SABAF GROUP

REPORT ON OPERATIONS

Financial situation of the Group

(€'000)	**2014**	**%**	**2013**	**%**	2014-2013 Change	% change
Sales revenue	136,337	100%	130,967	100%	5,370	+4.1%
EBITDA	25,952	19.0%	24,572	18.8%	1,380	+5.6%
Operating profit (EBIT)	13,175	9.7%	11,132	8.5%	2,043	+18.4%
Pre-tax profit	12,157	8.9%	9,811	7.5%	2,346	+23.9%
Net Profit	8,338	6.1%	8,104	6.2%	234	+2.9%
Basic earnings per share (in Euro)	0.723		0.715		0.008	+1.1%
Diluted earnings per share (in Euro)	0.723		0.715		0.008	+1.1%

In 2014 the Sabaf Group's results were satisfactory: an appreciable increase in sales (+4.1%) accompanied a more than proportional improvement in profitability, made possible by further increases in productivity, a lower impact of fixed costs and the growing contribution from operations in Turkey.
EBITDA in 2014 represented 19% of sales (18.8% in 2013), while EBIT represented 9.7% of sales (8.5% in 2013). Net profit stood at 6.1% of sales (6.2% in 2013).

The division of sales revenues by product line is broken down in the table below:

SALES BY PRODUCT LINE

(€'000)	**2014**	*%*	**2013**	*%*	% change
Brass valves	13,741	*10.1%*	14,613	*11.1%*	*-6.0%*
Light alloy valves	34,006	*24.9%*	27,618	*21.1%*	*+23.1%*
Thermostats	12,288	*9.0%*	13,350	*10.2%*	*-8.0%*
Standard burners	36,160	*26.5%*	38,222	*29.2%*	*-5.4%*
Special burners	20,251	*14.9%*	18,943	*14.5%*	*+6.9%*
Accessories and other revenues	12,928	*9.5%*	11,571	*8.8%*	*+11.7%*
Total gas parts	*129,374*	*94.9%*	*124,317*	*94.9%*	*+4.1%*
Hinges	6,963	*5.1%*	6,650	*5.1%*	*+4.7%*
Total	**136,337**	*100%*	**130,967**	*100%*	***+4.1%***

The increase in sales is mainly due to the growth in light alloy valves, the extremely innovative product family in which the Group has invested a lot in over the last decade; in 2014, the Group won major new contracts and increased its supply share to several major customers. Sales of brass valves, on the other hand, continue to have an ever decreasing weighting. As far as burners are concerned, note the good increase in sales of special burners, also thanks to the introduction of new models, available in versions for all markets. Sales of burners registered moderate growth. Finally, sales of hinges recovered further.

As far as the geographical breakdown of revenues is concerned, see below:

SALES BY GEOGRAPHICAL AREA

(€'000)	**2014**	*%*	**2013**	*%*	% change
Italy	42,277	*31.0%*	42,662	32.6%	*-0.9%*
Western Europe	8,716	*6.4%*	7,465	5.7%	*+16.8%*
Eastern Europe and Turkey	36,198	*26.6%*	29,300	22.4%	*+23.5%*
Asia and Oceania	11,204	*8.2%*	11,864	9.1%	*-5.6%*
South America	18,324	*13.4%*	24,375	18.6%	*-24.8%*
Africa	12,574	*9.2%*	10,410	7.9%	*+20.8%*
North America and Mexico	7,044	*5.2%*	4,891	3.7%	*+44.0%*
Total	**136,337**	*100%*	**130,967**	100%	*+4.1%*

In 2104, the Italian market was unfortunately still not showing signs of recovery and sales were expected to be at similar levels to 2013. Improved results were achieved in Western Europe, thanks to the launch of new supplies, and especially in Easter Europe, through the vital contribution of the Turkish market. Performance in international markets has been very different; strong sales were recorded in Africa and North America, while results in South America were disappointing. As far as Asia is concerned, the overall change in revenues was negative as a result of the poor contribution of the Middle East, while sales in China and India recorded good growth rates.

