CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2020

SABAF S.p.A.
Via dei Carpini, 1 – OSPITALETTO (BS)
Capitale sociale Euro 11.533.450 i.v.
www.sabafgroup.com

GROUP STRUCTURE AND CORPORATE BODIES

Group structure

Parent company

SABAF S.p.A.

Subsidiaries and equity interest pertaining to the Group

<u>Companies consolidated on a line-by-line basis</u>	
Faringosi Hinges s.r.l.	100%
Sabaf do Brasil Ltda.	100%
Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki (Sabaf Turkey)	100%
Sabaf Appliance Components (Kunshan) Co., Ltd.	100%
Okida Elektronik Sanayi ve Tickaret A.S	100%
Sabaf US Corp.	100%
A.R.C. s.r.l.	70%
Sabaf India Private Limited	100%
C.M.I. s.r.l.	84.25%
C.G.D. s.r.l.	84.25%
C.M.I. Polska Sp. zoo.	84.25%
<u>Companies measured at equity</u>	
Handan ARC Burners Co., Ltd.	35.7%

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.

Consolidated statement of financial position

	Notes	31/12/2020	31/12/2019
(€/000)			
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	**1**	76,507	75,885
Investment property	**2**	3,253	3,976
Intangible assets	**3**	43,017	51,668
Equity investments	**4**	173	115
Non-current financial assets	**10**	0	60
Non-current receivables	**5**	518	297
Deferred tax assets	**21**	8,075	6,505
Total non-current assets		**131,543**	**138,506**
CURRENT ASSETS			
Inventories	**6**	39,224	35,343
Trade receivables	**7**	63,436	46,929
Tax receivables	**8**	2,419	4,458
Other current receivables	**9**	3,167	1,459
Current financial assets	**10**	1,495	1,266
Cash and cash equivalents	**11**	13,318	18,687
Total current assets		**123,059**	**108,142**
ASSETS HELD FOR SALE		**0**	**0**
TOTAL ASSETS		**254,602**	**246,648**
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	**12**	11,533	11,533
Retained earnings, Other reserves	**13**	87,504	92,580
Profit for the year		13,961	9,915
Total equity interest of the Group		*112,998*	*114,028*
Minority interests		*4,809*	*7,077*
Total shareholders' equity		**117,807**	**121,105**
NON-CURRENT LIABILITIES			
Loans	**14**	32,153	44,046
Other financial liabilities	**15**	0	7,383
Post-employment benefit and retirement provisions	**16**	3,513	3,698
Provisions for risks and charges	**17**	1,433	995
Deferred tax liabilities	**21**	4,697	7,273
Total non-current liabilities		**41,796**	**63,395**
CURRENT LIABILITIES			
Loans	**14**	30,493	19,015
Other financial liabilities	**15**	8,489	4,637
Trade payables	**18**	41,773	27,560
Tax payables	**19**	3,287	1,802
Other payables	**20**	10,957	9,134
Total current liabilities		**94,999**	**62,148**
LIABILITIES HELD FOR SALE		**0**	**0**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**254,602**	**246,648**

Consolidated income statement

(€/000)	Notes	2020	2019
INCOME STATEMENT COMPONENTS			
OPERATING REVENUE AND INCOME			
Revenue	**23**	184,906	155,923
Other income	**24**	7,194	3,621
Total operating revenue and income		**192,100**	**159,544**
OPERATING COSTS			
Materials	**25**	(82,966)	(57,464)
Change in inventories		6,406	(8,617)
Services	**26**	(34,264)	(29,488)
Personnel costs	**27**	(43,700)	(37,103)
Other operating costs	**28**	(1,981)	(1,698)
Costs for capitalised in-house work		1,502	1,859
Total operating costs		**(155,003)**	**(132,511)**
OPERATING PROFIT BEFORE DEPRECIATION AND AMORTISATION, CAPITAL GAINS/LOSSES, AND WRITE-DOWNS/WRITE-BACKS OF NON-CURRENT ASSETS		**37,097**	**27,033**
Depreciations and amortisation	**1, 2, 3**	(16,968)	(15,183)
Capital gains on disposals of non-current assets		105	46
Value adjustments of non-current assets		(141)	0
EBIT		**20,093**	**11,896**
Financial income	**29**	1,366	638
Financial expenses	**30**	(2,146)	(1,339)
Exchange rate gains and losses	**31**	(4,812)	(1,380)
Profits and losses from equity investments	**4**	8	(39)
PROFIT BEFORE TAXES		**14,509**	**9,776**
Income taxes	**32**	(149)	407
PROFIT FOR THE YEAR		**14,360**	**10,183**
of which:			
Minority interests		399	268
PROFIT ATTRIBUTABLE TO THE GROUP		**13,961**	**9,915**
EARNINGS PER SHARE (EPS)	**33**		
Base		**€1.240**	**€0.895**
Diluted		**€1.240**	**€0.895**

Consolidated statement of comprehensive income

(€/000)	2020	2019
PROFIT FOR THE YEAR	**14,360**	**10,183**
Total profits/losses that will not be subsequently reclassified under profit (loss) for the year		
Actuarial evaluation of post-employment benefit	16	(26)
Tax effect	(3)	6
	13	**(20)**
Total profits/losses that will be subsequently reclassified under profit (loss) for the year		
Forex differences due to translation of financial statements in foreign currencies	**(12,564)**	**(3,323)**
Total other profits/(losses) net of taxes for the year	**(12,551)**	**(3,343)**
TOTAL PROFIT	**1,809**	**6,840**
of which:		
Net profit for the period attributable to minority interests	399	268
Total profits/losses that will be subsequently reclassified under profit (loss) for the year	8	0
Total profit attributable to minority interests		
TOTAL PROFIT ATTRIBUTABLE TO THE GROUP	**1,402**	**6,572**

Statement of changes in consolidated shareholders' equity

(€/000)	Share capital	Share premium reserve	Legal reserve	Treasury shares	Translation reserve	Post-employment benefit discounting reserve	Other reserves	Profit for the year	Total Group shareholders' equity	Minority interests	Total shareholders' equity
Balance at 31 December 2018	**11,533**	**10,002**	**2,307**	**(6,868)**	**(16,134)**	**(526)**	**101,774**	**15,614**	**117,702**	**1,644**	**119,346**
Allocation of 2018 profit											
- dividends paid out								(6,060)	(6,060)		(6,060)
- carried forward							9,554	(9,554)			
IFRS 2 measurement stock grant plan							681		681		681
Sale of treasury shares				4,600			208		4,808		4,808
Change in the scope of consolidation							(981)		(981)	5,165	4,184
C.M.I. Group put option							(8,700)		(8,700)		(8,700)
Other changes					518		(512)		6		6
Total profit at 31 December 2019					(3,323)	(20)		9,915	6,572	268	6,840
Balance at 31 December 2019	**11,533**	**10,002**	**2,307**	**(2,268)**	**(18,939)**	**(546)**	**102,024**	**9,915**	**114,028**	**7,077**	**121,105**
Allocation of 2019 profit											
- carried forward							9,915	(9,915)			
IFRS 2 measurement stock grant plan							658		658		658
Hedge accounting for derivatives							240		240	7	247
Purchase of treasury shares				(2,073)					(2,073)		(2,073)
Change in the scope of consolidation							2,657		2,657	(2,657)	
Dividends paid out							(3,924)		(3,924)		(3,924)
Other changes							10		10	(25)	(15)
Total profit at 31 December 2020					(12,564)	5		13,961	1,402	407	1,809
Balance at 31 December 2020	**11,533**	**10,002**	**2,307**	**(4,341)**	**(31,503)**	**(541)**	**111,580**	**13,961**	**112,998**	**4,809**	**117,807**

Consolidated statement of cash flows

	2020	2019
Cash and cash equivalents at beginning of year	***18,687***	***13,426***
Profit for the year	14,360	10,183
Adjustments for:		
- Depreciations and amortisation	16,968	15,183
- Write-downs of non-current assets	141	0
- Realised gains/losses	(105)	(46)
- Valuation of the stock grant plan	658	681
- Profits and losses from equity investments	(8)	39
- Net financial income and expenses	780	701
- Income tax	149	(407)
Change in post-employment benefit	(180)	300
Change in risk provisions	438	270
Change in trade receivables	*(16,507)*	*10,148*
Change in inventories	*(3,881)*	*9,090*
Change in trade payables	*14,213*	*(2,901)*
Change in net working capital	(6,175)	16,337
Change in other receivables and payables, deferred taxes	2,115	1,344
Payment of taxes	(2,999)	(2,952)
Payment of financial expenses	(1,235)	(1,339)
Collection of financial income	160	638
Cash flows from operations	**25,067**	**40,932**
Investments in non-current assets		
- intangible	(1,097)	(1,016)
- tangible	(16,623)	(11,510)
- financial	(50)	0
Disposal of non-current assets	474	512
Cash flow absorbed by investments	**(17,296)**	**(12,014)**
Free cash flow	**7,771**	**28,918**
Repayment of loans	(18,413)	(29,682)
Raising of loans	16,216	18,271
Short-term financial assets	60	978
Purchase/sale of treasury shares	(2,073)	3,146
Payment of dividends	(3,924)	(6,060)
Cash flow absorbed by financing activities	**(8,133)**	**(13,347)**
Acquisition of Okida Elektronik	0	(317)
C.M.I. acquisition	(3,063)	(10,475)
Foreign exchange differences	(1,944)	482
Net cash flows for the year	**(5,369)**	**5,261**
Cash and cash equivalents at end of year (Note 10 and 11)	***13,318***	***18,687***

Explanatory Notes

ACCOUNTING STANDARDS

Statement of compliance and basis of presentation

The consolidated financial statements of the Sabaf Group for the 2020 financial year have been prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union. Reference to IFRS also includes all current International Accounting Standards (IAS). The financial statements have been prepared in euro, the current currency in the economies in which the Group mainly operates, rounding amounts to the nearest thousand, and are compared with consolidated financial statements for the previous year, prepared according to the same standards. They consist of the statement of financial position, the income statement, the statement of changes in shareholders' equity, the statement of cash flows and these explanatory notes. The financial statements have been prepared on a historical cost basis except for some revaluations of property, plant and equipment undertaken in previous years, and are considered a going concern. The Group assessed that it is a going concern (as defined by paragraphs 25 and 26 of IAS 1 and by Article 2423 bis of the Italian Civil Code), also due to the strong competitive position, high profitability and solidity of the financial structure.

Financial statements

The Group has adopted the following formats:
- current and non-current assets and current and non-current liabilities are stated separately in the statement of the financial position;
- an income statement that expresses costs using a classification based on the nature of each item;
- a comprehensive income statement that expresses revenue and expense items not recognised in profit (loss) 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 Group's operating results, financial position and cash flows.

