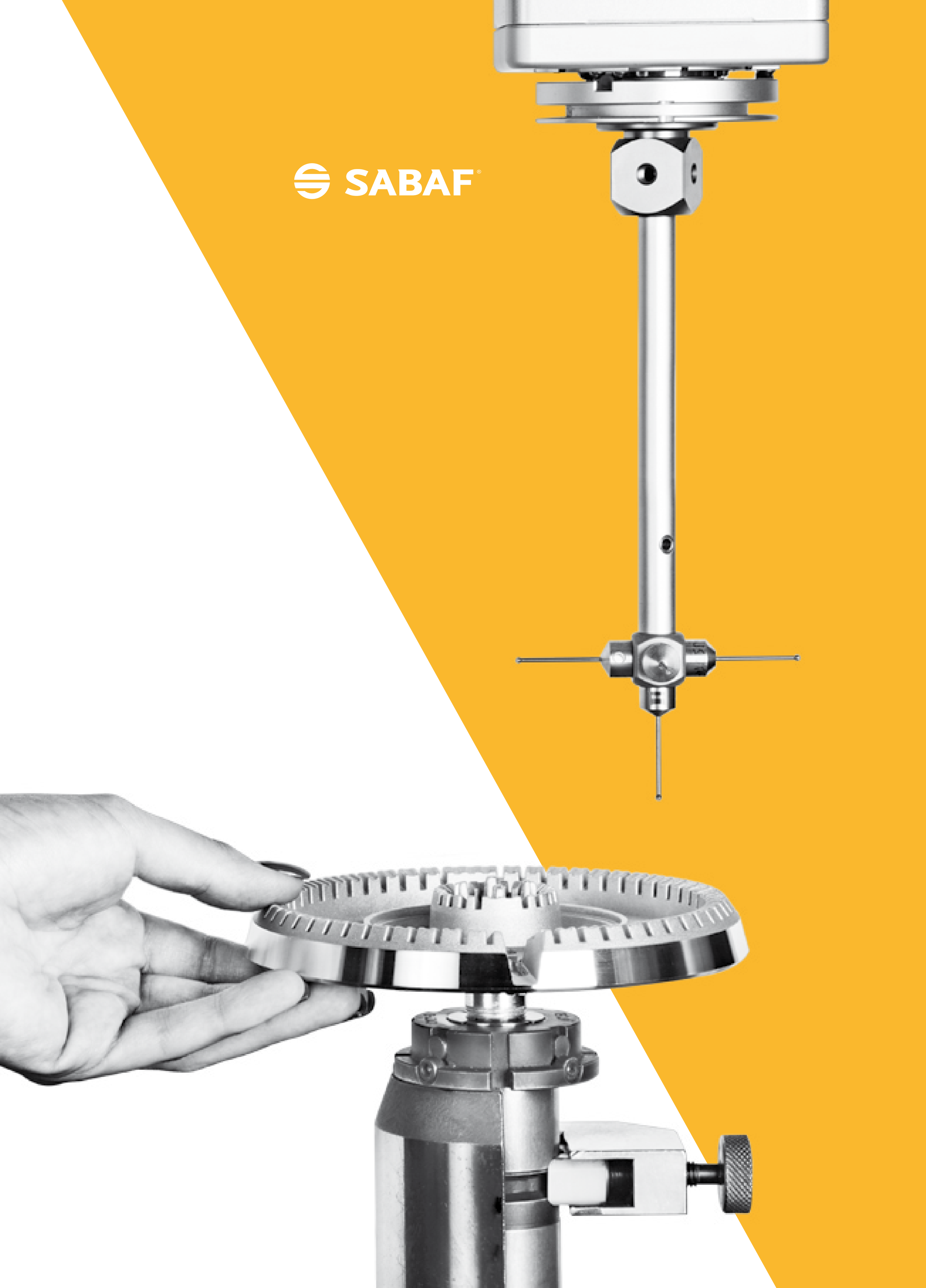

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CHAPTER 3

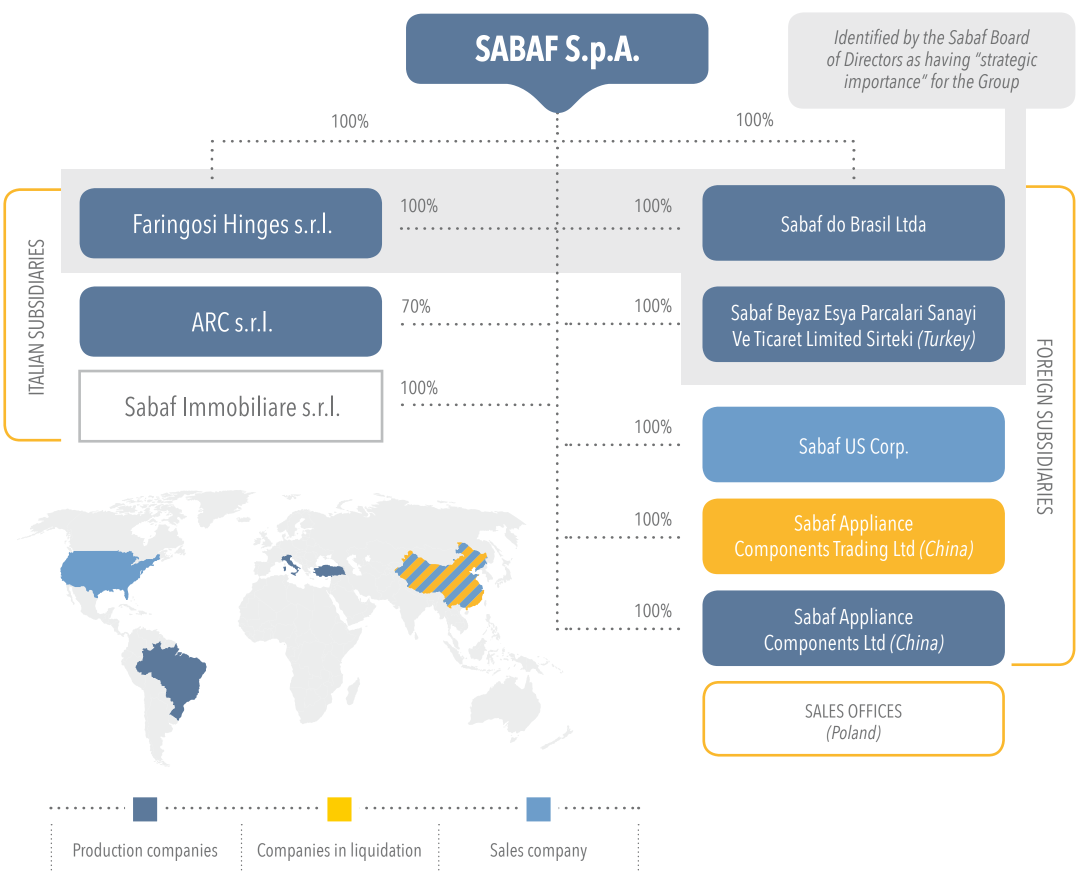
CORPORATE GOVERNANCE, RISK MANAGEMENT, COMPLIANCE AND GENERAL REMUNERATION POLICY

Corporate Governance

Overview

The corporate governance model adopted by Sabaf is based on the decision to strictly separate the interests and choices of the reference shareholder – the Saleri family – from those of the Company and the Group, and therefore assign corporate management to managers who are distinct from the reference shareholder.
Expansion of the shareholder base following listing on the stock exchange, admission to the STAR segment (with the voluntary acceptance of stricter transparency and disclosure rules), and the desire to comply consistently with best practice in relation to corporate governance, represent the subsequent steps taken by Sabaf towards compliance of its corporate governance system with a model whose benchmark is that directors act in the Company's interests and create value for shareholders and other stakeholders.
As a further step along this path, Sabaf's management believes that ethics founded on the centrality of the individual and respect for common values, set at the head of the creation of value, are able to help take decisions that are in line with the corporate culture and significantly contribute to assuring the Company's sustainable long-term growth. For this purpose, Sabaf has prepared and published a Charter of Values, in accordance with the existing national and international regulatory principles, guidelines and documents with regard to human rights, corporate social responsibility and corporate governance.
The document is the governance tool through which the Board of Directors clearly explains the Company's values, standards of conduct and commitments in respect of all stakeholders – shareholders, employees, customers, suppliers, investors, the Public Administration, the community and the environment.
The Charter of Values was approved by the Board of Directors on 11 February 2014 and is available on the website ***www.sabaf.it*** under the section "Sustainability".

This section of the report highlights the decisions taken by Sabaf and the special features of its governance system, reviewed in the light of the new measures introduced by the Corporate Governance Code. Where possible, a comparison is also provided with other listed companies, using information taken from Assonime in its report "Corporate Governance in Italy: Corporate Governance, Remuneration and comply-or-explain", published in November 2016 and based on the 2015 Corporate Governance reports (available on 15 July 2016) of 227 listed Italian companies, of which 92% (212 companies) have formally chosen to adhere to the Corporate Governance Code. The benchmark used below takes into account a panel of only "non-financial" companies, where available. A further comparison is provided of the composition and functioning of the Board of Directors, using data from the Italia Board Index Observatory 2016, published by Spencer Stuart, which analyses the characteristics and functioning of the Boards of Directors of the top 100 (industrial and financial) listed companies in Italy in order of capitalisation as at 11 March 2016, as well as a comparison with major European and non-European countries.
The information below is a summary and does not replace the "Report on Corporate Governance and Ownership Structures", prepared by the Issuer pursuant to article 123-bis of the Consolidated Law on Finance (TUF) for 2016 and available in the Investors/Corporate Governance section of the website ***www.sabaf.it***.



The Group operates through production and sales companies in Italy and abroad.

Specifically:

a) Production is carried out by:
- the Parent Company Sabaf S.p.A., valves and burners;
- Italian company Faringosi Hinges Hinges, cerniere,
- the subsidiary in Brazil, burners;
- the subsidiary in Turkey, burners;
- the subsidiary Sabaf Appliance Components in China, burners (start of production, 2015),
- the subsidiary ARC srl, professional burners (acquired in 2016).

b) The subsidiary Sabaf US carries out sales support activities.

c) The subsidiary Sabaf Appliance Components Trading (China) went into liquidation in 2015.

d) Sabaf Immobiliare manages the Group's real estate assets.

Management and control model

Sabaf has adopted a traditional management and control model, consisting of:

- ***Shareholders' meetings***, ordinary and extraordinary, called to pass resolutions pursuant to the laws in force and the By-laws;

- ***Board of Statutory Auditors***, responsible for supervising: *(i)* compliance with the law and Articles of Incorporation and adherence to principles of proper management in the performance of corporate activities; *(ii)* the adequacy of the Company's organisational structure, internal control and risk management system, and administrative/accounting system; *(iii)* the procedures for effective implementation of the corporate governance rules envisaged in the Code; *(iv)* risk management; *(v)* the statutory review of the accounts and the independence of the auditing firm;

- ***Board of Directors***, in charge of company administration and management of Company operations.

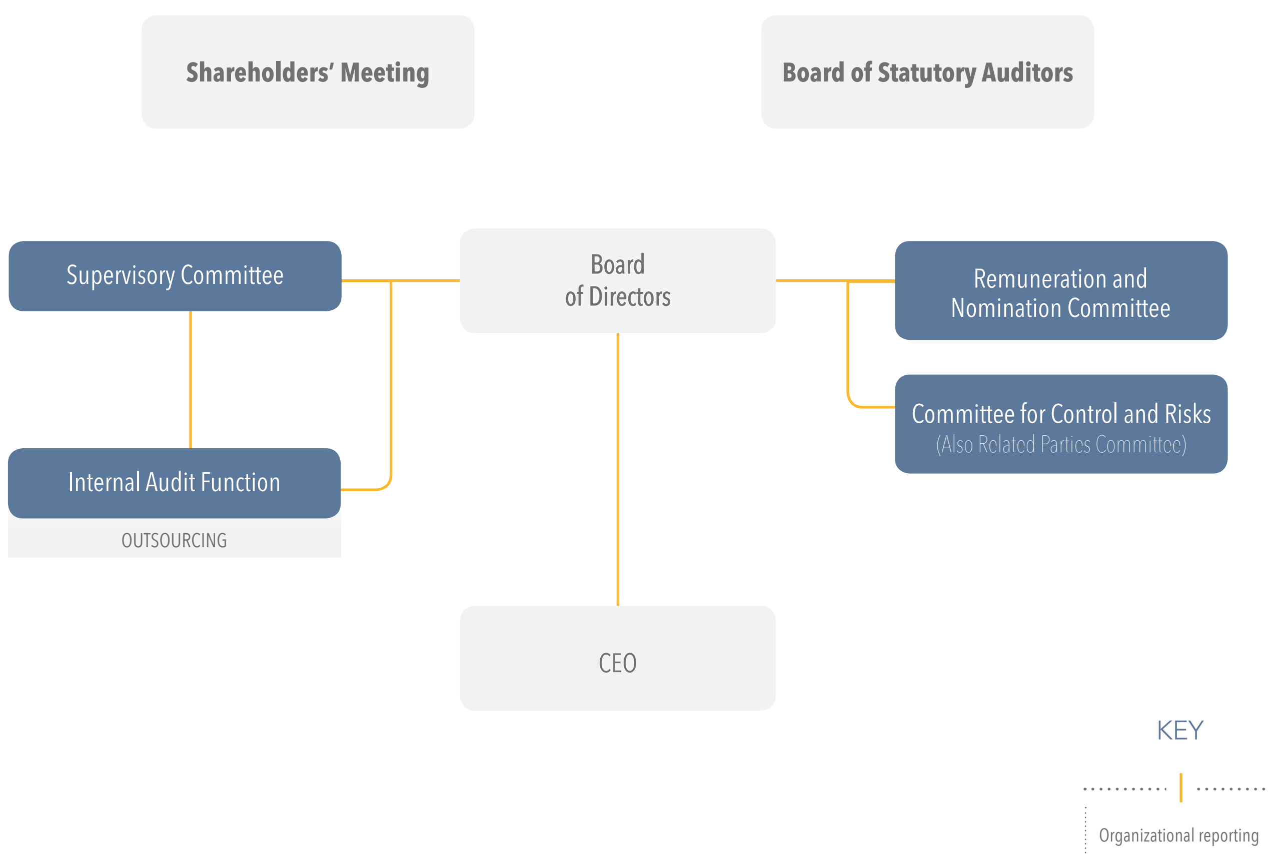
This model is supplemented, pursuant to the provisions of the Corporate Governance Code to which the Company adheres, by:

a) board-level committees established when the bodies are renewed by the Board of Directors, each with responsibility for making proposals or providing consultancy on specific topics and having no decision-making powers:
   - ***Control and Risk Committee*** which also assumes the functions of the Related Parties Committee;
   - ***Remuneration and Nomination Committee*** which assumes the functions stipulated by the previous mandate of the Remuneration Committee as well as those relating to the appointment and composition of the supervisory bodies indicated by the Code;

b) the ***Internal Audit Function*** responsible for verifying that the internal control and risk management system is adequate and operates properly.