Average sales prices in 2014 were lower by around 2% compared with 2013; the excess supply featured in the market continues to cause strong competitive pressures.

The actual cost of the main raw materials (brass, aluminium alloys and steel) was approximately 5% lower than in 2013. Savings were also made in the purchase of other components. Consumption (purchases plus change in inventory) as a percentage of sales was 38.2% in 2014, compared with 36.3% in 2013.

The impact of the cost of labour on sales rose from 23.9% in 2013 to 23.6% in 2014.

The impact of net financial charges on sales remains very low (0.4% in 2014, versus 0.5% in 2013), owing to the low level of debt and low interest rates.

Operating cash flow (net profit plus depreciation & amortisation) stood at €20.6 million, equivalent to 15.1% of sales (compared with €21 million and 16% in 2013).

The 2014 tax rate, equal to 31.4%, includes non-recurrent positive items totalling €0.9 million (tax incentives of €0.4 million relating to investments made in Turkey during 2014, €0.3 million deriving from adherence to the tax consolidation agreement and €0.2 million for lower taxes for previous years).

Balance sheet and financial position

The reclassification based on financial criteria is illustrated below:

(€'000)	**31/12/2014**	**31/12/2013**
Non-current assets	*96,152*	*97,467*
Short-term assets[1]	74,780	68,137
Short-term liabilities[2]	(28,936)	(26,896)
Working capital[3]	*45,844*	*41,241*
Short-term financial assets	*0*	*22*
Provision for risks and charges, employee severance pay reserve, deferred taxes	*(4,325)*	*(4,049)*
Net invested capital	**137,671**	**134,681**
Short-term net financial position	(16,760)	(12,831)
Medium/long-term net financial position	(10,173)	(3,895)
Net financial debt	**(26,933)**	**(16,726)**
Shareholders' equity	**110,738**	**117,955**

Cash flows for the period are summarised in the table below:

(€'000)	**2014**	**2013**
Cash and cash equivalents – opening balance	*5,111*	*6,137*
Operating cash flow	16,977	20,288
Cash flow from investments	(11,491)	(10,240)
Cash flow from financing activities	(8,092)	(8,945)
Foreign exchange differences	453	(2,129)
Cash flow for the period	(2,153)	(1,026)
Cash and cash equivalents – closing balance	*2,958*	*5,111*

Net financial debt and the cash and cash equivalents shown in the tables above are defined in compliance with the net financial position detailed in Note 21 of the consolidated accounts, as required by the CONSOB memorandum of 28 July 2006.

At 31 December 2014, working capital stood at €45.8 million, compared with €41.2 million at the end of 2013; the impact on sales was equal to 33.6% (31.5% in 2013); the worsening is related to the increase in sales in the last quarter (which caused greater receivables from customers) and the increase in the value of inventories, attributable to the increase in supplies in consignment stock to customers, for which products are only invoiced when taken by customers for production.

1 Sum of inventories, trade receivables, tax credits, and other current receivables
2 Sum of trade payables, tax payables, and other payables
3 Difference between current assets and current liabilities

Self-financing generated by operating cash flow stood at €17 million, compared with €20.2 million in 2013 and was affected by the increase in working capital mentioned above.

In 2014, the Sabaf Group invested more than €11.5 million. The main investments in the year related to the industrialisation of new models of special burners and light alloy valves, sales of which are expected to increase further in the future. The production capacity at the Turkish plant also increased and investments were also made to improve production processes - including the purchase of new alcohol washing facilities - and investments were made in maintenance and replacement, designed to keep the capital equipment constantly updated.

Net financial debt stood at €26.9 million compared with €16.7 million at 31 December 2013; an extraordinary dividend of €1.00 per share was distributed during the period (total financial outflow of €11.5 million). The payment of the extraordinary dividend, approved by the extraordinary shareholders' meeting of 28 October 2014, allowed the rebalancing of the financial structure to reduce the average cost of capital, thereby contributing to the development of the Group. Two unsecured loans were taken out during the year, for a total of €10 million, maintaining the correct ration between medium/long-term debt (€10.2 millino at 31 December 2014) and short-term debt (€16.8 million).
The ratio between working capital and short-term loans is 2.7 for which the Group considers the liquidity risk to be minimal.