Scope of consolidation

The scope of consolidation at 31 December 2020 comprises the parent company Sabaf S.p.A. and the following companies controlled by Sabaf S.p.A.:
- Faringosi Hinges s.r.l.
- Sabaf do Brasil Ltda.
- Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki (Sabaf Turkey)
- Sabaf Appliance Components (Kunshan) Co., Ltd.
- A.R.C. s.r.l.

- Okida Elektronik Sanayi ve Tickaret A.S
- Sabaf U.S.
- Sabaf India Private Limited
- C.M.I. s.r.l.
- C.G.D. s.r.l.
- C.M.I. Polska Sp. zoo

Handan A.R.C. Burners Co. Ltd., an associate company, is consolidated using the equity method.

Compared to the consolidated financial statements at 31 December 2019, Sabaf India, in which Sabaf made a capital contribution of €1,770,000 during 2020, is consolidated on a line-by-line basis.

In September 2020, Sabaf S.p.A. also completed the acquisition of 15.75% of the share capital of C.M.I. s.r.l., following the exercise of the first put option by the minority shareholder Starfire s.r.l. (Guandong Xingye Investment group). As a result of the transaction, Sabaf S.p.A. now holds 84.25% of the share capital of C.M.I. s.r.l.. For the remaining 15.75% of C.M.I., still held by Starfire s.r.l., there are put and call options exercisable after the approval of the 2020 financial statements.

The companies in which Sabaf S.p.A. simultaneously possess the following three elements are considered subsidiaries: (a) power over the company; (b) exposure or rights to variable returns resulting from involvement therein; (c) ability to affect the size of these returns by exercising power. Subsidiaries are consolidated from the date on which control begins until the date on which control ceases.

Consolidation criteria

The data used for consolidation have been taken from the income statements and statements of financial position prepared by the directors of the individual subsidiary companies. These figures have been appropriately amended and restated, when necessary, to align them with international accounting standards and with uniform group-wide classification criteria.

The criteria applied for consolidation are as follows:

a) assets and liabilities, income and costs in financial statements consolidated on a line-by-line basis are incorporated into the Group financial statements, regardless of the entity of the equity interest concerned. Moreover, the carrying value of equity interests is derecognised against the shareholders' equity relating to investee companies;
b) positive differences arising from elimination of equity investments against the carrying value of shareholders' equity at the date of first-time consolidation are attributed to the higher values of assets and liabilities when possible and, for the remainder, to goodwill. In accordance with the provisions of IFRS 3, since 1 January 2004, the Group has not amortised goodwill and instead subjects it to impairment testing;

c) payable/receivable and cost/revenue items between consolidated companies and profits/losses arising from intercompany transactions are derecognised;
d) the portion of shareholders' equity and net profit for the period pertaining to minority shareholders is posted in specific items of the balance sheet and income statement.

Conversion into euro of foreign-currency income statements and statements of financial position

Separate financial statements of each company belonging to the Group are prepared in the currency of the country in which that company operates (functional currency). For the purposes of the consolidated financial statements, the financial statement of each foreign entity is expressed in euro, which is the Group's functional currency and the reporting currency for the consolidated financial statements.
Balance sheet items in accounts expressed in currencies other than euro are converted by applying current end-of-year exchange rates.
Income statement items are converted at average exchange rates for the year.
Foreign exchange differences arising from the comparison between opening shareholders' equity converted at current exchange rates and at historical exchange rates, together with the difference between the net result expressed at average and current exchange rates, are allocated to "Other Reserves" in shareholders' equity.
The exchange rates used for conversion into euro of the financial statements of the foreign subsidiaries, prepared in local currency, are shown in the following table:

Description of currency	Exchange rate in effect at 31/12/2020	2020 average exchange rate	Exchange rate in effect at 31/12/19	2019 average exchange rate
Brazilian real	6.3735	5.8929	4.5157	4.4151
Turkish lira	9.1131	8.0548	6.6843	6.3486
Chinese renminbi	8.0225	7.8664	7.8205	7.7336
Polish Zloty	4.5597	4.4431	4.2568	4.3123
Indian Rupee	89.6605	84.6382	-	-

Segment reporting

The Group's operating segments in accordance with IFRS 8 - Operating Segment are identified in the business segments that generate revenue and costs, whose results are periodically reassessed by top management in order to assess performance and decisions regarding resource allocation. The Group operating segments are the following:
- gas parts (household and professional);
- hinges;
- electronic components for household appliances.

Accounting policies

The accounting standards and policies applied for the preparation of the consolidated financial statements at 31 December 2020, unchanged versus the previous year, are shown below:

Property, plant and equipment
These are recorded at purchase or manufacturing cost. The cost includes directly chargeable ancillary costs. These costs also include revaluations undertaken in the past based on monetary revaluation rules or pursuant to company mergers. Depreciation is calculated according to rates deemed appropriate to spread the carrying value of tangible assets over their useful working life. Estimated useful working life in years, 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 – 10
Furniture	8
Electronic equipment	5
Vehicles and other transport means	4 – 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.

Leased assets
The Group assesses at the time of signing an agreement whether it is, or contains, a lease, or if the contract gives the right to control the use of an identified asset for a period of time in exchange for a consideration.
The Group adopts a single recognition and measurement model for all leases according to which the assets acquired relating to the right of use are shown under assets at purchase value less depreciation, any impairment losses and adjusted for any re-measurement of lease liabilities.
Assets are depreciated on a straight-line basis from the starting date of the agreement until the end of the lease agreement or until the end of the useful life of the asset, whichever comes first. Set against recognition of such assets, the amounts payable to the lessor, are posted among short- and medium-/long-term payables, by measuring them at the present value of the lease payments not yet made. Moreover, financial charges pertaining to the period are charged to the income statement.

Adoption of the accounting standard IFRS 16 "Leases"
The Group applied IFRS 16 from 1 January 2019 by using the amended retrospective approach. In adopting IFRS 16, the Group 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 shows the main characteristics of the agreements that have been the subject matter of the above exemptions:

Subject-matter of the agreement	Applied exemption	Value of the agreement *(amounts in €/000)*
Printers	Low-value asset	4

When evaluating the lease liabilities, the Group discounted the payments due for the lease using the incremental borrowing rate, the weighted average of which was 2.52% on 31 December 2020 and 7.56% on 31 December 2019. The rate was defined taking also account of the currency in which the lease agreements are denominated and the country in which the leased asset is located.

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.

Goodwill
Goodwill is the difference between the purchase price and fair value of investee companies' identifiable assets and liabilities on the date of acquisition.
As regards acquisitions completed prior to the date of IFRS adoption, the Sabaf Group has used the option provided by IFRS 1 to refrain from applying IFRS 3 – concerning business combinations – to acquisitions that took place prior to the transition date.
Consequently, goodwill arising in relation to past acquisitions has not been recalculated and has been posted in accordance with Italian GAAPs, net of amortisation reported up to 31 December 2003 and any losses caused by a permanent value impairment.
After the transition date, goodwill – as an intangible asset with an indefinite useful life – is not amortised but subjected annually to impairment testing to check for value loss, or more frequently if there are signs that the asset may have suffered impairment (impairment test).

Equity investments in associates and joint ventures
An associated company is a company on which the Group exercises significant influence. Significant influence is the power to participate in determining the financial and operational policies of the associated company without having control or joint control over it. A joint venture is a joint control agreement in which the parties holding the joint control have rights on the net assets of the agreement.
The Group's equity investment in associates and joint ventures is measured using the equity method: the equity investment is initially entered at cost, subsequently, the carrying value of the equity investment is increased or decreased to reflect the investor's share of the investee's profits and losses realised after the acquisition date.
Goodwill pertaining to the associated company or joint venture is included at the carrying value of the equity investment and is not subject to individual assessment of impairment).

Other intangible assets
As established by IAS 38, other 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. Estimated useful working life in years, unchanged compared to previous financial years, is as follows:

Customer relationship	15
Brand	15
Patents	9
Know-how	7
Development costs	10
Software	3 - 5

Impairment
At each end of reporting period, the Group reviews the carrying value of its tangible and intangible assets to determine whether there are signs of impairment losses 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 recoverable amount individually, the Group 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 Group prepares operating cash flow forecasts based on the most recent budgets approved by the Board of Directors of the consolidated companies, draws up the forecasts for the coming years and determines the terminal value (current value of perpetual income), which expresses the medium- and long-term operating flows in the specific sector.
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 in the income statement.
When there is no longer any reason for a write-down to be maintained, the carrying value of the asset (or of the cash-generating unit) - with the exception of goodwill - is increased to the new value resulting 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.

Investment property

As allowed by IAS 40, non-operating buildings and constructions are assessed at cost net of depreciation and losses due to cumulative impairment. The depreciation criterion applied is the asset's estimated useful life, which is 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.

Equity investments and non-current receivables

Equity investments in companies other than subsidiaries, associates and joint ventures are classified as financial assets measured at fair value, which normally corresponds to the transaction price including directly attributable transaction costs. Subsequent changes in fair value are recognised in the Income statement (FVPL) or, if the option is exercised in accordance with the standard, in the Statement of comprehensive income (FVOCI) under the heading "Instrument reserve at FVOCI". Non-current receivables are stated at their presumed realisable value.

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 derecognised 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 Group 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 Group. The Group 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 Group 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 are recognised in the income statement.
This category includes derivative instruments.
The Group 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 Group) when:

- the rights to receive cash flows from the asset are extinguished, or
- the Group 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 Group has transferred the rights to receive cash 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 cash 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 Group to the extent of its residual involvement in the asset itself. In this case, the Group 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 Group. 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 as at the end of the reporting period). Conversely, portions accruing after that date are treated as defined-contribution plans. Actuarial gains or losses are recorded immediately under "Other total profits/(losses)".

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, with the exception of non-current items, 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 Group's business is exposed to financial risks relating to changes in exchange rates, commodity prices and interest rates. The company uses derivative instruments (mainly forward contracts on currencies and commodity options) to hedge risks stemming from changes in foreign currencies relating to irrevocable commitments or to planned future transactions.

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 Group'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 from contracts with customers

The Group is engaged in the supply of components for household appliances (mainly gas parts, such as valves and burners, hinges and electronic components).

Revenue from contracts with customers is recognised when control of the goods is transferred to the customer for an amount that reflects the consideration that the Group expects to receive in exchange for the goods. The control of the goods passes to the customer according to the terms of return defined with the customer. The usual extended payment terms range from 30 to 120 days from shipment; the Group believes that the price does not include significant financing components.

The guarantees provided for in the contracts with customers are of a general nature and not extended and are accounted for in accordance with IAS 37.

