Half-yearly report

at 30 June 2019

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GROUP STRUCTURE AND CORPORATE BODIES

Group structure

Parent company

SABAF S.p.A.
Registered and administrative office: **Via dei Carpini 1 - 25035 Ospitaletto (Brescia)**
R.E.A. Brescia 347512
Tax code 03244470179
Share capital € 11,533,450 fully paid in
www.sabaf.it

Subsidiaries and equity interest pertaining to the Group

Companies consolidated on a line-by-line basis		
Faringosi Hinges s.r.l.	Italy	100%
Sabaf do Brasil Ltda.	Brazil	100%
Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki (Sabaf Turkey)	Turkey	100%
Sabaf Appliance Components Trading (Kunshan) Co., Ltd. (in liquidation)	China	100%
Sabaf Appliance Components (Kunshan) Co., Ltd.	China	100%
Sabaf Immobiliare s.r.l.	Italy	100%
Okida Elektronik Sanayi Ve Ticaret A.S.	Turkey	100%
A.R.C. s.r.l.	Italy	70%
Non-consolidated companies		
Sabaf US Corp.	U.S.A.	100%
Handan ARC Burners Co., Ltd.	Italy	35%

Corporate bodies

Board of Directors

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

(*) independent directors

Board of Statutory Auditors

Chairman	Alessandra Tronconi
Statutory Auditor	Luisa Anselmi
Statutory Auditor	Mauro Vivenzi

Independent Auditors

EY S.p.A.

INTERIM MANAGEMENT STATEMENT

Introduction

This Half-Yearly Report at 30 June 2019 has been prepared in accordance with Article 154-ter of Legislative Decree 58/1998 and in compliance with the applicable international accounting standards recognised in the European Community and, in particular, IAS 34 - Interim Financial Reporting. The half-year figures at 30 June 2019 and at 30 June 2018 and for the six-month period ended on the same date were audited by EY S.p.A.

The business

The Sabaf Group is active in the production of components for household appliances and is one of the world's leading manufacturers of components for gas cooking appliances. Its reference market therefore consists of manufacturers of household appliances.
Sabaf's product range focuses on the following main lines:

- Gas components, made up of:
    - Valves and thermostats, with or without thermoelectric safety devices: the components that regulate the flow of gas to the burner;
    - Burners: these are the components that, via the mixing of gas with air and combustion of the gas used, produce one or more rings of flame;
    - Accessories: other components that complete the range, aimed particularly at making it possible to light and control the flame.
- Hinges: these components enable the smooth and balanced movement of appliance doors when they are opened or closed.
- Electronic components for household appliances, such as electronic control boards, timers and display and power units for ovens, refrigerators, freezers, hoods and other products.

The Sabaf Group currently has seven production plants: Ospitaletto (Brescia), Bareggio (Milan), Campodarsego (Padua), Jundiaì (Brazil), Manisa (Turkey), Istanbul (Turkey) and Kunshan (China).

Economic performance

Financial highlights

(amounts in €000)	**Q2 2019** (*)	**Q2 2018** (*)	% change	**H1 2019**	**H1 2018**	% change	**2018 FY**
Sales revenue	37,191	37,510	*-0.9%*	74,826	76,013	*-1.6%*	150,642
EBITDA	6,277	7,555		12,894	15,276	*-15.6%*	29,959
EBITDA %	***16.9***	***20.1***	*-16.9%*	***17.2***	***20.1***		***19.9***
EBIT	2,903	4,433	*-34.5%*	6,253	8,984	*-30.4%*	16,409
EBIT %	***7.8***	***11.8***		***8.4***	***11.8***		***10.9***
Pre-tax profit	1,937	5,112	*-62.1%*	4,658	9,741	*-52.2%*	20,960
Net Profit	1,398	3,873	*-63.9%*	3,513	7,226	*-51.4%*	15,614

(*) unaudited figures

Consolidated income statement

(€/000)	**Q2 2019** (*)	**Q2 2018** (*)	**H1 2019**	**H1 2018**
OPERATING REVENUE AND INCOME				
Revenue	37,191	37,510	74,826	76,013
Other income	622	965	1,294	1,668
Total operating revenue and income	**37,813**	**38,475**	**76,120**	**77,681**
OPERATING COSTS				
Materials	(13,599)	(17,711)	(27,878)	(34,555)
Change in inventories	(2,422)	4,047	(3,687)	6,472
Services	(7,086)	(8,170)	(14,420)	(16,314)
Personnel costs	(8,799)	(9,249)	(17,659)	(18,273)
Other operating costs	(216)	(320)	(579)	(653)
Costs for capitalised in-house work	586	483	997	918
Total operating costs	**(31,536)**	**(30,920)**	**(63,226)**	**(62,405)**
OPERATING PROFIT BEFORE DEPRECIATION & AMORTISATION, CAPITAL GAINS/LOSSES, AND WRITE-DOWNS/WRITE-BACKS OF NON-CURRENT ASSETS (EBITDA)	**6,277**	**7,555**	**12,894**	**15,276**
Depreciations and amortisation	(3,377)	(3,134)	(6,689)	(6,303)
Capital gains/(losses) on disposals of non-current assets	3	12	48	11
Write-downs/write-backs of non-current assets	0	0	0	0
OPERATING PROFIT (EBIT)	**2,903**	**4,433**	**6,253**	**8,984**
Financial income	128	31	236	90
Financial expenses	(450)	(189)	(790)	(405)
Exchange rate gains and losses	(644)	837	(1,041)	1,072
Profits and losses from equity investments	0	0	0	0
PROFIT BEFORE TAXES	**1,937**	**5,112**	**4,658**	**9,741**
Income taxes	(459)	(1,184)	(1,024)	(2,412)
NET PROFIT FOR THE PERIOD	**1,478**	**3,928**	**3,634**	**7,329**
of which:				
Minority interests	80	55	121	103
PROFIT ATTRIBUTABLE TO THE GROUP	**1,398**	**3,873**	**3,513**	**7,226**

(*) unaudited figures

Sales by geographical area

(amounts in €000)	**Q2 2019** (*)	**Q2 2018** (*)	% change	**H1 2019**	**H1 2018**	% change	**2018 FY**
Italy	7,881	9,002	-12.5%	16,733	18,308	-8.6%	31,579
Western Europe	3,091	2,847	+8.6%	6,500	6,119	6.2%	12,337
Eastern Europe	12,322	12,128	+1.6%	24,286	23,632	2.8%	46,301
Middle East and Africa	1,938	1,582	+22.5%	3,196	5,188	-38.4%	12,303
Asia and Oceania	2,524	1,690	+49.3%	4,438	2,994	48.2%	7,590
South America	5,687	6,297	-9.7%	12,103	12,400	-2.4%	25,461
North America and Mexico	3,748	3,964	-5.4%	7,570	7,372	2.7%	15,071
Total	**37,191**	**37,510**	***-0.9%***	**74,826**	**76,013**	***-1.6%***	**150,642**

(*) unaudited figures

Sales by product line

(amounts in €000)	**Q2 2019** (*)	**Q2 2018** (*)	% change	**H1 2019**	**H1 2018**	% change	**2018 FY**
Valves and thermostats	*10,622*	*13,204*	*-19.6%*	*21,860*	*26,311*	*-16.9%*	*48,463*
Burners	*16,382*	*16,178*	*+1.3%*	*32,757*	*33,785*	*-3.0%*	*66,953*
Accessories	*3,163*	*4,035*	*-21.6%*	*6,579*	*7,878*	*-16.5%*	*15,422*
Total gas parts	30,167	33,417	-9.7%	61,196	67,974	-10.0%	130,838
Professional burners	1,572	1,430	+9.9%	3,134	2,977	+5.3%	5,331
Hinges	2,962	2,663	+11.2%	5,730	5,062	+13.2%	10,436
Electronic components	2,490	0		4,766	0		4,037
Total	**37,191**	**37,510**	***-0.9%***	**74,826**	**76,013**	***-1.6%***	**150,642**

(*) unaudited figures

First half of 2019

The Sabaf Group reported revenue of €74.8 million in the first half of 2019, a decrease of 1.6% versus the figure of €76 million in the corresponding period of the previous year. Taking into consideration the same scope of consolidation, the drop in revenues was 7.8%.

Trend in demand was uneven in the various markets in which the Group operates. Positive results were achieved in North America and Asia, where Sabaf continues to gradually increase its market share. On the other hand, note the weakness of the Turkish market, the crisis in the Middle East (due to the well-known political and economic context) and a further slowdown of Italian customers.