Finally, the Group's administration and control model is completed by the presence of the ***Supervisory Committee***, set up following the adoption by Sabaf in 2006 of the Organisational Management and Control Model pursuant to Legislative Decree 231/2001.

The Governance structure

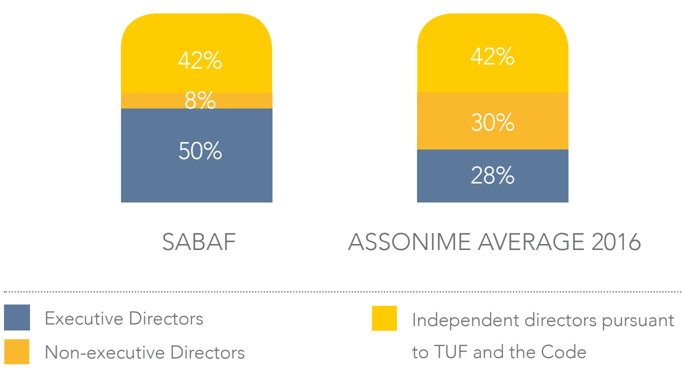


BOARD OF DIRECTORS

The Board of Directors currently in office is composed of the following twelve (12) members: (i) 6 executive, (ii) 1 non-executive and (iii) 5 non-executive and independent (including one appointed by the minority list, consistent with 43% of the sample analysed by Assonime in 2016).

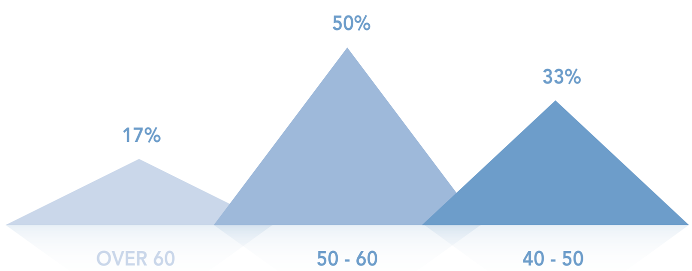
	POSITION	COMPONENTS*
EXECUTIVE DIRECTORS	Chairman	Giuseppe Saleri
	Vice Chairman	Ettore Saleri
	Vice Chairman	Cinzia Saleri
	Vice Chairman	Roberta Forzanini
	CEO	Alberto Bartoli
	Executive Director	Gianluca Beschi
NON-EXECUTIVE DIRECTORS	Director	Giuseppe Cavalli (INDEPENDENT DIRECTORS PURSUANT TO TUF AND THE CODE)
	Director	Renato Camodeca *Lead Independent Director* (INDEPENDENT DIRECTORS PURSUANT TO TUF AND THE CODE)
	Director	Fausto Gardoni (INDEPENDENT DIRECTORS PURSUANT TO TUF AND THE CODE)
	Director	Nicla Picchi (INDEPENDENT DIRECTORS PURSUANT TO TUF AND THE CODE)
	Director	Anna Pendoli (INDEPENDENT DIRECTORS PURSUANT TO TUF AND THE CODE)
	Director	Alessandro Potestà

Composition of the Board of Directors



Average age of directors

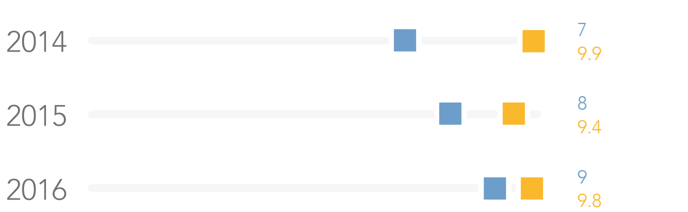
Average overall age:
Sabaf 56.4 vs 57.2 Assonime



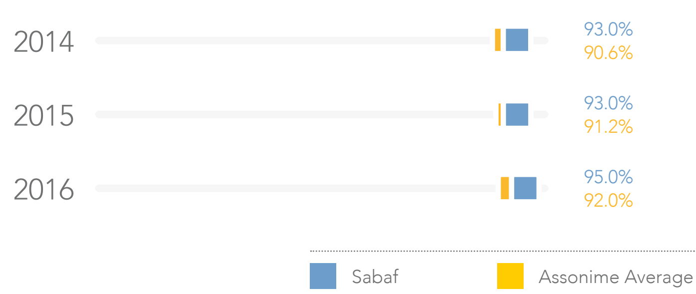
Observations

50% of the serving Board members are aged between 50 and 60; the average age is in line with the average of the sample analysed by Assonime (56.4 vs. 57.2 years).
In the last three years the Board has met fewer times than the average of the sample analysed by Assonime (9 Sabaf BoD meetings in 2016) and with members' attendance always higher than 90%, which is in line with the other companies in the study (95% in 2016).
The meetings were attended by the *Board of Statutory Auditors* and – in turn – Sabaf executives, invited to attend and discuss specific subjects on the agenda.

Number of meetings (2014-2016)



Average attendance to Meetings (2014-2016)[1]



*The curricula vitae of individual directors are available on the Company website.

1 Assonime panel including financial companies.

COMPOSITION OF THE BOARD OF DIRECTORS

Giuseppe Saleri

Chairman

Founder of Sabaf, of which he acquired full ownership in 1993.
Promoter of its listing on the stock exchange in 1998.

Ettore Saleri

Vice Chairman

Member of the Saleri family. Began his career at Sabaf in 1994. He later left the operational side of the business and helps manage the Group's interests through the Holding company. Vice Chairman since 2009.

Cinzia Saleri

Vice Chairman

Member of the Saleri family. Helps manage the Group's interests through the Holding company. Appointed Vice Chairman of Sabaf S.p.A. in 2012.

Giuseppe Cavalli

Director

A mechanical engineer, he has held directorships at a number of Italian household appliance manufacturing companies.
Currently General Manager of the Alfa Acciai Group.

Renato Camodeca

Director

University lecturer in Economics, former member of the Boards of Statutory Auditors and the Supervisory Committees of listed and non-listed companies. At Sabaf he is the Lead Independent Director.

Fausto Gardoni

Director

Has held directorships at leading industrial organisations. Has held the position of Chairman of the Remuneration and Nomination Committee at Sabaf since 2009.

Roberta Forzanini

Vice Chairman

Member of the Saleri family. Civil lawyer at the Court of Brescia, registered since 2000. Appointed Vice Chairman of Sabaf in May 2015.

Alberto Bartoli

Chief Executive Officer

Has roles of increasing responsibility in a number of industrial groups. At Sabaf since 1994 as Administration, Finance and Control Director. Appointed CEO in 2012.

Gianluca Beschi

Executive Director

Chartered accountant. Working at Sabaf since 1997 as Investor Relations Manager, Operational Control Manager and Head of Internal Control. Appointed Administration, Finance and Control Director in 2012.

Anna Pendoli

Director

Real estate broker. Appointed from the minority lists as an Independent Director of Sabaf in May 2015.

Nicla Picchi

Director

A graduate in Law, now Partner at Studio Picchi & Associati, where he practises as a lawyer. With Sabaf since 2006, he is also the Chairman of the Supervisory Committee (pursuant to Legislative Decree 231) of Sabaf S.p.A. and of the subsidiary Faringosi-Hinges. Since 2015, he has been Chairman of the Control and Risk Committee.

Alessandro Potestà

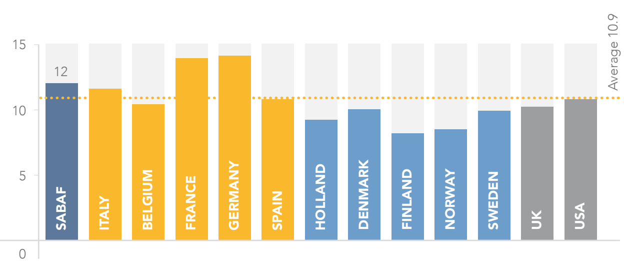
Director

Degree in Business Administration, has held management positions in the field of investments and Corporate Development. Currently the Senior Portfolio Manager at Quaestio Capital Management SGR S.p.A.

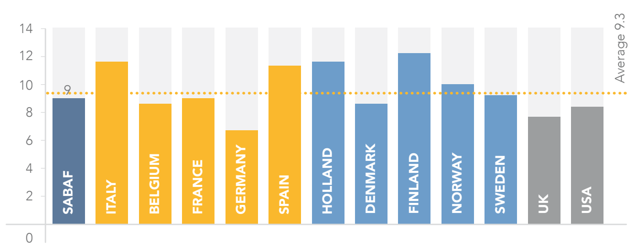
The comparison is made using data from the Italia Board Index Observatory 2016, published by Spencer Stuart, which analyses the characteristics and functioning of the Boards of Directors of the top 100 (industrial and financial) listed companies in Italy in order of capitalisation as at 11 March 2016, as well as a comparison with major European and non-European countries.

During the financial year, the Board of Directors carried out a review of the size, membership (including professional competences, managerial skills and seniority) and activities of the Board of Directors and its Committees, opting for self-assessment by individual directors, coordinated by the Lead Independent Director.
The results of the evaluation were generally positive and were discussed in the Board of Directors' meeting of 20 December 2016.

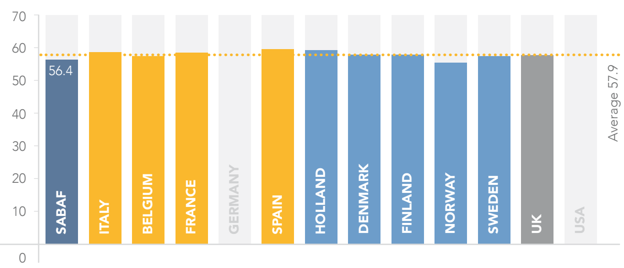
Average size of the Board



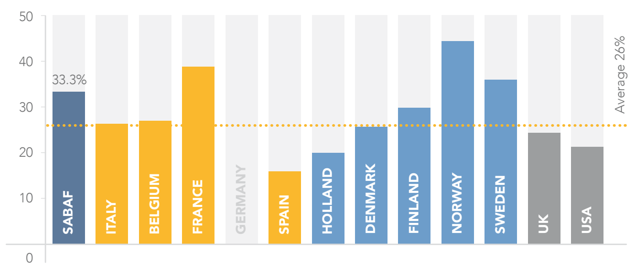
Average number of meetings of the Board



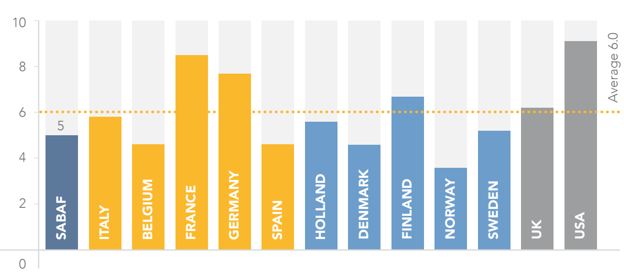
Average Age of Directors



% of women in the Board of Directors



Average number of independent directors



Sabaf
Southern Europe
Northern Europe
English-speaking countries

Source: Spencer Stuart - Italia Board Index 2016

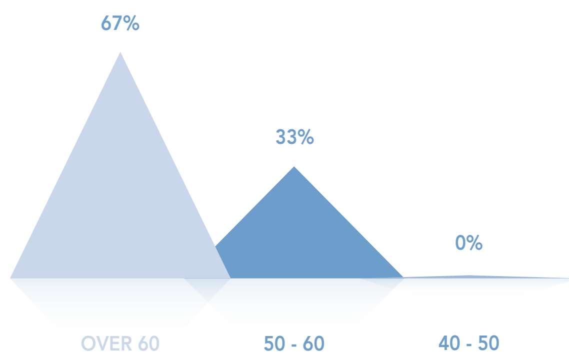
BOARD OF STATUTORY AUDITORS

The Board of Statutory Auditors, appointed by the Shareholders' Meeting on 5 May 2015 for the period 2015-2017, has 3 members, with an average age of 65 (above the Assonime average of 55.9), and 2 alternate auditors. The Chairman of the Board of Statutory Auditors was chosen by the minority shareholders.

POSITION	COMPONENTS*
Chairman	Antonio Passantino
Statutory Auditor	Enrico Broli
Statutory Auditor	Luisa Anselmi
Alternate Statutory Auditor	Paolo Guidetti
Alternate Statutory Auditor	Riccardo Rizza

Age of statutory auditors

Average overall age:
65 years



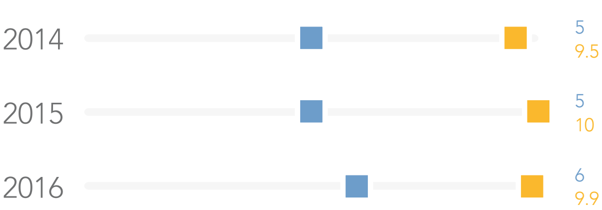
Observations

Over the last three years, Sabaf's Board of Auditors has met fewer times than the average of the meetings of the Assonime sample (9.9 meetings on average in 2016).

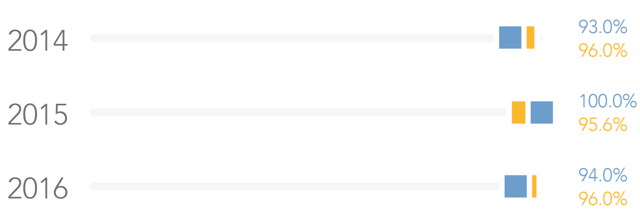
Members' attendance at the meetings was, on average, around 96% in the period 2014-2016 (94% in 2016), and in line with the other companies assessed in the study.

In general, as well as conducting checks and attending the regular meetings pursuant to the laws in force, all members of the Sabaf Board of Statutory Auditors must attend the meetings of the Board of Directors and the Control and Risk Committee, the half-yearly collective meetings with the supervisory bodies and the individual meetings with the statutory auditing firm.

Number of meetings (2014-2016)



Average attendance to Meetings (2014-2016) [2]



Sabaf   Assonime Average

* The curricula vitae of individual auditors are available on the Company website.