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 Group'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 emerging between the taxable base of an asset and liability and its book value in the consolidated financial statements, with the exception of goodwill that is not tax-deductible and of differences stemming from investments in subsidiaries for which cancellation is not envisaged in the foreseeable future. Deferred tax assets on unused tax losses and tax credits carried forward are recognised to the extent that it is probable that future taxable income will be available against which they can be recovered. 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, according to the respective regulations of the countries where the Group operates, 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 Group 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 38.
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.

Earnings per share
Basic EPS is calculated by dividing the profit or loss attributable to the direct parent company's shareholders by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is calculated by dividing the profit or loss attributable to the direct parent company's shareholders by the weighted average number of shares outstanding, adjusted to take into account the effects of all potential ordinary shares with a dilutive effect.

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

Recoverable amount of tangible and intangible assets
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 valued, and written down if their recoverable amount 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 significant effects 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 Group uses a binomial model for the initial measurement of the fair value of share-based payments with employees.

Income taxes
The Group is subject to different bodies of tax legislation on income. Determining liabilities for Group 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 Group 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 2020

- Amendments to **IFRS 3 "Definition of a Business"**. The amendments were introduced to support entities in determining whether or not a set of assets acquired constitutes a business. To be considered a business, an integrated set of assets and goods must include at least one input and one underlying process that contribute significantly to the ability to create an output. Moreover, a business can exist without including all of the inputs and processes needed to create outputs. These changes had no impact on the Group's consolidated financial statements but could have an impact on future financial years should the Group carry out business combinations.

- Amendments to **IFRS 7, IFRS 9 and IAS 39 "Interest rate benchmark reform"**. The amendments to the standards provide a number of practical expedients that apply to hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform generates uncertainties about the timing and/or amount of cash flows based on benchmarks of the hedged item or hedging instrument. These amendments have no impact on the Group's consolidated financial statements.

- Amendments to **IAS 1** and **IAS 8 " Definition of Material"**. The amendments provide a new definition of materiality, which states 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. These amendments had no impact on the consolidated financial statements and are not expected to have any future impact on the Group.

- Amendment to **IFRS 16 Covid-19-Related Rent Concessions**. On 28 May 2020, the IASB published an amendment to IFRS 16, which allows a lessee not to apply the requirements in IFRS 16 on the accounting effects of contractual changes for lease reductions granted by lessors as a direct result of the Covid-19 outbreak. The amendment introduces a practical expedient whereby a lessee may choose not to assess whether a reduction in lease payments constitutes a contractual change. A lessee that chooses to use this expedient recognises these reductions as if they were not contractual changes for the purpose of IFRS 16. These changes had no impact on the Group's consolidated financial statements.

Comments on significant balance sheet items

1. PROPERTY, PLANT AND EQUIPMENT

	Property	Plant and equipment	Other assets	Assets under construction	Total
Cost					
At 31 December 2018	**51,507**	**194,516**	**43,257**	**4,688**	**293,968**
Increases	236	3,946	3,932	3,282	11,396
Disposals	-	(1,224)	(767)	-	(1,991)
First-time adoption of IFRS 16	362	-	1,035	-	1,397
Change in the scope of consolidation	2,900	15,183	6,034	137	24,254
Reclassifications	1,376	3,742	91	(4,850)	359
Forex differences	(307)	(532)	(154)	(93)	(1,086)
At 31 December 2019	**56,074**	**215,631**	**53,428**	**3,164**	**328,297**
Increases	1,591	7,658	4,190	4,508	17,947
Disposals	-	(1,451)	(218)	-	(1,669)
Change in the scope of consolidation	1,575	-	4	-	1,579
Reclassifications	(518)	1,709	277	(2,834)	(1,366)
Forex differences	(1,496)	(3,955)	(1,804)	(303)	(7,558)
At 31 December 2020	**57,226**	**219,592**	**55,877**	**4,535**	**337,230**
Accumulated depreciations					
At 31 December 2018	**19,603**	**165,018**	**38,582**	**-**	**223,203**
Depreciations for the year	1,681	8,168	2,339	-	12,188
Derecognition due to disposal	-	(1,593)	(159)	-	(1,752)
Change in the scope of consolidation	1,314	12,334	5,301	-	18,949
Reclassifications	256	49	28	-	333
Forex differences	(75)	(312)	(122)	-	(509)
At 31 December 2019	**22,779**	**183,664**	**45,969**	**-**	**252,412**
Depreciations for the year	2,321	8,696	2,909	-	13,926
Derecognition due to disposal	-	(1,422)	(81)	-	(1,503)
Change in the scope of consolidation	-	-	-	-	-
Reclassifications	(530)	184	(43)	-	(389)
Forex differences	(423)	(2,184)	(1,116)	-	(3,723)
At 31 December 2020	**24,147**	**188,938**	**47,638**	**-**	**260,723**
Net carrying value					
At 31 December 2020	**33,079**	**30,654**	**8,239**	**4,535**	**76,507**
At 31 December 2019	**33,295**	**31,967**	**7,459**	**3,164**	**75,885**

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

	31/12/2020	**31/12/2019**	**Change**
Land	7,675	6,659	1,016
Industrial buildings	25,404	26,636	(1,232)
Total	**33,079**	**33,295**	**(216)**

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 2020	**1,776**	**513**	**781**	**3,070**
Increases	1,377	74	333	1,784
Depreciations	(634)	(247)	(288)	(1,169)
Foreign exchange differences	(72)	-	-	(72)
At 31 December 2020	**2,447**	**340**	**826**	**3,613**

The main investments in the financial year were aimed at industrialising new products to significantly increase shares with certain strategic customers. 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.

In the 2020 financial year, the increase in property, plant and equipment as a result of the change in the scope of consolidation reflects the first-time consolidation of Sabaf India, a newly formed company, which acquired an industrial property where production will start in 2021.

Assets under construction include machinery under construction and advance payments to suppliers of capital equipment.

At 31 December 2020, the Group 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 2018	**12,918**
Increases	-
Disposals	(1,191)
First-time adoption of IFRS 16	109
At 31 December 2019	**11,836**
Increases	-
Disposals	(552)
At 31 December 2020	**11,284**
Depreciations and write-downs	
At 31 December 2018	**8,515**
Depreciations for the year	430
Write-downs for the year	-
Derecognition due to disposal	(1,085)
At 31 December 2019	**7,860**
Depreciations for the year	416
Write-downs for the year	-
Derecognition due to disposal	(245)
At 31 December 2020	**8,031**
Net carrying value	
At 31 December 2020	3,253
At 31 December 2019	3,976

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

	Investment property
1 January 2020	**73**
Increases	-
Decreases	-
Depreciations	(35)
Foreign exchange differences	-
At 31 December 2020	**38**

The item Investment property includes non-operating buildings owned by the Group: these are mainly properties for residential use, held for rental or sale. Disposals during the period resulted in capital gains of non-significant amount.

At 31 December 2020, the Group found no other 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

	Goodwill	Patents and software	Development costs	Other intangible assets	Total
Cost					
At 31 December 2018	**29,410**	**7,204**	**5,653**	**12,779**	**55,046**
Increases	292	356	460	200	1,308
Decreases	-	(8)	(102)	(11)	(121)
Change in the scope of consolidation	3,680	1,425	717	13,664	19,486
Reclassifications	(24)	-	-	(643)	(667)
Forex differences	(1,743)	(15)	-	(1,030)	(2,788)
At 31 December 2019	**31,615**	**8,962**	**6,728**	**24,959**	**72,264**
Increases	-	547	465	85	1,097
Decreases	-	1	-	(1)	-
Change in the scope of consolidation	-	1	-	-	1
Reclassifications	-	33	(607)	(786)	(1,360)
Forex differences	(4,501)	(143)	-	(2,658)	(7,302)
At 31 December 2020	**27,114**	**9,401**	**6,586**	**21,599**	**64,700**
Amortisation/Write-downs					
At 31 December 2018	**4,563**	**6,559**	**3,408**	**1,462**	**15,992**
Amortisation for the year	-	296	371	1,048	1,715
Decreases	-	-	-	-	-
Change in the scope of consolidation	-	1,337	559	1,337	3,233
Reclassifications	(17)	-	-	(250)	(267)
Forex differences	-	(13)	-	(64)	(77)
At 31 December 2019	**4,546**	**8,179**	**4,338**	**3,533**	**20,596**
Amortisation for the year	-	480	431	1,723	2,634
Decreases	-	-	-	-	-
Change in the scope of consolidation	-	-	-	-	-
Reclassifications	-	(18)	(344)	(781)	(1,143)
Forex differences	-	(68)	-	(336)	(404)
At 31 December 2020	**4,546**	**8,573**	**4,425**	**4,139**	**21,683**
Net carrying value					
At 31 December 2020	**22,568**	**828**	**2,161**	**17,460**	**43,017**
At 31 December 2019	**27,069**	**783**	**2,390**	**21,426**	**51,668**

Goodwill

Goodwill recognised at 31 December 2020 is allocated:
- to the “Hinges” (CGU) cash generating units of €4.414 million;
- to the “Professional burners” CGU of €1.770 million;
- to the “Electronic components” CGU of €12.704 million;
- to the “C.M.I. hinges” CGU of €3.680 million.

The Group verifies the ability to recover goodwill at least once a year or more frequently if there are indications of impairment. Recoverable amount is determined through value of use, by discounting expected cash flows.

Due to its intensity and unpredictability, the COVID-19 pandemic is for all companies an external factor of potential presumption of loss of value; therefore, the recoverability of goodwill allocated to the "Hinges", "Professional burners", "Electronic components" and "C.M.I. Hinges" CGUs was checked in the light of a specific analysis of the impact of the

crisis on the value of fixed assets and based on a business plan updated at the beginning of 2021.
The European Securities and Market Authority (ESMA) draws attention to the need to account for the
increasing level of uncertainty through:

- the possible use of multi-scenario techniques in determining plans;
- alternatively, adjustments to the rates used for discounting the flows;
- updating the assumptions underlying the impairment tests at 31 December 2020 compared to the previous tests.

Compared to the previous test carried out with reference to 30 June 2020, the management has more knowledge about the development of future forecasts. In particular, the availability of data on business performance in the second half of 2020 and on orders in the first half of 2021 allows for a more reliable measurement of the effects of the pandemic on the business. On these bases, management defined a plan single (approved by the Board of Directors) for each CGU that represents the normal and expected scenario, with reference to the period from 2021 to 2025, and which was used to develop the impairment tests. The recoverable amount of each CGU, determined on the basis of this plan, was subjected to stress tests and sensitivity analyses that also took into account economic parameters and as a result of which positive results emerged.
The management subsequently prepared a Group business plan for the years from 2021 to 2023 using the plans referred to in the previous paragraphs as a starting point and revising the values contained therein with a view to improving them, following updated favourable prospects. In the light of the above, it was therefore decided to confirm the results of the impairment tests already prepared.