The sales analysis by product category shows the positive performance of hinges and professional burners, while valves show a marked weakness. Sales of electronic components, which improved steadily, were in line with expectations.

Average sale prices for the period were 0.8% lower than the first half of 2018, an effect substantially offset by the reduction in purchase costs of commodities.

During the half-year, the Group successfully implemented lean manufacturing projects to revise logistics and production flows in order to contain operating costs and reduce inventory levels. These projects led to an improvement in working capital and a strong cash flow generation; however, the drop in production volumes - more than proportional to the drop in sales - and the consequent low level of saturation of the plants affected profitability. the EBITDA of the first half of 2019 came at €12.9 million (17.2% of turnover, 15.6% lower than €15.3 million of the same period of 2018, when it was 20.1% of sales) and EBIT was €6.3 million (8.4% of sales, down by 30.4% on €9 million of the first half of 2018) Pre-tax profit amounted to €4.7 million in the first half of 2019 versus the figure of €9.7 million in the corresponding period of the previous year, and net profit was €3.5 million, €7.2 million in the corresponding period of the previous year.

Second quarter of 2019

Sales in the second quarter of 2019 amounted to €37.2 million, down by 0.9% compared to €37.5 million in Q2 2018 (-7.5% on a like-for-like exchange rate basis). The decrease is mainly due to the slowdown in demand in Italy and South America. At the moment, in this last area, the forecasts of a progressive improvement of the economic situation in Brazil remain unfulfilled.

As in the first quarter, the low level of capacity utilisation had an impact on profitability: second-quarter EBITDA was €6.3 million, equivalent to 16.9% of turnover (-16.9% versus €7.6 million in the second quarter of 2018, when it was 20.1% of turnover), and EBIT was €2.9 million, equivalent to 7.8% of turnover (-34.5% versus €4.4 million in the second quarter of 2018, when it was 11.8% of turnover). Net profit for the period was €1.4 million, compared to €3.9 million for the second quarter of 2018.

Financial position

(€/000)	**30/06/2019**	**31/12/2018**	**30/06/2018**
Non-current assets	*116,061*	*119,527*	*92,451*
Short-term assets[1]	86,925	92,111	91,740
Short-term liabilities[2]	(31,442)	(32,381)	(35,084)
Net working capital[3]	*55,483*	*59,730*	*56,656*
Provisions for risks and charges, deferred taxes and post-employment benefit	*(6,162)*	*(6,387)*	*(3,949)*
Net invested capital	**165,382**	**172,870**	**145,158**
Short-term net financial position	(11,562)	(9,180)	(10,427)
Medium/long-term net financial position	(38,756)	(44,344)	(24,333)
Net financial debt	**(50,318)**	**(53,524)**	**(34,760)**
Group shareholders' equity	**113,298**	**117,702**	**108,835**
Third-party shareholders' equity	**1,766**	**1,644**	**1,563**

After having paid dividends of €6.1 million, at 30 June 2019 net financial debt fell to €50.3 million, compared with €53.5 million at 31 December 2018. Consolidated shareholders' equity attributable to the Group amounted to €113.3 million.

Investments in the first half of the year amounted to €4.1 million (€6.6 million in the first half of 2018); the largest investments were used for the increase in production capacity in Turkey and Brazil.

Net working capital was €55.5 million at 30 June 2019, versus €59.7 million at the end of 2018: the increase is mainly related to the optimisation of inventory management. The impact of net working capital on sales was 37.1%.

Intra-group and related-party transactions

Transactions with related parties, including intra-group transactions, have not been qualified as atypical or unusual, as they fall under the normal course of Group operations. These transactions are regulated at arm's length conditions.

Related-party transactions other than intra-group transactions are described in the Explanatory Notes to the half-yearly condensed consolidated financial statements, which also show to what extent related- party transactions affected financial statement items.

[1] sum of Inventories, Trade receivables, Tax receivables and Other current receivables
[2] sum of Trade payables, Tax payables and Other liabilities
[3] difference between short-term Assets and short-term Liabilities

Risk factors related to the segment in which the Group operates and main risks and uncertainties for the remainder of 2019

Performance of the sector
The Group's financial position, results and cash flows are affected by several factors related to the performance of the sector, including:

- General macro-economic performance: the household appliance market is affected by macro-economic factors such as: gross domestic product, consumer and business confidence, interest rate trend, the cost of raw materials, the unemployment rate and the ease of access to credit.
- Concentration of the end markets: as a result of mergers and acquisitions, customers have acquired bargaining power.
- Stagnation of demand in mature markets in favour of growth in emerging Countries, characterised by different sales conditions and a more unstable macro-economic environment.
- Increasing competition, which in some cases imposes aggressive pricing policies.

To cope with this situation, the Group aims to retain and reinforce its leadership position wherever possible through:

- development of new products characterised by superior performance compared with market standards, and tailored to the needs of the customer;
- diversification of commercial investments in growing and emerging markets with local commercial and productive investments;
- the maintenance of high quality and safety standards, which make it possible to differentiate the product through the use of resources and implementation of production processes that are not easily sustainable by competitors;
- strengthening of business relations with the main players in the sector;
- adoption of a diversification strategy and entry into new segments / business sectors.

Instability of Emerging countries in which the Group operates
Turkey represents the main production hub of household appliances at the European level; over the years, local industry attracted heavy foreign investments and favoured the growth of important manufacturers. In this context, the Sabaf Group created a production plant in Turkey in 2012 that realises today 10% of total production. In 2018, the Group also acquired 100% of Okida Elektronik, a leader in Turkey in the design, manufacture and sale of electronic control boards for household appliances.
With the acquisition of Okida, Turkey represents approximately 15% of the Group's production and more than 25% of its total sales. The social and political tensions in Turkey over the last few years had no effect on the activities of the Sabaf Group, which continued normally. In consideration of the strategic importance of this Country, the management assessed the risks that could arise from any difficulties/impossibilities of operating in Turkey and envisaged actions to mitigate this risk.

More generally, the Group is exposed to risks related to (political, economic, tax, regulatory) instability in some emerging countries where it produces or sells. Any embargoes or major political or economic instability, or changes in the regulatory and/or local law systems, or new tariffs or taxes imposed could negatively affect a portion of Group turnover and the related profitability.

Sabaf has taken the following measures to mitigate the above risk factors:

- diversifying investments at international level, setting different strategic priorities that, in addition to business opportunities, also consider the different associated risk profiles;
- monitoring of the economic and social performance of the target countries, also through a local network of agents and collaborators;
- timely assessment of (potential) impacts of any business interruption on the markets of Emerging countries;
- adoption of contractual sales conditions that protect the Group (e.g.: advance payments and payments through letters of credit from major banks).

Product competition
The Sabaf Group's business model focuses on the production of gas cooking components (valves and burners); therefore, there is the risk of not correctly assessing the threats and opportunities deriving from the competition of alternative products (alternative solutions to gas cooking, such as induction), with the consequence of not adequately making use of any market opportunities and/or suffering from negative impacts on margins and turnover.

In recent years, the Group has launched a number of projects aimed at analysing the opportunities and threats related to competition of products other than gas cooking, including:

- analysing the possibilities for expansion in the induction hob market, with a focus on technical and commercial feasibility analyses;
- development of new gas cooking components able to satisfy the needs that lead some consumers (especially Western consumers) to prefer induction (aesthetic factors, practicality and ease of cleaning, technological integration with electronic components);
- evaluation of M&A operations, also in sectors adjacent to the traditional Sabaf sector.

Growth through acquisitions

The strategic plan developed by the Group's management includes, among other things, the possibility of growth through acquisitions, also in related sectors. This strategic choice involves specific risk profiles for Sabaf, due to:

- incorrect assessment of the target companies / incorrect assessment of risks and opportunities for a possible acquisition;
- delays or difficulties in integration.

The Group adopted solutions and instruments to mitigate the above risks, such as:

- definition of guidelines / requirements necessary for the identification of target companies;
- creation of an internal work team, dedicated to the identification and evaluation of potential targets;
- development of guidelines, processes and tools to support the assessment of M&As and subsequent integration activities.