2 Assonime panel including financial companies.

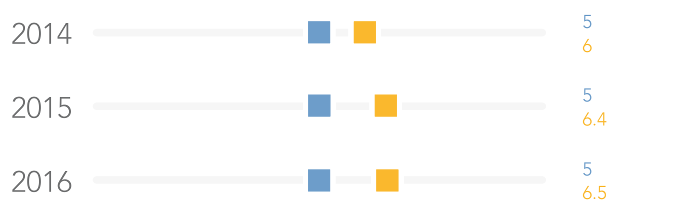
CONTROL AND RISK COMMITTEE

The serving Control and Risk Committee, formed within the Board, is composed entirely of 3 independent directors, in line with the majority of cases of the Assonime sample (3 members in 76% of cases).

The Committee has also been allocated the relevant functions of the Related Parties Committee.

POSITION	COMPONENTS
Chairman	Nicla Picchi
Member	Giuseppe Cavalli
Member	Renato Camodeca

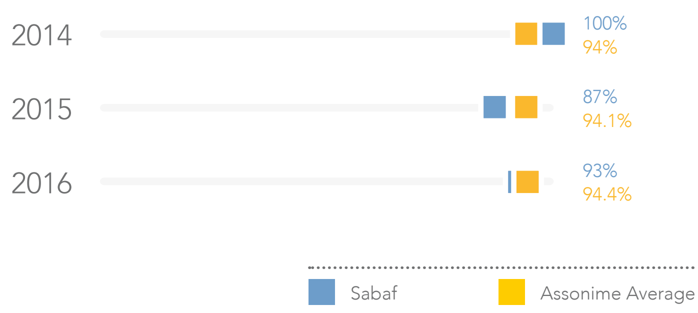
Number of meetings (2014-2016)



Observations

The Committee met 5 times in 2016 (Assonime average: 6.5 meetings). In the last three years, the number of meetings and the attendance of the directors to the committees was on average in line with Assonime's sample.

Average attendance to Meetings (2014-2016) [3]



REMUNERATION AND NOMINATION COMMITTEE

The Remuneration and Nomination Committee, set up within the Board, has 4 non-executive and in majority independent members (Assonime average: 3 members), with knowledge and experience of accounting, finance and remuneration policies, deemed suitable by the Board and of which 1 (Alessandro Potestà) appointed during 2016.

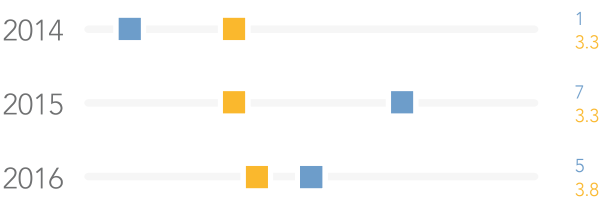
POSITION	COMPONENTS
Chairman	Fausto Gardoni
Member	Giuseppe Cavalli
Member	Renato Camodeca
Member	Alessandro Potestà

Observations

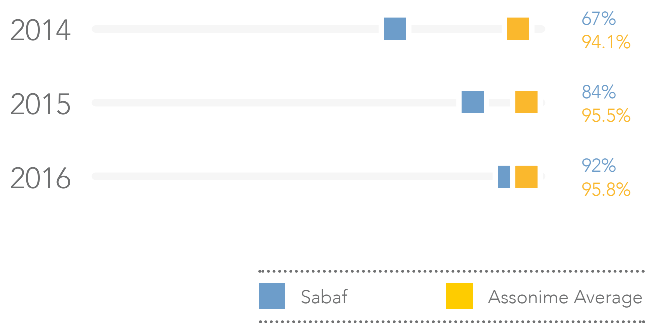
In the last three years the Committee has met more times than the Assonime average (except in 2014).
In particular, in the last year, the Committee met 5 times with the purpose, among others, to prepare the incentive plan for 2016, assess the appointment of directors of the newly acquired company ARC srl and to determine their fees.

[3] Assonime panel including financial companies.

Number of meetings (2014-2016)



Average attendance to Meetings (2014-2016) [4-5]



INTERNAL AUDIT HEAD AND SUPERVISORY COMMITTEE

Internal Audit

On 5 May 2015, the Board of Directors, subject to the favourable opinion of the Control and Risk Committee and having heard the Board of Statutory Auditors, renewed the appointment of Protiviti S.r.l., an external company, to carry out the internal audit activity for the period 2015-2017, appointing Emma Marcandalli, Managing Director of the company, as the Manager in charge. The decision is based on the greater skills and efficiency that an external consultant specialised in internal control can guarantee, also taking into account the size of the Sabaf Group.

The Internal Audit Manager is responsible for verifying that the internal control and risk management system is adequate and operates properly. He/she reports to the Board of Directors, is not responsible for any operating area and remains in office for the entire term of the Board that appointed him/her.

Supervisory Committee

The appointment of the Supervisory Board was confirmed on 5 May 2015 by the Sabaf Board of Directors for the 2015-2017 period; it consists of a non-executive and independent member, and an external member.

POSITION	COMPONENTS
Chairman	Nicla Picchi
Member	Emma Marcandalli

Also member of the Board of Directors as **independent director**

Also **Internal Audit Manager**. Representative of the external company to which management of Internal Audit activities has been outsourced

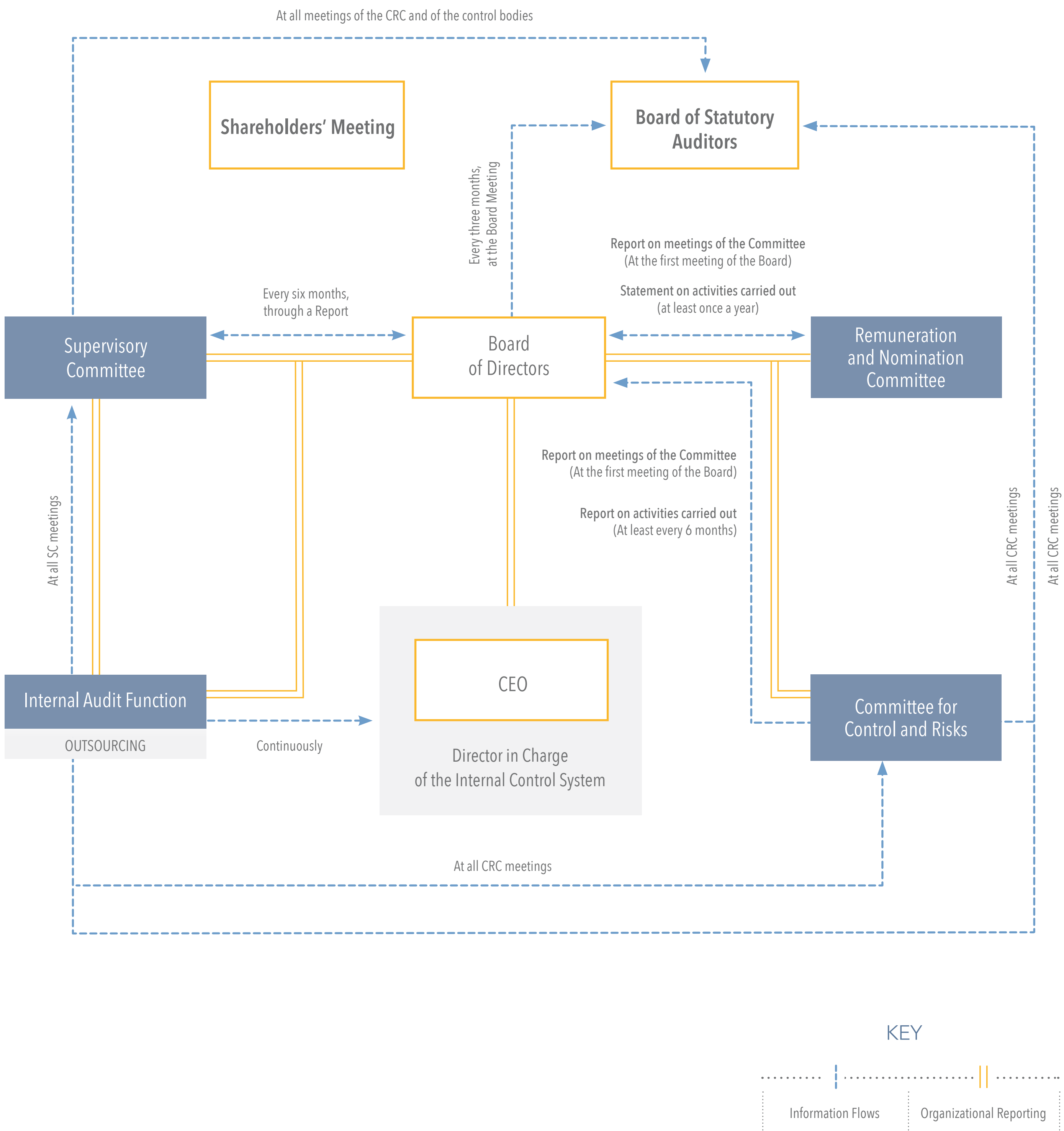
Sabaf's Supervisory Committee met 7 times in 2016, requesting the attendance of the Company's Management at the meetings in order to perform an in-depth review of specific topics.

4 Assonime Panel only for Remuneration Committee.
5 Assonime panel including financial companies .

INFORMATION FLOWS

Sabaf's management and control model operates through a **network of information flows**, which are regular and systematic, between the various company bodies. Each body, according to the time frames and procedures defined by the By-laws, the Governance Model and other internal documents, reports to the functionally superior body regarding the activities conducted during the time period in question and those planned for the subsequent period, noting any observations and suggested actions.

Information flows within the Corporate Governance structure



Risk Management

Framework

In conducting its business, Sabaf defines strategic and operational objectives, and identifies, assesses and manages the risks that could prevent these from being met

In recent years Sabaf has progressively explored the concepts of risk assessment and risk management in order to develop a structured and regular process of risk identification, assessment and management, defined and formalised in Guidelines contained in the Company's Corporate Governance Manual.

The guidelines define the roles and responsibilities for risk assessment and risk management processes, indicating the parties to be involved, process frequency and assessment scales.
Each risk is subject to an **assessment** which breaks down into the following variables:

- probability of *occurrence* over a three-year time frame;
- estimation of the greatest *impacts* in terms of the financial position, damage to persons and damage to image, over the time frame subject to assessment;
- level of *risk management and control*.

RATING SCALES		1	2	3	4
IMPACT	Economic and financial losses	*1% Ebit*	*1% - 2.5% Ebit*	*2.5% - 10% Ebit*	*10% Ebit*
	Bodily injury	Limited health effects	Medium health consequences	Serious health risks	Non-reversable effects
	Damage to image	Effects at the local level	Effects at the regional level	Effects at the national level	Effects at the international level
PROBABILITY	Frequency of occurrence	Once every 3 years or more often	Once every 2 years	Once every 1 year	Several times each year
	Qualitative indications	Unlikely/Remote	Not likely	Likely	Very likely
RISK MANAGEMENT LEVEL		*Unsatisfactory*	*Needs Improvement*	*Adequate (with limited room for improvement)*	*Optimal*

2016

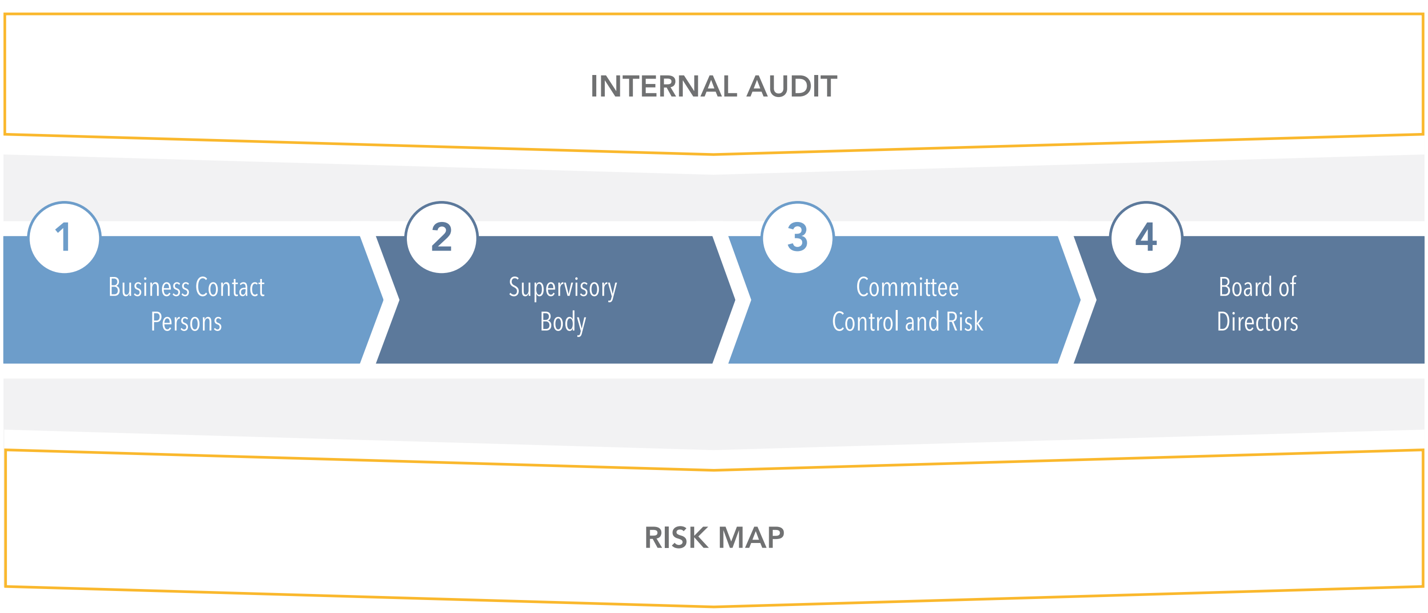
RESULTS

In the final quarter of 2016, the Internal Audit Function conducted the periodic risk assessment process to identify and assess Group risks, calling for the involvement of some Heads of Function at the Parent Company, also in their capacity as representatives for the Subsidiaries, each for their respective areas:

