic incentive relating to those decisions.

Moreover, with reference to the transition rules, the Company adopted some practical expedients provided for by the Standard and in particular:

- agreements with a term of less than 12 months of the transition date were classified as short-term leases, therefore the related lease payments are recognised in the income statement on a straight-line basis;

- initial costs were excluded from the valuation of the asset for the right of use on the initial application date;
- the information present at the transition date was used to determine the lease term, with a special reference to the exercise of renewal and early closure options;
- payments for the use of the asset (lease component) and payments for services or maintenance (non-lease component) related to the same asset were not separated.

The following tables summarise the effects of the adoption of IFRS 16 according to the amended retrospective approach at the date of first-time adoption, 1 January 2019, and at 31 December 2019. Further details are provided in the notes relating to the specific items on which the standard has had an impact: Note 1 "Property, plant and equipment", Note 2 "Investment property" and Note 14 "Loans".

| Adoption of IFRS 16 - Effects at 1 January 2019 | Book value at 01/01/2019 in case of non-adoption of IFRS 16 | Effect of IFRS 16 | Book value at 01/01/2019 |
|--|---|-------------------|-----------------------------|
| Assets | | | |
| Property, plant and equipment | 30,498 | 688 | 31,186 |
| Liabilities | | | |
| Loans beyond 12 months | 33,789 | 460 | 34,249 |
| Loans within 12 months | 19,125 | 228 | 19,353 |
| Shareholders' equity | | | |
| Retained earnings, Other reserves | 72,465 | - | 72,465 |

| Adoption of IFRS 16 - Effects at 31 December 2019 | Book value at 31/12/2019 in case of non-adoption of IFRS 16 | Effect of IFRS 16 | Book value at 31/12/2019 |
|--|---|-------------------|-----------------------------|
| Assets | | | |
| Property, plant and equipment | 50,737 | 733 | 51,470 |
| Liabilities | | | |
| Loans beyond 12 months | 36,239 | 480 | 36,719 |
| Loans within 12 months | 14,068 | 258 | 14,326 |
| Shareholders' equity | | | |
| Retained earnings, Other reserves | 93,400 | - | 93,400 |
| Income Statement 12 months 2019 | | | |
| Costs for services | 20,382 | (258) | 20,124 |
| Depreciations | 9,556 | 253 | 9,809 |
| Financial expenses | 807 | 10 | 817 |

Economic and financial indicators

| | | | |
|---------------------------|---------|-------|---------|
| Shareholders' equity | 108,760 | 5 | 108,755 |
| Net financial debt | 41,963 | 738 | 42,701 |
| EBITDA | 12,369 | (258) | 12,627 |
| EBIT | 2,943 | (5) | 2,948 |
| Net profit for the period | 3,827 | 5 | 3,822 |

Merger of Sabaf Immobiliare S.r.l.

On 25 June 2019, the Board of Directors of Sabaf S.p.A. approved, pursuant to Article 2505, paragraph 2 of the Italian Civil Code, the plan for the merger through incorporation into Sabaf S.p.A. of Sabaf Immobiliare S.r.l., a single-member company subject to the management and coordination of Sabaf S.p.A.

Sabaf Immobiliare S.r.l. was engaged in the management of the real estate assets of the Sabaf Group. In detail, Sabaf Immobiliare S.r.l. owned industrial buildings leased to Sabaf S.p.A. Moreover, the Company managed other residential investment properties intended for rent or sale.

On 18 November 2019, the merger was carried out with effect from 29 November 2019. The transactions of the merged company Sabaf Immobiliare S.r.l. were booked to the financial statements of the merging company Sabaf S.p.A. with effect from 1 January 2019, with the same effect for tax purposes.

The operation meets the requirement to concentrate the activities of the two companies in order to optimise the management of resources, synergies and economic and financial flows.

A merger through incorporation of a wholly-owned company is excluded from the scope of IFRS 3 Business Combinations in that it does not involve the merging company gaining control of the other participating company. The approach adopted is in accordance with the ASSIREVI Preliminary Guidelines on IFRS (OPI no. 2 – Revised), concerning the accounting treatment of mergers in the financial statements, resulted in retaining the continuity of values with respect to the consolidated financial statements.

A merger of a restructuring nature results in the convergence of the consolidated financial statements of the merging company at the merger date with the separate financial statements of merging company after the merger, implementing the legal consolidation. Moreover, the merger of wholly-owned subsidiaries, which determines the transition from indirect to direct control and the continuity of values with respect to the consolidated financial statements, involves the backdating in the accounts of the effects of the merger also with reference to the costs and revenues of the merged company from the beginning of the financial year.

In view of the backdating of the accounting effects of the merger to 1 January 2019, reclassified financial statements at 31 December 2018 were prepared, as if the merger had taken place from the beginning of the comparative year:

- recognition in the balance sheet of the values that would have resulted if Sabaf S.p.A. had always been a single entity with the merged company;
- the sum of the relevant Income statement accounts is included in the profit and loss account;
- derecognition of all items with the merged company, including the reversal of the dividend distributed during the year by the merged company Sabaf Immobiliare S.r.l.;
- recognition of a merger surplus resulting from the elimination of the equity investment in Sabaf Immobiliare S.r.l., lower than the recognition of the value of the shareholders' equity, in a specific equity reserve of Sabaf S.p.A.

The effects are shown in the table below:

| <i>(in €)</i> | 1 January 2019 |
|---|-----------------------|
| Shareholders' Equity of Sabaf Immobiliare S.r.l. | 26,989,413 |
| Value of the equity investment | 13,475,000 |
| Merger surplus of Sabaf Immobiliare S.r.l. | 13,514,413 |

Reclassified statement of financial position at 31 December 2018

| <i>(in €)</i> | Sabaf S.p.A. 2018 FY | Sabaf Immobiliare 2018 FY | Eliminations | Sabaf S.p.A. reclassified 2018 FY |
|---|---------------------------------|--|---------------------|--|
| ASSETS | | | | |
| Property, plant and equipment | 30,497,881 | 22,807,853 | 463,748 | 53,769,482 |
| Investment property | 1,261,716 | 3,140,939 | | 4,402,655 |
| Intangible assets | 3,094,293 | | (463,748) | 2,630,545 |
| Equity investments | 58,150,073 | | (13,475,000) | 44,675,073 |
| Non-current financial assets | 5,366,725 | | | 5,366,725 |
| Non-current receivables | 19,871 | | | 19,871 |
| Deferred tax assets | 3,471,716 | 601,869 | | 4,073,585 |
| Total non-current assets | 101,862,275 | 26,550,661 | (13,475,000) | 114,937,936 |
| Inventories | 26,627,854 | | | 26,627,854 |
| Trade receivables | 35,157,543 | 3,444,214 | (3,428,091) | 35,173,666 |
| Tax receivables | 2,377,224 | | | 2,377,224 |
| Other current receivables | 764,471 | 19,596 | (3,355) | 780,712 |
| Current financial assets | 5,110,000 | | | 5,110,000 |
| Cash and cash equivalents | 1,958,805 | 210,415 | | 2,169,220 |
| Total current assets | 71,995,897 | 3,674,225 | (3,431,446) | 72,238,676 |
| Assets held for sale | 0 | 0 | | 0 |
| TOTAL ASSETS | 173,858,172 | 30,224,886 | (16,906,446) | 187,176,612 |
| SHAREHOLDERS' EQUITY AND LIABILITIES | | | | |
| Share capital | 11,533,450 | 25,000 | (25,000) | 11,533,450 |
| Retained earnings, Other reserves | 72,464,975 | 26,351,273 | (10,450,000) | 88,366,248 |
| Profit for the year | 8,040,214 | 613,140 | (3,000,000) | 5,653,354 |
| Total shareholders' equity | 92,038,639 | 26,989,413 | (13,475,000) | 105,553,052 |
| Loans | 33,669,253 | 1,308,612 | | 34,977,865 |
| Other financial liabilities | 120,000 | | | 120,000 |
| Post-employment benefit and retirement provisions | 2,083,922 | | | 2,083,922 |
| Provisions for risks and charges | 1,088,183 | | | 1,088,183 |
| Deferred tax liabilities | 106,646 | 1,712,794 | | 1,819,440 |
| Total non-current liabilities | 37,068,004 | 3,021,406 | | 40,089,410 |
| Loans | 17,330,136 | 153,104 | | 17,483,240 |
| Other financial liabilities | 1,795,310 | | | 1,795,310 |
| Trade payables | 18,944,590 | 36,178 | (3,431,446) | 15,549,322 |
| Tax payables | 589,828 | 19,801 | | 609,629 |
| Other payables | 6,091,665 | 4,984 | | 6,096,649 |
| Total current liabilities | 44,751,529 | 214,067 | (3,431,446) | 41,534,150 |
| Liabilities held for sale | 0 | 0 | | 0 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | 173,858,172 | 30,224,886 | (16,906,446) | 187,176,612 |

Reclassified Income Statement at 31 December 2018

| <i>(in €)</i> | Sabaf S.p.A. 2018 FY | Sabaf Immobiliare 2018 FY | Eliminations | Sabaf S.p.A. reclassified 2018 FY |
|---|---------------------------------|--|---------------------|--|
| INCOME STATEMENT COMPONENTS | | | | |
| Revenue | 110,065,252 | 4,007,481 | (3,973,295) | 110,099,438 |
| Other income | 2,985,254 | 35 | (33,223) | 2,952,066 |
| Total operating revenue and income | 113,050,506 | 4,007,516 | (4,006,518) | 113,051,504 |
| Materials | (45,084,626) | (456) | | (45,085,082) |
| Change in inventories | 1,858,927 | | | 1,858,927 |
| Services | (27,540,143) | (94,312) | 4,006,518 | (23,627,937) |
| Personnel costs | (28,388,299) | | | (28,388,299) |
| Other operating costs | (1,852,013) | (214,891) | | (2,066,904) |
| Costs for capitalised in-house work | 1,599,795 | | | 1,599,795 |
| Total operating costs | (99,406,359) | (309,659) | 4,006,518 | (95,709,500) |
| EBITDA | 13,644,147 | 3,697,857 | | 17,342,004 |
| Depreciations and amortisation | (8,596,924) | (1,410,022) | | (10,006,946) |
| Capital gains/(losses) on non-current assets | 495,659 | (3,871) | | 491,788 |
| Write-downs/write-backs of non-current assets | 0 | (850,000) | | (850,000) |
| OPERATING PROFIT (EBIT) | 5,542,882 | 1,433,964 | | 6,976,846 |
| Net financial income (expenses) | (795,368) | (18,211) | | (813,579) |
| Exchange rate gains and losses | 157,102 | | | 157,102 |
| Profits and losses from equity investments | 4,322,070 | | (3,000,000) | 1,322,070 |
| PROFIT BEFORE TAXES | 9,226,686 | 1,415,753 | (3,000,000) | 7,642,439 |
| Income taxes | (1,186,472) | (802,613) | | (1,989,085) |
| PROFIT FOR THE YEAR | 8,040,214 | 613,140 | (3,000,000) | 5,653,354 |