Financial risks

The Sabaf Group is exposed to a series of financial risks, due to:

- **Commodity price volatility**: Sabaf uses metals and alloys in its production processes, the prices of which are generally negotiated semi-annually or annually; as a result, Group companies may not be able to immediately pass on to customers changes in the prices of commodities that occur during the year, which has an impact on margins. The Group protects itself from the risk of changes in the price of brass and aluminium with supply contracts signed with suppliers for delivery up to twelve months in advance or, alternatively, with derivative financial instruments.
  The Sabaf Group has already fixed purchase prices to cover about 70% of production needs until the end of 2019 for aluminium alloys, brass and steel. Based on the contracts concluded and current market prices, the Group expects purchase costs in the second half-year to be around €0.6 million lower than in the second half of 2018.
- **Exchange rate fluctuation**: the Group carries out transactions primarily in euro; however, transactions also take place in other currencies, such as the U.S. dollar, the Brazilian real, the Turkish lira and the Chinese renminbi. in particular, since about 20% of consolidated turnover is in US dollars, the possible depreciation against the euro and the real could affect profitability and lead to a loss in competitiveness on the markets in which sales are made in that currency (mainly South and North America). At 30 June 2019, the Group has derivative contracts to hedge the risk of the euro/dollar exchange rate for a total notional amount of USD 2.2 million, maturing on 31 December 2019.
- **Trade receivable**: the high concentration of turnover on a small number of customers generates a concentration of the respective trade receivables, with a resulting increase in the negative impact on economic and financial results in the event of insolvency of any one of them. In particular, given the structural difficulties of the household appliance sector in mature markets, it is possible that situations of financial difficulty and insolvency among customers could arise. The risk is partially transferred to third parties by credit insurance, or partially guaranteed through the request for letters of credit issued by leading banks for customers. The remainder of the receivable risk is covered in the financial statements by a bad debt provision.

The context in which the Sabaf Group operates is characterised by further risk factors, such as loss of business opportunities in the Chinese market and protection of product exclusivity, which are described in the Management Report at 31 December 2018 and for which the profile did not change substantially during the first half of 2019.

Outlook for the current year

The trend in demand during the third quarter remains different in the various markets in which the Group operates and does not show significant changes compared to the first part of the year. Including the contribution from the recent acquisition of CMI, which will be consolidated as from August, the Group expects to achieve sales of approximately €162 million and EBITDA of between €28 and €29 million for the whole of 2019. Net of CMI, sales are expected to be around €150 million (the previous forecast indicated revenues up between 3% and 6% compared to 2018 and operating profitability in line with or slightly down from 19.9% in 2018).

These forecasts assume a macroeconomic scenario not affected by unpredictable events. If the economic situation were to change significantly, actual figures might diverge from the forecasts.

For the Board of Directors
The Chairman
Giuseppe Saleri

Ospitaletto, 6 August 2019

HALF-YEARLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AT 30 JUNE 2019

Consolidated statement of financial position

(€/000)	Notes	30/06/2019	31/12/2018
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	**1**	69,687	70,765
Investment property	**2**	4,190	4,403
Intangible assets	**3**	36,724	39,054
Equity investments	**4**	375	380
Financial assets	**10**	60	120
Non-current receivables	**5**	369	188
Deferred tax assets	**22**	4,656	4,617
Total non-current assets		**116,061**	**119,527**
CURRENT ASSETS			
Inventories	**6**	35,141	39,179
Trade receivables	**7**	46,712	46,932
Tax receivables	**8**	2,958	4,466
Other current receivables	**9**	2,114	1,534
Financial assets	**10**	60	3,511
Cash and cash equivalents	**11**	10,901	13,426
Total current assets		**97,886**	**109,048**
ASSETS HELD FOR SALE		**0**	**0**
TOTAL ASSETS		**213,947**	**228,575**
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	**12**	11,533	11,533
Retained earnings, Other reserves	**13**	98,252	90,555
Profit (loss) for the year		3,513	15,614
Total equity interest of the Parent Company		*113,298*	*117,702*
Minority interests		*1,766*	*1,644*
Total shareholders' equity		**115,064**	**119,346**
NON-CURRENT LIABILITIES			
Loans	**14**	36,878	42,406
Other financial liabilities	**15**	1,878	1,938
Post-employment benefit and retirement provisions	**16**	2,798	2,632
Provisions for risks and charges	**17**	592	725
Deferred tax liabilities	**22**	2,772	3,030
Total non-current liabilities		**44,918**	**50,731**
CURRENT LIABILITIES			
Loans	**14**	22,044	18,435
Other financial liabilities	**21**	479	7,682
Trade payables	**18**	21,450	21,215
Tax payables	**19**	1,703	3,566
Other payables	**20**	8,289	7,600
Total current liabilities		**53,965**	**58,498**
LIABILITIES HELD FOR SALE		**0**	**0**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**213,947**	**228,575**

Consolidated income statement

(€/000)	Notes	H1 2019	H1 2018
OPERATING REVENUE AND INCOME			
Revenue	**23**	74,826	76,013
Other income	**24**	1,294	1,668
Total operating revenue and income		**76,120**	**77,681**
OPERATING COSTS			
Materials	**25**	(27,878)	(34,555)
Change in inventories		(3,687)	6,472
Services	**26**	(14,420)	(16,314)
Personnel costs	**27**	(17,659)	(18,273)
Other operating costs	**28**	(579)	(653)
Costs for capitalised in-house work		997	918
Total operating costs		**(63,226)**	**(62,405)**
OPERATING PROFIT BEFORE DEPRECIATION & AMORTISATION, CAPITAL GAINS/LOSSES, AND WRITE-DOWNS/WRITE-BACKS OF NON-CURRENT ASSETS (EBITDA)		**12,894**	**15,276**
Depreciations and amortisation		(6,689)	(6,303)
Capital gains/(losses) on disposals of non-current assets		48	11
Write-downs/write-backs of non-current assets		0	0
OPERATING PROFIT (EBIT)		**6,253**	**8,984**
Financial income		236	90
Financial expenses	**29**	(790)	(405)
Exchange rate gains and losses	**30**	(1,041)	1,072
Profits and losses from equity investments		0	0
PROFIT BEFORE TAXES		**4,658**	**9,741**
Income taxes	**31**	(1,024)	(2,412)
PROFIT FOR THE YEAR		**3,634**	**7,329**
of which			
Minority interests		121	103
GROUP PROFIT		**3,513**	**7,226**
(in €)			
Basic earnings per share	**32**	**0.319**	**0.653**
Diluted earnings per share	**32**	**0.319**	**0.653**

Consolidated statement of comprehensive income

(€/000)	H1 2019	H1 2018
NET PROFIT FOR THE PERIOD	**3,635**	**7,329**
Total profits/losses that will be subsequently reclassified under profit (loss) for the period:		
Forex differences due to translation of financial statements in foreign currencies	(2,197)	(3,894)
Tax effect	0	0
Total other profits/(losses) net of taxes for the year	**(2,197)**	**(3,894)**
TOTAL PROFIT	**1,438**	**3,435**
of which		
Minority interests	121	103
PROFIT ATTRIBUTABLE TO THE GROUP	**1,317**	**3,332**

Consolidated statement of cash flows

	H1 2019	H1 2018
Cash and cash equivalents at beginning of period	***13,426***	***11,533***
Net profit/(loss) for the period	3,634	7,329
Adjustments for:		
- Depreciation and amortisation for the period	6,689	6,303
- Realised gains/losses	(48)	(11)
- Financial income and expenses	554	315
- IFRS 2 measurement stock grant plan	258	65
- Income tax	1,024	2,412
Change in post-employment benefit	152	(161)
Change in risk provisions	(133)	13
Change in trade receivables	*220*	*(6,821)*
Change in inventories	*4,038*	*(5,364)*
Change in trade payables	*235*	*5,108*
Change in net working capital	4,493	(7,077)
Change in other receivables and payables, deferred taxes	(735)	(571)
Payment of taxes	(871)	(586)
Payment of financial expenses	(776)	(405)
Collection of financial income	236	90
Cash flows from operations	**14,477**	**7,716**
Investments in non-current assets		
- intangible	(455)	(316)
- tangible	(3,871)	(6,341)
- financial	0	0
Disposal of non-current assets	208	25
Cash flows from investment activities	**(4,118)**	**(6,632)**
Repayment of loans	(15,433)	(10,378)
New loans	5,237	15,342
Change in financial assets	3,451	59
Purchase of treasury shares	0	(2,086)
Payment of dividends	(6,060)	(6,071)
Cash flows from financing activities	**(12,805)**	**(3,134)**
Acquisition of Okida Elektronik	(317)	0
Foreign exchange differences	298	(2,279)
Net cash flows for the period	**(2,465)**	**(4,329)**
Cash and cash equivalents at end of period	***10,961***	***7,204***
Current financial debt	22,523	17,631
Non-current financial debt	38,756	24,333
Net financial debt	***50,318***	***34,760***