<u>Goodwill allocated to the Hinges CGU</u>
During 2020, the Hinges CGU recorded a slight decrease in 2020 revenues due to the pandemic. However, the fourth quarter of 2020 and the first quarter of 2021 show a consistent recovery, in line with the Group's figures. At 31 December 2020, the Group tested - *with the support of independent experts* - the carrying value of its CGU Hinges for impairment, determining its recoverable amount, considered to be equivalent to its usable value, by discounting expected future cash flow in the forward plan drafted by the management. Cash flows for the period from 2021 to 2025 were augmented by the so-called terminal value, which expresses the operating flows that the CGU 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 8.62% (9.54% in the impairment test carried out while preparing the consolidated financial statements at 31 December 2019) and a growth rate (g) of 2%, unchanged from the 2019 impairment test.

The recoverable amount calculated on the basis of the above-mentioned assumptions and valuation techniques is €13.681 million, compared with a carrying value of the assets allocated to the Hinges unit of €11.744 million; consequently, the value recorded for goodwill at 31 December 2020 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)					
	growth rate				
discount rate	**1.50%**	**1.75%**	**2.00%**	**2.25%**	**2.50%**
7.62%	15,183	15,753	16,373	17,050	17,794
8.12%	13,924	14,401	14,916	15,475	16,083
8.62%	12,845	13,248	13,681	14,149	14,654
9.12%	11,908	12,253	12,622	13,018	13,443
9.62%	11,089	11,387	11,704	12,042	12,404

The table below shows the change in recoverable amount as EBITDA changes according to the plan.

	EBITDA		
	According to the plan	*-10%*	*-20%*
(€/000)	13,681	11,646	9,611

It was found that under most of the assumptions presented above, which consider changes in the discount rate, growth rate and EBITDA, the recoverable amount of the CGU is higher than its carrying value.

Goodwill allocated to the Professional burners CGU

The Professional Burners CGU recorded pandemic effects on the 2020 financial year opposite to the rest of the Group, following the closures of restaurant and hotel premises during 2020. At 31 December 2020, the Group tested - with the support of independent experts - the carrying value of its Professional burners CGU for impairment, determining its recoverable amount, considered to be equivalent to its usable value, by discounting expected future cash flow in the forward plan drafted at the beginning of 2021. Cash flows for the period from 2021 to 2025 were augmented by the so-called terminal value, which expresses the operating flows that the CGU 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 6.76% (6.07% in the impairment test carried out while preparing the consolidated financial statements at 31 December 2019) and a growth rate (g) of 2% (1.50% in the impairment test carried out while preparing the consolidated financial statements at 31 December 2019), considered by management to be the best estimate of the CGU's growth assumptions, considering the sector in which it operates and in line with the growth rate of other Italian CGUs.

The recoverable amount calculated on the basis of the above-mentioned assumptions and valuation techniques is €9.394 million, compared with a carrying value of the assets allocated to the Professional burners unit of €5.696 million (including minority interests); consequently, the value recorded for goodwill at 31 December 2020 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)					
			growth rate		
discount rate	**1.50%**	**1.75%**	**2.00%**	**2.25%**	**2.50%**
5.76%	10,840	11,487	12,220	13,058	14,023
6.26%	9,571	10,076	10,640	11,275	11,994
6.76%	8,545	8,949	9,394	9,891	10,445
7.26%	7,699	8,028	8,389	8,785	9,223
7.76%	6,991	7,263	7,560	7,883	8,236

The table below shows the change in recoverable amount as EBITDA changes according to the plan.

	EBITDA		
	According to the plan	*-10%*	*-20%*
(€/000)	9,394	7,926	6,456

Goodwill allocated to the Electronic components CGU

The Electronic Components CGU performed extremely well in 2020, outperforming the Group as a whole.

At 31 December 2020, the Group tested - with the support of independent experts - the carrying value of its CGU Electronic components for impairment, determining its recoverable amount, considered to be equivalent to its usable value, by discounting expected future cash flow in the forward plan drafted by the management. Cash flows for the period from 2021 to 2025 were augmented by the so-called terminal value, which expresses the operating flows that the CGU 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 14.18% (12.92% in the impairment test carried out while preparing the consolidated financial statements at 31 December 2019) and a growth rate (g) of 2.50%, unchanged from the 2019 impairment test.

The recoverable amount calculated on the basis of the above-mentioned assumptions and valuation techniques is €28.471 million, compared with a carrying value of the assets allocated to the Electronic components unit of €20.968 million; consequently, the value recorded for goodwill at 31 December 2020 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)					
			growth rate		
discount rate	**2.00%**	**2.25%**	**2.50%**	**2.75%**	**3.00%**
13.18%	30,332	30,837	31,367	31,922	32,504
13.68%	28,924	29,378	29,853	30,350	30,870
14.18%	27,632	28,043	28,471	28,917	29,384
14.68%	26,444	26,816	27,203	27,607	28,027
15.18%	25,348	25,086	26,037	26,403	26,783

The table below shows the change in recoverable amount as EBITDA changes according to the plan.

	EBITDA		
	According to the plan	*-10%*	*-20%*
(€/000)	28,471	25,130	21,790

Goodwill allocated to the C.M.I. Hinges CGU

In 2020, the Hinges C.M.I. CGU recorded an overall stable turnover compared to the previous year, while in the last quarter of 2020, there was a significant increase in sales volumes. This positive trend was also confirmed by the volume of orders collected in the first months of the new financial year.

At 31 December 2020, the Group tested - with the support of independent experts - the carrying value of its CGU Hinges C.M.I. for impairment, determining its recoverable amount, considered to be equivalent to its usable value, by discounting expected future cash flow in the forward plan drafted by the management. Cash flows for the period from 2021 to 2025 were augmented by the so-called terminal value, which expresses the operating flows that the CGU 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 9.87% (10.49% in the impairment test carried out while preparing the consolidated financial statements at 31 December 2019) and a growth rate (g) of 2% (1.15% in the impairment test carried out while preparing the consolidated financial statements at 31 December 2019), considered by management to be the best estimate of the CGU's growth assumptions, considering the sector in which it operates and in line with the growth rate of other Italian CGUs.

The recoverable amount calculated on the basis of the above-mentioned assumptions and valuation techniques is €44.519 million, compared with a carrying value of the assets allocated to the C.M.I. Hinges unit of €26.557 million; consequently, the value recorded for goodwill at 31 December 2020 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)					
			growth rate		
discount rate	**1.50%**	**1.75%**	**2.00%**	**2.25%**	**2.50%**
8.87%	48,657	50,084	51,615	53,262	55,038
9.37%	45,288	46,514	47,824	49,225	50,728
9.87%	42,327	43,389	44,519	45,723	47,009
10.37%	39,704	40,631	41,614	42,657	43,767
10.87%	37,365	38,180	39,041	39,951	40,916

The table below shows the change in recoverable amount as EBITDA changes according to the plan.

	EBITDA		
	According to the plan	-10%	-20%
(€/000)	44,519	37,572	30,625

Patents and software
Software investments are related to the extension of the application and corporate scope of the Group management system (SAP).

Development costs
The main investments in the year relate to the development of new products, including special burners and personalised burners for some customers (research and development activities carried out during the year are set out in the Report on Operations).

With regard to patents, software and development costs, no internal and external indicators that would necessitate an impairment test were identified.

Other intangible assets
The other intangible assets recorded in these consolidated financial statements mainly derive from the Purchase Price Allocation carried out following the acquisition of Okida Elektronik in September 2018, and of C.M.I. S.r.l., in July 2019.

The net carrying value of intangible assets is broken down as follows:

	31/12/2020	31/12/2019	Change
Customer Relationship	8,775	11,355	(2,580)
Brand	4,459	5,055	(596)
Know-how	503	933	(430)
Patents	3,498	3,960	(462)
Other	225	123	102
Total	**17,460**	**21,426**	**(3,966)**

At 31 December 2020, the recoverability of the amount of other intangible assets was verified as part of the impairment test of the related goodwill described in the previous paragraph.

4. EQUITY INVESTMENTS

	31/12/2020	31/12/2019	Changes
Handan ARC Burners Co.	89	81	8
Other equity investments	84	34	50
Total	**173**	**115**	**58**

Handan A.R.C. Burners Co. Ltd. is a Chinese joint venture with the aim to produce and market in China burners for professional cooking. The Group's share is 35.7%, held through A.R.C. s.r.l. - which owns a 51% interest in the share capital. The change shown in the table is related to the consolidation using the equity method of the joint venture, whose pro-rata result contributed negatively to the Group's result by €8,000.
The change of €50,000 related to Other equity investments concerns the purchase of a minority shareholding in the start-up Matchplat s.r.l. by the Parent Company Sabaf S.p.A..

Internal and external indicators that would necessitate an impairment test on equity investments were not identified.

5. NON-CURRENT RECEIVABLES

	31/12/2020	31/12/2019	Change
Tax receivables	392	183	209
Guarantee deposits	112	98	14
Other	14	16	(2)
Total	**518**	**297**	**221**

Tax receivables relate to indirect taxes expected to be recovered after 31 December 2021.

6. INVENTORIES

	31/12/2020	31/12/2019	Change
Raw Materials	16,859	14,792	2,067
Semi-processed goods	10,414	9,025	1,389
Finished products	15,056	14,849	207
Provision for inventory write-downs	(3,105)	(3,323)	218
Total	**39,224**	**35,343**	**3,881**

The value of final inventories at 31 December 2020 increased compared to the end of the previous year to meet the higher volumes of activity. The provision for write-downs is mainly allocated for hedging the obsolescence risk. At the end of the financial year, the appropriation is adjusted based on specific analyses carried out on slow-moving and non-moving products. The following table shows the changes in the Provision for inventory write-downs during the current financial year:

31/12/2019	**3,323**
Provisions	675
Utilisation	(898)
Forex differences	5
31/12/2020	**3,105**

7. TRADE RECEIVABLES

	31/12/2020	31/12/2019	Change
Total trade receivables	64,525	48,463	16,062
Bad debt provision	(1,089)	(1,534)	445
Net total	**63,436**	**46,929**	**16,507**

Trade receivables at 31 December 2020 were higher than the balance at the end of 2019 subsequent to higher sales in the second half of the year. There were no significant changes in the payment terms agreed with customers.

The amount of trade receivables recognised in the financial statements includes approximately €23.9 million in insured receivables (€25.3 million at 31 December 2019).

Receivables assigned to factors without recourse are derecognised 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.