Reclassified statement of cash flows at 31 December 2018

| <i>(€/000)</i> | Sabaf S.p.A. 2018 FY | Sabaf Immobiliare 2018 FY | Eliminations | Sabaf S.p.A. reclassified 2018 FY |
|--|---------------------------------|--|---------------------|--|
| <i>Cash and cash equivalents at beginning of year</i> | 2,697 | 3,615 | | 6,312 |
| Profit for the year | 8,040 | 613 | (3,000) | 5,653 |
| Adjustments for: | | | | |
| - Depreciations and amortisation | 8,597 | 1,410 | | 10,007 |
| - Realised gains | (496) | 4 | | (492) |
| - Write-downs of non-current assets | 0 | 850 | | 850 |
| - Profits and losses from equity investments | (4,322) | 0 | 3,000 | (1,322) |
| - Valuation of the stock grant plan | 321 | 0 | | 321 |
| - Net financial income and expenses | 795 | 18 | | 813 |
| - Non-monetary foreign exchange differences | 79 | 0 | | 79 |
| - Income tax | 1,186 | 803 | | 1,989 |
| Change in post-employment benefit | (139) | 0 | | (139) |
| Change in risk provisions | 719 | 0 | | 719 |
| <i>Change in trade receivables</i> | <i>(4,003)</i> | <i>(3,425)</i> | <i>3,428</i> | <i>(4,000)</i> |
| <i>Change in inventories</i> | <i>(1,859)</i> | <i>0</i> | | <i>(1,859)</i> |
| <i>Change in trade payables</i> | <i>2,375</i> | <i>32</i> | <i>(3,431)</i> | <i>(1,024)</i> |
| Change in net working capital | (3,487) | (3,393) | (3) | (6,883) |
| Change in other receivables and payables, deferred tax liabilities | (407) | 74 | 3 | (330) |
| Payment of taxes | (1,319) | (643) | | (1,962) |
| Payment of financial expenses | (895) | (1) | | (896) |
| Collection of financial income | 123 | 0 | | 123 |
| Cash flows from operations | 8,796 | (264) | | 8,532 |
| Net investments | (15,219) | 9 | | (15,210) |
| Cash flow absorbed by investments | (15,219) | 9 | | (15,210) |
| Repayment of loans | (14,166) | (149) | | (14,315) |
| Raising of loans | 31,600 | 0 | | 31,600 |
| Change in financial assets | (7,641) | 0 | | (7,641) |
| Buy-back of shares | (2,359) | 0 | | (2,359) |
| Payment of dividends | (6,071) | (3,000) | 3,000 | (6,071) |
| Collection of dividends | 4,322 | 0 | (3,000) | 1,322 |
| Cash flow absorbed by financing activities | 5,685 | (3,149) | | 2,536 |
| <i>Total cash flows</i> | (738) | (3,404) | | (4,142) |
| <i>Cash and cash equivalents at beginning of year</i> | 1,959 | 210 | | 2,169 |
| Current financial debt | 14,015 | 153 | | 14,168 |
| Non-current financial debt | 33,789 | 1,309 | | 35,098 |
| <i>Net financial debt</i> | 45,845 | 1,252 | | 47,097 |

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 2017 | 6,401 | 163,568 | 33,218 | 2,296 | 205,483 |
| Increases | 164 | 4,772 | 960 | 1,940 | 7,836 |
| Disposals | - | (3,436) | (129) | - | (3,565) |
| Reclassification | 5 | 1,552 | 19 | (1,589) | (13) |
| At 31 December 2018 | 6,570 | 166,456 | 34,068 | 2,647 | 209,741 |
| Increases | 152 | 3,132 | 1,723 | 1,893 | 6,900 |
| Sabaf Immobiliare merger | 35,896 | 4,723 | 367 | - | 40,986 |
| IFRS16 assets | - | - | 878 | - | 878 |
| Disposals | - | (1,998) | (642) | - | (2,640) |
| Reclassification | 706 | 3,073 | 53 | (2,323) | 1,509 |
| At 31 December 2019 | 43,324 | 175,386 | 36,447 | 2,217 | 257,374 |
| Accumulated depreciation | | | | | |
| At 31 December 2017 | 3,064 | 140,843 | 29,965 | - | 173,872 |
| Depreciations for the year | 180 | 6,049 | 1,433 | - | 7,662 |
| Eliminations for disposals | - | (2,175) | (116) | - | (2,291) |
| At 31 December 2018 | 3,244 | 144,717 | 31,282 | - | 179,243 |
| Depreciations for the year | 1,210 | 6,131 | 1,479 | - | 8,820 |
| Sabaf Immobiliare merger | 13,613 | 4,198 | 367 | - | 18,178 |
| Eliminations for disposals | - | (1,642) | (44) | - | (1,686) |
| Reclassification | 464 | 884 | - | - | 1,348 |
| At 31 December 2019 | 18,531 | 154,288 | 33,084 | - | 205,903 |
| Net carrying value | | | | | |
| At 31 December 2019 | 24,793 | 21,098 | 3,363 | 2,217 | 51,471 |
| At 31 December 2018 | 3,326 | 21,739 | 2,786 | 2,647 | 30,498 |

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

| | 31/12/2019 | 31/12/2018 | Change |
|----------------------|---------------|--------------|---------------|
| Land | 5,404 | 1,291 | 4,113 |
| Industrial buildings | 19,389 | 2,035 | 17,354 |
| Total | 24,793 | 3,326 | 21,456 |

As a result of the merger, Sabaf acquired the entire industrial complex of Ospitaletto where it carries out its production activities.

Changes in property, plant and equipment resulting from the application of IFRS 16 are shown below:

| | Property | Plant and equipment | Other assets | Total |
|---|-----------|---------------------|--------------|------------|
| 1 January 2019 | - | - | - | - |
| First-time adoption of IFRS16 | 108 | - | 580 | 688 |
| Increases | - | - | 298 | 298 |
| Decreases | - | - | - | - |
| Depreciations | (35) | - | (218) | (253) |
| Foreign exchange differences | - | - | - | - |
| Other changes including reclassifications | - | - | - | - |
| At 31 December 2019 | 73 | - | 660 | 733 |

The main investments in the financial year were aimed at increasing and automating the production capacity of special burners. Other investments were made in the production of moulds 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. The reclassification mainly refers to the recalculation of the "Improvements on third-party assets" class in the respective "buildings" and "plant" asset classes, an operation carried out following the merger through incorporation of Sabaf Immobiliare Srl.

At 31 December 2019, 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 2017 | 6,675 |
| Increases | - |
| Disposals | - |
| At 31 December 2018 | 6,675 |
| Increases | - |
| Sabaf Immobiliare merger | 5,052 |
| IFRS16 assets | 108 |
| Disposals | - |
| At 31 December 2019 | 11,835 |
| Accumulated depreciations | |
| At 31 December 2017 | 5,221 |
| Depreciations for the year | 192 |
| At 31 December 2018 | 5,413 |
| Depreciations for the year | 429 |
| Sabaf Immobiliare merger | 2,017 |
| At 31 December 2019 | 7,859 |

| Net carrying value | |
|---------------------------|-------|
| At 31 December 2019 | 3,976 |
| At 31 December 2018 | 1,262 |

Changes in investment property resulting from the application of IFRS 16 are shown below:

| | Investment property |
|--|------------------------|
| 1 January 2019 | - |
| First-time adoption of IFRS16 | 108 |
| Increases | - |
| Decreases | - |
| Depreciations | (35) |
| Foreign exchange differences | - |
| Other changes including reclassifications | - |
| At 31 December 2019 | 73 |

This item includes non-operating buildings owned by the Company.

At 31 December 2019, 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 2017 | 6,603 | 5,264 | 2,369 | 14,236 |
| Increases | 153 | 284 | 89 | 526 |
| Reclassifications | - | - | - | - |
| Decreases | - | (59) | - | (59) |
| At 31 December 2018 | 6,756 | 5,489 | 2,458 | 14,703 |
| Increases | 34 | 460 | - | 494 |
| Decreases | - | - | (11) | (11) |
| Reclassifications | - | (101) | (1,812) | (1,913) |
| At 31 December 2019 | 6,790 | 5,848 | 635 | 13,273 |
| Amortisation and write-downs | | | | |
| At 31 December 2017 | 6,101 | 3,038 | 1,727 | 10,866 |
| Amortisation | 220 | 362 | 161 | 743 |
| Decreases | - | - | - | - |
| At 31 December 2018 | 6,321 | 3,400 | 1,888 | 11,609 |
| Amortisation | 187 | 367 | 5 | 559 |
| Decreases | - | - | - | - |
| Reclassifications | - | - | (1,348) | (1,348) |
| At 31 December 2019 | 6,508 | 3,767 | 545 | 10,820 |
| Net carrying value | | | | |
| At 31 December 2019 | 282 | 2,081 | 90 | 2,453 |
| At 31 December 2018 | 435 | 2,089 | 570 | 3,094 |

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).

The reclassification mainly refers to the recalculation of the "Improvements on third-party assets" class in the respective "buildings" and "plant" asset classes, an operation carried out following the merger through incorporation of Sabaf Immobiliare Srl.