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 2017	**11,533**	**10,002**	**2,307**	**(4,509)**	**(12,194)**	**(550)**	**92,171**	**14,835**	**113,595**	**1,460**	**115,055**
Allocation of 2017 profit											
- dividends paid out								(6,071)	(6,071)		(6,071)
- carried forward							8,764	(8,764)			
IFRS 2 measurement stock grant plan							65		65		65
Purchase of treasury shares				(2,086)					(2,086)		(2,086)
Total profit H1 2018					(3,894)			7,226	3,332	103	3,435
Balance at 30 June 2018	**11,533**	**10,002**	**2,307**	**(6,595)**	**(16,088)**	**(550)**	**101,000**	**7,226**	**108,835**	**1,563**	**110,398**
IFRS 2 measurement stock grant plan							256		256		256
Purchase of treasury shares				(273)					(273)		(273)
Other changes							518		518		518
Total profit H2 2018					(46)	24		8,388	8,366	81	8,447
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)	0		0
IFRS 2 measurement stock grant plan							258		258		258
Other changes							82		82		82
Total profit H1 2019					(2,197)			3,513	1,316	122	1,438
Balance at 30 June 2019	**11,533**	**10,002**	**2,307**	**(6,868)**	**(18,331)**	**(526)**	**111,668**	**3,513**	**113,298**	**1,766**	**115,064**

EXPLANATORY NOTES

Basis of presentation and accounting policies used

The half-yearly condensed consolidated financial statements at 30 June 2019 were prepared in accordance with IAS 34 on interim reports. These condensed half-year consolidated financial statements do not include all the information required for the annual financial report and must be read together with the financial statements for the year ended 31 December 2018. Reference to IFRS also includes all current International Accounting Standards (IAS). They have been prepared in euro, rounding amounts to the nearest thousand, and are compared with the half-yearly and annual consolidated financial statements of the previous year, prepared according to the same standards. They consist of the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the statement of changes in consolidated shareholders' equity, the consolidated statement of cash flows and these explanatory notes.

The consolidation policies, criteria for converting items in foreign currencies, the accounting principles and policies are the same as those used for preparing the financial statements at 31 December 2018, to which reference should be made for additional information, with the exception of the adoption as of 1 January 2019 of the new standards and amendments described below. The Group has not early adopted any new standards, interpretations or amendments issued but not yet in force.

New accounting standards

IFRS 16 - Leases

The standard, applied as from 1 January 2019, provides a new definition of lease and introduces a criterion based on the control (right of use) of an asset in order to distinguish lease agreements from service agreements, identifying the as discriminating factors the identification of the asset, the right to replace it, the right to obtain substantially all of the economic benefits deriving from the use of the asset and the right to direct the use of the asset underlying the contract. The standard establishes a single model of recognition and measurement of the lease agreements for the lessee which requires the recognition of the asset to be leased (operating lease or otherwise) in assets offset by a financial debt, while also providing the opportunity not to recognise as leases the agreements whose subject matter are "low-value assets" and leases with a contract duration equal to or less than 12 months. By contrast, the Standard does not include significant changes for the lessors.

The Group adopted IFRS 16 using the modified retrospective approach as amended with the initial application date of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of first-time adoption recognised at the date of initial application. The Group chose to use the practical transition device that allows the requirements of the standard to be applied only to contracts, which at the date of initial application, were previously identified as leases applying IAS 17 and IFRIC 4. The Group also availed itself of the exceptions proposed by the standard on lease agreements that, at the date of first application, have a duration of 12 months or less and that do not contain a purchase option ("short-term lease") and on lease agreements in which the underlying asset is of low value ("low value assets").

The following table shows the effects on the consolidated statement of financial position at 30 June 2019 and on the income statement for the second quarter of 2019 of the application of IFRS 16 according to the modified retrospective approach:

	Book value at 30/06/2019 in case of non-adoption of IFRS 16	Effect of IFRS 16	Book value at 30/06/2019
Assets			
Property, plant and equipment	68,775	912	69,687
Investment property	4,099	91	4,190
Liabilities			
Loans beyond 12 months	36,174	704	36,878
Loans within 12 months	21,734	310	22,044
Tax payables	1,706	(3)	1,703
Income statement			
Costs for services	14,609	(189)	14,420
Amortisation	6,523	166	6,689
Financial expenses	758	32	790
Income taxes	1,027	(3)	1,024
Economic and financial indicators			
Shareholders' equity	115,070	(6)	115,064
Net financial debt	49,303	1,015	50,318
EBITDA	12,705	189	12,894
EBIT	6,230	23	6,253
Net profit for the period	3,519	(6)	3,513

IFRIC Interpretation 23 - Uncertainty over income tax treatments

The Interpretation defines the accounting treatment of income taxes when the tax treatment involves uncertainties that have an effect on the application of IAS 12 and does not apply to taxes or duties that do not fall within the scope of IAS 12, nor does it specifically include requirements relating to interest or penalties attributable to uncertain tax treatments.

The interpretation specifically deals with the following points:

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- Determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- Effect of changes in facts and circumstances

An entity is required to use judgement to determine whether each tax treatment should be considered independently or whether some tax treatments should be considered together. The decision should be based on the approach that provides better predictions of the resolution of the uncertainty.

The Group applies a reasonable judgement in identifying uncertainties regarding the tax treatment of income taxes. Given that the Group operates in a complex multinational context, it has assessed whether the interpretation could have had an impact on its interim consolidated financial statements.

The adoption of the interpretation, according to which the Group examined the existence of uncertain tax positions, did not entail the need to record adjustments to the consolidated financial statements at the date of first-time adoption.

Several other amendments and interpretations apply for the first time in 2019 but have not had an impact on the Group's condensed consolidated half-year financial statements.

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, which records all changes in Other overall earnings (losses) during the year, generated by transactions other than those conducted with shareholders and based on specific IAS/IFRS standards;
- a cash flow statement that presents financial flows originating from operating activity, using the indirect method.

Use of these formats permits the most meaningful representation of the Group's operating results, financial position and cash flows.

Scope of consolidation

The scope of consolidation, which has not changed with respect to the consolidated financial statements at 31 December 2018, at 30 June 2019 comprises the parent company Sabaf S.p.A. and the following companies controlled by Sabaf S.p.A.:

- Faringosi Hinges s.r.l.
- Sabaf Immobiliare s.r.l.
- Sabaf do Brasil Ltda
- Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki (Sabaf Turkey)
- Sabaf Appliance Components Trading (Kunshan) Co., Ltd.
- Sabaf Appliance Components (Kunshan) Co., Ltd.
- A.R.C. s.r.l.
- Okida Elektronik Sanayi Ve Ticaret A.S.

Control is the power to determine, directly or indirectly, the financial and management policies of an entity so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control begins until the date on which control ceases.

The equity investments in Sabaf US Corp. and Handad A.R.C. Ltd., irrelevant for consolidation purposes, are measured at cost in these interim consolidated financial statements.
Sabaf US Corp., a company that provides commercial services to the Group, will be consolidated on a line-by-line basis as from 31 December 2019.
Handan A.R.C. Ltd, Chinese company in which the Group holds a 35.5% share and whose operations are still in their embryonic stage, will be consolidated using the equity method as from 31 December 2019.

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. If these subsidiaries exercise a significant influence, they are consolidated as from the date in which control begins until the date in which control ends so as to provide a correct representation of the Group's operating results, financial position and cash flows.

Consolidation criteria

The criteria applied for consolidation are as follows:
a) Assets and liabilities, income and costs in the financial statements consolidated on a 100% line-by-line basis are incorporated into the Group financial statements, regardless of the entity of the equity interest concerned. In addition, the carrying value of equity interests is eliminated 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.
c) Payable/receivable and cost/revenue items between consolidated companies and profits/losses arising from intra-group transactions are eliminated.

d) If minority shareholders exist, the portion of shareholders' equity and net profit for the period pertaining to them is posted in specific items of the consolidated statement of financial position 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.
The 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 period.
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 statements of financial position of the foreign subsidiaries, prepared in local currency, are shown in the following table:

Description of currency	**Exchange rate in effect at 30/06/2019**	**Average exchange rate 01/01/2019 - 30/06/2019**	**Exchange rate in effect at 31/12/2018**	**Average exchange rate 01/01/2018 - 30/06/2018**
Brazilian real	4.3511	4.3452	4.4440	4.1416
Turkish lira	6.5655	6.3386	6.0588	4.9573
Chinese renminbi	7.8185	7.6676	7.8751	7.7085

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.