	31/12/2020	31/12/2019	Change
Current receivables (not past due)	58,143	39,789	18,354
Outstanding up to 30 days	3,278	3,718	(440)
Outstanding from 30 to 60 days	1,249	2,102	(853)
Outstanding from 60 to 90 days	438	1,261	(823)
Outstanding for more than 90 days	1,417	1,593	(176)
Total	**64,525**	**48,463**	**16,062**

The bad debt provision was adjusted to the better estimate of the credit risk and expected losses at the end of the reporting period, also carried out by analysing each expired item. Changes during the year were as follows:

31/12/2019	**1,534**
Provisions	118
Utilisation	(541)
Forex differences	(22)
31/12/2020	**1,089**

8. TAX RECEIVABLES

	31/12/2020	31/12/2019	Change
For income tax	1,179	2,563	(1,384)
For VAT and other sales taxes	1,195	1,708	(513)
Other tax credits	45	187	(142)
Total	**2,419**	**4,458**	**(2,039)**

At 31 December 2020, income tax receivables include

- €427,000 (€607,000 at 31 December 2019) 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 2006 to 2011 (Italian Decree Law 201/2011). During 2020, the Group received a partial refund of €180,000;
- €433,000 relating to the tax credit for investments in capital goods referred to in Italian law Decree 160/2019;
- €172,000 deriving from higher IRES advances paid.

9. OTHER CURRENT RECEIVABLES

	31/12/2020	31/12/2019	Change
Credits to be received from suppliers	669	141	528
Advances to suppliers	1,032	384	648
Accrued income and prepaid expenses	487	536	(49)
Other	979	398	581
Total	**3,167**	**1,459**	**1,708**

Credits to be received from suppliers mainly refer to bonuses paid to the Group for the attainment of purchasing objectives, which were achieved in 2020 to a greater extent than in the previous year.
Other receivables include €347,000 paid as a deposit to guarantee provisional duties on raw material purchases.

10. FINANCIAL ASSETS

	31/12/2020		31/12/2019	
	Current	**Non-current**	**Current**	**Non-current**
Restricted bank accounts	1,233	-	1,233	60
Currency derivatives	262	-	33	-
Total	**1,495**	**0**	**1,266**	**60**

At 31 December 2020, the following were taken out:

- a term deposit of €60,000, due by 30 June 2021, for the portion of the price not yet paid to the sellers of the ARC equity investment (Note 15);
- a term deposit of €1,173,000, due by 2021, 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 (Note 15).

Currency derivatives refer to forward sales contracts recognised using hedge accounting. These financial instruments are broken down in Note 36 - Forex risk management

11. CASH AND CASH EQUIVALENTS

The item Cash and cash equivalents, equal to €13,318,000 at 31 December 2020 (€18,687,000 at 31 December 2019) refers to bank current account balances of approximately €12.8 million.

12. SHARE CAPITAL

The parent 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 2020, the structure of the share capital is shown in the table below.

	No. of shares	**% of share capital**	**Rights and obligations**
Ordinary shares	7,976,760	69.16%	-
Ordinary shares with increased vote	3,556,690	30.84%	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 shares of the Parent Company. The availability of the Parent Company's reserves is indicated in the separate financial statements of Sabaf S.p.A..

13. TREASURY SHARES AND OTHER RESERVES

During the financial year Sabaf S.p.A. acquired 176,873 treasury shares at an average unit price of €11.72; there have been no sales.

At 31 December 2020, the Parent Company held 346,748 treasury shares, equal to 3.01% of share capital, recorded in the financial statements as an adjustment to shareholders' equity at a unit value of €12.52 (the market value at year-end was €15.23).
There were 11,186,702 outstanding shares at 31 December 2020 (11,363,575 at 31 December 2019).

Stock grant reserve
Item "Retained earnings, other reserves" of €87,504,000 included, at 31 December 2020, the stock grant reserve of €1,660,000, which included the measurement at 31 December 2020 of fair value of options assigned to receive shares of the Parent Company. For details of the Stock Grant Plan, refer to Note 38.

Cash Flow Hedge reserve
The following table shows the change in the Cash Flow Hedge reserve related to the application of IFRS 9 on derivative contracts and referring to the recognition in net equity of the effective part of the derivative contracts signed to hedge the foreign exchange rate risk for which the Group applies hedge accounting.

Opening value at 31 December 2019	**-**
Change during the period	247
Value at 31 December 2020	**247**

The characteristics of the derivative financial instruments that gave rise to the Cash Flow Hedge reserve and the accounting effects on other items in the financial statements are broken down in Note 36, in the paragraph Foreign exchange risk management.

Extraordinary reserve
With reference to Article 110 of Italian Law Decree No. 104 of 14 August 2020 (known as Agosto Decree), converted into Law No. 126 of 13 October 2020, the Group realigned the differences between the carrying values and tax values of certain properties.
As a result of this operation, the extraordinary reserve in respect of which tax has been deferred amounted to €4,874,000. The tax effects of this realignment are discussed in Note 32.

14. LOANS

	31/12/2020			**31/12/2019**		
	Current	Non-current	Total	Current	Non-current	Total
Leases	1,390	3,506	4,896	1,050	3,478	4,528
Unsecured loans	15,801	28,647	44,448	14,653	40,568	55,221
Short-term bank loans	8,630	-	8,630	1,783	-	1,783
Advances on bank receipts or invoices	4,668	-	4,668	1,523	-	1,523
Interest payable	4	-	4	6	-	6
Total	**30,493**	**32,153**	**62,646**	**19,015**	**44,046**	**63,061**

During the year, the Group took out new unsecured loans for a total of €3.9 million to finance the investments made. 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 consolidated financial statements at the end of the reporting period, as specified below:

- commitment to maintain a ratio of net financial position to shareholders' equity of less than 1 (residual amount of the loans at 31 December 2020 equal to €19.8 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 2020 equal to €31.2 million)

widely complied with at 31 December 2020 and for which, according to the Group's business plan, compliance is also expected in subsequent years.
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 consolidated financial statements include the negative fair value of the IRSs hedging rate risks of unsecured loans pending, for residual notional amounts of approximately €32.4 million and expiry until 31 December 2025. Financial expenses were recognised in the income statement with a balancing entry.

The following table shows the changes in lease liabilities during the year:

Lease liabilities at 1 January 2019	**2,671**
Change in the scope of consolidation (31 July 2019)	2,398
New agreements signed during 2019	298
Repayments during 2019	(804)
Forex differences	(35)
Lease liabilities at 31 December 2019	**4,528**
New agreements signed during 2020	1,706
Repayments during 2020	(1,400)
Forex differences	(64)
Lease liabilities at 31 December 2020	**4,896**

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

15. OTHER FINANCIAL LIABILITIES

	31/12/2020		**31/12/2019**	
	Current	Non-current	Current	Non-current
Option on A.R.C. minorities	1,581	-	-	1,650
Option on C.M.I. minorities	5,250	-	4,200	4,500
Payables to A.R.C. shareholders	60	-	60	60
Payables to C.M.I. shareholders	1,173	-	-	1,173
Derivative instruments on interest rates	425	-	377	-
Total	**8,489**	**-**	**4,637**	**7,383**

As part of the acquisition of A.R.C. s.r.l., carried out in June 2016, and C.M.I. s.r.l., carried out in July 2019, call/put options, i.e. options to purchase by Sabaf and to sell by the minority shareholders, were subscribed for the remaining shares of the share capital at contractually defined strike prices on the basis of final income and financial parameters reported by the subsidiaries. Specifically:

- as regards the remaining shares, equal to 30%, of A.R.C., an agreement was signed with Loris Gasparini (current minority shareholder) that provides for the options to be exercised as from 24 June 2021;
- Sabaf subscribed with the Chinese group Guandong Xingye Investment, seller of C.M.I., purchase and sale options for the remaining 31.5% of the share capital,

which can be exercised in two equal tranches following approval of the C.M.I. financial statements at 31 December 2019 and at 31 December 2020.
In September 2020, Sabaf S.p.A. also completed the acquisition of 15.75% of the share capital of C.M.I. s.r.l., following the exercise of the first put option by the minority shareholder. The consideration amounted to €3,063,000 and the difference compared to the carrying value of the portion of shareholders' equity acquired of €406,000 was recognised as a decrease of the shareholders' equity attributable to the Group. As a result of the transaction, Sabaf S.p.A. now holds 84.25% of the share capital of C.M.I. s.r.l.

Pursuant to the provisions of IAS 32, the assignment of an option to sell (put option) in the terms described above required the recording of a liability corresponding to the estimated redemption value, expected at the time of any exercise of the option: to this end, a financial liability of €1.650 million was recognised in the consolidated financial statements at 31 December 2019 with reference to the option to purchase the remaining 30% of A.R.C. The Group revalued the outlay estimate based on the results achieved by A.R.C. in the current year and, in accordance with IAS 39, reduced the liability by €69,000, recording financial income as a balancing entry.

As regards C.M.I., in the consolidated financial statements at 31 December 2019, the financial liability relating to the exercise of the second option to purchase the remaining 15.75% of C.M.I. amounted to €4.5 million. As required by IAS 39, the Group revalued the outlay estimate based on the results achieved by C.M.I. in the current year increasing the liability by €750,000 and recording financial expenses as a balancing entry.

The payables to A.R.C.'s shareholders, equivalent to €60,000 at 31 December 2020, and the payables to C.M.I.'s shareholders, equivalent to €1,173,000 at 31 December 2020, both due by 2021, are related to the part of the price not yet paid to the sellers, deposited on a non-interest-bearing restricted account and will be released in favour of the sellers in accordance with the contractual agreements and the guarantees issued by the sellers.

16. POST-EMPLOYMENT BENEFIT AND RETIREMENT PROVISIONS

	Post-employment benefit
At 31 December 2019	**3,698**
Provisions	117
Financial expenses	15
Payments made	(242)
Tax effect	(16)
Change in the scope of consolidation	-
Forex differences	(59)
At 31 December 2020	**3,513**

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

	31/12/2020	31/12/2019
Discount rate	0.23%	0.40%
Inflation	1.00%	1.20%

Demographic theory

	31/12/2020	31/12/2019
Mortality rate	IPS55 ANIA	IPS55 ANIA
Disability rate	INPS 2000	INPS 2000
Staff turnover	3% - 6%	3% - 6%
Advance payouts	5% - 6% per year	5% - 7% per year
Retirement age	Pursuant to legislation in force on 31 December 2020	pursuant to legislation in force on 31 December 2019

17. PROVISIONS FOR RISKS AND CHARGES

	31/12/2019	Provisions	Utilisation	Exchange rate differences	31/12/2020
Provision for agents' indemnities	205	26	(10)	-	221
Product guarantee fund	60	9	(9)	-	60
Provision for legal risks	482	576	(75)	(13)	970
Other provisions for risks and charges	248	-	-	(66)	182
Total	**995**	**611**	**(94)**	**(79)**	**1,433**

The provision for agents' indemnities covers amounts payable to agents if the Group 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 legal risks was adjusted to reflect the outstanding disputes. The 2020 appropriation was entered in the amount of €500,000 for a patent dispute for which a settlement was reached with the counterparty at the beginning of 2021. The remainder of the provision refers to smaller disputes.
Note also that following the allocation process of the price paid for the acquisition of the C.M.I. Group on the net assets acquired (Purchase Price Allocation), completed during 2019, a provision for legal risks with a residual value of €348,000 was recorded.
Other provisions for risks and charges, recognised as part of the Purchase Price Allocation following the acquisition of Okida Elektronik, reflect the fair value of the potential liabilities of the acquired entity.
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

	31/12/2020	31/12/2019	Change
Total	**41,773**	**27,560**	**14,213**

The increase in trade payables is related to higher production volumes in the latter part of the year. Average payment terms did not change versus the previous year. At 31 December 2020, there were no overdue payables of a significant amount and the Group did not receive any injunctions for overdue payables.