At 31 December 2019, 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

| | 31/12/2019 | 31/12/2018 | Change |
|--------------------------|---------------|---------------|--------------|
| In subsidiaries | 57,917 | 58,116 | (199) |
| Other equity investments | 34 | 34 | - |
| Total | 57,951 | 58,150 | (199) |

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 Applian ce Components (China) | Sabaf A.C. Kuns han (China) | Sabaf Turkey | A.R.C. s.r.l. | Okida | C.M.I. s.r.l. | Total |
|---|-------------------|------------------|-----------------|------------|-------------------------------------|-----------------------------|---------------|---------------|--------------|---------------|---------------|
| Historical cost | | | | | | | | | | | |
| 31/12/17 | 13,475 | 10,329 | 8,469 | 139 | 4,400 | 200 | 12,005 | 4,800 | - | - | 53,817 |
| Purchase | - | - | - | - | - | - | - | - | 8,698 | - | 8,698 |
| 31/12/18 | 13,475 | 10,329 | 8,469 | 139 | 4,400 | 200 | 12,005 | 4,800 | 8,698 | - | 62,515 |
| Purchase | - | - | - | - | 500 | - | - | - | 84 | 13,392 | 13,976 |
| Liquidation | - | - | - | - | - | (200) | - | - | - | - | (200) |
| Merger | (13,475) | - | - | - | - | - | - | - | - | - | (13,475) |
| 31/12/19 | 0 | 10,329 | 8,469 | 139 | 4,900 | 0 | 12,005 | 4,800 | 8,782 | 13,392 | 62,816 |
| Provision for write-downs | | | | | | | | | | | |
| 31/12/17 | 0 | 0 | 0 | 0 | 4,400 | 0 | 0 | 0 | 0 | 0 | 4,400 |
| Write-downs | - | - | - | - | - | - | - | - | - | - | - |
| 31/12/18 | 0 | 0 | 0 | 0 | 4,400 | 0 | 0 | 0 | 0 | 0 | 4,400 |
| Write-downs | - | - | - | - | 500 | - | - | - | - | - | 500 |
| 31/12/19 | 0 | 0 | 0 | 0 | 4,900 | 0 | 0 | 0 | 0 | 0 | 4,900 |
| Net carrying value | | | | | | | | | | | |
| 31/12/19 | 0 | 10,329 | 8,469 | 139 | 0 | 0 | 12,005 | 4,800 | 8,782 | 13,392 | 57,916 |
| 31/12/18 | 13,475 | 10,329 | 8,469 | 139 | 0 | 200 | 12,005 | 4,800 | 8,698 | 0 | 58,116 |
| Portion of shareholders' equity (calculated in compliance with IFRS) | | | | | | | | | | | |
| 31/12/19 | 0 | 7,319 | 11,524 | (51) | (772) | 0 | 25,109 | 3,965 | 1,785 | 5,103 | 53,982 |
| 31/12/18 | 27,674 | 7,248 | 10,870 | (28) | (697) | 248 | 23,425 | 3,630 | 1,719 | 0 | 74,089 |
| Difference between shareholders' equity and carrying value | | | | | | | | | | | |
| 31/12/19 | 0 | (3,010) | 3,055 | (190) | (772) | 0 | 13,104 | (835) | (6,997) | (8,289) | (3,934) |
| 31/12/18 | 14,199 | (3,081) | 2,401 | (167) | (697) | 48 | 11,420 | (1,170) | (6,979) | 0 | 15,974 |

Faringosi Hinges s.r.l.

In 2019, 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 2020-2024 forward plan, drafted at the beginning of 2020, envisages a further increase in sales. At 31

December 2019, Sabaf S.p.A. tested - with the support of independent experts - the carrying value of the equity investment for impairment, determining its recoverable amount considered to be equivalent to its value of use plus available liquidity, by discounting expected future cash flows in the forward plan drafted by the management. Cash flows for the period from 2020 to 2024 were augmented by the 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 9.54% (10.45% in the impairment test carried out while preparing the Separate financial statements at 31 December 2018) and a growth rate (g) of 2% (1.5% at 31 December 2018).

The recoverable amount calculated on the basis of the above-mentioned assumptions and valuation techniques is €16,904 million, compared with a carrying value of the equity investment of €10,329 million; consequently, the amount recorded for equity investment at 31 December 2019 was deemed recoverable.

Sensitivity analysis

The table below shows the changes in recoverable amount depending on changes in the WACC discount rate and growth factor g:

| <i>(€/000)</i> | <i>growth rate</i> | | | | |
|----------------------|--------------------|--------------|--------------|--------------|--------------|
| <i>discount rate</i> | 1.50% | 1.75% | 2.00% | 2.25% | 2.50% |
| 8.54% | 18,500 | 19,069 | 19,682 | 20,343 | 21,058 |
| 9.04% | 17,186 | 17,672 | 18,192 | 18,751 | 19,352 |
| 9.54% | 16,039 | 16,457 | 16,904 | 17,380 | 17,891 |
| 10.04% | 15,028 | 15,391 | 15,777 | 16,188 | 16,627 |
| 10.54% | 14,131 | 14,449 | 14,786 | 15,143 | 15,522 |

Sabaf do Brasil

In 2019, Sabaf do Brasil continued to obtain positive results. Shareholders' equity (converted into euros at the end-of-year exchange rate) is higher than the carrying amount of the investment.

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 2019. A share capital increase of €500,000 was made during the year; a write-down of the same amount was made against the loss for the year. At 31 December 2019, a provision for risks on equity investments of €780,000

(€80,000 of which allocated in 2019) was also recognised, in line with the negative equity value of the investee company. For further details, refer to Note 36.

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; therefore, the company went into liquidation; the process of liquidation ended in 2019.

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

Sabaf Turkey achieved extremely satisfactory results in 2019 as well. The shareholders' equity remains well above 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 2019, the Company tested - with the support of independent experts - the carrying value of the equity investment for impairment, determining its recoverable amount considered to be equivalent to its value of use plus available liquidity, by discounting expected future cash flows in the forward plan drafted at the beginning of 2020. Cash flows for the period from 2020 to 2024 were augmented by the 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 6.07% (7.73% in the impairment test carried out while drafting the separate financial statements at 31 December 2018) and a growth rate (g) of 1.50%, in line with last year.

The portion pertaining to Sabaf S.p.A. of the recoverable amount calculated on the basis of the above-mentioned assumptions and valuation techniques is €10.906 million (70% of total recoverable amount, equal to €15.580 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 2019 was deemed recoverable.

Sensitivity analysis

The table below shows the changes in recoverable amount depending on changes in the WACC discount rate and growth factor g:

| <i>(€/000)</i> | | | | | |
|----------------------|--------------------|--------------|--------------|--------------|--------------|
| | <i>growth rate</i> | | | | |
| <i>discount rate</i> | 1.00% | 1.25% | 1.50% | 1.75% | 2.00% |
| 5.07% | 12,285 | 12,911 | 13,624 | 14,445 | 15,398 |
| 5.57% | 11,071 | 11,554 | 12,097 | 12,711 | 13,411 |
| 6.07% | 10,097 | 10,481 | 10,906 | 11,380 | 11,913 |
| 6.57% | 9,300 | 9,611 | 9,952 | 10,329 | 10,745 |
| 7.07% | 8,636 | 8,892 | 9,170 | 9,475 | 9,809 |

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 strike 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 at 31 December 2019.

Okida Elektronik Sanayi Limited Sirket

In 2018, the Company directly acquired 30% of Okida Elektronik (the remaining 70% was acquired through the subsidiary Sabaf Turkey). Okida is a leader in Turkey in the design and manufacture of electronic components for household appliances (mainly ovens and hoods); the transaction allowed Sabaf to enter into a new sector, contiguous with the traditional sector of components for household gas cooking appliances.

At 31 December 2019, the Company tested - with the support of independent experts - the carrying value of the equity investment for impairment, determining its recoverable amount by discounting expected future cash flows in the forward plan drafted at the beginning of 2020. Cash flows for the period from 2020 to 2024 were augmented by the terminal value, which expresses the operating flows that the company is expected to generate from the fifth year to infinity and determined based on the perpetual income. The value of use was calculated based on a discount rate (WACC) of 12.92% (11.05% in the impairment test carried out while preparing the separate financial statements at 31 December 2018) and a growth rate (g) of 2.50%, unchanged from the 2018 impairment test.

The portion pertaining to Sabaf S.p.A. of the recoverable amount calculated on the basis of the above-mentioned assumptions and valuation techniques is €9.464 million (30% of total equity value, equal to €31.547 million), compared with a carrying value of the equity investment of

€8.782 million; consequently, the carrying value recorded for equity investment at 31 December 2019 was deemed recoverable.

Sensitivity analysis

The table below shows the changes in recoverable amount depending on changes in the WACC discount rate and growth factor g:

| (€/000) | <i>growth rate</i> | | | | |
|----------------------|--------------------|--------------|--------------|--------------|--------------|
| <i>discount rate</i> | 2.00% | 2.25% | 2.50% | 2.75% | 3.00% |
| 11.92% | 10,113 | 10,304 | 10,506 | 10,718 | 10,943 |
| 12.42% | 9,610 | 9,780 | 9,959 | 10,147 | 10,345 |
| 12.92% | 9,154 | 9,306 | 9,464 | 9,632 | 9,808 |
| 13.42% | 8,738 | 8,874 | 9,017 | 9,166 | 9,323 |
| 13.92% | 8,358 | 8,481 | 8,609 | 8,743 | 8,883 |

C.M.I. s.r.l.

In July 2019, the Company acquired 68.5% of C.M.I. s.r.l., one of the main players in the design, production and sale of hinges for household appliances. The acquisition of C.M.I. s.r.l. allowed the Sabaf Group to achieve a leadership position on a global scale in the hinges sector, proposing itself also in this area as a reference partner for all manufacturers of household appliances.

At 31 December 2019, the Company tested - with the support of independent experts - the carrying value of the equity investment for impairment, determining its recoverable amount by discounting expected future cash flows in the forward plan drafted by the management. Cash flows for the period from 2020 to 2022 were augmented by the terminal value, which expresses the operating flows that the company is expected to generate from the third year to infinity and determined based on the perpetual income. The value of use was calculated based on a discount rate (WACC) of 10.49% and a growth rate (g) of 1.15%, representative of expected future growth rates for the reference market.