Use of estimates

The preparation of the half-yearly financial statements and notes in accordance with IFRS requires the Directors to make estimates and assumptions that affect the values of revenue, costs, assets and liabilities of the half-yearly financial statements and the disclosures on contingent assets and liabilities at 30 June 2019. In the event that in future these estimates and assumptions, which are based on the Directors' best assessments, should deviate from actual circumstances, they will be amended appropriately at the time the circumstances change. Estimates and assumptions are regularly reviewed and the effects of each change immediately reflected in the income statement.

It should also be noted that certain valuation processes, particularly the more complex ones such as the determination of any impairment losses of non-current assets, are generally carried out in full only for the preparation of the annual financial statements, when all information that could be necessary is available, except in cases in which impairment indicators require an immediate valuation of any impairment losses.

Finally, it should be noted that the actuarial valuation of the post-employment benefit is not conducted for the purpose of preparing the interim financial statements, but only for the annual financial statements, since the resulting effects on the statement of financial position and the comprehensive income statement are not considered to be significant.

Comments on the main items of the statement of financial position

1. PROPERTY, PLANT AND EQUIPMENT

	Property	Plant and equipment	Other assets	Assets under construction	Total
Cost					
At 31 December 2018	**51,507**	**194,516**	**43,257**	**4,688**	**293,968**
Leased assets at 1 January 2019 - IFRS 16	278	-	738	-	**1,016**
Increases	42	1,712	1,343	1,016	**4,113**
Reclassifications	762	2,612	96	(3,718)	**(248)**
Disposals	-	(790)	(41)	-	**(831)**
Forex differences	(111)	(188)	(7)	(12)	**(318)**
At 30 June 2019	**52,478**	**198,485**	**45,456**	**1,412**	**297,831**
Accumulated depreciations					
At 31 December 2018	**19,603**	**165,018**	**38,582**	**-**	**223,203**
Increases	764	3,982	1,128	-	**5,874**
Reclassifications	2	23	13	-	**38**
Disposals	-	(764)	(100)	-	**(864)**
Forex differences	(12)	(89)	(6)	-	**(107)**
At 30 June 2019	**20,357**	**168,170**	**39,617**	**-**	**228,144**
Carrying value					
At 31 December 2018	**31,904**	**29,498**	**4,675**	**4,688**	**70,765**
At 30 June 2019	**32,121**	**30,315**	**5,839**	**1,412**	**69,687**

The carrying value of the item “Property” is made up as follows:

	30/06/2019	**31/12/2018**	**Change**
Land	6,686	6,699	(13)
Industrial buildings	25,435	25,205	230
Total	**32,121**	**31,904**	**217**

During the half-year period, the largest investments were made to increase production capacity in Brazil and in Turkey. Investments in maintenance and replacement, so that production equipment is kept up to date and remains efficient, are ongoing

Internal and external indicators which would necessitate an impairment test on property, plant and equipment, with reference to these half-yearly financial statements were not identified.

2. INVESTMENT PROPERTY

Cost	
At 31 December 2018	**12,918**
Leased assets at 1 January 2016 - IFRS 16	109
Increases	-
Disposals	(1,191)
At 30 June 2019	**11,836**

Cumulative depreciations and write-downs	
At 31 December 2018	**8,515**
Depreciations for the period	216
Eliminations for disposals	(1,085)
At 30 June 2019	**7,646**
Carrying value	
At 31 December 2018	**4,403**
At 30 June 2019	**4,190**

This item includes non-operating buildings owned by the Group: these are mainly properties for residential use, located in Ospitaletto near Sabaf's headquarters, held for rental or sale. The carrying value is considered to be in line with the presumed realisable value.

3. INTANGIBLE ASSETS

	Goodwill	Patents, software and know-how	Development costs	Other intangible assets	Total
Cost					
At 31 December 2018	**29,410**	**7,152**	**5,653**	**12,254**	**54,469**
Increases	318	288	276	19	901
Reclassifications	-	(24)	(24)	179	131
Forex differences	(1,438)	(9)	-	(899)	(2,346)
At 30 June 2019	**28,290**	**7,407**	**5,905**	**11,553**	**53,155**
Accumulated amortisation					
At 31 December 2018	**4,563**	**6,507**	**3,408**	**937**	**15,415**
Increases	-	128	183	462	773
Reclassifications	-	52	-	252	304
Forex differences	-	(6)	-	(55)	(61)
At 30 June 2019	**4,563**	**6,681**	**3,591**	**1,596**	**16,431**
Carrying value					
At 31 December 2018	**24,847**	**645**	**2,245**	**11,317**	**39,054**
At 30 June 2019	**23,727**	**726**	**2,314**	**9,957**	**36,724**

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.

The goodwill booked in the financial statements is allocated:
- to the "Hinges" (CGU) cash generating units of €4.189 million;
- to the "Professional burners" CGU of €1.770 million;

- to the "Electronic components" CGU of €17.512 million.
The Group did not identify any impairment indicators in the first half of 2019, i.e. signs that tangible and intangible assets including goodwill relating to the "Hinges", "Professional burners" and "Electronic components" CGUs may have suffered an impairment loss. All CGUs achieved largely positive results, in line with or above expectations, in the first half of 2019.
As a result, at 30 June 2019, it was not necessary to perform an impairment test based on an updated business plan.

Other intangible fixed assets have a finite useful life and, as a result, are amortised throughout their life. The useful life of projects for which development costs are capitalised is estimated to be 10 years. The increase in development costs mainly includes the costs for the design of new models of special burners.

Internal and external indicators that would necessitate an impairment test on intangible assets, other than goodwill, with reference to these half-yearly financial statements were not identified.

4. EQUITY INVESTMENTS

	31/12/2018	Changes	30/06/2019
Sabaf U.S.	139	-	139
Handan ARC Burners Co.	201	-	201
Other equity investments	40	(5)	35
Total	**380**	**(5)**	**375**

The wholly-owned subsidiary Sabaf U.S. operates as a commercial base for North America. The carrying value of the investment is deemed recoverable taking into consideration expected developments on the North American market.

Handan ARC Burners Co. is a Chinese joint venture built at the end of 2015, in which A.R.C. s.r.l. holds 51% (therefore, the Group's share is 35.5%). The aim of Handan ARC Burners is to produce and market in China burners for professional cooking; the company is still in the start-up phase.

5. NON-CURRENT RECEIVABLES

	30/06/2019	31/12/2018	Change
Tax receivables	326	145	181
Guarantee deposits	43	43	-
Total	**369**	**188**	**181**

Tax receivables relate to indirect taxes expected to be recovered after 30 June 2019.

6. INVENTORIES

	30/06/2019	31/12/2018	Change
Raw Materials	14,913	14,680	233
Semi-processed goods	10,331	11,727	(1,396)
Finished products	13,563	15,576	(2,013)
Provision for inventory write-downs	(3,666)	(2,804)	(862)
Total	**35,141**	**39,179**	**(4,038)**

The value of inventories at 30 June 2019 decreased significantly compared to the end of 2018 as a result of a careful inventory management policy for semi-finished and finished products. The impact of inventories on sales was 23.4%.

At 30 June 2019, the value of inventories was adjusted based on an improved estimate of the idle capacity and obsolescence risk, measured by analysing slow and non-moving inventory.

7. TRADE RECEIVABLES

	30/06/2019	31/12/2018	Change
Total trade receivables	47,895	48,061	(166)
Bad debt provision	(1,183)	(1,129)	(54)
Net total	**46,712**	**46,932**	**(220)**

The amount of trade receivables at 30 June 2019 was substantially in line with the balance at the end of 2018. There were no significant changes in average payment terms agreed with clients. At 30 June 2019, receivables overdue by more than 90 days totalled €690,000 (€1,028,000 at 31 December 2018).

At 30 June 2019, trade receivables included balances of some USD 8.7 million, posted at the €/USD exchange rate at the end of the period, i.e. 1.1380.

8. TAX RECEIVABLES

	30/06/2019	31/12/2018	Change
For income tax	2,482	3,435	(953)
For VAT and other sales taxes	359	851	(492)
Other tax credits	117	180	(63)
Total	**2,958**	**4,466**	**(1,508)**

The income tax receivables derive for €1,153,000 from the full deductibility of IRAP from IRES relating to the expenses incurred for employees for the 2006-2011 period (Italian Legislative Decree 201/2011), for which an application for a refund was presented but the time of liquidation by the tax authorities is not yet known.
The residual part relates to the balance of 2018 income tax for the portion exceeding the tax to be paid.