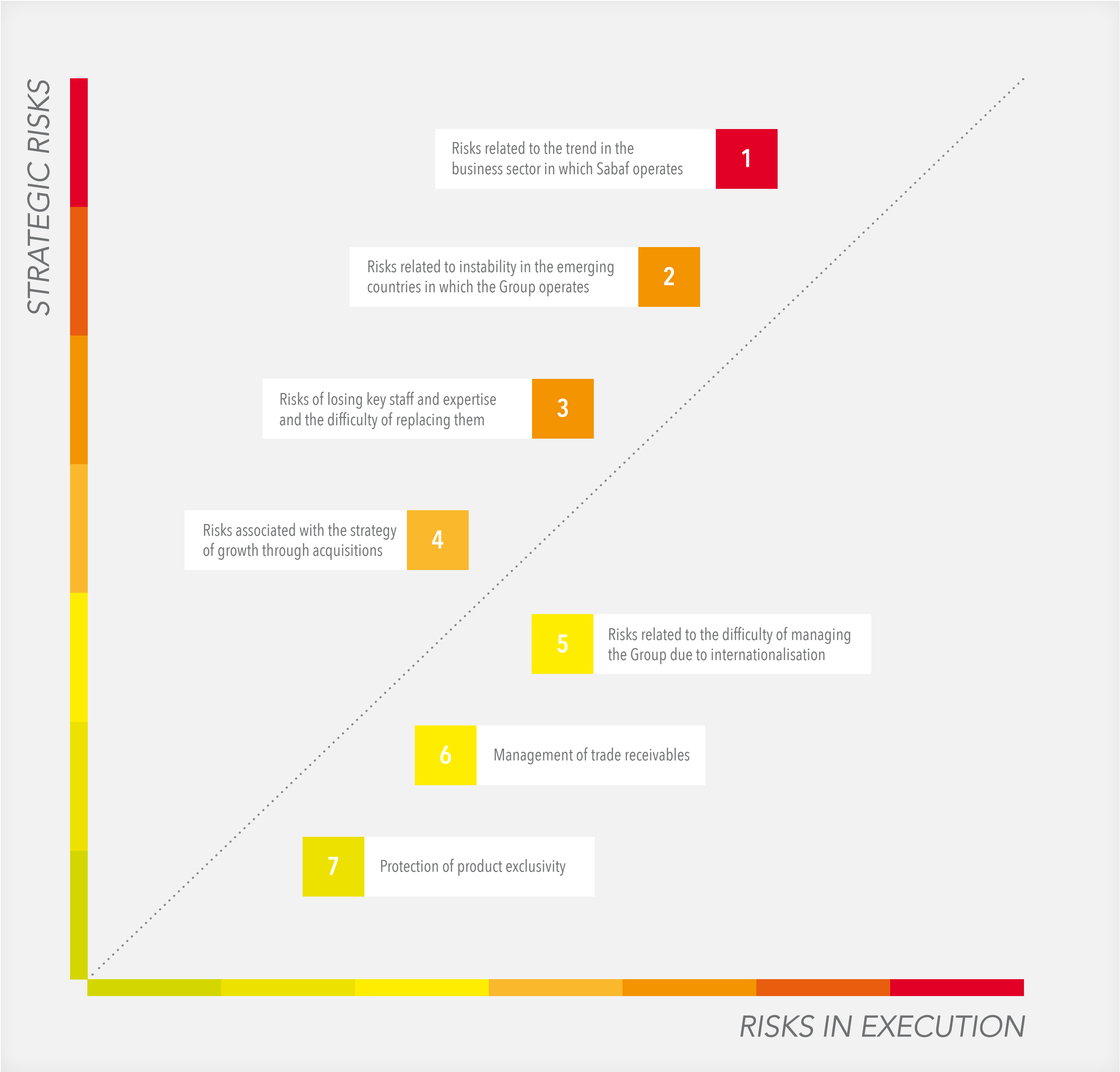
- CEO
- Administration, Finance and Control Director — also in his capacity as Financial Reporting Officer
- Production Director — also in his/her capacity as Employer for the purposes of Safety and Head of the Environment Department
- Technical and Quality Director
- Director of Information Systems
- Procurement and Programming Manager
- Sales Area Managers
- Human Resources Manager
- Head of Quality
- General Manager of Sabaf Turkey
- Supervisory Committee

During the assessment process, which involves the control bodies, the risks take shape and are allocated on the map.

Risk Assessment Process



The results of Sabaf's 2016 risk assessment highlight, among other things, the following 7 main risks, selected for their importance and consistency with the issues covered in this document:



For more information on the Group's financial risks, including those not mentioned here owing to their lack of relevance, please see Chapter 5 – Report on Operations.

MAIN RISKS FOR THE GROUP

1 Risks relating to market trends

The Sabaf Group operates in the white goods industry, which is characterized by the following trends:

a) Continual concentration of the target market, following extraordinary transactions (mergers and acquisitions) among the players.

b) Decrease of demand in mature markets in favour of volume growth in the emerging markets, however, characterized by different sales conditions, and an unstable macro-economic environment.

c) Increased competition which requires aggressive pricing policies.

RISK MANAGEMENT MEASURES

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, and tailored to the needs of the customer;*
- *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.*

2 Risks related to instability in the emerging countries in which the Group manufactures or sells

The Sabaf Group has undertaken an internationalization process (sales and production), particularly focused on the emerging countries. There is in this regard the risk that political, economic, fiscal, or legislative instability may impact the Group's sales and the related profitability.

RISK MANAGEMENT MEASURES

To counter this risk, the Group has adopted a policy of monitoring the economic and social integration of target countries for the Group, in order to ensure awareness in taking strategic and investment decisions in terms of exposure to risks.
The Group has also made it feasible to make all the components manufactured at the Group's foreign plants at the Ospitaletto site so that, in the event of interruption of production in a developing country, there is a possibility of activating back-up solutions in Italy.

3 Risks relating to the loss of key staff and expertise and the difficulty of replacing them

The current organizational structure requires extensive involvement in the decision-making process of the first-line management, which is therefore considered "key." If one of these resources leaves the Company, it could be temporarily difficult for Sabaf to manage some critical activities.
In some areas of the company, where the centralization of skills is more marked, such a risk may also exist at lower levels of the structure (those that report to the first-line management).
Also the impact resulting from the loss of key resources in one of the foreign subsidiaries would be significant, since the local management structures are smaller, and skills are more centralised.

RISK MANAGEMENT MEASURES

Some years ago, the Group has started employee retention initiatives, including granting benefits to employees and signing non-competition and retention agreements with key figures.

4 Risks associated with the strategy of growth through acquisitions

For the future, the Group's strategy envisions Sabaf's growth through acquisitions, so it can go ahead with its continuous expansion into international markets and/or diversify its production lines.

Therefore, there are the following risks:

- of not properly assessing the risks and opportunities of a possible strategic external acquisition;
- of not to defining and properly structuring an integration plan if developed.

RISK MANAGEMENT MEASURES

The Group is considering the opportunity to develop new tools for the evaluation of potential acquisitions and for the analysis and support of integration processes.

5

Risks related to the difficulty of managing the Group due to internationalisation

The foreign expansion policy, undertaken by Sabaf by setting up manufacturing and commercial branches, increases the complexity of the context in which the Group operates.
This increasing complexity could make it difficult and inefficient to manage business processes, due to lack of clarity on the roles and responsibilities of the Parent Company management vs. local management (i.e.: lack of coordination between the Group's companies to achieve the growth targets; concentration of responsibilities and critical company knowledge within a few individuals, etc.).

RISK MANAGEMENT MEASURES
To support this expansion process, the Sabaf Group is working to define the appropriate safeguards that include, among other things, centralising within the management of corporate departments of the parent company, the main business functions, the establishment of ongoing and formalized relations with operating subsidiaries on financial issues, the implementation of SAP in all of the operating companies, and thorough analysis of how powers are delegated within the Group.
In particular, the Group is continuing to implement a single governance system of for purchasing management and is considering setting up operational teams at the Parent Company with a coordinating role in respect of foreign companies to ensure the alignment of the the procedures and practices used by foreign branches compared those used by Sabaf.

6

Risk related to the management of trade receivables

Considering the high concentration of Sabaf's sales upon a small number of customers, in the event of their insolvency, there is the risk that they may be unable to meet their payment obligations to Sabaf.
This risk is particularly felt in times of economic crisis (such as the current one) and in countries characterized by instability and uncertainty.

RISK MANAGEMENT MEASURES
The risk is constantly monitored through the preliminary assessment of customers and checks that agreed payment terms are met. A credit insurance policy was taken out which covers approximately 60% of the credit risk.
A further portion is partly guaranteed through letters of credit issued by major banks in favour of customers.

7

Risks related to the failure to protect product exclusivity in the markets where the Group operates

Some Sabaf products are protected by patents.
There is a risk that third parties (competitors) may infringe these patents and/or that the markets in which those patents are infringed do not adequately protect the holder of the patent.
Doing business in countries where it is difficult to enforce rights over patents, exposes the Group to a greater risk of protection of its products.

RISK MANAGEMENT MEASURES
Sabaf has structured processes in place to manage innovation and protect intellectual property.
In addition, the Group periodically monitors present/future patenting strategies on the basis of cost/opportunity assessments.

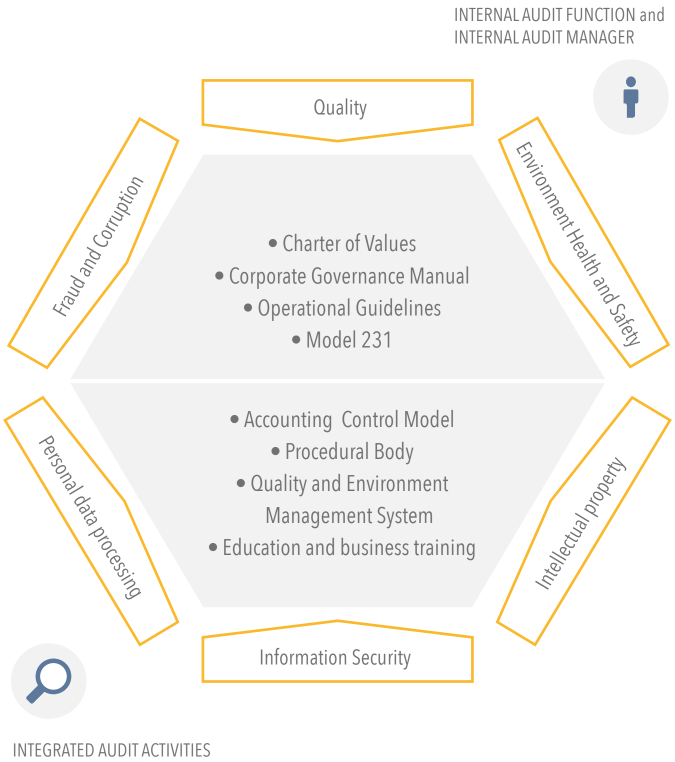
Key – Change compared to RA 2015:

Increasing decreasing Stable

Compliance

Integrated Compliance

THE INTERNAL CONTROL SYSTEM



For the purposes of meeting company objectives, the risk management activities conducted by Sabaf also take compliance requirements into account.
The internal control system governing this activity is based on the following elements:

- the organisation of the **internal control and risk management system**;
- procedures and mechanisms for the concrete implementation of the **control principles**;
- processes of **continuous auditing and monitoring** carried out at the various levels of the organisation, both within the scope of business processes and through independent structures.

Specifically, Sabaf has an integrated risk-based Audit Plan, which is set out according to specific control objectives (e.g. operational risks, compliance with Legislative Decree 262/2005 and Legislative Decree 231/2001, the security and profiling of corporate information systems, etc.).
The implementation of measures is outsourced to a single structure, Internal Audit, which is in turn responsible for reporting the results of the activities conducted to the delegated supervisory bodies.

All this translates into a culture and set of tools based on ***integrated compliance***

INTEGRATED COMPLIANCE AND THE CORPORATE GOVERNANCE MANUAL

Following adherence to the Borsa Italiana Corporate Governance Code and in order to integrate the good governance practices set out in this sponsored document into its own processes, Sabaf adopted a *Corporate Governance Manual** which governs principles, regulations and operational procedures.

This Manual, adopted by Board resolution of 19 December 2006, has been updated several times over the years, in order to reflect changes in laws and regulations regarding Corporate Governance, as well as best practices adopted by the Company.

The Manual contains certain operating guidelines, which were approved by the Board of Directors and updated most recently in September 2016. These guidelines were issued to ensure that the management and control bodies of Sabaf properly carry out their duties.

OPERATIONAL GUIDELINES

TOPICS COVERED

- Self-assessment of the Board
- Management, coordination and control of Group subsidiaries
- Means of compliance with disclosure obligations to auditors, pursuant to Article 150 TUF
- Evaluation of the Group's internal control system
- Process of periodically identifying and measuring Group risks
- Management of significant operations in which directors have an interest
- Assignment of professional mandates to the statutory auditing firm

* The latest version of the text, updated pursuant to the Corporate Governance Code, approved by the Board of Directors' meeting of 29 September 2016, is available in the Corporate Governance section of the website www.sabaf.it.

INTEGRATED COMPLIANCE AND LEGISLATIVE DECREE 231/2001

In 2006 Sabaf S.p.A. adopted the Organisational and Management Model pursuant to Legislative Decree 231/2001, designed to prevent the commission of criminal offences by employees and/or outside staff in the Company's interest.
Thereafter, the Company, through the supervision of the Supervisory Committee, has responded promptly to the need to adapt the Model and the control structure to changes in legislation that have occurred over time.
The Company tasks the Supervisory Committee with assessing the adequacy of the Model (i.e. its real ability to prevent offences), as well as with supervising the functioning and compliance of the protocols adopted.