The portion pertaining to Sabaf S.p.A. of the recoverable amount calculated on the basis of the above-mentioned assumptions and valuation techniques is €19.102 million (68.5% of total equity value, equal to €27.886 million), compared with a carrying value of the equity investment of €13.392 million; consequently, the carrying value recorded for equity investment at 31 December 2019 was deemed recoverable.

Sensitivity analysis

The table below shows the changes in recoverable amount depending on changes in the WACC discount rate and growth factor g:

| (€/000) | <i>growth rate</i> | | | | |
|----------------------|--------------------|--------------|--------------|--------------|--------------|
| <i>discount rate</i> | 0.15% | 0.65% | 1.15% | 1.65% | 2.15% |
| 9.50% | 19,389 | 20,513 | 21,771 | 23,190 | 24,801 |
| 10.00% | 18,242 | 19,245 | 20,361 | 21,521 | 23,019 |
| 10.50% | 17,207 | 18,107 | 19,102 | 20,211 | 21,452 |
| 11.00% | 16,268 | 17,079 | 17,972 | 18,961 | 20,062 |
| 11.50% | 15,412 | 16,147 | 16,952 | 17,840 | 18,822 |

The option for the purchase of the residual 31.5% of C.M.I. represents a derivative instrument; since the strike 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 at 31 December 2019.

5. NON-CURRENT FINANCIAL ASSETS

| | 31/12/2019 | 31/12/2018 | Change |
|---|-------------------|-------------------|---------------|
| Financial receivables from subsidiaries | 5,280 | 5,247 | 33 |
| Escrow bank account | 60 | 120 | (60) |
| Total | 5,340 | 5,367 | (27) |

At 31 December 2019, financial receivables from subsidiaries consist of:

- an interest-bearing loan of USD 2 million (€1.780 million at the end-of-year exchange rate), granted to the subsidiary Sabaf do Brasil with the aim of optimising the Group's exposure to foreign exchange rate risk and whose maturity at the beginning of 2019 was postponed to March 2021;
- an interest-bearing loan of €3.5 million to the subsidiary Sabaf Turkey, disbursed during the year 2018 as part of the coordination of the Group's financial management, with maturity in August 2021.

As part of the acquisition of 70% of A.R.C., in 2016, Sabaf S.p.A. paid to a non-interest-bearing escrow bank account the total amount of €300,000. This amount, deducted from the consideration agreed to guarantee the commitments assumed by the sellers, is released in favour of the sellers at constant rates in 5 years (Note 15). At 31 December 2019, the portion due beyond 12 months amounted to €60,000, whereas the portion due within 12 months amounted to €60,000 (Note 10).

6. INVENTORIES

| | 31/12/2019 | 31/12/2018 | Change |
|-------------------------------------|-------------------|-------------------|----------------|
| Raw Materials | 7,248 | 9,358 | (2,110) |
| Semi-processed goods | 6,071 | 9,633 | (3,561) |
| Finished products | 7,833 | 9,231 | (1,398) |
| Provision for inventory write-downs | (1,290) | (1,594) | 304 |
| Total | 19,862 | 26,628 | (6,765) |

The value of final inventories at 31 December 2019 is significantly lower than the value of the previous year. This improvement was achieved thanks to structural actions on internal logistics, which made it possible to significantly reduce the stocks of work in progress. The provision for write-downs is 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 €326,000 and finished products for €511,000. The following table shows the changes in the Provision for inventory write-downs during the current financial year:

| | |
|-------------------|--------------|
| 31/12/2018 | 1,594 |
| Provisions | 18 |
| Utilisation | (322) |
| 31/12/2019 | 1,290 |

7. TRADE RECEIVABLES

| | 31/12/2019 | 31/12/2018 | Change |
|-------------------------|-------------------|-------------------|----------------|
| Total trade receivables | 29,413 | 36,157 | (6,744) |
| Bad debt provision | (850) | (1,000) | 150 |
| Net total | 28,563 | 35,157 | (6,594) |

At 31 December 2019, trade receivables included balances totalling USD 3,214,000, booked at the EUR/USD exchange rate in effect on 31 December 2019, i.e. 1.1234. The amount of trade receivables recognised in the financial statements includes approximately €15 million in insured receivables (€18 million at 31 December 2018).

There were no significant changes in average payment terms agreed with customers.

Receivables assigned to factors without recourse are eliminated from the Statement of Financial Position in that the reference contract provides for the assignment of ownership of the receivables, together with ownership of the cash flows generated by the receivable, as well as of all risks and benefits, to the assignee.

| | 31/12/2019 | 31/12/2018 | Change |
|------------------------------------|-------------------|-------------------|----------------|
| Current receivables (not past due) | 21,929 | 29,966 | (8,038) |
| Outstanding up to 30 days | 2,530 | 1,996 | 534 |
| Outstanding from 31 to 60 days | 1,935 | 494 | 1,441 |
| Outstanding from 61 to 90 days | 1,958 | 3,030 | (1,072) |
| Outstanding for more than 90 days | 1,061 | 671 | 390 |
| Total | 29,413 | 36,157 | (6,745) |

The bad debt provision was adjusted to the better estimate of the credit risk and *expected losses* at the end of the reporting period. Changes during the year were as follows:

| | 31/12/2018 | Provisions | Utilisation | 31/12/2019 |
|--------------------|-------------------|-------------------|--------------------|-------------------|
| Bad debt provision | 1,000 | 42 | (192) | 850 |

8. TAX RECEIVABLES

| | 31/12/2019 | 31/12/2018 | Change |
|----------------|--------------|--------------|--------------|
| For income tax | 1,323 | 2,002 | (679) |
| for VAT | 413 | 375 | 38 |
| Total | 1,736 | 2,377 | (641) |

At 31 December 2019, income tax receivables include €559,000 (€1,083,000 at 31 December 2018) for the residual amount of the receivable originating from the full deduction from IRES of IRAP relating to expenses incurred for employees and similar for the period from 2009 to 2011 (Italian Decree Law 201/2011). During 2019, the Company received a partial refund of €524,000; an additional refund of €168,000 was received at the beginning of 2020.

Income tax receivables also include payments on account on 2019 income, for the part exceeding the tax to be paid.

9. OTHER CURRENT RECEIVABLES

| | 31/12/2019 | 31/12/2018 | Change |
|---------------------------------------|------------|------------|--------------|
| Credits to be received from suppliers | 127 | 374 | (247) |
| Advances to suppliers | 104 | 112 | (8) |
| Due from INAIL | 31 | 10 | 21 |
| Other | 326 | 268 | 58 |
| Total | 588 | 764 | (176) |

Credits to be received from suppliers mainly refer to bonuses paid to the Company for the attainment of purchasing objectives.

10. CURRENT FINANCIAL ASSETS

| | 31/12/2019 | 31/12/2018 | Change |
|---|--------------|--------------|----------------|
| Financial receivables from subsidiaries | 1,600 | 1,600 | - |
| Escrow bank accounts | 1,233 | 3,510 | (2,277) |
| Total | 2,833 | 5,110 | (2,277) |

Financial receivables from subsidiaries consist of an interest-bearing loan with a duration of 12 months to Sabaf Appliance Components Co., Ltd. to support the Chinese subsidiary's working capital.

At 31 December 2019, the following were taken out:

- a term deposit of €60 thousand, due on 30 June 2021, for the portion of the price not yet paid to the sellers of the ARC equity investment;
- a term deposit of €1.173 million for the portion of the price not yet paid to the sellers of the C.M.I. equity investment and deposited as collateral in accordance with the terms of the C.M.I. acquisition agreement.

11. CASH AND CASH EQUIVALENTS

The item Cash and cash equivalents, equal to €8,343,000 at 31 December 2019 (€1,959,000 at 31 December 2018), refers almost exclusively to bank current account balances.

12. SHARE CAPITAL

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.

At 31 December 2019, the structure of the share capital is shown in the table below.

| | No. of shares | % of share capital | Rights and obligations |
|-------------------------------------|----------------------|---------------------------|-------------------------------|
| Ordinary shares | 7,065,449 | 61.26% | -- |
| Ordinary shares with increased vote | 4,468,001 | 38.74% | Two voting rights per share |
| TOTAL | 11,533,450 | 100% | |

With the exception of the right to increased vote, there are no rights, privileges or restrictions on the Company. The availability of reserves is indicated in a table at the end of these Explanatory Notes.

13. TREASURY SHARES AND OTHER RESERVES

During the financial year, Sabaf S.p.A. sold 344,631 treasury shares with reference to the following transactions:

- acquisition of 68.5% of the share capital of C.M.I. Cerniere Meccaniche Industriali s.r.l. on 31 July 2019, following which 8.5% of the share capital was acquired through the sale of 113,962 Sabaf shares, equal to 0.99% of the share capital, at a unit price of 14.5815 per share;
- partnership agreement with the Japanese group Paloma, active globally in the gas equipment sector. Paloma Rheem Investments Inc. purchased 230,669 Sabaf shares, equal to 2% of the share capital, at a unit price of €13.64 per share.

At 31 December 2019, the Company held 169,875 treasury shares, equal to 1.473% of share capital (514,506 treasury shares at 31 December 2018), reported in the financial statements as an adjustment to shareholders' equity at a unit value of €13.35 (the market value at year-end was €13.40). There were 11,363,575 outstanding shares at 31 December 2019 (11,018,944 at 31 December 2018).

Items "Retained earnings, other reserves" of €93,400,000 included, at 31 December 2019,

- the stock grant reserve of €1,002,000 thousand, which included the measurement at 31 December 2019 of fair value of rights assigned to receive Sabaf shares. For details of the Stock Grant Plan, refer to Note 42;
- €13,514,000 for the merger surplus resulting from the merger of Sabaf Immobiliare s.r.l., as explained in the specific section of these Explanatory Notes.