Other tax receivables mainly refer to receivables in respect of indirect Brazilian and Turkish taxes.

9. OTHER CURRENT RECEIVABLES

	30/06/2019	31/12/2018	Change
Advances to suppliers	283	411	(128)
Credits to be received from suppliers	239	385	(146)
Other receivables, accrued income and prepaid expenses	1,592	738	854
Total	**2,114**	**1,534**	**580**

Credits to be received from suppliers for €171,000 include the energy subsidy due to companies that consume a large amount of energy (so-called “energy-intensive bonuses”) for 2017, which are expected to be collected in the second half of 2019.

10. FINANCIAL ASSETS

	30/06/2019		31/12/2018	
	Current	**Non current**	**Current**	**Non current**
Restricted bank accounts	60	60	3,510	120
Currency derivatives	-	-	1	-
Total	**60**	**60**	**3,511**	**120**

At 31 December 2018, "Current financial assets" included a term deposit of €3.45 million, released in February 2019 as part of the payment of the balance of the acquisition of Okida Elektronik (Note 15).

11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents, which amounted to €10,901,000 at 30 June 2019 (€13,426,000 at 31 December 2018) consisted of bank current account balances of €10,612,000 (€7.1 million at 31 December 2018) and investments in liquidity of €289,000 (€6.3 million at 31 December 2018). Changes in the net financial position are analysed in the cash flow statement.

12. SHARE CAPITAL

Sabaf S.p.A.'s share capital at 30 June 2019 consists of 11,533,450 shares with a par value of €1.00 each and has not changed compared with 31 December 2018.

13. TREASURY SHARES AND OTHER RESERVES

At 30 June 2019, Sabaf S.p.A. held 514,506 treasury shares (4.46% of the share capital), reported in the financial statements as an adjustment to shareholders' equity at a unit value of €13.35 (the official stock market price of the Share at 28 June 2019 was €13.628). There were 11,018,944 outstanding shares at 30 June 2019.
During the first half of 2019, no treasury shares were purchased or sold.

Items "Retained earnings, other reserves" of €98,252,000 included, at 30 June 2019, the stock grant reserve of €579,000 thousand, which included the measurement at 30 June 2019 of fair value of rights assigned to allocated shares of the Parent Company.
For details of the Stock Grant Plan, refer to Note 36.

14. LOANS

	30/06/2019		**31/12/2018**	
	Current	Non current	Current	Non current
Property leasing	155	1,231	153	1,309
Liabilities for rents – IFRS 16	310	704	-	-
Unsecured loans	12,625	34,943	10,741	41,097
Short-term bank loans	5,905	-	5,247	-
Advances on bank receipts or invoices	3,000	-	1,942	-
Interest payable	49	-	44	-
Derivative instruments on interest rates	-	-	308	-
Total	**22,044**	**36,878**	**18,435**	**42,406**

Changes in loans over the first half of the year are shown in the cash flow statement. During the half-year period, no new medium-long-term loans were taken out. To manage interest rate risk, all unsecured loans are either fixed-rate or hedged by IRS.
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 30 June 2019 equal to €30 million)
- commitment to maintain a ratio of net financial position to EBITDA of less than 2 (residual amount of the loans at 30 June 2019 equal to €6 million) or less than 2.5 (residual amount of the loans at 30 June 2019 equal to €24 million)

Which at 30 June 2019 had been fully complied with and for which compliance is also expected at 31 December 2019.

15. OTHER FINANCIAL LIABILITIES

	30/06/2019		31/12/2018	
	Current	**Non current**	**Current**	**Non current**
Payables to former Okida shareholders	-	-	7,622	-
Option on *minorities*	-	1,818	-	1,818
Payables to A.R.C.'s shareholders	60	60	60	120
Currency derivatives	50	-	-	-
Derivative instruments on interest rates	369	-	-	-
Total	**479**	**1,878**	**7,682**	**1,938**

As part of the acquisition of 100% of Okida Elektronik, the parties agreed that the payment of part of the price would be subject to adjustment (depending, inter alia, on Okida's 2018 EBITDA) and postponed to the beginning of 2019. The payables to Okida shareholders recorded at 31 December 2018 and corresponding to the residual portion of the price to be paid to the sellers was paid in February 2019.

In June 2016, in the course of the purchase operation of 70% of A.R.C. s.r.l., SABAF concluded with Mr Loris Gasparini (current minority shareholder at 30% of A.R.C.) an agreement that aimed to regulate Mr. Gasparini's right to leave A.R.C. and the interest of Sabaf in acquiring 100% of the shares after expiry of the term of five years from the signing of the purchase agreement of 24 June 2016, by signing specific option agreements. Therefore, the agreement envisaged specific option rights to purchase (by Sabaf) and sell (by Gasparini) exercisable as from 24 June 2021, the remaining shares of 30% of A.R.C., with strike prices contractually defined on the basis of final income parameters from A.R.C. at 31 December 2020. Pursuant to the provisions of IAS 32, the assignment of an option to sell (put option) in the terms described above required the initial recognition 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 € 1.522 million was recognised in the consolidated financial statements at 31 December 2016. At 31 December 2018, the Group revalued the outlay estimate, based on the expected results of A.R.C. at 31 December 2020 in accordance with the business plan of the subsidiary. The recalculation of the fair value, in compliance with IAS 39, resulted in the adjustment of the value of the financial liability to €1.818 million. At 30 June 2019, this amount remained unchanged compared to 31 December 2018 in that no indicators requiring adjustment of the valuation emerged during the first half of the year.

The payables to A.R.C.'s shareholders, equivalent to €120,000 at 30 June 2019, are related to the part of the price not yet liquidated to the vendors, which is deposited on an restricted account and will be released for the benefit of vendors on a straight-line basis until 2021, in accordance with the contractual agreements and the guarantees given by the vendors.

The Group uses derivative financial instruments, both on exchange and on interest rates. At 30 June 2019, the Group has in place six interest rate swap (IRS) contracts for amounts and maturities coinciding with six unsecured loans that are being amortised, whose residual value at 30 June 2019 is €32.812 million. The contracts have not been designated as capital flow hedges and are therefore at their fair value through profit and loss, and recognised in the items "Financial assets" or "Other financial liabilities".

16. POST-EMPLOYMENT BENEFIT AND RETIREMENT PROVISIONS

	30/06/2019	31/12/2018	Change
Post-employment benefit	2,798	2,632	166
Retirement provisions	-	-	-
Total	**2,798**	**2,632**	**166**

17. PROVISIONS FOR RISKS AND CHARGES

	31/12/2018	Provisions	Utilisation	Release of excess portion	Forex differences	30/06/2019
Provision for agents' indemnities	217	12	-	(31)	-	198
Product guarantee fund	60	38	(38)	-	-	60
Provision for legal risks	175	36	(130)	-	1	82
Other provisions for risks and charges	273	-	-	-	(21)	252
Total	**725**	**86**	**(168)**	**(31)**	**(20)**	**592**

The provision for agents' indemnities covers amounts payable to agents if the Group terminates the agency relationship.
The product guarantee fund covers expenses to be incurred for servicing products during the warranty period.
The provision for legal risks is allocated for disputes of a modest size.

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

	30/06/2019	31/12/2018	Change
Total	**21,450**	**21,215**	**235**

At 30 June 2019, the value of trade payables did not differ significantly from the balance at the end of 2018. The payment terms did not change.

At 30 June 2019, there were no overdue payables of a significant amount and the Group did not receive any injunctions for overdue payables.

19. TAX PAYABLES

	30/06/2019	31/12/2018	Change
Income tax payables	1,185	2,672	(1,487)
Withholding taxes	430	680	(250)
Other tax payables	88	214	(126)
Total	**1,703**	**3,566**	**(1,863)**

20. OTHER CURRENT PAYABLES

	30/06/2019	31/12/2018	Change
To employees	5,125	4,383	742
To social security institutions	1,809	2,148	(339)
To agents	243	312	(69)
Advances from customers	463	250	213
Other current payables, accrued and deferred	649	507	142
Total	**8,289**	**7,600**	**689**

At 30 June 2019, payables due to employees included amounts for the thirteenth month's pay and for holidays accrued but not taken.