SUPERVISORY COMMITTEE

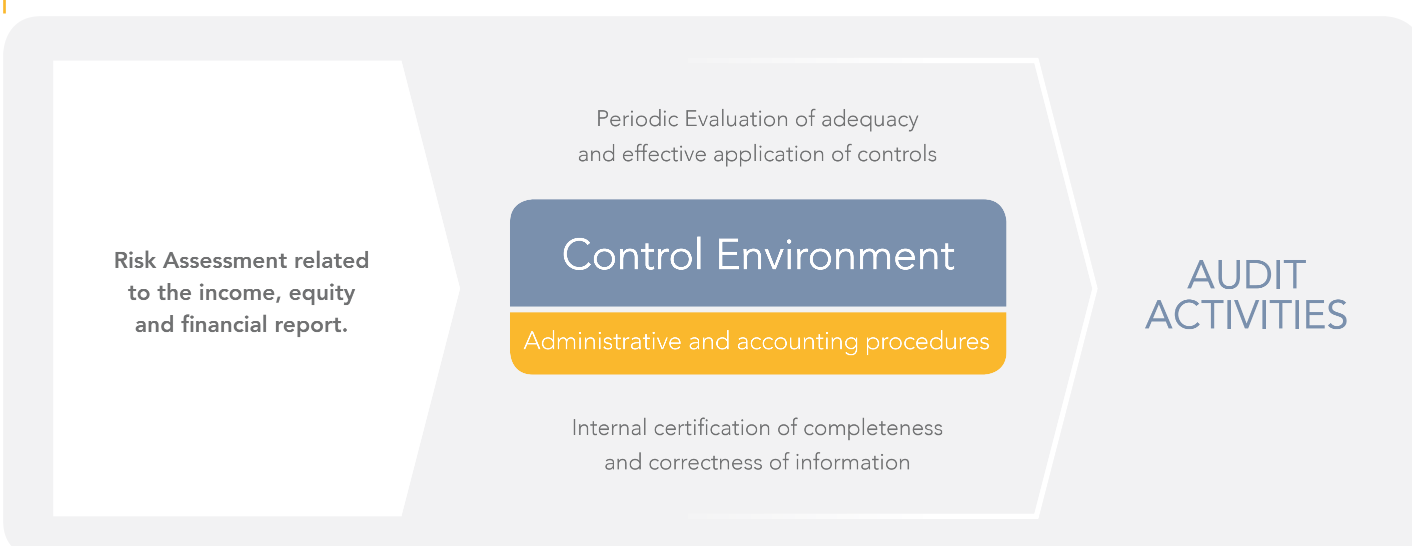
ACTIVITIES CARRIED OUT IN 2016

- **Checks** of the **Model's effectiveness and operational suitability**, both through audits conducted by Internal Audit and interviews with staff assigned to sensitive activities.
- **Investigative activities** relating to the occupational health and safety management processes.
- **Information and training** of employees regarding the specific protocols regulated by the Model.
- **Revision of "231" risk assessment and updating the Model**, in order to confirm/re-evaluate the applicability of "231" crimes in respect of the context in which the company currently operates and to evaluate the applicability of new crimes ("Ecoreati" [environmental crimes] in Article 25(j) and "self-laundering" pursuant to art. 25(g) of Legislative Decree. no. 231/2001).

INTEGRATED COMPLIANCE AND LEGISLATIVE DECREE 262/2005

Sabaf considers the internal control and risk management system for financial information an integral part of its risk management system.
In this regard, since 2008, Sabaf has integrated activities relating to the management of the internal control system on financial reporting into its Audit and Compliance process.
The Group has established an **Accounting Control Model**, approved by the Board of Directors for the first time on 12 February 2008, and subsequently revised and updated.

FEATURES OF THE ACCOUNTING CONTROL MODEL



In 2016 the accounting control model did not require any updating.

General Remuneration Policy

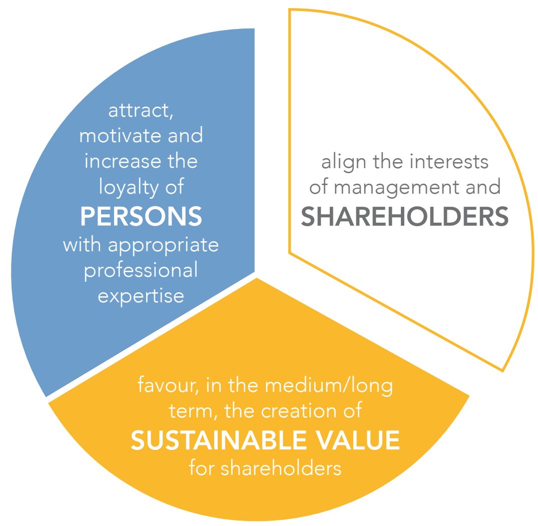
In accordance with regulation on remuneration, the Board of Directors approved the "General Remuneration Policy" on 22 December 2011, and subsequently updated it on 20 March 2013 and 4 August 2015.

The policy defines the criteria and guidelines to fix the remuneration of: (i) members of the Board of Directors, (ii) members of the Board of Statutory Auditors, (iii) executives with strategic responsibilities.

For more details on the above policy, see the complete text on the Company's website.

See also the Remuneration Report for specific information on remuneration earned and paid out in 2016.

Purpose



BODIES INVOLVED IN THE APPROVAL PROCESS

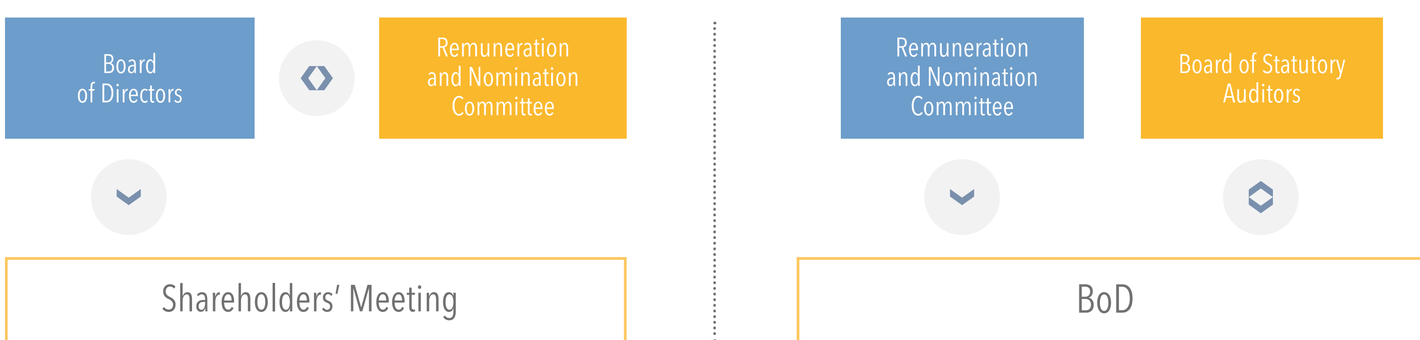
Fixed component

On the basis of a proposal of the Board of Directors, and after obtaining the opinion of the Remuneration and Nomination Committee, it determines an overall maximum amount that includes a fixed amount and attendance fees, for the:

- *All members of the Board of Directors*

On the proposal of the Remuneration and Nomination Committee and subject to the opinion of the Board of Statutory Auditors, the Board of Directors determines, within the amount indicated above, additional remuneration for:

- *Directors vested with special powers*

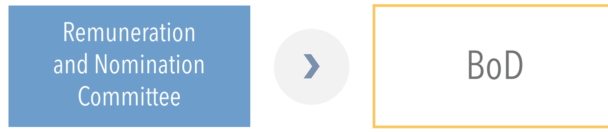


Key: Decision-making body | Proposing body | Advisory body

Variable Component

Short-term:
On the proposal of the Remuneration and Nomination Committee and in line with the budget, the Board of Directors defines an MBO plan, for:
- *executive directors (excluding the Chairman and Deputy Chairmen)*
- *other executives with strategic responsibilities*
- *other managers identified by the Chief Executive who report directly thereto or who report to the above-mentioned managers*

Long-term:
On the proposal of the Remuneration and Nomination Committee, the Board of Directors approves the long-term financial incentive for:
- *executive directors (excluding the Chairman and Deputy Chairmen)*
- *other executives with strategic responsibilities*



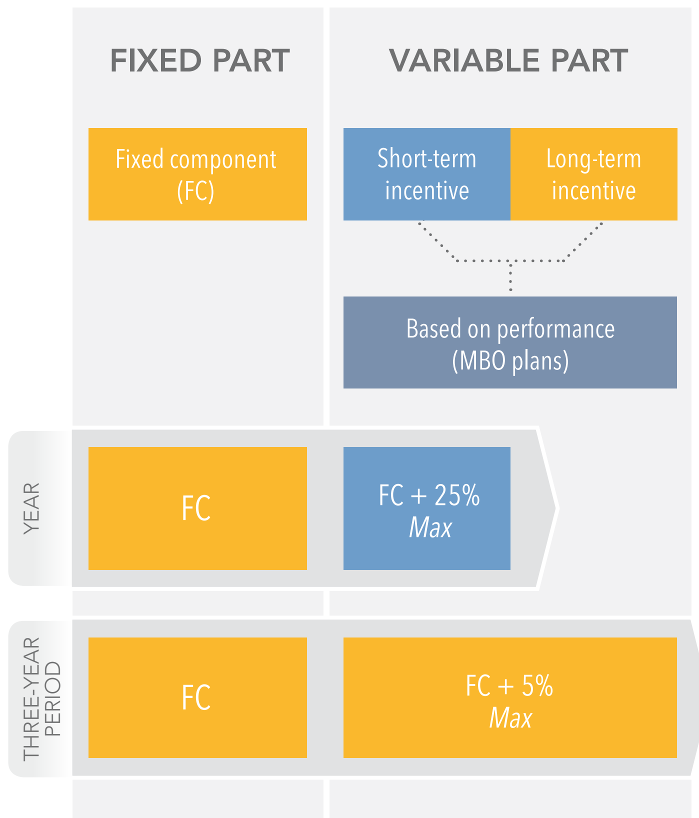
COMPONENTS OF REMUNERATION

Fixed component

- **Directors:** the total amount for the remuneration of the members of the Board includes a fixed amount and attendance fees.
- **Statutory auditors:** remuneration for Statutory Auditors is set by the Shareholders' Meeting, which establishes a fixed amount.
- **Other executives with strategic responsibilities:** remuneration is in relation to the employment relationships governed by the Collective National Contract for Industrial Managers.
- **Directors and executives with strategic responsibilities in subsidiaries:** remuneration is set at a fixed amount.

Variable component

- **The short-term variable component** may not exceed 25% of the fixed annual gross salary; it may be only partially granted in the event that the objectives are not completely met. 75% is paid out in the April of the following year, and 25% in the January of the second subsequent year.
  The annual variable component is linked to an **MBO** plan.
  This plan sets a **common objective** (Group EBIT, which is considered to be the Group's main indicator of financial performance) and **individual objectives**, quantifiable and measurable, both economic-financial and technical-productive in nature.
- **The total long-term variable component** for the three years may not exceed 50% of the fixed annual gross salary; it may be only partially granted in the event that the objectives are not completely met.
  It is paid in full following the approval of the financial statements of the third year to which the incentive relates.
  The variable component is linked to a **three-year MBO**.
  This plan involves setting three **targets** (Group EBIT, Average Share Value and Group consolidated Free Cash Flow).
  In the event that 10% of the objectives assigned are met, an increase on 5% of the gross fixed annual salary and fees may be granted, weighted according to the target.



Non-monetary benefits

- **Third-party civil liability insurance policy:** in favour of directors, statutory auditors, and executives and covering liability resulting from any illegal act or violation of obligations they should commit in exercising their respective responsibilities.
- **Life insurance policy and cover for medical expenses:** in favour of executives who, in addition to the provisions of the Collective National Contract for Industrial Managers, benefit from an additional policy to cover medical expenses not covered by FASI repayments.
- **Company cars:** company cars are assigned to executives.

COMPONENTS OF REMUNERATION		CORPORATE ROLE				
		EXECUTIVE DIRECTORS	NON-EXECUTIVE DIRECTORS	EXECUTIVES WITH STRATEGIC RESPONSIBILITIES	MEMBERS OF BOARD COMMITTEES	STATUTORY AUDITORS
FIXED COMPONENTS	FIXED ANNUAL REMUNERATION	> Fixed remuneration for role of Director > Fixed remuneration for Directors with powers	> Fixed remuneration for role of Director > Fixed remuneration for Directors members of Committees	> CCNL (national collective bargaining agreement) for Industrial Managers	> Fixed remuneration for Directors with positions on Board committees	> Fixed emoluments
FIXED COMPONENTS	POSITIONS IN SUBSIDIARIES	> Fixed remuneration for positions in subsidiaries	N/A	> Fixed remuneration for positions in subsidiaries	N/A	N/A
VARIABLE COMPONENTS	ATTENDANCE FEE	N/A	> Board of Directors attendance fee	N/A	> Board committee attendance fee	N/A
VARIABLE COMPONENTS	VARIABLE ANNUAL REMUNERATION	> Annual variable remuneration relating to MBO *	N/A	> Annual variable remuneration relating to MBO	N/A	N/A
VARIABLE COMPONENTS	LONG-TERM INCENTIVES	> three-year MBO *	N/A	> three-year MBO	N/A	N/A
OTHER BENEFITS	NON-MONETARY BENEFITS	> Third party civil liability insurance policy	> Third party civil liability insurance policy	> Third party civil liability insurance policy > Life insurance policy > Policy covering medical expenses (FASI) > Additional policy to cover medical expenses > Assignment of company car	N/A	> Third party civil liability insurance policy

* Excluding the Chairman and Deputy Chairman.

VARIABLE INCENTIVE PLANS

VARIABLE INCENTIVE PLAN

ANNUAL MBO	Long Term Incentives THREE YEARS (2015 – 2017)
related to budget for the year	related to industrial plan

TARGET (ANNUAL MBO)

- EXECUTIVE DIRECTORS *
- EXECUTIVES with strategic responsibilities
- OTHER MANAGERS proposed by chief executive officer

TARGET (Long Term Incentives)

- CHIEF EXECUTIVE OFFICER
- CHIEF FINANCIAL OFFICER
- TECHNICAL DIRECTOR

GROUP EBIT 40%

> ebit threshold on budget for year

INDIVIDUAL OBJECTIVES 60%

> business / financial
> technical manufacturing

AVERAGE SHARE VALUE 25%

> share value at the end of the relevant industrial plan

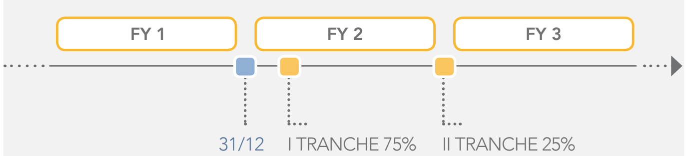
GROUP EBITDA 50%

> consolidated group ebitda understood as the sum for the relevant three years

FREE CASH FLOW 25%

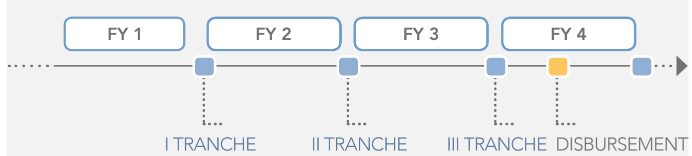
> consolidated group fcf (equal to sum of fcf for the relevant three years)

ANNUAL DISBURSEMENT PLAN



LIMITS: 25% OF GROSS ANNUAL REMUNERATION

THREE-YEAR DISBURSEMENT PLAN



LIMITS: 50% OF GROSS ANNUAL REMUNERATION

* Excluding the Chairman and the Deputy Chairmen.