14. LOANS

| | 31/12/2019 | | | 31/12/2018 | | |
|--|---------------|---------------|---------------|---------------|---------------|---------------|
| | Current | Non current | Total | Current | Non current | Total |
| Leases | 297 | 1,750 | 2,047 | - | - | - |
| Unsecured loans | 11,904 | 33,736 | 45,640 | 9,911 | 33,669 | 43,580 |
| Short-term bank loans | 1,793 | - | 1,793 | 7,188 | - | 7,188 |
| Derivative instruments on interest rates | - | - | - | 231 | - | 231 |
| Total | 13,994 | 35,486 | 49,480 | 17,330 | 33,669 | 50,999 |

During the year, the Company took out new unsecured loans for a total of €12 million to finance the investments made, with particular reference to the acquisition of C.M.I. All loans are signed with an original maturity of ranging from 5 to 6 years and are repayable in instalments.

Some of the outstanding unsecured loans have covenants, defined with reference to the 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 (residual amount of the loans at 31 December 2019 equal to €19 million)
- commitment to maintain a ratio of net financial position to EBITDA of less than 2.5 (residual amount of the loans at 31 December 2019 equal to €31 million) widely observed at 31 December 2019.

All bank loans are denominated in euro, with the exception of a short-term loan of USD 2 million.

To manage interest rate risk, unsecured loans are either fixed-rate or hedged by IRS. These separate financial statements include the negative fair value of the IRSs hedging rate risks of unsecured loans pending, for residual notional amounts of approximately €33.2 million and expiry until 30 June 2025. Financial expenses were recognised in the income statement with a balancing entry.

Following the merger through incorporation of the company Sabaf Immobiliare s.r.l., Sabaf took over the finance lease of an industrial building, whose residual debt on 1 January 2019 was €1,462,000.

The following table shows the reconciliation between commitments for operating leases at 31 December 2018 and liabilities relating to leases at 31 December 2019:

| | |
|--|--------------|
| Commitments for operating leases at 31 December 2018 | 698 |
| Incremental borrowing rate at 1 January 2019 | 1.5% |
| Discounting effect | (10) |
| Commitments for operating leases discounted at 1 January 2019 | 688 |
| Commitments relating to leases previously classified as finance leases | 1,462 |
| Lease liabilities at 1 January 2019 | 2,150 |
| New agreements signed during 2019 | 297 |
| Repayments during 2019 | (400) |
| Lease liabilities at 31 December 2019 | 2,047 |

Note 36 provides information on financial risks, pursuant to IFRS 7.

15. OTHER FINANCIAL LIABILITIES

| | 31/12/2019 | | 31/12/2018 | |
|--|------------|--------------|--------------|-------------|
| | Current | Non current | Current | Non current |
| Payables to former Okida shareholders | - | - | 1,735 | - |
| Payables to A.R.C. shareholders | 60 | 60 | 60 | 120 |
| Payables to C.M.I. shareholders | - | 1,173 | - | - |
| Derivative instruments on interest rates | 271 | - | - | - |
| Total | 331 | 1,233 | 1,795 | 120 |

As part of the acquisition of 100% of Okida Elektronik, the parties agreed that the payment of part of the price would be subject to adjustment and postponed compared to the effective date of the transaction (4 September 2018). The payables to Okida shareholders recorded at 31 December 2018, representing the remaining part of the price, was paid in March 2019.

The payable to the A.R.C. shareholders of €120.000 at 31 December 2019 is related to the part of the price still to be paid to the sellers, which was deposited on an fixed account (Note 5) and will be released in favour of the sellers at constant rates in 2 years, in accordance with contractual agreements and guarantees issued by the sellers.

The payable to C.M.I. shareholders of €1,173,000 at 31 December 2019 is related to the part of the price still to be paid to the Chinese group Guandong Xingye Investment, seller of C.M.I., which was deposited on a non-interest-bearing escrow account in accordance with contractual agreements and guarantees issued by the seller.

16. Post-employment benefit

| | |
|----------------------------|--------------|
| At 31 December 2018 | 2,084 |
| Financial expenses | 26 |
| Payments made | (110) |
| Tax effect | 64 |
| At 31 December 2019 | 2,064 |

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

| | 31/12/2019 | 31/12/2018 |
|---------------|------------|------------|
| Discount rate | 0.40% | 1.30% |
| Inflation | 1.20% | 1.70% |

Demographic theory

| | 31/12/2019 | 31/12/2018 |
|-----------------|--|--|
| Mortality rate | IPS55 ANIA | ISTAT 2016 M/F |
| Disability rate | INPS 2000 | 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 2019 | pursuant to legislation in force on 31 December 2018 |

17. PROVISIONS FOR RISKS AND CHARGES

| | 31/12/2018 | Provisions | Utilisation | 31/12/2019 |
|---|--------------|------------|--------------|--------------|
| Provision for agents' indemnities | 208 | 17 | (27) | 198 |
| Product guarantee fund | 60 | 38 | (38) | 60 |
| Provision for risks on equity investments | 700 | 80 | - | 780 |
| Provision for legal risks | 120 | 36 | (130) | 26 |
| Total | 1,088 | 171 | (195) | 1,064 |

The provision 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 fund was adjusted at the end of the year, on the basis of analyses conducted and past experience.

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 2019.

The provision for legal risks, set aside for moderate disputes, was adjusted to reflect the outstanding disputes.

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

| | 31/12/2019 | 31/12/2018 | Change |
|--------------|---------------|---------------|----------------|
| Total | 15,734 | 18,945 | (3,211) |

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 2019, there were no overdue payables of a significant amount and the Company did not receive any injunctions for overdue payables.

19. TAX PAYABLES

| | 31/12/2019 | 31/12/2018 | Change |
|--|------------|------------|------------|
| To inland revenue for IRPEF tax deductions | 621 | 590 | 31 |
| Other tax payables | 74 | - | 74 |
| Total | 695 | 590 | 105 |

Payables for IRPEF tax deductions, relating to employment and self-employment, were duly paid at maturity.

20. OTHER CURRENT PAYABLES

| | 31/12/2019 | 31/12/2018 | Change |
|---------------------------------|--------------|--------------|------------|
| To employees | 3,697 | 3,649 | 48 |
| To social security institutions | 1,806 | 1,901 | (95) |
| Advances from customers | 165 | 91 | 74 |
| To agents | 193 | 235 | (42) |
| Other current payables | 461 | 216 | 245 |
| Total | 6,322 | 6,092 | 230 |

At the beginning of 2020, payables due to employees and social security institutions were paid in accordance with the scheduled expiry dates.

Other current payables include accrued liabilities and deferred income.

21. DEFERRED TAX ASSETS AND LIABILITIES

| | 31/12/2019 | 31/12/2018 |
|--------------------------|--------------|--------------|
| Deferred tax assets | 4,276 | 3,472 |
| Deferred tax liabilities | (1,734) | (107) |
| Net position | 2,542 | 3,365 |

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.

| | Amorti sation and leasing | Provisions and value adjustmen ts | Fair value of derivative instruments | Goodw ill | Tax loss | Actuarial evaluation of post-employment benefit | Other temporary differences | Total |
|--------------------------------|------------------------------------|--|---|--------------|-------------|--|-----------------------------------|--------------|
| At 31 December 2017 | 347 | 919 | 2 | 1,771 | - | 159 | 189 | 3,387 |
| Through profit or loss | 69 | (45) | 53 | - | - | - | (93) | (16) |
| To shareholders' equity | - | - | - | - | - | (6) | - | (6) |
| At 31 December 2018 | 416 | 874 | 55 | 1,771 | - | 153 | 96 | 3,365 |
| Through profit or loss | 219 | 22 | 10 | (354) | 419 | - | (43) | 273 |
| To shareholders' equity | (1,111) | - | - | - | - | 15 | - | (1,096) |
| At 31 December 2019 | (476) | 896 | 65 | 1,417 | 419 | 168 | 53 | 2,542 |

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, deductible in ten instalments starting in 2018.

The change in shareholders' equity relating to the item Amortisation and leasing of approximately Euro 1.111 million relates to the merger of Sabaf Immobiliare S.r.l.

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:

| | 31/12/2019 | 31/12/2018 | Change |
|--|---------------|---------------|----------------|
| A. Cash (Note 11) | 8 | 6 | 2 |
| B. Positive balances of unrestricted bank accounts (Note 11) | 8,335 | 1,953 | 6,382 |
| C. Other cash equivalents | - | - | - |
| D. Liquidity (A+B+C) | 8,343 | 1,959 | 6,384 |
| E. Current financial receivables | 2,833 | 5,110 | (2,277) |
| F. Current bank payables (Note 14) | 1,793 | 7,419 | (5,626) |
| G. Current portion of non-current debt (Note 14) | 12,201 | 9,911 | 2,290 |
| H. Other current financial payables (Note 15) | 331 | 1,795 | (1,464) |
| I. Current financial debt (F+G+H) | 14,325 | 19,125 | (4,800) |
| J. Net current financial debt (I-D-E) | 3,149 | 12,056 | (8,907) |
| K. Non-current bank payables (Note 14) | 35,486 | 33,669 | 1,817 |
| L. Other non-current financial payables | 1,233 | 120 | 1,113 |
| M. Non-current financial debt (K+L) | 36,719 | 33,789 | 2,930 |
| N. Net financial debt (J+M) | 39,868 | 45,845 | (5,977) |

The cash flow statement, which shows the changes in cash and cash equivalents (letter D. of this statement), describes in detail the cash flows that led to the change in the net financial position.

Comments on key income statement items

23. REVENUE

In 2019, sales revenue totalled €94,899,421, down 13.8% from €110,065,252 in 2018.