Shareholders’ equity totalled €110.7 million at 31 December 2014; the debt/equity ratio was 0.24 versus 0.14 in 2013.

Economic and financial indicators

	2014	2013
ROCE (return on capital employed)	9.6%	8.3%
Dividend per share (€)	0.40[4]	1.40[5]
Net debt/equity ratio	24%	14%
Market capitalisation (31.12)/equity ratio	1.17	1.27
Change in sales	+4.1%	+0.2%

Please refer to the introductory part of the Annual Report for a detailed examination of other key performance indicators.

4 proposed dividend
5 of which ☐0.40 is the ordinary dividend and ☐1.00 the extraordinary dividend

Risk factors related to the segment in which the Group operates

Risks related to the overall conditions of the economy and trend in demand

The business and financial circumstances of the Group are influenced by a variety of factors, such as gross domestic product, consumer and corporate confidence, interest rate trends, the cost of raw materials, the unemployment rate, and the ease of access to credit.

The Group's core market, the household appliances sector, which is cyclical and generally related to the performance of the real estate market, was hit particularly hard by the progressive decline in the macroeconomic situation in Europe. The contraction of demand on mature markets has been accompanied by a progressive concentration of end markets and tougher competition, phenomena that require aggressive policies in setting sales prices.

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

- the launch of new products characterised by superior performance compared with market standards;
- expansion on markets with high growth rates;
- 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;
- the improvement of the efficiency of production processes.

Commodity price volatility risk

The Group uses metals and alloys in its production processes, chiefly brass, aluminium alloys and steel. The sale prices of products are generally renegotiated 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 profitability. 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.

As of the date of this report, the Sabaf Group has already fixed purchase prices for 50% of its expected requirement of aluminium, steel and brass for 2015.

Any further increase in the price of commodities not hedged could have negative effects on expected profits.

For more information, see Note 36 of the consolidated financial statements, as regards disclosure for the purposes of IFRS 7.

Exchange rate fluctuation risk

The Sabaf Group operates primarily in euro. There are, however, transactions in other currencies, such as the U.S. dollar, the Brazilian real, the Turkish lira and the Chinese renminbi.

Since sales in US dollars accounted for 10% of consolidated revenue, the possible depreciation against the euro and the real could lead to a loss in competitiveness on the markets where sales are made in that currency (mainly South and North America).

At 31 December 2014, the Group had in place a forward sale contract of USD 1.2 million at a euro/dollar exchange rate of 1.36, maturing on 30 June 2015. The Administration and Finance Department constantly monitors forex exposure, the trend in exchange rates and the operational management of related activities.

For more information, see Note 36 of the consolidated financial statements, as regards disclosure for the purposes of IFRS 7.

Risks associated with product responsibility

Sabaf products carry a high intrinsic risk in terms of safety. The Group's great attention to product quality and safety has made it possible to avoid incidents caused by product defects. Despite this, it is not possible to automatically exclude incidents of this nature.
In order to transfer the risk of third-party liability damage arising from malfunctioning of its products, Sabaf has signed insurance policies with deductible of up to €10 million per individual claim.

Protection of product exclusivity

There is a risk that some Group products, although patented, will be copied by competitors, particularly in countries in which it is more difficult to protect intellectual property rights.
Sabaf's business model therefore bases the protection of product exclusivity mainly on design capacity and the internal production of special machines used in manufacturing processes, which result from its unique know-how that competitors would find difficult to replicate.
In any case, Sabaf has in place structured processes to manage innovation and protect intellectual property.

Sales concentration risks

The Group is characterised by a strong concentration in its revenue, with 50% arising from sales to its ten biggest customers. Relations with customers are usually stable and over long periods, albeit usually regulated by agreements of less than one year, which can be renewed and with no guaranteed minimum levels.
At the date of this report, there was no reason for the Group to foresee the loss of any significant clients in the coming months.