SABAF

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CHAPTER 4

SOCIAL AND ENVIRONMENTAL SUSTAINABILITY

SABAF and collaborators

SA8000 STANDARD

Sabaf S.p.A.'s system of social responsibility is compliant with the requirements of the SA8000 standard, for which the company obtained the certification in 2005, renewed most recently in March 2015 for a further three years. The decision to certify the system is consequent to the belief in the importance of human assets and is particularly aimed at raising awareness among management, suppliers, employees and external collaborators on the full respect of the Social Responsibility principles established in the Standard.

Through the implementation of SA8000, Sabaf S.p.A. has analysed and monitored the main ethical-social risk factors linked to issues of child labour, forced labour, health and safety, freedom of association and the right to collective bargaining, discrimination, disciplinary procedures, working hours and wages.

During the year, a dialogue has been maintained between the Management Representatives and the Workers' Representatives on the concrete application of the SA8000 Standard.

The social responsibility management system was verified by IMQ / IQ NET in March 2016. During the audit, significant evidence was obtained of the company's commitment to supporting the System of Social Responsibility and no non-conformities were identified.

RECRUITMENT POLICY, COMPOSITION AND VARIATION OF PERSONNEL

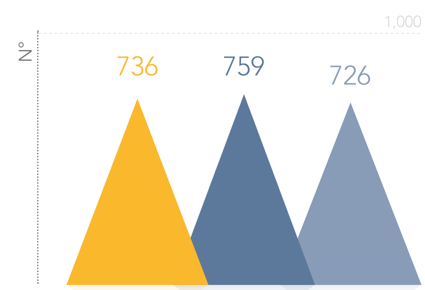
At 31 December 2016 there were 736 employees of the Sabaf Group, compared to 759 in late 2015 (-3.0%).

	31/12/2016			31/12/2015			31/12/2014		
Sabaf S.p.A. (Ospitaletto, Brescia - Italy)	353	180	533	367	185	552	370	186	556
Faringosi Hinges (Bareggio, Milan - Italy)	21	21	42	20	23	43	22	24	46
Sabaf do Brasil (Jundiaì, San Paolo - Brazil)	49	17	66	45	14	59	47	17	64
Sabaf Turkey (Manisa – Turkey)	52	34	86	57	38	95	32	28	60
Sabaf Appliance Components (kunshan) Co., Ltd.	7	2	9	6	4	10	-	-	-
TOTAL	**482**	**254**	**736**	**495**	**264**	**759**	**471**	**255**	**726**

As regards the contractual types adopted, there are 715 permanent employees (97.1%) and 21 temporary, job placement and apprenticeship employees (2.9%).

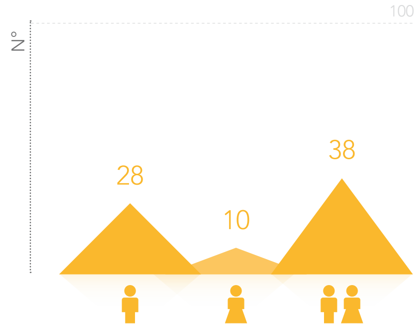
	31.12.2016			31.12.2015		
Permanent	464	251	715	460	235	695
Job placement or apprenticeship	3	0	3	4	0	4
Temporary	15	3	18	31	29	60
TOTAL	**482**	**254**	**736**	**495**	**264**	**759**

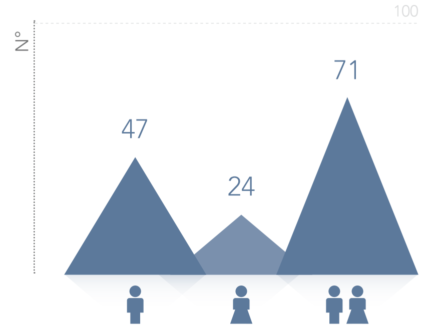
TOTAL



Temporary personnel (with agency employment or assimilated contract)

YEARLY AVERAGE





During 2016 4 formerly temporary workers were recruited into the Sabaf Group (12 in 2015). In 2016 Sabaf hosted 6 young people on internships, 2 students on university courses and 4 secondary school pupils (11 in 2015).

Sabaf thereby offers to some students of schools in the province of Brescia with industrial curricula an initial direct contact with the world of work, with the opportunity to witness the technical skills they have learned in the classroom being applied "in the field".

MOVEMENT OF PERSONNEL IN THE YEAR 2016

SABAF S.p.A.

	31/12/15	RECRUITS		LEAVERS		PROMO-TIONS	31/12/16
Executives	9	0	0	0	0	0	9
Employees and managers	112	3	0	6	1	0	108
Labourers and equivalent	431	3	0	14	4	0	416
TOTAL	**552**	**6**	**0**	**20**	**5**	**0**	**533**

FARINGOSI HINGES s.r.l.

	31/12/15	RECRUITS		LEAVERS		PROMO-TIONS	31/12/16
Executives	1	0	0	0	0	0	1
Employees and managers	14	0	0	0	1	0	13
Labourers and equivalent	28	1	0	0	1	0	28
TOTAL	**43**	**1**	**0**	**0**	**2**	**0**	**42**

SABAF DO BRASIL Ltda

	31/12/15	RECRUITS		LEAVERS		PROMO-TIONS	31/12/16
Executives	0	0	0	0	0	0	0
Employees and managers	9	0	1	0	0	0	10
Labourers and equivalent	50	20	6	16	4	0	56
TOTAL	**59**	**20**	**7**	**16**	**4**	**0**	**66**

SABAF TURKEY

	31/12/15	RECRUITS		LEAVERS		PROMO-TIONS	31/12/16
Executives	3	0	0	0	0	0	3
Employees and managers	13	0	1	0	2	0	12
Labourers and equivalent	79	33	9	39	11	0	71
TOTAL	**95**	**33**	**10**	**39**	**13**	**0**	**86**

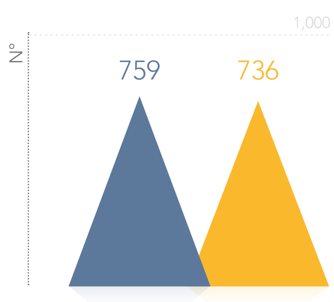
SABAF APPLIANCE COMPONENTS (KUNSHAN) CO., LTD.

	31/12/15	RECRUITS		LEAVERS		PROMO-TIONS	31/12/16
Executives	1	0	0	0	0	0	1
Employees and managers	6	1	0	1	0	0	6
Labourers and equivalent	3	2	0	1	2	0	2
TOTAL	**10**	**3**	**0**	**2**	**2**	**0**	**9**

GROUP TOTAL

	31/12/15	RECRUITS		LEAVERS		PROMO-TIONS	31/12/16
Executives	14	0	0	0	0	0	14
Employees and managers	154	4	2	7	4	0	149
Labourers and equivalent	591	59	15	70	24	0	573
TOTAL	**759**	**63**	**17**	**77**	**26**	**0**	**736**

GROUP TOTAL



New recruits broken down by age bracket and gender

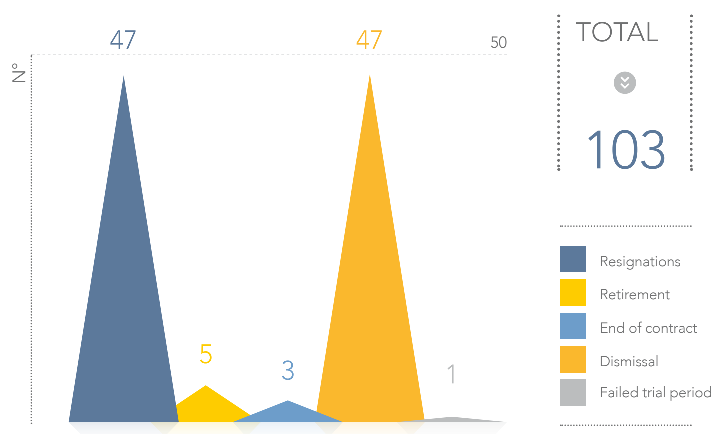
DESCRIPTION	2016			2015		
up to 20 years	0	1	**1**	2	2	**4**
from 21 to 30 years	32	10	**42**	88	32	**120**
from 31 to 40 years	19	4	**23**	50	24	**74**
from 41 to 50 years	12	2	**14**	6	1	**7**
over 50 years	0	0	**0**	3	1	**4**
TOTAL	**63**	**17**	**80**	**149**	**60**	**209**

Resigned during year, by age bracket and gender

DESCRIPTION	2016			2015		
up to 20 years	1	0	**1**	1	1	**2**
from 21 to 30 years	35	11	**46**	69	25	**94**
from 31 to 40 years	21	7	**28**	49	22	**71**
from 41 to 50 years	15	5	**20**	4	2	**6**
over 50 years	5	3	**8**	6	2	**8**
TOTAL	**77**	**26**	**103**	**129**	**52**	**181**

Reasons for termination of employment relationship in the year 2016

DESCRIPTION	EMPLOYEES AND MANAGERS	LABOURERS	TOTAL
Resignations	5	42	**47**
Retirement	0	5	**5**
End of contract	1	2	**3**
Dismissal	5	42	**47**
Failed trial period	0	1	**1**
TOTAL	**11**	**92**	**103**



Rate of Turnover by Geographic Area, age bracket and gender

Italy (Sabaf e Faringosi)

DESCRIPTION	2016			2015		
up to 30 years	0.53%	0.00%	**0.35%**	0.78%	0.00%	**0.50%**
from 31 to 40 years	0.80%	0.50%	**0.70%**	1.81%	0.00%	**1.18%**
from 41 to 50 years	2.41%	1.00%	**1.91%**	0.52%	0.96%	**0.67%**
over 50 years	1.07%	0.00%	**0.70%**	0.26%	0.00%	**0.17%**
TOTAL	**4.81%**	**1.49%**	**3.65%**	**3.36%**	**0.96%**	**2.52%**

Brazil

DESCRIPTION	2016			2015		
up to 30 years	22.45%	11.76%	**19.70%**	28.89%	21.43%	**27.12%**
from 31 to 40 years	6.12%	5.88%	**6.06%**	11.11%	14.29%	**11.86%**
from 41 to 50 years	4.08%	5.88%	**4.55%**	2.22%	0.00%	**1.69%**
over 50 years	0.00%	0.00%	**0.00%**	0.00%	0.00%	**0.00%**
TOTAL	**32.65%**	**23.53%**	**30.30%**	**42.22%**	**35.71%**	**40.68%**

Turkey

DESCRIPTION	2016			2015		
up to 30 years	42.31%	20.59%	**33.72%**	87.72%	60.53%	**76.84%**
from 31 to 40 years	25.00%	14.71%	**20.93%**	64.91%	52.63%	**60.00%**
from 41 to 50 years	5.77%	2.94%	**4.65%**	1.75%	0.00%	**1.05%**
over 50 years	0.00%	0.00%	**0.00%**	0.00%	0.00%	**0.00%**
TOTAL	**73.08%**	**38.24%**	**59.30%**	**154.39%**	**113.16%**	**137.89%**

China

DESCRIPTION	2016			2015		
up to 30 years	0.00%	100%	**22.22%**	80.00%	0.00%	**40.00%**
from 31 to 40 years	28.57%	0.00%	**22.22%**	0.00%	0.00%	**0.00%**
from 41 to 50 years	0.00%	0.00%	**0.00%**	0.00%	0.00%	**0.00%**
over 50 years	0.00%	0.00%	**0.00%**	0.00%	0.00%	**0.00%**
TOTAL	**28.57%**	**100%**	**44.44%**	**80.00%**	**0.00%**	**40.00%**

Group

DESCRIPTION	2016			2015		
up to 30 years	7.26%	4.33%	**6.25%**	14.14%	9.90%	**12.65%**
from 31 to 40 years	4.36%	2.76%	**3.80%**	9.85%	8.33%	**9.35%**
from 41 to 50 years	2.90%	1.57%	**2.45%**	0.81%	0.75%	**0.79%**
over 50 years	0.83%	0.00%	**0.54%**	0.20%	0.00%	**0.13%**
TOTAL	**15.35%**	**8.66%**	**13.04%**	**25.05%**	**18.94%**	**22.92%**

In 2016 the turnover significantly reduced compared to 2015. At Sabaf Turkey the Group experienced the greatest difficulties in retaining personnel, also because we operate in an area, that of Manisa, which is undergoing strong industrial development and where new employment opportunities are constantly being offered.
The policies implemented, which include both monetary incentives and greater benefits, have in any case led to a higher loyalty level even in Turkey.

Breakdown of personnel by age

	31.12.2016	31.12.2015
up to 30 years	16.8%	21.9%
from 31 to 40 years	42.4%	42.9%
from 41 to 50 years	29.8%	29.0%
over 50 years	11.0%	6.2%
TOTAL	**100%**	**100%**

The low average age of the Group's employees (38.6 years) confirms the strategy of recruiting young workers, favouring training and internal growth over the acquisition of skills externally, also in view of the specific nature of Sabaf's business model.

The minimum age of personnel in the Group's workforce is 24 years for Italy, 20 years for Turkey, 16 years for Brazil and 28 years for China.

Breakdown of personnel by length of service

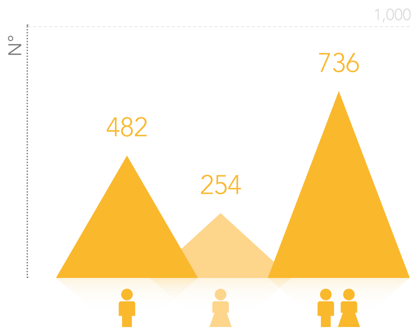
	31.12.2016	31.12.2015
up to 5 years	22.0%	24.6%
from 6 to 10 years	26.6%	29.1%
from 11 to 20 years	41.3%	37.2%
over 20 years	10.1%	9.1%
TOTAL	**100%**	**100%**

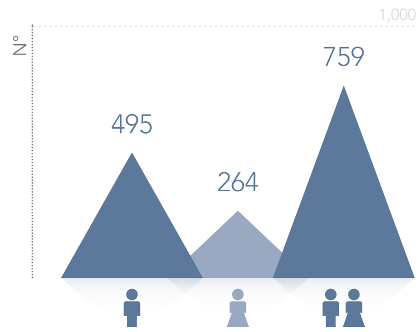
Sabaf is aware of the fundamental importance of having a stable and qualified workforce that represents a key factor for preserving its competitive advantage.