19. TAX PAYABLES

	31/12/2020	31/12/2019	Change
For income tax	1,923	506	1,417
Withholding taxes	1,029	923	106
Other tax payables	335	373	(38)
Total	**3,287**	**1,802**	**1,485**

The income tax payables refer to the taxes for the year, for the portion exceeding the advances paid.

20. OTHER CURRENT PAYABLES

	31/12/2020	31/12/2019	Change
To employees	5,848	5,016	832
To social security institutions	2,679	2,403	276
To agents	286	231	55
Advances from customers	1,210	411	799
Other current payables	934	1,073	(139)
Total	**10,957**	**9,134**	**1,823**

At the beginning of 2021, 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

	31/12/2020	31/12/2019	Change
Deferred tax assets	8,024	6,505	1,519
Deferred tax liabilities	(4,697)	(7,273)	2,576
Net position	**3,377**	**(768)**	**4,145**

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.

	Non-current tangible and intangible assets	Provisions and value adjustments	Fair value of derivative instruments	Good will	Tax incentiv es	Tax losses	Actuarial evaluation of post-employme nt benefit	Other temporary differences	Total
31/12/2019	**(5,763)**	**1,481**	**66**	**1,417**	**954**	**586**	**213**	**278**	**(768)**
Through profit or loss	1,833	(58)	(20)	(177)	2,201	(169)	-	649	4,259
In shareholders' equity	-	32	-	-	-	-	(5)	-	27
Forex differences	470	(58)	-	-	(510)	(21)	-	(21)	(140)
31/12/2020	**(3,461)**	**1,397**	**46**	**1,240**	**2,645**	**396**	**208**	**668**	**3,377**

Following the realignment between the carrying value and the tax value of certain properties, in pursuance of Italian Law Decree no. 104 of 14 August 2020 (known as August Decree), converted into Law 126 of 13 October 2020, deferred tax liabilities of €1,360,000 have been released to the income statement in these consolidated financial statements, which have been recognised in the changes in the income statement under "Non-current tangible and intangible assets". The exercise of the realignment option results in a substitute tax of approximately €163,000, which is accounted for in current taxes for the year and will be paid in equal instalments over the three-year period from 2021 to 2023.
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.
Deferred tax assets relating to tax incentives are commensurate to investments made in Turkey, for which the Group will benefit from a reduction in the effective tax rate in future years.

22. NET FINANCIAL POSITION

As required by the CONSOB memorandum of 28 July 2006, we disclose that the Group's net financial position is as follows:

		31/12/2020	31/12/2019	Change
A.	Cash (Note 11)	13	19	(6)
B.	Positive balances of unrestricted bank accounts (Note 11)	12,789	18,590	(5,801)
C.	Other cash equivalents (Note 11)	516	79	437
D.	**Liquidity (A+B+C)**	**13,318**	**18,687**	**(5,369)**
E.	**Current financial receivables** (Note 10)	**1,495**	**1,266**	**229**
F.	Current bank payables (Note 14)	13,297	3,313	9,984
G.	Current portion of non-current debt (Note 14)	15,801	14,653	1,148
H.	Other current financial payables (Note 15)	9,884	5,686	4,198
I.	**Current financial debt (F+G+H)**	**38,982**	**23,652**	**15,330**
J.	**Net current financial debt (I-D-E)**	**24,169**	**3,698**	**20,471**
K.	Non-current bank payables (Note 14)	28,647	40,569	(11,922)
L.	Other non-current financial payables (Note 14)	3,506	10,861	(7,355)
M.	**Non-current financial debt (K+L)**	**32,153**	**51,430**	**(19,277)**
N.	**Net financial debt (J+M)**	**56,322**	**55,128**	**1,194**

The consolidated statement of cash flows, 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 2020, sales revenue totalled €184,906,000, up by €28,983,000 (+18.6%) compared with 2019. On a like-for-like basis, considering the contribution of the C.M.I. Group (acquired during 2019) for the months of August to December 2020 only, revenues increased by 8.4%.

Revenue by geographical area

	2020	*%*	**2019**	*%*	*% change*
Italy	35,260	*19.1%*	31,161	*20.0%*	+13.2%
Western Europe	11,103	*6.0%*	12,277	*7.9%*	-9.6%
Eastern Europe	68,061	*36.8%*	55,059	*35.3%*	+23.6%
Middle East and Africa	12,040	*6.5%*	7,050	*4.5%*	+70.8%
Asia and Oceania	8,103	*4.4%*	9,198	*5.9%*	-11.9%
South America	27,639	*14.9%*	23,451	*15.0%*	+17.9%
North America and Mexico	22,700	*12.3%*	17,727	*11.4%*	+28.1%
Total	**184,906**	***100%***	**155,923**	***100%***	**+18.6%**

Revenue by product family

	2020	*%*	**2019**	*%*	*% change*
Gas parts	129,834	*70.2%*	122,205	*78.4%*	+6.2%
Hinges	41,326	*22.3%*	23,774	*15.2%*	+73.8%
Electronic components	13,746	*7.4%*	9,944	*6.4%*	+38.2%
Total	**184,906**	***100%***	**155,923**	***100%***	**+18.6%**

The pandemic resulted in very high volatility of sales revenues during 2020. After an encouraging start to the year, from March onwards the Group's activities slowed down significantly, firstly due to the temporary interruption of activities at the Italian plants (on average for 3 weeks) and then due to the general reduction in production levels by our customers. As from July, there was a marked recovery in demand in all geographical areas, which accelerated further in the latter part of the year when the favourable market situation was accompanied by the start of new supplies of burners on a global scale to strategic customers and cross-selling between the gas and electronics divisions.

Average sales prices in 2020 were 1.8% lower compared with 2019.

24. OTHER INCOME

	2020	2019	Change
Sale of trimmings	2,909	2,072	837
Contingent income	999	336	663
Rental income	121	118	3
Use of provisions for risks and charges	94	64	30
Other income	3,071	1,031	2,040
Total	**7,194**	**3,621**	**3,573**

Contingent assets include €796,000 collected as a distribution to unsecured creditors from the extraordinary administration procedure of a former customer, the related receivable having been fully written down in previous years.
Other income includes €972,000 in insurance compensation received following a fire that occurred in May 2019, as well as revenue from the sale of moulds and equipment of €795,000 and Turkish government grants of €285,000, referring to incentives for hiring personnel in Turkey.

25. MATERIALS

	2020	2019	Change
Commodities and outsourced components	75,443	52,241	23,202
Consumables	7,523	5,223	2,300
Total	**82,966**	**57,464**	**25,502**

In 2020, the effective purchase prices of the main raw materials (aluminium alloys, steel and brass) were on average lower than in 2019, with a positive impact of 1.3% of sales.

26. COSTS FOR SERVICES

	2020	2019	Change
Outsourced processing	11,094	8,659	2,435
Natural gas and power	4,380	4,425	(45)
Maintenance	5,920	4,375	1,545
Transport	2,986	2,182	804
Advisory services	2,320	2,384	(64)
Travel expenses and allowances	219	740	(521)
Commissions	835	765	70
Directors' fees	693	723	(30)
Insurance	694	568	126
Canteen	560	437	123
Other costs	4,563	4,230	333
Total	**34,264**	**29,488**	**4,776**

The main outsourced processing carried out by the Group's Italian companies include aluminium die-casting, hot moulding of brass and steel blanking as well as some mechanical processing and assembly. The increase in costs for outsourced processing reflects the higher levels of activity compared to the previous year.
Other costs included expenses for the registration of patents, waste disposal, cleaning, leasing third-party assets and other minor charges.

27. PERSONNEL COSTS

	2020	2019	Change
Salaries and wages	29,048	25,080	3,968
Social Security costs	8,831	7,905	926
Temporary agency workers	2,869	1,394	1,475
Post-employment benefit and other costs	2,294	2,043	251
Stock grant plan	658	681	(23)
Total	**43,700**	**37,103**	**6,597**

The number of Group employees was 1,168 at 31 December 2020 (1,035 at 31 December 2019).
The number of temporary staff was 155 at 31 December 2020 (42 at 31 December 2019).
The item "Stock Grant Plan" included the measurement at 31 December 2020 of the fair value of options to the allocation of shares of the Parent Company assigned to Group employees. For details of the Stock Grant Plan, refer to Note 38.

28. OTHER OPERATING COSTS

	2020	2019	Change
Non-income taxes	692	501	191
Other operating expenses	524	496	28
Contingent liabilities	36	101	(65)
Losses and write-downs of trade receivables	118	509	(391)
Provisions for risks	576	74	502
Other provisions	35	17	18
Total	**1,981**	**1,698**	**283**

Non-income taxes chiefly relate to property tax. Provisions refer to the allocations described in Note 17.

29. FINANCIAL INCOME

	2020	2019	Change
Exercise of the C.M.I. first option (Note 15)	1,137	-	1,137
Adjustment to the fair value of the A.R.C. option (Note 15)	69	168	(99)
Interest from bank current accounts	155	388	(233)
Other financial income	5	82	(77)
Total	**1,366**	**638**	**728**

Financial income includes €1,137,000 related to the difference between the carrying value of the first put option related to the purchase of a 15.75% interest in C.M.I. and the consideration actually paid in September 2020, when the purchase was completed (Note 15).

30. FINANCIAL EXPENSES

	2020	2019	Change
Interest paid to banks	969	890	79
Interest paid on finance lease contracts	112	102	10
Banking expenses	251	275	(24)
Adjustment to the fair value of the C.M.I. option (Note 15)	750	-	750
Other financial expense	31	72	(41)
Total	**2,113**	**1,339**	**774**

Interest paid to banks includes IRS spreads payable that hedge interest rate risks (Note 36).