Trade receivable risk

The high concentration of sales to a small number of customers, under the previous point, 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 one of them. In particular, given the structural difficulties of the domestic appliance sector in mature markets, it is possible that situations of financial difficulty and insolvency among customers could arise.
The risk is constantly monitored through the preliminary assessment of customers and checks that agreed payment terms are met. From November 2014, a credit insurance policy was taken out which covers approximately 70% of the credit risk. A further portion is partly guaranteed through letters of credit issued by major banks in favour of customers. The remainder of the receivable risk is covered by a doubtful account provision considered appropriate.
For more information, see Note 36 of the consolidated financial statements, as regards disclosure for the purposes of IFRS 7.

Risk of instability in emerging countries in which the Group produces or sells

40% of Sabaf Group sales are registered on markets outside Europe. Furthermore, products sold in Italy can be exported by customers in international markets, making the percentage of sales earned directly and indirectly from emerging economies more significant.
The Group's main markets outside Europe include North Africa and the Middle East (which accounted for 9% and 3% respectively of direct Group sales in 2014, as well as indirect sales registered by our customers, which are difficult to quantify). Any embargoes or major political or economic stability, or changes in the regulatory and/or local law systems, or new tariffs or taxes imposed in the future could affect a portion of Group sales and the related profitability.

To combat this risk, the Group has adopted a policy of diversifying investments at international level, setting different strategic priorities that, as well as business opportunities, also consider the different associated risk profiles. In addition, the Group monitors the economic and social performance of the target countries, through a local network as well, in order to make strategic and investment decisions fully aware of the exposure to associated risks.

Sustainability of the hinges business
In 2014, the results of the hinges business showed an improvement over the previous year, both in terms of sales performance and as far as profitability was concerned. This, however, remained slightly negative because production volumes were not yet sufficient to support fixed costs. Measures were taken aimed at improving operating efficiency and special products were developed (soft-closing hinges for oven doors), which should start being sold in 2015. The 2015-2019 business plan of the Hinges CGU projects a significant recovery in sales and profitability, to which the new products should make a substantial contribution. If this is unsuccessful, the Group cannot rule out the need for write-downs of the value of assets allocated to the Hinges business. For more information, see Note 3 of the consolidated financial statements.

Risks relating to the difficulties of sufficiently managing the Group's internationalisation
The Sabaf Group is going through a process of growing internationalisation, with the opening of new companies and production facilities in countries considered strategic for the future development of its business. This process requires appropriate measures, which include the recruitment and training of management staff, and the implementation of management and coordination measures by the parent company.
In order to support this expansion process, the Sabaf Group is committed to defining suitable measures, which include the appropriate definition of the spheres and responsibilities of management action, careful planning of activities in implementing new projects, and a detailed analysis of the regulatory environment in the various countries involved.

Risks relating to the loss of key staff and expertise and the difficulty of replacing them
Group results depend to a large extent on the work of executive directors and management. The loss of a key staff member for the Group without an adequate replacement and the inability to attract new resources could have negative effects on the future of the Group and on the quality of financial and economic results. To mitigate this risk, the Group launched policies to strengthen the most crital internal organisational structures and loyalty schemes, including the signing of non-competition agreements with key figures.

Research and Development

The most important research and development projects conducted in 2014 were as follows:

Burners
- prototypes of a new high-efficiency, triple crown burner were designed and manufactured, destined first of all for the Brazilian market, where industrialisation is expected in 2015 with the launch of production in 2016;
- nine solutions of the DCC burner have been developed to respond to the technical requirements of Chinese customers;

- based on the DCC burner platform, versions dedicated to specific customers have been produced;

Valves
- a new version of the light alloy safety valve for kitchens has been designed;
- interventions in the process aimed at increasing productivity have continued, with special emphasis on the assembly stages;

Hinges
- a soft close system for oven doors has been developed with a damping unit fitted in the oven, with industrialisation planned for 2015;
- a magnetic linear motor suitable for moving oven doors has been designed, with the prototype planned for production in 2015.