21. NET FINANCIAL POSITION

		30/06/2019	31/12/2018	Change
A.	Cash	18	19	(1)
B.	Positive balances of unrestricted bank accounts	10,594	7,067	3,527
C.	Other cash equivalents	289	6,340	(6,051)
D.	**Liquidity (A+B+C)**	**10,901**	**13,426**	**(2,525)**
E.	**Current financial receivables**	**60**	**3,511**	**(3,451)**
F.	Current bank payables	8,954	7,233	1,721
G.	Current portion of non-current debt	12,625	10,741	1,884
H.	Other current financial payables	944	8,143	(7,199)
I.	**Current financial debt (F+G+H)**	**22,523**	**26,117**	**(3,594)**
J.	**Net current financial debt (I-E-D)**	**11,562**	**9,180**	**2,382**
K.	Non-current bank payables	34,943	41,097	(6,154)
L.	Other non-current financial payables	3,813	3,247	566
M.	**Non-current financial debt (K+L)**	**38,756**	**44,344**	**(5,588)**
N.	**Net financial debt (J+M)**	**50,318**	**53,524**	**(3,206)**

The change in cash and cash equivalents (letter D. of the net financial position table) is shown in the Cash Flow Statement.

22. DEFERRED TAX ASSETS AND LIABILITIES

	30/06/2019	31/12/2018	Change
Deferred tax assets	4,656	4,617	39
Deferred tax liabilities	(2,772)	(3,030)	258
Net position	**1,884**	**1,587**	**297**

The table below shows the main elements forming deferred tax assets and liabilities and their changes during the half year:

	Non-current tangible and intangible assets	Provisions and value adjustments	Fair value of derivative instruments	Goodwill	Tax incentives	Actuarial evaluation of post-employment benefit	Other temporary differences	Total
At 31 December 2018	**(2,216)**	**1,164**	**56**	**1,771**	**339**	**182**	**291**	**1,587**
To the income statement	85	260	38	(228)	(35)	-	35	155
Forex differences	165	1	-	-	(25)	-	1	142
At 30 June 2019	**(1,966)**	**1,425**	**94**	**1,543**	**279**	**182**	**327**	**1,884**

Deferred tax assets relating to goodwill refer to the exemption, in 2011, of the value of goodwill recognised following the acquisition of Faringosi Hinges s.r.l., whose tax benefit is achieved in ten annual instalments starting in 2018.

Deferred tax assets relating to tax incentives are commensurate to investments made in Turkey, for which the Group benefited from reduced taxation recognised on income generated.

<u>Comments on key income statement items</u>

23. REVENUE

In the first half of 2019, revenue from sales and services totalled €74,826,000, down by 1.6% versus €76,013,000 in the same period in 2018. For comments on changes in revenues and a detailed analysis of revenues by product family and geographical area, please see the Report on Operations.

24. OTHER INCOME

	H1 2019	H1 2018	Change
Sale of trimmings and raw materials	944	1,349	(405)
Rental income	45	44	1
Contingent income	111	37	74
Release of risk provisions	31	8	23
Other income	163	230	(67)
Total	**1,294**	**1,668**	**(374)**

25. MATERIALS

	H1 2019	H1 2018	Change
Commodities and outsourced components	25,773	31,272	(5,499)
Consumables	2,105	3,283	(1,178)
Total	**27,878**	**34,555**	**(6,677)**

The effective average purchase prices of the main raw materials (aluminium, steel and brass) recorded a slight downturn, with a positive effect of approximately €0.6 million (equal to 0.8% of sales).

26. COSTS FOR SERVICES

	H1 2019	H1 2018	Change
Outsourced processing	4,291	5,633	(1,342)
Natural gas and electricity	2,212	2,423	(211)
Maintenance	1,997	2,317	(320)
Advisory services	894	1,169	(275)
Transport and export expenses	1,015	1,121	(106)
Travel expenses and allowances	352	462	(110)
Directors' fees	403	373	30
Commissions	326	306	20
Insurance	270	298	(28)
Waste disposal	259	270	(11)
Canteen	190	209	(19)
Use of temporary agency workers	72	114	(42)
Other costs	2,139	1,619	520
Total	**14,420**	**16,314**	**(1,894)**

The reduction in costs for services compared to the first half of 2018 is related to the decrease in production volumes. Other costs include registering of patents, cleaning costs and other minor costs.

27. PERSONNEL COSTS

	H1 2019	H1 2018	Change
Salaries and wages	11,967	12,308	(341)
Social Security costs	3,789	3,909	(120)
Post-employment benefit and supplementary pension	676	698	(22)
Temporary agency workers	632	1,090	(458)
Stock grant plan	258	65	193
Other costs	337	203	134
Total	**17,659**	**18,273**	**(614)**

The average Group headcount in the first half of 2019 was 845 employees (647 blue-collars, 182 white-collars and supervisors and 16 managers) compared to 768 in the first half of 2018. The average number of temporary workers was 52 (88 in the same period of 2018).
The item "Stock Grant Plan" includes the cost for the first half of 2019 of the Fair Value of the rights assigned for the allocation of shares of the Parent Company. For details of the Stock Grant Plan, refer to Note 36.

28. OTHER OPERATING COSTS

	H1 2019	H1 2018	Change
Bad debt provision	123	106	17
Non-income related taxes and duties	260	244	16
Contingent liabilities	51	68	(17)
Provisions for risks	86	36	50
Other operating costs	59	199	(140)
Total	**579**	**653**	**(74)**

29. FINANCIAL EXPENSES

	H1 2019	H1 2018	Change
Interest paid to banks	287	172	115
Interest paid on leases and rents	37	9	28
Financial expenses on derivative financial instruments	323	77	246
Banking expenses	127	121	6
Other financial expense	16	26	(10)
Total	**790**	**405**	**385**

30. EXCHANGE RATE GAINS AND LOSSES

In the first half of 2019, the Group reported net foreign exchange losses of €1,041,000 (versus net gains of €1,072,000 in the same period of 2018), mainly following the depreciation of the Turkish lira against the Euro.

31. INCOME TAXES

	H1 2019	H1 2018	Change
Current taxes	1,179	2,444	(1,265)
Deferred tax liabilities	(155)	(32)	(123)
Total	**1,024**	**2,412**	**(1,388)**

Income tax is calculated in a precise manner, in the same way as taxes are calculated when drafting the annual financial statements.
In the first half of 2019, the impact of current taxes as a share of the pre-tax profit (tax-rate) is 22%, compared with

24.7% in the first half of 2018.

32. EARNINGS PER SHARE

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

Earnings

	H1 2019	H1 2018
	(€/000)	*(€/000)*
Net profit for the period	3,513	7,226

Number of shares

	H1 2019	H1 2018
Weighted average number of ordinary shares for determining basic earnings per share	11,018,944	11,072,688
Dilutive effect from potential ordinary shares	0	0
Weighted average number of ordinary shares for determining diluted earnings per share	11,018,944	11,072,688

	H1 2019	H1 2018
	Euro	*Euro*
Basic earnings per share	0.319	0.653
Diluted earnings per share	0.319	0.653

The number of shares for measuring the earnings per share was calculated net of the average number of shares in the portfolio.

33. DIVIDENDS

On 29 May 2019, shareholders were paid a dividend of €0.55 per share (total dividends of €6,060,000); a unitary dividend equal to €0.55 per share was paid also in 2018.

34. INFORMATION BY BUSINESS SEGMENT

Below is the information by business segment for the first half of 2019 and 2018.

First half of 2019

	Gas parts (household and professional)	Hinges	Electronic components	Total
Sales	64,330	5,730	4,766	**74,826**
Ebit	4,497	839	917	**6,253**

First half of 2018

	Gas parts (household and professional)	Hinges	Electronic components[4]	Total
Sales	70,954	5,059	-	**76,013**
Ebit	8,285	699	-	**8,984**

35. RELATED-PARTY TRANSACTIONS

Transactions between Sabaf S.p.A. and its consolidated subsidiaries have been eliminated from the consolidated financial statements and are not addressed in these notes. The table below illustrates the impact of all transactions between the Group and other related parties on the statement of financial position and income statement.

Impact of related-party transactions or positions on items in the statement of financial position at 30 June 2019.

	Total financial statement item	Giuseppe Saleri S.a.p.A.	Non-consolidated subsidiaries	Other related parties	Total related parties	Impact on the total
Trade receivables	46,712	-	88	-	88	0.19%
Tax receivables	2,958	1,158	-	-	1,158	39.15%
Trade payables	21,450	-	150	2	152	0.71%

Impact of related-party transactions or positions on items in the statement of financial position at 30 June 2018.