Breakdown by department

AREA	2016			2015		
Production	289	170	**459**	305	175	**480**
Quality	43	31	**74**	42	33	**75**
Research and Development	66	2	**68**	67	2	**69**
Logistics	25	1	**26**	20	1	**21**
Administration	9	23	**32**	9	23	**32**
Sales	10	13	**23**	10	14	**24**
Services	17	8	**25**	18	10	**28**
Purchases	6	4	**10**	6	4	**10**
Other	17	2	**19**	18	2	**20**
TOTAL	**482**	**254**	**736**	**495**	**264**	**759**

TOTAL





RECRUITMENT POLICY

In order to attract the best resources, the recruitment policy intends to guarantee equal opportunities to all candidates, avoiding any type of discrimination. The selection procedure involves, inter alia:

- the selection process being performed in at least two phases with two different representatives;
- for each position at least two candidates being considered.

The evaluation of candidates is based upon skills, training, previous experience, expectations and potential, according to the specific business needs.

New recruits of the Group are given the Charter of Values. At Sabaf S.p.A. a copy of the SA8000 Standard, for which the Company is certified, is also provided.

Breakdown by level of education

LEVEL OF EDUCATION	2016				2015			
Degree	67	24	91	12.4%	65	26	91	12.0%
Higher diploma	232	98	330	44.8%	232	100	332	43.7%
Middle school diploma	181	130	311	42.3%	196	136	332	43.8%
Primary school diploma	2	2	4	0.5%	2	2	4	0.5%
TOTAL	**482**	**254**	**736**	**100%**	**495**	**264**	**759**	**100%**

TRAINING

In the Sabaf Group, professional growth of employees is supported by a continuous training path. The Personnel Department, having liaised with the relevant managers, develops on an annual basis a training plan on the basis of which the specific courses to be provided are scheduled.

	2016			2015		
Training to new recruits, apprentices, job placements	3,187	1,222	4,409	5,728	727	6,455
IT systems	83	123	206	130	11	141
Technical training	321	29	350	636	13	649
Safety, environment and social responsibility	3,112	983	4,094	2,661	830	3,491
Administration and organisation	510	379	888	387	466	853
Foreign languages	966	283	1,249	1,172	300	1,472
Lean Philosophy/ Production/Office	81	29	110	-	-	-
Other	-	-	-	60	-	60
TOTAL TRAINING HOURS RECEIVED	**8,260**	**3,046**	**11,306**	**10,774**	**2,347**	**13,121**
Training hours provided by internal trainers	4,709	1,317	6,026	3,511	465	3,976
TOTAL	**12,969**	**4,363**	**17,332**	**14,285**	**2,812**	**17,097**

The hours provided by internal trainers also include training given to collaborators on agency employment contracts (equal to 3,942 hours in 2016).

Per capita training hours received by category

	2016			2015		
	♂	♀	♂♀	♂	♀	♂♀
Labourers	15.1	9.0	12.9	21.6	5.7	15.9
Employees and managers	26.1	23.4	25.2	21.1	21.4	21.2
Executives	34.7	70.5	37.3	37.9	82.8	41.1
TOTAL	**17.8**	**12.1**	**15.9**	**21.9**	**9.2**	**17.5**

In 2016 the total cost incurred for staff training activities of the Group was approximately 296,000 Euro (approximately 429,000 Euro in 2015).
These costs are supplemented by the costs of training temporary staff, which in 2016 were approximately 62,000 Euro (roughly 23,000 Euro in 2015).

INTERNAL COMMUNICATION

With the aim of developing continuous dialogue between the company and its collaborators, Sabaf publishes twice a year a Magazine which sets out the main information concerning the life of the Company and discusses issues of common interest.

The Personnel Department has institutionalised two weekly time slots in which it is available to meet with collaborators for support and advice, even on topics not strictly related to the relationship between employee and employer, such as, for example, information on tax and social security regulations.

During 2016 the Personnel Department at Sabaf S.p.A. held 1,078 appointments with collaborators for problems related to the employment relationship or personal issues.

Sabaf S.p.A. uses the HR PORTAL software, through which each worker, with personalised access, can consult the documents and information published by the company (payslips, tax and contribution details, etc.). There are also collective communications and company conventions.

DIVERSITY AND EQUAL OPPORTUNITIES

Sabaf is constantly committed to providing equal opportunities to its female members of staff, who currently represent 34.5% of the workforce (34.8% in 2015).

The Group, in line with its organisational and production requirements, is attentive to the family requirements of its collaborators. Currently, the majority of requests for reduction of working hours made by workers are met.

In 2016 the Group companies granted in total 34 part-time contracts (to 2 employees, 31 female labourers and 1 male labourer), equal to 4.6% of the total (33 contracts in 2015).

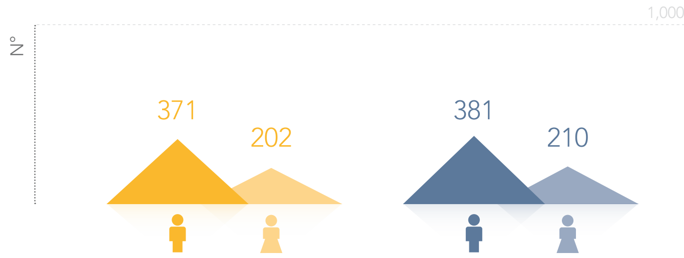
25 disabled persons work in the Italian companies of the Group, of which 15 are part-time. The Group aims to encourage the insertion and integration of disabled persons into normal production processes. A convention is in place with a social solidarity cooperative for the insertion of personnel belonging to protected categories.

Percentage distribution of employment by gender

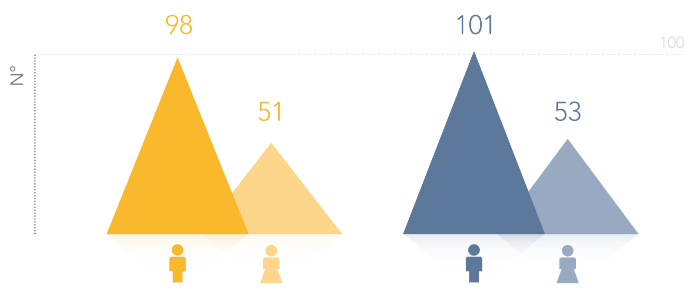
	2016		2015	
	NUMBER	%	NUMBER	%
♂	482	65.5	495	65.2
♀	254	34.5	264	34.8
TOTAL	**736**	**100**	**759**	**100**

Breakdown by category

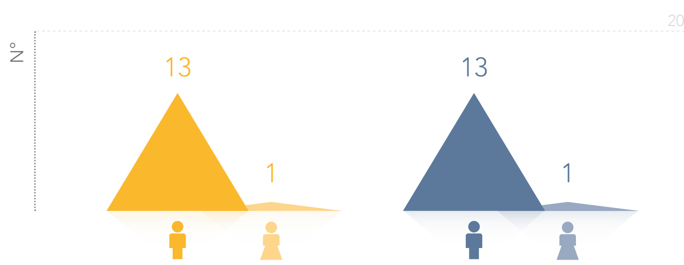
LABOURERS and EQUIVALENT



EMPLOYEES and MANAGERS



EXECUTIVES



TOTAL 2016 **736** 2015 **759**

The managers of all offices of the Group originate from a geographical area close to the sites at which they work, except for the production director at Sabaf China, who has, however, lived in China for many years.

Non-EU workers [1]

	2016	2015	BENCHMARK [2]
Non-EU workers	32	48	
Percentage on total workers	5.6%	8.1%	3.10%

At 31 December 2016 there are 14 different nationalities present in the Italian companies of the Group.

REMUNERATION, INCENTIVE AND DEVELOPMENT SYSTEM

Employees of Sabaf S.p.A. are positioned according to the rules of the National Collective Labour Agreement for the engineering industry, supplemented by second level agreements, which includes:

- an extra allowance over minimum pay by level,
- a production bonus by level,
- a fixed performance bonus for all levels,
- an equal consolidated bonus for all levels;
- an equal variable performance bonus for all levels.

The components of personnel costs are detailed in the explanatory notes to the consolidated financial statements.
The incentive system includes economic incentives and numerous other benefits (guarantees provided by the Company in favour of employees against mortgages, sale or rental of apartments at subsidised values, company agreements for access to goods and services at favourable conditions). The Group believes that an essential element of the incentive system is represented by the training opportunities provided to collaborators, including the possibility of participating free of charge in numerous activities organised onsite and offsite.
An incentive system is in place linked to collective and individual objectives (MBO), which in 2016 involved 36 employees of the Group. The maximum incidence of the variable component is 25% of fixed remuneration. The MBO mechanisms are described in the Remuneration Report.

We Produce Quality Bonus (WPQB)

Sabaf S.p.A. introduced in 2016, at experimental level, an incentive system linked to objectives of production quality and efficiency. Quality improvement (reduction of waste and re-processing) and productivity objectives were assigned to 68 people involved in relevant business processes not included in the MBO system.
The initiative was received very positively: as well as representing a tool to address challenging objectives (216 objectives were assigned, achieved and exceeded in 72% of cases), the WPQB stimulated team work and encouraged the sharing at all company levels of short and medium to long-term development plans.
The good results in terms of quality and productivity have been reflected in the business profitability which was maintained at satisfactory levels even in a year of reduction of sales volumes.
In addition, the variable result bonus (VRB), provided by the company's supplementary contract for all employees and also benchmarked to quality and productivity indicators, benefited from it: for 2016 a variable result bonus of 1,184 Euro was granted, higher by 28% compared to 2015.
The success of the project means it will be implemented again in 2017, involving a higher number of collaborators (80).

The social security forms in place for all employees of the Group are those required by the rules in force in the various countries in which the Group operates.

1 The figure refers only to the Italian companies of the Group.
2 FEDERMECCANICA, The metalworking industry in figures (June 2016) - Non-EU workers (2014) *[L'industria metalmeccanica in cifre (gugno 2016) - Lavoratori extracomunitari (2014) http://www.federmeccanica.it].*

Ratio between monthly minimum wage provided by the collective contracts and the minimum wage paid by Group companies [3]

2015	COLLECTIVE CONTRACT MINIMUM WAGE		MINIMUM WAGE PAID		MINIMUM INCREASE %	
VALUES IN EURO						
Sabaf Spa	1,588.63	1,588.63	1,811.84	2,116.79	14%	33%
Faringosi Hinges	1,588.63	1,588.63	1,760.69	1,760.69	11%	11%
Turkey	286.61	286.61	314.81	314.81	10%	10%
Brazil	256.99	256.99	295.56	295.56	13%	13%
China	257.76	257.76	375.31	375.31	46%	46%

2016	COLLECTIVE CONTRACT MINIMUM WAGE		MINIMUM WAGE PAID		MINIMUM INCREASE %	
VALUES IN EURO						
Sabaf Spa	1,588.63	1,588.63	1,811.84	2,167.41	14%	36%
Faringosi Hinges	1,588.63	1,588.63	1,769.34	1,769.34	11%	11%
Turkey	317.37	317.37	355.80	355.80	12%	12%
Brazil	355.36	355.36	400.23	400.23	13%	13%
China	248.63	248.63	362.02	362.02	46%	46%

Ratio between maximum wage and the median wages of Group companies

	2016	2015
Italy	4.7	4.7
Turkey	11.5	11.9
Brazil	8.9	9.3
China	8.0	10.5

Ratio between average wage of female personnel and average wage of male personnel

	2016	2015
Employees, managers and executives	64%	64%
Labourers	86%	83%

The indicators were determined as the ratio between the average gross annual wage of female employees and that of male employees for the individual Group companies. The Group indicator was determined by weighting the indicators of the individual companies by the number of employees of each one.

3 Values converted into Euros at year-end exchange rates.

WORKING HOURS AND HOURS OF ABSENCE

The weekly duration of standard work is fixed at 40 hours for the Italian companies and for Sabaf China and 44 hours for Sabaf do Brasil, spread across 5 working days, from Monday to Friday. For Sabaf Turkey, the duration is 45 weekly hours spread across 6 working days.

Overtime

	2016		2015		BENCHMARK [4]	
	Employees	Labourers	Employees	Labourers	Employees	Labourers
Average monthly number of workers who performed overtime	107	358	76	264	-	-
Number of overtime hours	9,714	21,554	12,520	35,343	-	-
Annual number of hours per capita [5]	65	38	81	60	50	61

Total hours of absence

	2016			2015			BENCHMARK [6]
Total hours of annual absence	39,650	46,661	86,311	31,550	36,412	67,962	-
Percentage hours of absence on workable hours	3.9%	9.2%	5.7%	3.1%	6.9%	4.4%	-
Average hours of absence per capita	81.0	181.5	115.6	63.7	136.8	89.2	104.8

Hours of sick leave

	2016			2015			BENCHMARK [7]
Total hours of sickness per annum	31,603	18,099	49,702	27,833	17,823	45,656	-
Percentage hours of sickness on workable hours	3.1%	3.6%	3.3%	2.7%	3.4%	2.9%	-
Per capita hours of sick leave	64.6	70.4	66.6	56.2	67.0	59.9	48.6

Hours for maternity/ paternity leave

	2016			2015			BENCHMARK [8]
Total annual hours of maternity/ paternity leave	4,224.5	26,566.5	30,791	481	17,403	17,884	-
Percentage of maternity leave on workable hours	0.4%	5.2%	2.0%	0.0%	3.3%	1.1%	-
Per capita hours of maternity leave	8.6	103.3	41.3	1.0	65.4	23.5	16.8

The high number of hours of to maternity leave compared to the industry average reflects a higher percentage of female staff.

4 FEDERMECCANICA, The metalworking industry in figures (June 2016) - Per capita overtime hours (2014) *[L'industria metalmeccanica in cifre (giugno 2016) – Ore pro-capite di lavoro straordinario (2014), http://www.federmeccanica.it].*
5 In relation to average number of employees.
6 Processing from FEDERMECCANICA, The metalworking industry in figures (June 2016) - Per capita hours of absence from work (2016) *[L'industria metalmeccanica in cifre (gugno 2016) – Ore pro-capite di assenza dal lavoro (2016), http://www.federmeccanica.it].*
7-8 FEDERMECCANICA, The metalworking industry in figures (June 2016) - Per capita hours of absence from work (2014) *[L'industria metalmeccanica in cifre (gugno 2016) – Ore pro-capite di assenza dal lavoro (2014), http://www.federmeccanica.it].*

Parental leave [9]

TYPE OF LEAVE	2016			2015			
							% of workers in labour force after 12 months
Mandatory maternity leave	0	14	14	0	10	10	100%
Early maternity leave	0	14	14	0	8	8	100%
Optional maternity/paternity leave	6	20	26	1	17	18	100%
Breastfeeding leave	0	4	4	0	6	6	100%
Assistance to disabled relatives (Law 104)	20	12	32	27	10	37	100%
OTHER LEAVE							
Blood donation	7	0	7	6	0	6	-
Extended leave	4	2	6	3	1	4	100%
Extraordinary leave	1	0	1	2	1	3	100%

Recourse to Temporary Redundancy Fund *(CIG - Cassa Integrazione Guadagni Ordinaria)* [10]

	2016	2015
Number of CIG hours	35,583	16,612
Average number of annual hours per capita	60.8	30.0

During the year the Italian group companies made recourse to the Temporary Redundancy Fund (Cassa Integrazione Guadagni Ordinaria), in periods characterised by low production requirements.