The improvement in production processes continued throughout the Group, accompanied by the development and internal production of machinery, tools and presses.

Development costs to the tune of €484,000 were capitalised, as all the conditions set by the international accounting standards were met; in other cases, they were charged to the income statement.

SAP implementation
In order to align subsidiaries' operational and management model with that of Sabaf S.p.A., the Group has extended the implementation of the SAP IT system to all production units; following the planned launch of production in China, in 2015 the system will also be launched at Sabaf China.

Integrated sustainability and reporting
Since 2005, Sabaf has drawn up a single report on its economic performance and its social and environmental sustainability. In 2005, this was a pioneering and almost experimental move, but today, the trend emerging at international level suggests that integrated reporting unquestionably represents best practice.

Personnel
At 31 December 2014, there were 726 Sabaf Group employees (730 at 31 December 2013). In 2014, the Sabaf Group suffered no on-the-job deaths or serious accidents that led to serious or very serious injury of staff, for which the Group has been definitively held responsible, nor was it held responsible for occupational illnesses of employees or former employees, or causes of mobbing.
For more information, see the "Sabaf and employees" section of the Annual Report.

Environment
Note that in 2014 there was no:
- damaged caused to the environment for which the Group was held definitively responsible for;
- definitive fines or penalties imposed on the Group for environmental crimes or damage.

For more information, see the "Environmental Sustainability" section of the Annual Report.

Corporate Governance
For a complete description of the corporate governance system of the Sabaf Group, see the report on corporate governance and on the ownership structure, available in the Investor Relations section of the company website.

Internal Control System on Financial Reporting
The internal control system on financial reporting is analytically described in the report on corporate governance and on ownership structure.
With reference to the "conditions for listing shares of parent companies set up and regulated by the law of states not belonging to the European Union" pursuant to articles 36 and 39 of the Market Regulations, the Company and its subsidiaries have administrative and accounting systems that can provide the public with the accounting situations prepared for drafting the consolidated report of the companies that fall in the area of this regulation and can supply management and the auditors of the Parent Company with the data necessary for drafting the consolidated financial statements. The Sabaf Group has also set up an effective information flow to the independent auditor and continuous information on the composition of the company officers of the subsidiaries, complete with information on the roles covered and requires the systematic and centralized gathering and regular updates of the formal documents relating to the bylaws and granting of powers to company officers. The conditions exist as required by article 36, letters a), b) and c) of the Market Regulations issued by CONSOB. In the year, no acquisitions were made of companies in countries not belonging to the European Union which, considered independently, would have a significant relevance for the purposes of the regulation in question.

Model 231
The Organisation, Management and Control Model, adopted pursuant to Legislative Decree 231/2001, is described in the report on company governance and on the ownership structure, which should be reviewed for reference.

Personal data protection
With reference to Legislative Decree of 30 June 2003, in 2014 the Group continued its work to ensure compliance with current regulations.

Derivative financial instruments
For the comments on this item, please see Note 36 of the consolidated financial statements.

Abnormal or unusual transactions
Sabaf Group companies did not execute any unusual or abnormal transactions in 2014.

Secondary offices
Neither Sabaf S.p.A. nor its subsidiaries have secondary offices.

Management and coordination
Although Sabaf S.p.A. is controlled by the ultimate parent company, Giuseppe Saleri S.a.p.A., the Board of Directors holds that the Company is not subject to management and co-ordination of the parent company, since the Board of Directors of Sabaf S.p.A. enjoys complete operating autonomy and does not have to justify its actions to the parent company, except at the annual Shareholders' Meeting held to approve the separate financial statements and, obviously, in the event of violation of the law and/or the Bylaws. Also note that the

Bylaws of the parent company explain that it does not exercise management and coordination activities with regard to Sabaf S.p.A.
Sabaf S.p.A. exercises management and coordination activity over its Italian subsidiaries, Faringosi Hinges s.r.l. and Sabaf Immobiliare s.r.l.