31. EXCHANGE RATE GAINS AND LOSSES

In 2020, the Group reported net foreign exchange losses of €4,812,000 (net losses of €1,380,000 in 2019). The main portion of 2020 foreign exchange losses was recorded by Sabaf Turkey, refers to financial payables in euro and reflects the devaluation of the Turkish lira during the current financial year.

32. INCOME TAXES

	2020	2019	Change
Current taxes for the year	3,641	2,694	947
Deferred tax assets and liabilities	(4,259)	(1,967)	(2,292)
Taxes related to previous financial years	767	(1,135)	1,902
Total	**149**	**(408)**	**557**

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:

	2020	2019
Theoretical income tax	3,735	2,386
Permanent tax differences	(192)	(216)
Taxes related to previous financial years	767	(1,135)
Tax effect from different foreign tax rates	97	23
Effect of non-recoverable tax losses	150	137
“Patent box” tax benefit	-	(306)
“Super and Iperammortamento” tax benefit	(812)	(653)
Realignment between carrying values and tax values of properties (Note 21)	(1,360)	-
Tax incentives for investments in Turkey	(2,432)	(709)
Other differences	(441)	(206)
Income taxes booked in the accounts, excluding IRAP and withholding taxes (current and deferred)	**(488)**	**(680)**
IRAP (current and deferred)	518	272
Substitute tax on realignment of property values	163	0
Tax credit on sanitisation costs	(44)	0
Total	**149**	**(408)**

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 consolidated financial statements, the Group recognised:

- the tax benefits relating to "Superammortamento" (Super amortisation) and "Iperammortamento" (Hyper amortisation), related to the investments made in Italy, amounting to €812,000 (€653,000 in 2019);
- the tax benefits deriving from the investments made in Turkey amounting to €2,432,000 (€709,000 in 2019);

Taxes relating to previous financial years include for €897,000 the negative effect of the unfavourable outcome in the second instance of a tax dispute in Turkey.

At 31 December 2020, there was a tax dispute in Sabaf Turkey, for which the third instance is pending. The outcome of the dispute was favourable to the company both in first and second instance. The confirmation of the unfavourable outcome would not imply significant additional charges for the Group with respect to what has already been recognised in these consolidated financial statements, while a favourable outcome would result in a benefit of approximately 7.2 million Turkish lira (€793,000 at the end of 2020 exchange rate).

33. EARNINGS PER SHARE

Basic and diluted EPS are calculated based on the following data:

Earnings

(€/000)	**2020**	**2019**
Profit for the year	13,961	9,915

Number of shares

	2020	**2019**
Weighted average number of ordinary shares for determining basic earnings per share	11,260,791	11,081,396
Dilutive effect from potential ordinary shares	-	-
Weighted average number of ordinary shares for determining diluted earnings per share	11,260,791	11,081,396

Earnings per share

(in €)	**2020**	**2019**
Basic earnings per share	1.240	0.895
Diluted earnings per share	1.240	0.895

Basic earnings per share are calculated on the average number of outstanding shares minus treasury shares, equal to 346,748 in 2020 (169,875 in 2019).
Diluted earnings per share are calculated taking into account any shares approved but not yet subscribed, of which there were none in 2020 and 2019.

34. DIVIDENDS

On 14 October 2020, shareholders were paid a dividend of €0.35 per share (total dividends of €3,924,000).
The Directors have recommended payment of a dividend of €0.55 per share this year. This dividend is subject to approval of shareholders in the annual Shareholders' Meeting and was not included under liabilities in these financial statements.
The dividend proposed is scheduled for payment on 2 June 2021 (ex-date 31 May and record date 1 June).

35. INFORMATION BY BUSINESS SEGMENT

Information by business segment for 2020 and 2019 is provided below

	2020 Fiscal Year			
	Gas parts (household and professional)	**Hinges**	**Electronic components**	**Total**
Sales	129,864	41,078	13,964	**184,906**
Ebit	12,683	2,999	4,411	**20,093**

	2019 Fiscal Year			
	Gas parts (household and professional)	**Hinges**	**Electronic components**	**Total**
Sales	122,223	23,779	9,921	**155,923**
Ebit	8,364	1,879	1,653	**11,896**

36. INFORMATION ON FINANCIAL RISK

Categories of financial instruments

In accordance with IFRS 7, a breakdown of the financial instruments is shown below, among the categories set forth in IAS 39:

Financial assets	**31/12/2020**	**31/12/2019**
Amortised cost		
Cash and cash equivalents	13,318	18,687
Term bank deposits	1,233	1,293
Trade receivables and other receivables	67,121	48,685
Fair Value through profit or loss		
Derivatives to hedge cash flows	-	33
Hedge accounting		
Derivatives to hedge cash flows	262	-

Financial liabilities		
Amortised cost		
Loans	62,646	63,061
Other financial liabilities	1,233	1,293
Trade payables	41,773	27,560
Fair Value through profit or loss		
A.R.C. put option (Note 15)	1,581	1,650
C.M.I. put option (Note 15)	5,250	8,700
Derivatives to hedge cash flows	425	377

The Group 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 Group operations.

It is part of the Sabaf Group's policies to hedge exposure to changes in prices and to 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 Group 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 Group 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 Group 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 38% 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 key currencies other than the euro to which the Group is exposed are the US dollar, the Brazilian real and the Turkish lira, in relation to sales made in dollars (chiefly on some Asian and American markets) and the production units in Brazil and Turkey. Sales in US dollars represented 17% of total turnover in 2020, while purchases in dollars represented 4.6% of total turnover. During the year, operations in dollars were partially hedged through forward sales contracts. At 31 December 2020, the Group had in place forward sales contracts of USD 9.6 million, maturing in December 2021 at an average exchange rate of 1.1895. With reference to these contracts, the Group applies hedge accounting, checking compliance with IFRS 9.

The table below shows the balance sheet and income statement effects of forward sales contracts recognised under hedge accounting.

(amounts in €/000)	**2020**
Current financial assets	262
Cash Flow Hedge reserve (equity reserve for hedging instruments)	247
Value realised and recognised as an increase in revenue in 2020	15

The following table shows the characteristics of the derivative financial instruments described in the previous paragraph.

Exchange rate risk management: cash flow hedge in accordance with IFRS 9 on commercial transactions

<table>
<tr><th>Company</th><th>Counterparty</th><th>Instrument</th><th>Maturity</th><th>Value date</th><th>Notional
(in thousands)</th><th>Fair value hierarchy</th></tr>
<tr><td rowspan="8">Sabaf S.p.A.</td><td rowspan="3">Unicredit</td><td rowspan="3">Forward</td><td>29/03/2021</td><td rowspan="3">USD</td><td>800</td><td rowspan="16">2</td></tr>
<tr><td>28/06/2021</td><td>800</td></tr>
<tr><td>27/09/2021</td><td>800</td></tr>
<tr><td rowspan="5">MPS</td><td rowspan="5">Forward</td><td>21/12/2021</td><td rowspan="5">USD</td><td>800</td></tr>
<tr><td>29/03/2021</td><td>400</td></tr>
<tr><td>28/06/2021</td><td>400</td></tr>
<tr><td>28/09/2021</td><td>400</td></tr>
<tr><td>21/12/2021</td><td>400</td></tr>
<tr><td rowspan="4">Faringosi Hinges s.r.l.</td><td rowspan="4">Ubi Banca</td><td rowspan="4">Forward</td><td>22/03/2021</td><td rowspan="4">USD</td><td>700</td></tr>
<tr><td>21/06/2021</td><td>700</td></tr>
<tr><td>20/09/2021</td><td>700</td></tr>
<tr><td>15/12/2021</td><td>700</td></tr>
<tr><td rowspan="4">C.M.I. s.r.l.</td><td rowspan="4">BPER Banca</td><td rowspan="4">Forward</td><td>07/01/2021</td><td rowspan="4">USD</td><td>500</td></tr>
<tr><td>06/04/2021</td><td>500</td></tr>
<tr><td>06/07/2021</td><td>500</td></tr>
<tr><td>06/10/2021</td><td>500</td></tr>
</table>

Sensitivity analysis
With reference to financial assets and liabilities in US dollars at 31 December 2020, a hypothetical and immediate revaluation of 10% of the euro against the dollar would have led to a loss of €1,214,000.

Interest rate risk management
Owing to the current trend in interest rates, the Group 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) when the loan is opened. At 31 December 2020, IRS totalling €32.4 million were in place, mirrored in mortgages with the same residual debt, through which the Group 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 2020 almost all of the Group's financial debt was at a fixed rate. Therefore, at 31 December 2020 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 Group's purchase costs is represented by aluminium, steel and brass. Sale prices of products are generally renegotiated annually; as a result, the Group is unable to pass on to customers any changes in the prices of commodities during the year. The Group 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 2020 and 2019, the Group did not use financial derivatives on commodities. To stabilise the rising costs of commodities, Sabaf preferred to execute transactions on the physical market, fixing prices with suppliers for immediate and deferred delivery.

Liquidity risk management

The Group operates with a debt ratio considered physiological (net financial debt/shareholders' equity at 31 December 2020 of 47.8%, net financial debt/EBITDA of 1.52) 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 2020 and 31 December 2019 is shown below:

At 31 December 2020

	Carrying value	**Contractual cash flows**	**Within 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**	**More than 5 years**
Short-term bank loans	13,727	13,727	13,727	-	-	-
Unsecured loans	44,448	45,211	2,074	14,022	29,115	-
Finance leases	4,896	5,143	383	1,125	3,206	429
Payables to A.R.C. shareholders	60	60	-	60	-	-
Payables to C.M.I. shareholders	1,173	1,173	-	1,173	-	-
A.R.C. option	1,581	1,581	-	1,581	-	-
C.M.I. option	5,250	5,250	-	5,250	-	-
Total financial payables	**71,135**	**72,145**	**16,184**	**23,211**	**32,321**	**429**
Trade payables	41,773	41,773	38,503	3,270	-	-
Total	**112,908**	**113,918**	**54,687**	**26,481**	**32,321**	**429**

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
Short-term bank loans	3,689	3,689	3,689	-	-	-
Unsecured loans	55,221	56,474	2,073	13,048	40,126	1,227
Finance leases	4,528	4,898	352	895	3,088	563
Payables to A.R.C. shareholders	120	120	-	60	60	-
Payables to C.M.I. shareholders	1,173	1,173	-	-	1,173	-
A.R.C. option	1,650	1,650	-	-	1,650	-
C.M.I. option	8,700	8,700	-	4,200	4,500	-
Total financial payables	**75,081**	**76,704**	**6,114**	**18,203**	**50,597**	**1,790**
Trade payables	27,560	27,560	25,993	1,567	-	-
Total	**102,641**	**104,264**	**32,107**	**19,770**	**50,597**	**1,790**

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 financial assets and liabilities valued at fair value at 31 December 2020, by hierarchical level of fair value assessment.