Revenue by geographical area

| | 2019 | % | 2018 | % | % change |
|--|---------------|-------------|----------------|-------------|-----------------|
| Italy | 22,053 | 23.2% | 24,762 | 22.5% | (10.9%) |
| Western Europe | 8,661 | 9.1% | 8,925 | 8.1% | (3%) |
| Eastern Europe and Turkey | 30,690 | 32.3% | 36,807 | 33.4% | (16.6%) |
| Asia and Oceania (excluding Middle East) | 7,808 | 8.2% | 4,893 | 4.4% | 59.6% |
| Central and South America | 11,389 | 12% | 11,912 | 10.8% | (4.4%) |
| Middle East and Africa | 6,070 | 6.4% | 13,323 | 12.1% | (54.4%) |
| North America and Mexico | 8,228 | 8.7% | 9,443 | 8.6% | (12.9%) |
| Total | 94,899 | 100% | 110,065 | 100% | (13.8%) |

The trend in revenue was affected by the overall uncertainty of the macroeconomic scenario. In Turkey, main destination market, the Company recorded a 20% decrease in sales in 2019, more pronounced in the first part of the year and showed a clear recovery in recent months. In Italy, sales suffered from the reduction in the production of domestic appliances. Downturns were also recorded in the Middle East and Africa. Among the markets that have shown a positive trend is China, thanks to the launch of new supply contracts to primary customers.

Revenue by product family

| | 2019 | % | 2018 | % | % change |
|--------------------------------|---------------|-------------|----------------|-------------|-----------------|
| Valves and thermostats | 40,003 | 42.2% | 48,466 | 44.0% | (17.5%) |
| Burners | 43,304 | 45.6% | 45,838 | 41.6% | (5.5%) |
| Accessories and other revenues | 11,592 | 12.2% | 15,761 | 14.3% | (26.5%) |
| Total | 94,899 | 100% | 110,065 | 100% | (13.8%) |

The sales analysis by product category shows a marked drop in valves while burners show an improved performance.

Average sales prices in 2019 were 0.4% lower compared to 2018.

24. OTHER INCOME

| | 2019 | 2018 | Change |
|---|--------------|--------------|--------------|
| Sale of trimmings | 912 | 1,424 | (512) |
| Services to subsidiaries | 1,332 | 536 | 796 |
| Royalties vs. subsidiaries | 97 | 93 | 4 |
| Contingent income | 317 | 55 | 262 |
| Rental income | 118 | 87 | 31 |
| Use of provisions for risks and charges | 64 | 26 | 38 |
| Services to parent company | - | 40 | (40) |
| Other income | 1,205 | 724 | 481 |
| Total | 4,045 | 2,985 | 1,060 |

Services to subsidiaries refer to administrative, commercial and technical services provided within the scope of the Group.

25. MATERIALS

| | 2019 | 2018 | Change |
|---------------------------------------|---------------|---------------|-----------------|
| Commodities and outsourced components | 29,860 | 41,286 | (11,425) |
| Consumables | 2,945 | 3,799 | (854) |
| Total | 32,805 | 45,085 | (12,279) |

In 2019, the effective purchase prices of the main raw materials (aluminium alloys, steel and brass) were on average lower than in 2018, with a positive impact of 0.8% of sales.

26. COSTS FOR SERVICES

| | 2019 | 2018 | Change |
|--------------------------------|---------------|---------------|----------------|
| Outsourced processing | 6,674 | 8,815 | (2,141) |
| Property rental | - | 4,009 | (4,009) |
| Electricity and natural gas | 2,800 | 3,271 | (471) |
| Maintenance | 3,020 | 3,081 | (61) |
| Advisory services | 2,020 | 1,977 | 43 |
| Transport and export expenses | 1,091 | 1,394 | (303) |
| Directors' fees | 482 | 475 | 7 |
| Insurance | 466 | 468 | (2) |
| Commissions | 565 | 631 | (66) |
| Travel expenses and allowances | 402 | 550 | (148) |
| Waste disposal | 368 | 378 | (10) |
| Canteen | 260 | 291 | (31) |
| Temporary agency workers | 111 | 196 | (85) |
| Other costs | 1,865 | 2,004 | (139) |
| Total | 20,124 | 27,540 | (7,416) |

The main outsourced processing carried out by the Company include aluminium die-casting, hot moulding of brass and some mechanical processing and assembly. The reduction in costs for outsourced processing reflects the lower levels of activity compared to the previous year. As a result of the merger of Sabaf Immobiliare, property rental costs were zeroed.

Other costs included expenses for the registration of patents, waste disposal, cleaning, leasing third-party assets and other minor charges.

27. PERSONNEL COSTS

| | 2019 | 2018 | Change |
|---|---------------|---------------|----------------|
| Salaries and wages | 17,996 | 18,744 | (748) |
| Social Security costs | 5,764 | 6,099 | (335) |
| Temporary agency workers | 972 | 1,779 | (807) |
| Post-employment benefit and other costs | 1,373 | 1,445 | (72) |
| Stock grant plan | 680 | 321 | 359 |
| Total | 26,785 | 28,388 | (1,282) |

Average of the Company headcount at 31 December 2019 totalled 488 employees (360 blue-collar, 118 white-collar and supervisors, 10 managers), compared with 503 in 2018 (376 blue-collar, 117 white-collar and supervisors, 10 managers). The number of temporary staff with temporary work contract was 18 at 31 December 2019 (47 in 2018).

The item "Stock Grant Plan" included the measurement at 31 December 2019 of the fair value of rights to the assignment of Sabaf shares attributed to employees. For details of the Stock Grant Plan, refer to Note 41.

28. OTHER OPERATING COSTS

| | 2019 | 2018 | Change |
|---|------------|--------------|--------------|
| Losses and write-downs of trade receivables | 42 | 402 | (360) |
| Non-income related taxes and duties | 400 | 217 | 183 |
| Contingent liabilities | 99 | 192 | (93) |
| Provisions for risks | 74 | 77 | (3) |
| Other provisions | 97 | 668 | (571) |
| Other operating expenses | 214 | 296 | (82) |
| Total | 926 | 1,852 | (926) |

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. FINANCIAL EXPENSES

| | 2019 | 2018 | Change |
|-------------------------|------------|------------|--------------|
| Interest paid to banks | 592 | 641 | (49) |
| Banking expenses | 173 | 240 | (67) |
| Other financial expense | 52 | 37 | 15 |
| Total | 817 | 918 | (101) |

Interest paid to banks includes IRS spreads payable that hedge interest rate risks.

30. EXCHANGE RATE GAINS AND LOSSES

In 2019, the Company reported net foreign exchange losses of €10,000 (net gains of €157,000 in 2018).

31. PROFITS AND LOSSES FROM EQUITY INVESTMENTS

| | 2019 | 2018 | Change |
|---|--------------|--------------|----------------|
| Dividends received from Sabaf Kunshan Trading | 47 | - | 47 |
| Dividends received from Sabaf Immobiliare | 996 | 3,000 | (2,004) |
| Dividends received from Okida Elektronik | 315 | 1,322 | (1,007) |
| Total | 1,358 | 4,322 | (2,964) |

This item includes dividends received from investee companies.

32. INCOME TAXES

| | 2019 | 2018 | Change |
|---|--------------|--------------|----------------|
| Current taxes | 127 | 967 | (840) |
| Deferred tax assets and liabilities | (273) | 16 | (289) |
| Taxes related to previous financial years | (29) | 21 | (50) |
| Taxes on foreign dividends | 44 | 182 | (138) |
| Total | (131) | 1,186 | (1,317) |

Current taxes for 2019 are related to IRAP (IRES of €672,000 and IRAP of €295,000 in 2018). Deferred tax assets and liabilities include an IRES income of €419,000 relating to the tax loss for 2019.

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:

| | 2019 | 2018 |
|---|--------------|--------------|
| Theoretical income tax | 886 | 2,214 |
| Taxes related to previous financial years | (25) | 18 |
| Tax effect of dividends from investee companies | (265) | (803) |
| “Patent box” tax effect | (306) | (323) |
| “Iper e Superammortamento” tax benefit | (581) | (449) |
| Permanent tax differences | 4 | 279 |
| Other differences | (4) | 4 |
| IRES (current and deferred) | (291) | 940 |
| IRAP (current and deferred) | 160 | 246 |
| Total | (131) | 1,186 |

Theoretical taxes were calculated applying the current corporate income tax (IRES) rate, i.e. 24%, 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.

In these separate financial statements, the Company recognised the tax benefit related to the Patent Box for 2019 of €356,000 (€306,000 for IRES and €50,000 for IRAP).

No tax disputes were pending at 31 December 2019.

33. DIVIDENDS

On 29 May 2019, shareholders were paid an ordinary dividend of €0.55 per share (total dividends of €6,060,000).

The Directors, having acknowledged the significant change in the global economic scenario following the spread of the coronavirus pandemic, considered it appropriate, on a prudential basis, to propose to the Shareholders' meeting to allocate the profit for 2019 entirely to the extraordinary reserve.

34. 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.

35. 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 IFRS 9.

| | 31/12/2019 | 31/12/2018 |
|---|------------|------------|
| <i>Financial assets</i> | | |
| <i>Amortised cost</i> | | |
| Cash and cash equivalents | 8,343 | 1,959 |
| Trade receivables and other receivables | 29,152 | 35,922 |
| Non-current loans | 1,780 | 5,246 |
| Current loans | 1,600 | 1,600 |
| Other financial assets | 1,293 | 3,630 |
| <i>Financial liabilities</i> | | |
| <i>Fair Value through profit or loss</i> | | |
| Derivative cash flow hedges (on interest rates) | 271 | 231 |
| <i>Amortised cost</i> | | |
| Loans | 49,480 | 50,999 |
| Other financial liabilities | 1,293 | 1,915 |
| Trade payables | 15,734 | 18,945 |

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 at least on an annual basis. After this assessment, each customer is assigned a credit limit.

The Company factors receivables with factoring companies based on without recourse agreements, thereby transferring the related risk.

A credit insurance policy is in place, which guarantees cover for approximately 54% 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 14% of total turnover in 2019, while purchases in dollars represented 3% of total turnover. During the year, operations in dollars were partially hedged through forward sales contracts; no currency derivatives were pending at 31 December 2019.

Sensitivity analysis

With reference to financial assets and liabilities in US dollars at 31 December 2019, a hypothetical and immediate revaluation of 10% of the euro against the dollar would have led to a loss of €185,000.

Interest rate risk management

Owing to the current trend in interest rates, the Company favours fixed-rate indebtedness: medium to long-term loans originated at a variable rate are converted to a fixed rate by entering into interest rate swaps (IRS) at the same time as the loan is opened. At 31 December 2019, IRS totalling €33.2 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. The derivative contracts were not designated as a cash flow hedge and were therefore recognised using the "fair value through profit or loss" method.