Infragroup and related-party transactions
Relations between Group companies, including those with the parent company are regulated by market conditions, in the same way as related-party transactions, defined in accordance with IAS 24. The details of infragroup translations and related-party transactions are exposed in Note 37 of the consolidated financial statements and in Note 36 of the separate financial statements of Sabaf S.p.A.

Tax consolidation
In 2013 Sabaf S.p.A. approved the renewal for the three-year period 2013-2015 of the tax consolidation agreement with the parent company Giuseppe Saleri S.a.p.A. and with the subsidiaries Faringosi Hinges s.r.l. and Sabaf Immobiliare s.r.l. For Sabaf Group companies membership of the tax consolidation scheme does not imply higher taxes as it makes no difference if these are paid to the tax authorities or to its parent company at the due dates. Having made the necessary offsets and adjustments, the parent company will handle the payment and be liable for any damages the subsidiaries may incur for the former's failure to comply. Conversely, membership of the tax consolidation scheme could result in tax benefits for the Sabaf Group because the tax advantages resulting from consolidation are shared among the companies that belong to it.

Significant events after the year-end and business outlook
No significant events took place subsequent to the end of the year and up to the date of this report that would be considered worthy of mention.
In this first part of the year, the performance of sales and orders shows decisive signs of recovery compared with trends in recent years, which should, however, be confirmed in coming months.
For the full year, based on negotiations concluded with its main customers, the Group believes that it will be able to register moderate growth in sales and profitability compared with 2014. These targets assume a macroeconomic scenario not affected by unpredictable events. If the economic situation were to change significantly, actual figures might diverge from forecasts.

Sabaf S.p.A. business and financial status

(€'000)	**2014**	**2013**	**Change**	**% change**
Sales revenue	115,919	112,417	3,502	+3.1%
EBITDA	17,984	16,902	1,082	+6.4%
Operating profit (EBIT)	9,708	5,382	4,326	+80.4%
Pre-tax profit	10,533	5,718	4,815	+84.2%
Net Profit	7,878	3,730	4,148	+111.2%

Balance sheet and financial position

The reclassification based on financial criteria is illustrated below:

(€'000)	**31/12/2014**	**31/12/2013**
Non-current assets	*85,110*	*84,392*
Short-term assets[6]	62,583	58,478
Short-term liabilities[7]	(25,856)	(23,882)
Working capital[8]	*36,727*	*34,596*
Financial assets	*1,660*	*1,451*
Provision for risks and charges, employee severance pay reserve, deferred taxes	*(3,191)*	*(2,928)*
Net invested capital	**120,306**	**117,511**
Short-term net financial position	(17,072)	(13,152)
Medium/long-term net financial position	(7,340)	0
Net financial position	**(24,412)**	**(13,152)**
Shareholders' equity	**95,894**	**104,359**

6 Sum of inventories, trade receivables, tax credits, and other current receivables
7 Sum of trade payables, tax payables, and other payables
8 Difference between current assets and current liabilities

Cash flows for the period are summarised in the table below:

(€'000)	**2014**	**2013**
Cash and cash equivalents – opening balance	***2,345***	***1,601***
Operating cash flow	14,124	17,101
Cash flow from investments	(9,030)	(9,217)
Cash flow from financing activities	(6,073)	(7,140)
Cash flow for the period	(979)	744
Cash and cash equivalents – closing balance	***1,366***	***2,345***

Net financial debt and the net short-term financial position shown in the tables above are defined in compliance with the net financial position detailed in Note 21 of the statutory accounts, as required by the CONSOB memorandum of 28 July 2006.

The financial year 2014 ended with a 3.1% increase in sales over 2013, supported by greater sales of light alloy valves. Further improvements in productivity made it possible to deal with the fall in average sales prices and to improve EBIT more than proportionally; EBITDA stood at €18 million, 15.5% of sales (€16.9 in 2013, 15%).

As described in more detail in the Notes to the separate financial statements, the value of the investment in Faringosi Hinges, which fell by €3.7 million in previous years, was restored by €1.8 million in 2014 following the results of the impairment test, based on the business plan which forecasts a significant increase in sales and profitability for the subsidiary.