	Level 1	Level 2	Level 3	Total
Other financial assets (currency derivatives)	-	262	-	262
Total assets	**-**	**262**	**-**	**262**

	Level 1	Level 2	Level 3	Total
Other financial liabilities (interest rate derivatives)	-	425	-	425
Other financial liabilities (ARC and C.M.I. put options)	-	-	6,831	6,831
Total liabilities	**-**	**425**	**6,831**	**7,256**

37. RELATED-PARTY TRANSACTIONS

Transactions between consolidated companies were derecognised from the consolidated financial statements and are not reported in these notes. The table below illustrates the impact of all transactions between the Group and other related parties on the balance sheet and income statement.

Impact of related-party transactions on balance sheet items

	Total 2020	Non-consolidated subsidiaries	Other related parties	Total related parties	Impact on the total
Trade payables	41,773	-	4	4	0.01%

	Total 2019	Non-consolidated subsidiaries	Other related parties	Total related parties	Impact on the total
Trade payables	27,560	-	4	4	0.01%

Impact of related-party transactions on income statement items

	Total 2020	Non-consolidated subsidiaries	Other related parties	Total related parties	Impact on the total
Services	(34,264)	-	(22)	(22)	0.06%

	Total 2019	Non-consolidated subsidiaries	Other related parties	Total related parties	Impact on the total
Services	(29,488)	-	(21)	(21)	0.07%

Transactions are regulated by specific contracts regulated at arm’s length conditions.

Fees to directors, statutory auditors and executives with strategic responsibilities

Please see the 2020 Report on Remuneration for this information.

38. 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 of Sabaf S.p.A. 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.

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 identified by the Board of Directors by 30 June 2018 on the Shareholders' Meeting authority.
- Cluster 2: Beneficiaries 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 options were assigned; and in its meeting of 14 May 2019, identified the Beneficiaries of Cluster 2 of the Plan to whom a total of 184,400 options 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 Options, 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, TSR indicators and Individual objectives, i.e. performance targets 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 options assigned to receive shares of the Parent Company. In line with the date of assignment of the options 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 and the determination of fair value at the end of the reporting period are illustrated below:

Cluster 1

	2018	2019	2020	2018 - 2020
Share prices at the start of the vesting period	19.48	19.48	19.48	19.48
Expected probability of business objective achievement	35%	0%	35.0%	0%

Total value on ROI	3.07
Rights on ROI	33.40%

Fair Value	1.03

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

	2018	2019	2020
Share prices at the start of the vesting period	19.48	19.48	19.48
Expected probability of business objective achievement	35%	0%	0%

Total value on EBITDA	1.7
Rights on EBITDA	33.30%

Fair Value	0.57

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

	2018	2019	2020	2018 - 2020
Share prices 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%	0%	0%	0%
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	4.11

Cluster 2

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

	2019	2020	2019 - 2020
Share prices at the start of the vesting period	13.66	13.66	13.66
Expected probability of business objective achievement	0%	35.00%	0%

Total value on ROI	1.96	Fair Value	0.46
Rights on ROI	23.38%		

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

	2019	2020
Share prices at the start of the vesting period	13.66	13.66
Expected probability of business objective achievement	0%	0%

Total value on EBITDA	0.00	Fair Value	0.00
Rights on EBITDA	23.31%		

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

	2019	2020	2019 - 2020
Share prices 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%	0%	0%
Strike Price	17.39	14.51	22.86

Total value on TSR	2.53	Fair Value	0.59
Rights on TSR	23.31%		

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

	2019	2020
Share prices at the start of the vesting period	13.66	13.66
Expected probability of business objective achievement	93%	93%

Total value on individual objectives	12.70	Fair Value	3.81
Rights on individual objectives	30.00%		

Fari Value per share	4.86

In connection with this Plan, €658,000 were recognised in personnel costs during the year (Note 27). At 31 December 2020, a reserve of €1,660,000 was recorded in the item "Retained earnings, Other reserves" under shareholders' equity (Note 13).

39. CAPITAL MANAGEMENT

For the purposes of managing the Group's capital, it has been defined that this includes the issued share capital, the share premium reserve and all other capital reserves attributable to the shareholders of the Parent Company. The main objective of capital management is to maximise the value for shareholders. In order to maintain or correct its financial structure, the Group may intervene in dividends paid to shareholders, purchase its own shares, redeem capital to shareholders or issue new shares. The Group controls equity using a gearing ratio consisting of the ratio of net financial debt (as defined in Note 22) to shareholders' equity. The Group's policy is to keep this ratio below 1. In order to achieve this objective, the management of the Group's capital aims, among other things, to ensure that the covenants, linked to loans, which define the capital structure requirements, are complied with. Violations of covenants would allow banks to demand immediate repayment of loans (Note 14). During the current financial year, there were no breaches of the covenants linked to loans.
In the years ended 31 December 2020 and 2019, no changes were made to the objectives, policies and procedures for capital management.

40. SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

Pursuant to CONSOB memorandum of 28 July 2006, the following section describes and comments on significant non-recurring events, the consequences of which are reflected in the economic, equity and financial results for the year:

	Group shareholders' equity	Group net profit	Net financial debt	Cash flows
Financial statement values (A)	**112,998**	**13,961**	**56,322**	**(5,369)**
Realignment of carrying values and tax values of properties (a)	(1,214)	(1,214)	-	-
Recognition of tax benefits on investments made in Turkey (b)	(2,432)	(2,432)	-	-
Recovery of a previously written-down trade receivable (c)	(796)	(796)	796	(796)
Settlement of a patent dispute (d)	500	500	-	-
Total non-recurring operations (B)	*(3,942)*	*(3,942)*	*796*	*(796)*
Tax effect on operations c) and d)	*52*	*52*	-	-
Financial statement notional value (A + B)	**109,108**	**10,071**	**57,118**	**(6,165)**

In these consolidated financial statements, the Group recognised

a) under income taxes, a non-recurring income of €1,214,000 following the realignment, carried out in accordance with Article 110 of Italian Law Decree No. 104 of 14 August 2020, of the differences between the carrying values and tax values of certain properties resulting from the merger of Sabaf Immobiliare, a transaction that took place in 2019. The total amount of €1,214,000 is the difference between the release of related deferred tax liabilities of €1,360,000 and the recognition of substitute tax of €146,000 (Note 31).

b) under income taxes, a non-recurring income of €2,432,000 relating to the tax benefits arising from investments made in Turkey (Note 31)
c) among other revenues, a non-recurring income of €704,000 collected as a distribution to unsecured creditors from the extraordinary administration procedure of a former customer, the related receivable having been fully written down in previous years (Note 24)
d) among other operating revenues, a provision for legal risks of €500,000 for a patent dispute for which a settlement was reached with the counterparty at the beginning of 2021 (Note 17 and Note 28).

41. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

After the reporting period and up to the date of this report, no events occurred that need to be mentioned.

42. ATYPICAL AND/OR UNUSUAL TRANSACTIONS

Pursuant to CONSOB memorandum of 28 July 2006, the Group declares that no atypical and/or unusual transactions as defined by the CONSOB memorandum were executed during 2020.

43. COMMITMENTS

Guarantees issued

The Sabaf Group has issued sureties to guarantee consumer and mortgage loans granted by banks to Group employees for a total of €3,632,000 (€4,024,000 at 31 December 2019).

44. SCOPE OF CONSOLIDATION AND SIGNIFICANT EQUITY INVESTMENTS

COMPANIES CONSOLIDATED USING THE FULL LINE-BY-LINE CONSOLIDATION METHOD

Company name	Registered offices	Share capital	Shareholders	Ownership %
Faringosi Hinges s.r.l.	Ospitaletto (BS)	EUR 90,000	Sabaf S.p.A.	100%
Sabaf do Brasil Ltda	Jundiaí - São Paulo (Brazil)	BRL 38,328,261	Sabaf S.p.A.	100%
Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki (Sabaf Turkey)	Manisa (Turkey)	TRY 28,000,000	Sabaf S.p.A.	100%
Okida Elektronik Sanayi ve Tickaret A.S	Istanbul (Turkey)	TRY 5,000,000	Sabaf S.p.A.	30%
			Sabaf Turkey	70%
Sabaf Appliance Components Ltd.	Kunshan (China)	EUR 7,900,000	Sabaf S.p.A.	100%
Sabaf US Corp.	Plainfield (USA)	USD 200,000	Sabaf S.p.A.	100%
Sabaf India Private Limited	Bangalore (India)	INR 153,833,140	Sabaf S.p.A.	100%
A.R.C. s.r.l.	Campodarsego (PD)	EUR 45,000	Sabaf S.p.A.	70%
C.M.I. Cerniere Meccaniche Industriali s.r.l.	Valsamoggia (BO)	EUR 1,000,000	Sabaf S.p.A.	84.25%
C.G.D. s.r.l.	Valsamoggia (BO)	EUR 26,000	C.M.I. s.r.l.	100%
C.M.I. Polska sp. zoo	Myszków (Poland)	PLN 40,000	C.M.I. s.r.l.	97.5%
			C.G.D. s.r.l.	2.5%

COMPANIES CONSOLIDATED USING THE EQUITY METHOD

Company name	Registered offices	Share capital	Shareholders	ownership %	holding %
Handan ARC Burners Co., Ltd.	Handan (China)	RMB 3,000,000	A.R.C. s.r.l.	51%	35.7%

45. GENERAL INFORMATION ON THE PARENT COMPANY

Registered and administrative office:		Via dei Carpini, 1 25035 Ospitaletto (Brescia)
Contacts:	Tel:	+39 030 - 6843001
	Fax:	+39 030 - 6848249
	Email:	info@sabaf.it
	Website:	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 2020 for auditing and for services other than auditing provided by the Independent Auditors and their network.

(in thousands of Euro)	**Party providing the service**	**Recipient**	**Fees pertaining to the 2020 financial year**
Audit	EY S.p.A.	Parent company	47
	EY S.p.A.	Italian subsidiaries	49
	EY network	Foreign subsidiaries	56
Other services	EY S.p.A.	Parent company	41[1]
Total			***193***

(1) *Auditing procedures agreement relating to interim management reports; limited review of the Disclosures of Non-Financial Information.*

Certification of the Consolidated Financial Statements, in accordance with 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 consolidated financial statements during the 2020 financial year.

They also certify that:

- the Consolidated 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 operating results, financial position and cash flows of the issuer and of the companies included in the consolidation;

- the report on operations contains a reliable analysis of the performance and results of operations and the situation of the issuer and the companies included in the scope of consolidation, along with a description of the key risks and uncertainties to which they are exposed.

Ospitaletto, 23 March 2021

Chief Executive Officer	The Financial Reporting Officer
Pietro Iotti	Gianluca Beschi