Sensitivity analysis

Considering the IRS in place, at the end of 2019 almost all of the Company's financial debt was at a fixed rate. Therefore, at 31 December 2019 no sensitivity analysis was carried out in that

the exposure to interest rate risk, linked to a hypothetical increase (decrease) in interest rates, is not significant.

Commodity price risk management

A significant portion of the Company's purchase costs is represented by aluminium, steel and brass. 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 aluminium, steel and brass with supply contracts signed with suppliers for delivery up to twelve months in advance or, alternatively, with derivative financial instruments. In 2019 and 2018, 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 management of liquidity and financial debt is coordinated at Group level. The Group operates with a debt ratio considered physiological (net financial debt / shareholders' equity at 31 December 2019 of 46%, net financial debt / pro-forma EBITDA ² of 1.86) 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. An analysis by expiry date of financial payables at 31 December 2019 and 31 December 2018 is shown below.

At 31 December 2019

| | Carrying value | Contractual cash flows | Within 3 months | From 3 months to 1 year | From 1 to 5 years | More than 5 years |
|--|----------------|------------------------|-----------------|-------------------------|-------------------|-------------------|
| Unsecured loans | 47,687 | 48,588 | 1,723 | 11,009 | 33,251 | 2,605 |
| Short-term bank loans | 1,793 | 1,793 | 1,793 | - | - | - |
| Payables to ARC shareholders | 120 | 120 | - | 60 | 60 | - |
| Payables to former C.M.I. shareholders | 1,173 | 1,173 | - | - | 1,173 | - |
| Total financial payables | 50,773 | 51,674 | 3,516 | 11,069 | 34,484 | 2,605 |
| Trade payables | 15,734 | 15,734 | 15,707 | 27 | - | - |
| Total | 66,507 | 67,408 | 19,223 | 11,096 | 34,484 | 2,605 |

² The return on capital employed and the pro-forma net debt/EBITDA ratio are calculated considering, for the companies acquired and included in the scope of consolidation during the year, the EBIT and EBITDA for the entire year.

At 31 December 2018

| | Carrying value | Contractual cash flows | Within 3 months | From 3 months to 1 year | From 1 to 5 years | More than 5 years |
|---------------------------------------|----------------|------------------------|-----------------|-------------------------|-------------------|-------------------|
| Unsecured loans | 43,580 | 44,414 | 1,795 | 8,422 | 32,621 | 1,576 |
| Short-term bank loans | 7,419 | 7,419 | 7,419 | - | - | - |
| Payables to ARC shareholders | 180 | 180 | - | 60 | 120 | - |
| Payables to former Okida shareholders | 1,735 | 1,735 | 1,735 | - | - | - |
| Total financial payables | 52,914 | 53,748 | 10,949 | 8,482 | 32,741 | 1,576 |
| Trade payables | 18,954 | 18,954 | 18,437 | 517 | - | - |
| Total | 71,868 | 72,702 | 29,386 | 8,999 | 32,741 | 1,576 |

The various due dates are based on the period between the end of the reporting period and the contractual expiry 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 and 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 directly (prices) or indirectly (derived 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 2019, by hierarchical level of fair value assessment.

| | Level 1 | Level 2 | Level 3 | Total |
|---|---------|--------------|---------|--------------|
| Other financial liabilities (interest rate derivatives) | - | (271) | - | (271) |
| Option on A.R.C. minorities | - | - | - | - |
| Total assets and liabilities at fair value | - | (271) | - | (271) |

36. 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 2019 | Subsidiarie s | Giuseppe Saleri Sapa | Other related parties | Total related parties | Impact on the total |
|------------------------------|-----------------------|--------------------------|---------------------------------|--------------------------------------|--------------------------------------|--------------------------------|
| Non-current financial assets | 5,340 | 5,280 | - | - | 5,280 | 98.88% |
| Trade receivables | 28,563 | 9,676 | - | - | 9,676 | 33.88% |
| Current financial assets | 3,421 | 1,600 | - | - | 1,600 | 46.77% |
| Trade payables | 15,734 | 765 | - | 4 | 769 | 4.89% |

| | Total 2018 | Subsidiarie s | Giuseppe Saleri Sapa | Other related parties | Total related parties | Impact on the total |
|------------------------------|-----------------------|--------------------------|---------------------------------|--------------------------------------|--------------------------------------|--------------------------------|
| Non-current financial assets | 5,367 | 5,247 | - | - | 5,247 | 97.76% |
| Trade receivables | 35,158 | 6,166 | 12 | - | 6,178 | 17.57% |
| Tax receivables | 2,377 | - | 1,084 | - | 1,084 | 45.60% |
| Current financial assets | 5,874 | 1,600 | - | - | 1,600 | 27.24% |
| Trade payables | 18,945 | 3,895 | - | 5 | 3,900 | 20.59% |

Impact of related-party transactions on income statement items

| | Total 2019 | Subsidiaries | Giuseppe Saleri Sapa | Other related parties | Total related parties | Impact on the total |
|-------------------------------------|-----------------------|---------------------|---------------------------------|--------------------------------------|----------------------------------|--------------------------------|
| Revenue | 94,899 | 11,820 | - | - | 11,820 | 12.46% |
| Other income | 4,045 | 1,760 | - | - | 1,760 | 43.51% |
| Materials | 32,806 | 1,852 | - | - | 1,852 | 5.65% |
| Services | 20,124 | 465 | - | 21 | 486 | 2.42% |
| Capital gains on non-current assets | 130 | 90 | - | - | 90 | 69.23% |
| Other operating costs | 926 | 80 | - | - | 80 | 8.64% |
| Write-downs of non-current assets | 500 | 500 | - | - | 500 | 100% |
| Financial income | 211 | 175 | - | - | 175 | 82.94% |

| | Total 2018 | Subsidiaries | Giuseppe Saleri Sapa | Other related parties | Total related parties | Impact on the total |
|-------------------------------------|-----------------------|---------------------|---------------------------------|--------------------------------------|----------------------------------|--------------------------------|
| Revenue | 110,065 | 11,520 | - | - | 11,520 | 10.46% |
| Other income | 2,985 | 800 | 40 | - | 840 | 28.14% |
| Materials | 45,085 | 1,417 | - | - | 1,417 | 3.14% |
| Services | 27,540 | 3,991 | - | 22 | 4,013 | 14.57% |
| Capital gains on non-current assets | 496 | 467 | - | - | 467 | 94.15% |
| Other operating costs | 1,852 | 640 | - | - | 640 | 34.56% |
| Financial income | 123 | 119 | - | - | 119 | 96.75% |

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 do Brasil and Sabaf Turkey, which generated the capital gains highlighted;

- charging for the provision of intra-group technical, commercial and administrative services;
- charging for intra-group royalties;
- intra-group loans;
- group VAT;

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

37. SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

Pursuant to the CONSOB memorandum of 28 July 2006, note that no significant non-recurring events or transactions, as defined by the memorandum, took place in 2019.

38. 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 2019.

39. COMMITMENTS

Guarantees issued

Sabaf S.p.A. also issued sureties to guarantee mortgage loans granted by banks to employees for a total of €4,024,000 (€4,734,000 at 31 December 2018).

40. 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.

41. SHARE-BASED PAYMENTS

In order to adopt a medium and long-term incentive instrument for directors and employees of the Sabaf Group, on the proposal of the Remuneration and Nomination Committee, the Board of Directors prepared a specific free allocation plan of shares (the "Plan") with the characteristics described below.

The Plan was approved by the Shareholders' Meeting on 8 May 2018 and the related Regulations by the Board of Directors on 15 May 2018, subsequently amended as resolved by the Board of Directors on 14 May 2019.

Purpose of the plan

The Plan aims to promote and pursue the involvement of the beneficiaries whose activities are considered relevant for the implementation of the contents and the achievement of the objectives set out in the Business Plan, foster loyalty development and motivation of managers, by increasing their entrepreneurial approach as well as align the interests of management with those of the Company's shareholders more closely, with a view to encouraging the achievement

of significant results in the economic and asset growth of the Company and of the Group.

Beneficiaries of the plan

The Plan is intended for persons who hold or will hold key positions in the Company and/or its Subsidiaries, with reference to the implementation of the contents and the achievement of the objectives of the 2018 - 2020 Business Plan. The Beneficiaries are divided into two groups:

- Cluster 1: Beneficiaries already identified in the Plan or who will be identified by the Board of Directors by 30 June 2018 on the Shareholders' Meeting authority.
- Cluster 2: Beneficiaries who will be identified by the Board of Directors from 1 July 2018 to 30 June 2019 on the Shareholders' Meeting authority.

The Board of Directors, in its meeting of 15 May 2018, identified the Beneficiaries of Cluster 1 of the Plan to whom a total of 185,600 rights were assigned; and the Board of Directors in its meeting of 14 May 2019, identified the Beneficiaries of Cluster 2 of the Plan to whom a total of 184,400 rights were assigned.

Subject-matter of the plan

The subject-matter of the Plan is the free allocation to the Beneficiaries of a maximum of 370,000 Rights, each of which entitles them to receive free of charge, under the terms and conditions provided for by the Regulations of the Plan, 1 Sabaf S.p.A. Share.

The free allocation of Sabaf S.p.A. shares is conditional, among other things, on the achievement, in whole or in part, with progressiveness, of the business objectives related to the ROI, EBITDA and TSR indicators and Individual objectives, i.e. performance objectives of each beneficiary determined by the Board of Directors at the suggestion of the Remuneration and Nomination Committee.

Deadline of the Plan

The Plan expires on 31 December 2022 (or on a different subsequent date set by the Board of Directors).