	Total financial statement item	Giuseppe Saleri S.a.p.A.	Non-consolidated subsidiaries	Other related parties	Total related parties	Impact on the total
Trade receivables	49,084	-	124	-	124	0.25%
Tax receivables	2,792	1,158	-	-	1,158	41.48%
Trade payables	25,083	-	129	2	131	0.52%

Impact of related-party transactions or positions on income statement items at 30 June 2019

	Total financial statement item	Giuseppe Saleri S.a.p.A	Non-consolidated subsidiaries	Other related parties	Total related parties	Impact on the total
Services	14,420	-	132	9	141	0.98%

Impact of related-party transactions or positions on income statement items at 30 June 2018

	Total financial statement item	Giuseppe Saleri S.a.p.A	Non-consolidated subsidiaries	Other related parties	Total related parties	Impact on the total
Other income	1,668	35	-	-	35	2.10%
Services	16,314	-	129	9	138	0.85%

Until 2015, a tax consolidation agreement was in place with the then parent company Giuseppe Saleri S.a.p.A. (currently a shareholder holding 23.99% of the share capital of Sabaf S.p.A.), which generated the credit shown in the table, commented on in Note 8.
Transactions with non-consolidated subsidiaries were solely of a commercial nature.
All transactions are regulated by specific contracts regulated at arm's length conditions.

[4] The "Electronic components" CGU was defined in the second half of 2018, following the acquisition of Okida Elektronik.

36. SHARE-BASED PAYMENTS

A plan for the free allocation of shares, approved by the Shareholders' Meeting of 8 May 2018, is in place; the relative Regulations were approved by the Board of Directors on 15 May 2018.

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

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

Subject-matter of the plan

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

The free allocation of Sabaf S.p.A. shares is conditional, among other things, on the achievement, in whole or in part of the business objectives related to the ROI, EBITDA and TSR indicators and, for a share not exceeding 30%, of individual objectives, on a progressive basis.

Deadline of the Plan

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

Accounting impacts and Fair Value measurement methods and accounting impacts

In line with the date on which the beneficiaries became aware of the assignment of the rights and terms of the plan, the grant date was set at 15 May 2018 for Cluster 1 rights and 28 May 2019 for Cluster 2 rights.

The accounting impacts of the Plan are illustrated in Note 13 and Note 27 of this Report.

Please see the explanatory notes to the consolidated financial statements at 31 December 2018 for an explanation of how to determine the fair value of Cluster 1 rights. The methods for determining the fair value of Cluster 2 rights, which did not have an accounting impact on these condensed consolidated financial statements, will be illustrated in the annual financial report at 31 December 2019.

37. SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

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

38. ATYPICAL AND/OR UNUSUAL TRANSACTIONS

Pursuant to Consob communication of 28 July 2006, the Group declares that no atypical and/or unusual transactions as defined by the Consob communication itself were carried out during the first half of 2019.

39. COMMITMENTS

Guarantees issued

The Sabaf Group has issued sureties to guarantee consumer and mortgage loans granted by Banco di Brescia to Group employees for a total of €4,529,000 (€4,734,000 at 31 December 2018).

40. SIGNIFICANT EVENTS AFTER THE END OF THE FIRST HALF-YEAR

On 31 July 2019, Sabaf announced the acquisition of 68.5% of the company C.M.I. s.r.l., one of the main players in the design, production and sale of hinges for household appliances (mainly for dishwashers and ovens). The C.M.I. Group operates with production units in Italy (Crespellano, BO) and Poland and, through its subsidiary C.G.D. s.r.l., is also active in the production of presses for steel and sheet metal pressed articles.
In 2018, the C.M.I. Group achieved sales of €29.3 million and an EBITDA of €4 million. At 31 December 2018, net financial debt was € 5.5 million.[5] The CMI Group currently employs 135 persons.

The acquisition of the 68.5% stake was made on the basis of a valuation of €19.55 million (equity value for 100% of the company). Purchase options were also subscribed in favour of Sabaf for the remaining 31.5% of the share capital and simultaneous put options in favour of the seller, the Chinese group Guandong Xingye Investment, which can be exercised in two equal tranches following approval of the C.M.I. financial statements at 31 December 2019 and following approval of the C.M.I. financial statements at 31 December 2020.

The acquisition of C.M.I. s.r.l. will allow the Sabaf Group to achieve a leadership position on a global scale, proposing itself also in this area as a reference partner for all manufacturers of household appliances.

[5] The CMI Group is not required to prepare the consolidated financial statements. The consolidated economic and financial data were prepared internally by the management of CMI and subject to financial due diligence by Sabaf.

SCOPE OF CONSOLIDATION AT 30 JUNE 2019

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

Company name	Registered offices	Share capital	Participating company	ownership %
Parent company				
Sabaf S.p.A.	Ospitaletto (BS) Via dei Carpini, 1	€ 11,533,450		
Subsidiary companies				
Faringosi-Hinges s.r.l.	Ospitaletto (BS) Via Martiri della Libertà, 66	€ 90,000	Sabaf S.p.A.	100%
Sabaf Immobiliare s.r.l.	Ospitaletto (BS) Via Martiri della Libertà, 66	€ 25,000	Sabaf S.p.A.	100%
Sabaf do Brasil Ltda.	Jundiaí - São Paulo (Brazil)	BRL 24,000,000	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%
Sabaf Appliance Components Trading (Kunshan) Co., Ltd. in liquidation	Kunshan (China)	€ 200,000	Sabaf S.p.A.	100%
Sabaf Appliance Components (Kunshan) Co., Ltd.	Kunshan (China)	€ 4,900,000	Sabaf S.p.A.	100%
A.R.C. s.r.l.	Campodarsego (PD)	€ 45,000	Sabaf S.p.A.	70%
Okida Elektronik Sanayi Ve Ticaret A.S.	Istanbul (Turkey)	TRY 5,000,000	Sabaf S.p.A. Sabaf Turkey	30% 70%

NON-CONSOLIDATED COMPANIES VALUED AT COST

Company name	Registered offices	Share capital	Participating company	ownership %	holding %
Sabaf US Corp.	Plainfield – Illinois (USA)	USD 100,000	Sabaf S.p.A.	100%	100%
Handan ARC Burners Co., Ltd.	Handan (China)	RMB 7,000,000	A.R.C. s.r.l.	51%	35.5%

Certification of the Half-Yearly Condensed Consolidated Financial Statements pursuant to Article 154-bis of Legislative Decree 58/98

Gianluca Beschi, the Financial Reporting Officer of Sabaf S.p.A., has 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 to draft the condensed consolidated interim report in the first half of 2019.

They also certify that:

- the half-yearly condensed consolidated financial statements:
  - have been prepared in accordance with the international accounting standards recognised in the European Community in accordance with EC regulation 1606/2002 of the European Parliament and Council, of 19 July 2002;
  - 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 interim management statement includes a reliable analysis of the important events that occurred in the first six months of the year and their impact on the condensed consolidated interim financial statements, along with a description of the main risks and uncertainties for the six remaining months of the year. The interim management statement also contains a reliable analysis of the information on significant transactions with related parties.

Ospitaletto, 6 August 2019

Chief Executive Officer
Pietro Iotti

The Financial Reporting Officer
Gianluca Beschi

Sabaf S.p.A.

Half-yearly condensed consolidated financial statements as of 30 June 2019

Review report on the half-yearly condensed consolidated financial statements

(Translation from the original Italian text)

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Review report on the half-yearly condensed consolidated financial statements
(Translation from the original Italian text)

To the Shareholders of
Sabaf S.p.A.

Introduction

We have reviewed the half-yearly condensed consolidated financial statements, comprising the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity and cash flows and the related explanatory notes of Sabaf S.p.A. and its subsidiaries (the "Sabaf Group") as of 30 June 2019. The Directors of Sabaf S.p.A. are responsible for the preparation of the half-yearly condensed consolidated financial statements in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these half-yearly condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with review standards recommended by Consob (the Italian Stock Exchange Regulatory Agency) in its Resolution no. 10867 of 31 July 1997. A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the half-yearly condensed consolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the half-yearly condensed consolidated financial statements of Sabaf Group as of 30 June 2019 are not prepared, in all material respects, in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Brescia, 7 August 2019

EY S.p.A.
Signed by: Massimo Meloni, Partner

This report has been translated into the English language solely for the convenience of international readers

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