EBITDA came in at €9.7 million, equivalent to 8.4% of sales (€5.4 million in 2013, 4.8% of sales), net profit was €7.9 million, or 6.8% of sales (vs. €3.7 million in 2013, 3.3%).

The actual cost of the main raw materials (brass, aluminium alloys and steel) was on average 5.7% lower compared to 2014.
The impact of labour costs on sales remained essentially stable at 24%.
Net finance expense as a percentage of sales was minimal, at 0.33% (0.61% in 2013), given the low level of financial debt and the low interest rates.

Operating cash flow (net profit plus depreciation & amortisation) increased from €13.6 million to €16.9 million, equivalent to 14.6% of sales (vs. 12.1% in 2013).

In 2014 Sabaf S.p.A. invested over €9 million. The main investments in the year related to the industrialisation of new models of special burners and light alloy valves, sales of which are expected to increase further in the future.

At 31 December 2014, working capital stood at €36.7 million compared with €34.6 million the previous year: its percentage impact on sales rose to 31.7% from 30.8% at the end of 2013.

Self-financing generated by operating cash flow totalled €14.1 million vs. €17.1 million in the previous year, because of the unfavourable performance of working capital.

Net financial debt stood at €24.4 million, compared with €13.2 million at 31 December 2013, affected by the distribution of extraordinary dividends of €11.5 million, as commented on in the first part of this report. Two unsecured loans of €5 million each were taken out in the period, one expiring in three years and the other in five years, repayable at constant rates.

Net equity at the end of the year amounted to € 95.9 million vs. € 104.4 million in 2013. The ratio between net financial debt and net equity was 0.25 compared with 0.13 in 2013.

Reconciliation between parent company and consolidated shareholders' equity and net profit for the period

Pursuant to the CONSOB memorandum of 28 July 2006, below is a reconciliation statement of the results of the 2014 financial year and Group shareholders' equity at 31 December 2014 with the same values of parent company Sabaf S.p.A.:

	31.12.2014		**31.12.2013**	
Description	Profit for the period	Shareholders' equity	Profit for the period	Shareholders' equity
Net profit and shareholders' equity of parent company Sabaf S.p.A.	**7,878**	**95,894**	**3,730**	**104,359**
Equity and consolidated company results	3,263	54,609	4,669	51,614
Elimination of consolidated equity investments' carrying value	(1,771)	(43,936)	939	(42,165)
Goodwill	0	4,445	0	4,445
Equity investments booked at net equity	0	73	0	5
Intercompany Eliminations				
Dividends	(970)	0	(1,034)	0
Other intercompany eliminations	(62)	(347)	(200)	(303)
Profit and Shareholders' Equity attributable to the Group	**8,338**	**110,738**	**8,104**	**117,955**

Use of the longer deadline to call the Shareholders' Meeting

Pursuant to paragraph 2 of Article 2364 of the Italian Civil Code, in light of the need to consolidate the financial statements of Group companies and to prepare all the supporting documentation, the directors intend to make use of the longer deadline granted to companies obliged to prepare consolidated financial statements relating to the calling of the Ordinary Shareholders' Meeting to approve the 2014 Annual Financial Report. The same meeting will also be called to elect the members of the board of directors and board of statutory auditors, and must therefore be called at least 40 days previously pursuant to Article 125-bis of the TUF. The meeting is convened (single call) for 5 May 2015.

Proposal for approval of the separte financial statements and proposed dividend

First and foremost, we would like to thank our employees, the Board of Statutory Auditors, the independent auditors and the supervisory authorities for their invaluable cooperation. We would ask shareholders to approve the financial statements for the year ended 31 December 2014, with the recommendation to allocate the year's profits of €7,877,868 as follows:

- the payment of a dividend of €0.40 per share to shareholders, with payment date on 27 May 2015 (ex-date: 25 May 2015). With regard to treasury shares, we recommend allocating an amount corresponding to the dividend of company shares in the portfolio on the ex-date to the extraordinary reserve;
- the remainder to the extraordinary reserve.

Ospitaletto, 23 March 2015
Board of Directors