Fair Value measurement methods

Considering the allocation mechanism described above, it was necessary to measure at fair value the rights assigned to receive shares of the Parent Company. In line with the date of assignment of the rights and terms of the plan, the grant date was set at 15 May 2018 for Cluster 1 and 14 May 2019 for Cluster 2. The main assumptions made at the beginning of the vesting period are illustrated below:

Cluster 1

FAIR VALUE MEASUREMENT METHODS - RIGHTS RELATING TO OBJECTIVES MEASURED ON ROI

| | 2018 | 2019 | 2020 | 2018 - 2020 |
|--|--------|-------|-------|-------------|
| Share price at the start of the vesting period | 19.48 | 19.48 | 19.48 | 19.48 |
| Expected probability of business objective achievement | 31% | 0% | 44.5% | 15.5% |
| Total value on ROI | | | | |
| | 4.59 | | | |
| Rights on ROI | | | | |
| | 33.40% | | | |
| Fair Value | | | | 1.53 |

FAIR VALUE MEASUREMENT METHODS - RIGHTS RELATING TO OBJECTIVES MEASURED ON EBITDA

| | 2018 | 2019 | 2020 |
|--|--------|-------|-------|
| Share price at the start of the vesting period | 19.48 | 19.48 | 19.48 |
| Expected probability of business objective achievement | 41% | 0% | 60.9% |
| Total value on EBITDA | | | |
| | 7.04 | | |
| Rights on EBITDA | | | |
| | 33.30% | | |
| Fair Value | | | 2.35 |

FAIR VALUE MEASUREMENT METHODS - RIGHTS RELATING TO OBJECTIVES MEASURED ON TSR

| | 2018 | 2019 | 2020 | 2018 - 2020 |
|---|--------|--------|--------|-------------|
| Share price at the start of the vesting period | 20.2 | 14.9 | 12.44 | 20.2 |
| Risk free rate | -0.28% | -0.30% | -0.38% | -0.38% |
| Expected volatility | 31% | 18% | 29% | 29% |
| Dividend yield | 0.00% | 0.00% | 0.00% | 0.00% |
| Strike Price | 22.61 | 17.39 | 14.51 | 28.34 |
| Total value on TSR | | | | |
| | 7.57 | | | |
| Rights on TSR | | | | |
| | 33.30% | | | |
| Fair Value | | | | 2.52 |
| Fair Value per share at initial date of the vesting period | | | | 6.40 |

Cluster 2

| FAIR VALUE MEASUREMENT METHODS - RIGHTS RELATING TO OBJECTIVES MEASURED ON ROI | | | |
|---|---------------|-------------|------------------------|
| | 2019 | 2020 | 2019 - 2020 |
| Share price at the start of the vesting period | 13.66 | 13.66 | 13.66 |
| Expected probability of business objective achievement | 0% | 36.90% | 15.50% |
| Total value on ROI | 2.80 | | |
| Rights on ROI | 23.38% | | |
| | | | Fair Value 0.65 |
| FAIR VALUE MEASUREMENT METHODS - RIGHTS RELATING TO OBJECTIVES MEASURED ON EBITDA | | | |
| | 2019 | 2020 | |
| Share price at the start of the vesting period | 13.66 | 13.66 | |
| Expected probability of business objective achievement | 0% | 53.50% | |
| Total value on EBITDA | 4.50 | | |
| Rights on EBITDA | 23.31% | | |
| | | | Fair Value 1.05 |
| FAIR VALUE MEASUREMENT METHODS - RIGHTS RELATING TO OBJECTIVES MEASURED ON TSR | | | |
| | 2019 | 2020 | 2019 - 2020 |
| Share price at the start of the vesting period | 14.9 | 12.44 | 14.9 |
| Risk free rate | -0.30% | -0.38% | -0.38% |
| Expected volatility | 18% | 29% | 29% |
| Dividend yield | 0.00% | 0.00% | 0.00% |
| Strike Price | 17.39 | 14.51 | 22.86 |
| Total value on TSR | 2.53 | | |
| Rights on TSR | 23.31% | | |
| | | | Fair Value 0.59 |
| FAIR VALUE MEASUREMENT METHODS - RIGHTS RELATING TO OBJECTIVES MEASURED ON INDIVIDUAL OBJECTIVES | | | |
| | 2019 | 2020 | |
| Share price at the start of the vesting period | 13.66 | 13.66 | |
| Expected probability of business objective achievement | 50% | 50% | |
| Total value on individual objectives | 6.83 | | |
| Rights on individual objectives | 30.00% | | |
| | | | Fair Value 2.05 |
| Fair Value per share at initial date of the vesting period | | | 4.34 |

The accounting impacts of the Plan concerning these financial statements are illustrated in Note 13 and Note 27.

Summary of public grants pursuant to Article 1, paragraphs 125-129, Italian Law no. 124/2017

In compliance with the requirements of transparency and publicity envisaged pursuant to Italian Law no. 124 of 4 August 2017, article 1, paragraphs 125-129, which imposed on companies the obligation to indicate in the explanatory notes "*grants, contributions, and in any case economic advantages of any kind*", the following are the details of the relative amounts, accounted for "on a cash basis".

| Statutory References | Contribution value | Disbursing Subject |
|---|---------------------------|---------------------------|
| Patent Box | 356 | Italian State |
| Super/Iper ammortamento (Super/Hyper amortisation) | 581 | Italian State |
| Energy-intensive contributions | 468 | Italian State |
| Total | 1,405 | |

Patent Box: concerning the reduced taxation of income from intangible assets, the reference regulations of which are contained in the 2015 Stability Law (Italian Law 23/12/2014 no.190) Articles from 37 to 45.

Super ammortamento (Super amortisation): it allows an over-estimation of 130% of the newly purchased or leased instrumental investments, the reference regulations of which are contained in Law no. 205 of 27 December 2017.

Energy-intensive contributions: accessible grants for companies that consume a lot of electricity, whose regulatory reference is the MISE Decree of 21 December 2017.

LIST OF INVESTMENTS WITH ADDITIONAL INFORMATION REQUIRED BY CONSOB (COMMUNICATION DEM6064293 of 28 July 2006)

IN SUBSIDIARIES³

| Company name | Registered offices | Share capital at 31 December 2019 | Shareholders | ownership % | Shareholders' equity at 31 December 2019 | 2019 profit (loss) |
|--|--------------------|-----------------------------------|--|-------------|--|--------------------|
| Faringosi Hinges s.r.l. | Ospitaletto (BS) | € 90,000 | Sabaf S.p.A. | 100% | € 7,318,972 | € 1,076,057 |
| Sabaf do Brasil Ltda | Jundiaí (Brazil) | BRL 24,000,000 | Sabaf S.p.A. | 100% | BRL 52,039,450 | BRL 3,734,068 |
| Sabaf US Corp. | Plainfield (USA) | USD 200,000 | Sabaf S.p.A. | 100% | USD -56,826 | USD 71,516 |
| Sabaf Appliance Components (Kunshan) Co., Ltd. | Kunshan (China) | € 4,900,000 | Sabaf S.p.A. | 100% | CNY -6,037,256 | CNY -4,420,172 |
| Sabaf Beyaz ESYA Parcalari Sanayi Ve Ticaret Limited Sirteki | Anisa (Turkey) | TRY 28,000,000 | Sabaf S.p.A. | 100% | TRY 167,844,599 | TRY 25,918,705 |
| A.R.C. s.r.l. | Campodarsego (PD) | € 45,000 | Sabaf S.p.A. | 70% | € 5,663,939 | € 571,572 |
| Okida Elektronik Sanayi ve Tickaret A.S | Istanbul (Turkey) | TRY 5,000,000 | Sabaf S.p.A. Sabaf Beyaz ESYA Parcalari Sanayi Ve Ticaret Limited Sirteki | 30% 70% | TRY 39,770,099 | TRY 12,807,253 |
| C.M.I s.r.l. | Vasalgia (BO) | € 1,000,000 | Sabaf S.p.A. | 68.5% | € 7,450,225 | € 481,009 |

OTHER SIGNIFICANT EQUITY INVESTMENTS

None

³ 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 case of distribution |
|---|--------|----------------------------|-----------------|--|
| <u>Capital reserves:</u> | | | | |
| 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 |
| <u>Retained earnings:</u> | | | | |
| Legal reserve | 2,307 | B | 0 | 0 |
| Other retained earnings | 78,960 | A, B, C | 78,960 | 0 |
| <u>Valuation reserve:</u> | | | | |
| Post-employment benefit actuarial provision | (505) | | 0 | 0 |
| Reserve for stock grant plan | 1,002 | | 0 | 0 |
| Total | 93,400 | | 90,596 | 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 2019**

| | | Gross value | Cumulative depreciation | Net value |
|--|--------------|---------------|-------------------------|------------|
| <i>Investment property</i> | Law 72/1983 | 137 | (137) | 0 |
| | 1989 merger | 516 | (484) | 32 |
| | Law 413/1991 | 47 | (44) | 3 |
| | 1994 merger | 1,483 | (1,136) | 347 |
| | Law 342/2000 | 2,870 | (2,540) | 330 |
| | | 5,053 | (4,341) | 712 |
| <i>Plant and machinery</i> | Law 576/75 | 205 | (205) | 0 |
| | Law 72/1983 | 2,219 | (2,219) | 0 |
| | 1989 merger | 6,140 | (6,140) | 0 |
| | 1994 merger | 6,820 | (6,820) | 0 |
| | | 15,384 | (15,384) | 0 |
| <i>Industrial and commercial equipment</i> | Law 72/1983 | 161 | (161) | 0 |
| | | | | |
| <i>Other assets</i> | Law 72/1983 | 50 | (50) | 0 |
| | | | | |
| TOTAL | | 20,648 | (19,936) | 712 |

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)

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Fax: +39 030 - 6848249
E-mail: info@sabaf.it
Web site: <http://www.sabaf.it>

Tax information: REA Brescia 347512
Tax Code 03244470179
VAT Number 01786910982

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 2019 for auditing services and for services other than auditing provided by the Independent Auditors. No services were provided by entities belonging to the network.

| (€/000) | Party providing the service | Fees pertaining to the 2019 financial year |
|------------------------|-----------------------------|--|
| | | |
| Audit | EY S.p.A. | 47 |
| Certification services | EY S.p.A. | --- |
| Other services | EY S.p.A. | 39 ⁽¹⁾ |
| <i>Total</i> | | <i>86</i> |

(1) auditing procedures agreement relating to interim management reports;

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 2019 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, 24 March 2020

Chief Executive Officer
Pietro Iotti

The Financial Reporting Officer
Gianluca Beschi