Given the relevant market situation, which still does not allow for the full use of the production plants in Ospitaletto, also given the streamlining of some processes and the increased automation, in late 2016 Sabaf S.p.A. agreed with the trade unions upon the activation for 2017 of the solidarity contract, which involves a maximum reduction of working hours of 9.79%.

9 Data relating to Sabaf S.p.A.
10 Institution provided by Italian national legislation; the data relates only to Italian Group companies.

HEALTH AND SAFETY OF WORKERS AND THE WORKPLACE

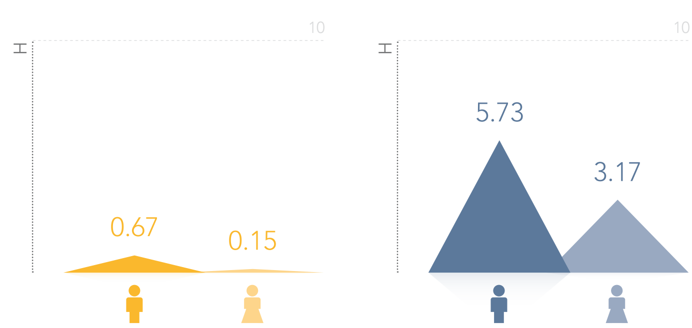
The Group's commitment towards safeguarding the health and safety of its employees is total: the system of managing problems relating to health and safety in the workplace is in line with the OHSAS 18001 standard and, as well as guaranteeing compliance with existing laws and regulations, it is aimed at continuously improving the working conditions.

Since February 2012 the management system on the health and safety of workers at Faringosi Hinges has been certified in accordance with the OHSAS 18001 standard. The system was audited for re-certification by the body TUV NORD in February 2015. The last supervision audit, performed by the Certification Body TUV NORD in March 2016, certified the conformity of the system with the relevant rules; there were, in fact, no non-conformities but only suggestions for improvement.

Number and duration of accidents

	2016			2015			BENCHMARK [11]
							-
Accidents at work	8	3	11	12	5	17	-
Accidents while commuting	1	0	1	2	0	2	-
Average duration of absences for accidents at work (days)	5.25	1.33	4.18	33.17	23	30.18	-
Average duration of absences for accidents while commuting (days)	2.00	0	2.00	33.5	0	33.5	-
Total hours of absence for accidents	329.5	39.5	369	2,840	844	3,684	-
Per capita hours of absence from work due to accident [12]	0.67	0.15	0.49	5.73	3.17	4.84	4.9

TOTAL 0.49 | 4.84



[11] FEDERMECCANICA, The metalworking industry in figures (June 2016) - Per capita hours of absence from work (2014) *[L'industria metalmeccanica in cifre (gugno 2016) – Ore pro-capite di assenza dal lavoro (2014) http://www.federmeccanica.it].*
[12] The calculation is based on the average annual workforce.

Accident frequency index

Number of accidents (excluding commuting accidents) x 1,000,000 / hours worked

	2016			2015		
Index	10.01	7.58	9.21	14.31	12.52	13.73

Accident severity index

Days of absence (excluding commuting accidents) x 1,000 / hours worked

	2016			2015		
Index	0.05	0.01	0.04	0.47	0.29	0.40

During 2016 no accidents of particular severity occurred. The training and awareness-raising activities on the use of personal protective equipment and safety devices continued in all plants of the Group.

In compliance with existing laws, the Group companies have prepared and implement medical supervision plans for employees, with health checks targeted at the specific risks of the working activity performed.
In particular, in 2016, 2,664 health checks were performed (2,707 in 2015).

Current costs for safety of workers

IN THOUSANDS OF EURO	2016	2015
Plant, equipment, materials	74	42
Personal protective equipment	89	77
External training	25	27
Consultancy	85	134
Workplace analysis	9	24
Health checks (including pre-recruitment examinations)	40	44
Software and database	5	0
TOTAL	**327**	**348**

Investments for safety of workers

IN THOUSANDS OF EURO	2016	2015
Plant, equipment, materials	81	62
TOTAL	**81**	**62**

Sabaf a health promoting workplace

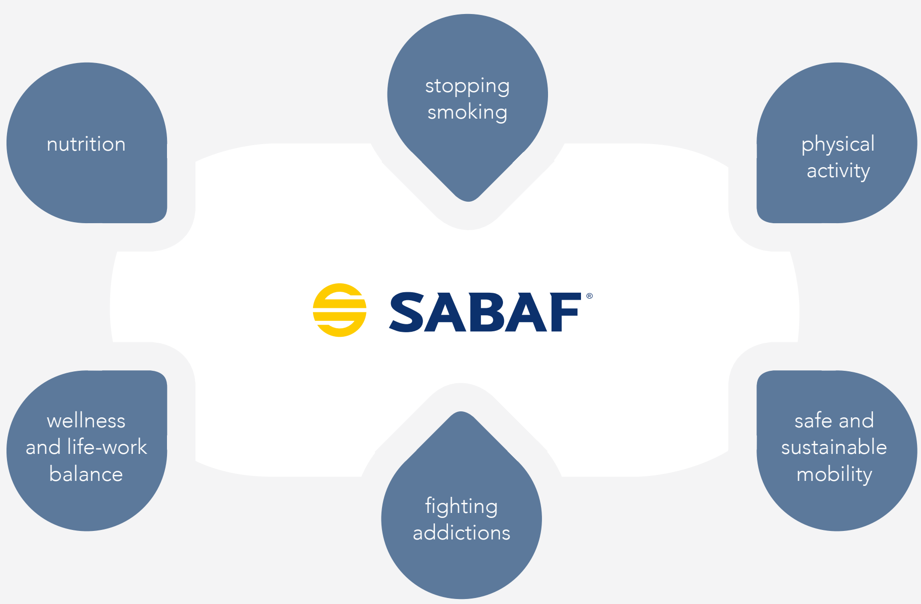
In early 2016 Sabaf S.p.A. joined the WHP (Workplace Health Promotion) programme, to implement good practice in the field of workplace health promotion. Sabaf thus undertakes not only to implement all measures to prevent accidents and occupational diseases but also to offer to its workers opportunities to improve their health, reducing general risk factors and in general those mostly involved in the genesis of chronic diseases.

Workplace health promotion is the result of joint efforts of employers, workers and the company.
The following are contributory factors:

- Improvement in the organisation of work and the workplace
- Encouragement of staff to participate in healthy activities
- Promotion of healthy choices
- Encouragement of personal growth

The central idea is simple: Sabaf aims to build, through a participatory process, a context that encourages the adoption of positive behaviours and choices for health.

The WHP Programme involves developing activities (good practice) in **6 themed areas** and requires the gradual implementation, year after year, of a minimum number of good practices in the different themed areas.



To plan actions more coherent with the company context, as well as to assess the improvements achieved, Sabaf deemed it important to identify "from the outset" the existing situation with respect to the behaviours (health determinants and risk factors) of its workers. To that end, all workers were asked to complete an anonymous questionnaire. Based upon what emerged, the activities were planned for 2016.

	SOME SUGGESTIONS BY WORKERS	INTERVENTIONS MADE IN 2016
✓	Clinic with nutritionist	An agreement has been activated with a nutritionist at more favourable prices for Sabaf collaborators. An impedance scale has been purchased which measures weight, body fat, lean mass and basal metabolic rate. At each periodic medical examination, the personal values can be monitored.
✓	Indication of calories and fats for each portion in canteen	On the canteen counter for each dish, in addition to the colour corresponding to the ideal combination, the calorie counts are provided.
✓	More varied and healthier menu, more variability of fruit and vegetables and availability of wholemeal foods	During 2016 the menu offered in the canteen was gradually expanded. The very varied offer currently includes every day even wholemeal pasta and bread. In addition to the seasonal menu, the variant of wholemeal products and, on a weekly basis, a special dish inspired by other culinary cultures has been introduced. The menu has been designed and suggested by a nutritionist. At each meal, it is possible to choose between at least 3 starters, 3 mains, 3 sides with fresh and cooked vegetables. As an alternative, yogurt and fruit are always available.
✓	Change the vending machines menu. Ban unhealthy products	The automatic vending machines have been enhanced by more types of products, leaving the user the possibility to choose.
✓	Free distribution of water in canteen	In the canteen, as well as the 0.5l bottle available with every meal, a water dispenser has been installed. Throughout the plant there are already 50 water dispensers, in addition to the hot and cold drink vending machines.
✓	Information	There have been many informative interventions: place mats and notice boards with the food pyramid, menus and tables with the colours of food. The "Health Profile" magazine is distributed for free.

Use of hazardous substances

Only materials that fully satisfy the requirements of Directive 2002/95/EC (RoHS Directive) are used for production; this aims to restrict the use of hazardous substances such as lead, mercury, cadmium and hexavalent chromium.

INDUSTRIAL RELATIONS

There are three internal trade unions at Sabaf S.p.A.: FIOM, FIM and UILM. In the Group companies, in December 2016 there were 145 employee members, amounting to 19.7% of the total (in 2015, 142 employees were members, equal to 18.7%).

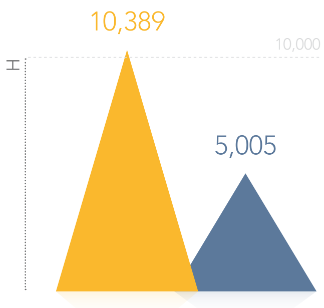
The relationships between Management and the Trade Unions are based upon transparency and mutual fairness. During the year in Sabaf S.p.A. 11 meetings took place between Management and the Trade Unions. The main subjects addressed were:

- communications relating to changes of the workforce and agency employment contracts, monitoring of temporary and job placement contracts, planning of recruitments, planning of training;
- presentation of the commercial plan and economic-financial results
- presentation and discussion of indicators determining the company performance bonus
- recourse to temporary redundancy fund (CIG)

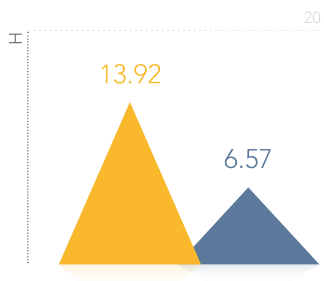
The hours of participation in trade union activities during 2016 amounted to 0.69% of the workable hours.

PARTICIPATION IN TRADE UNION ACTIVITY

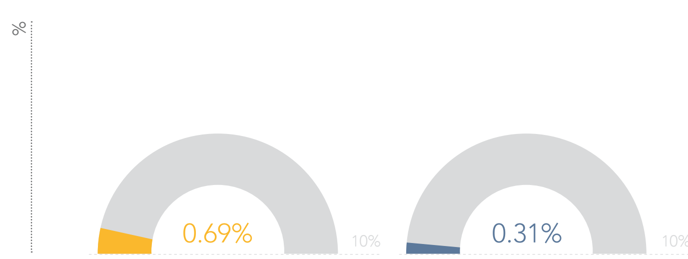
	2016	2015	BENCHMARK [13]
SHAREHOLDERS' MEETING			
N° hours	2,891	2,708	-
Percentage of workable hours	0.19	0.17	-
N° hours per capita	3.9	3.6	-
TRADE UNION LEAVE			
N° hours	2,046	1,499	-
Percentage of workable hours	0.14	0.09	-
N° hours per capita	2.7	2.0	-
STRIKES			
N° hours	5,452	798	-
Percentage of workable hours	0.36	0.05	-
N° hours per capita	7.3	1.0	-
TOTAL			
N° hours	**10,389**	**5,005**	**-**
Percentage of workable hours	**0.69**	**0.31**	**-**
N° hours per capita	**13.92**	**6.57**	**8.3**



TOTAL



TOTAL PER CAPITA



TOTAL %

During 2016 at Sabaf S.p.A. a total 26 hours of strikes were called, for problems of national nature. At Faringosi Hinges, Sabaf do Brasil, Sabaf Turkey and Sabaf Kunshan no strikes were called.

13 FEDERMECCANICA, The metalworking industry in figures (June 2016) - Per capita hours of absence from work (2014) *[L'industria metalmeccanica in cifre (giugno 2016) - Ore pro-capite di assenza dal lavoro (2014), http://www.federmeccanica.it].*

SOCIAL ACTIVITIES AND BENEFITS

Sabaf S.p.A. has signed an agreement with a credit institution for the granting of mortgage loans under particularly favourable conditions, providing a surety guarantee in favour of its employees: at 31/12/2016 59 employees benefit from the agreement.

The Company has rented to employees some apartments close to the Ospitaletto site. It has also built a residential complex of 54 units, used as a priority and under favourable conditions for employees, who have purchased 29 of them.

Various agreements have also been signed with commercial businesses for the purchase of products and services at special prices.

LITIGATION AND DISCIPLINARY MEASURES

During 2016 136 disciplinary measures were taken against employees of the Group, broken down as follows:

- 15 verbal warnings
- 13 warnings to use personal protective equipment
- 68 written warnings
- 22 fines
- 7 suspensions
- 2 precautionary suspensions
- 9 dismissals

The main reasons for the disciplinary measures are unjustified absence, failure to respect working hours, lack of respect of rules regarding sickness absence and justified objective reasons.

At 31 December 2016 there were no disputes in place with collaborators. Some disputes are in place with some former employees relating mainly to the challenge of dismissal measures.

SABAF and shareholders

COMPOSITION OF THE CAPITAL

2,210 shareholders were registered in the shareholders' book at 10 March 2017, of which:

- 1,809 own up to 1,000 shares
- 313 own from 1,001 to 5,000 shares
- 40 own from 5,001 to 10,000 shares
- 48 own over 10,000 shares

45% of the capital is held by shareholders resident abroad.

The presence of institutional investors in the capital is very significant (estimated at around 90% of the free float).

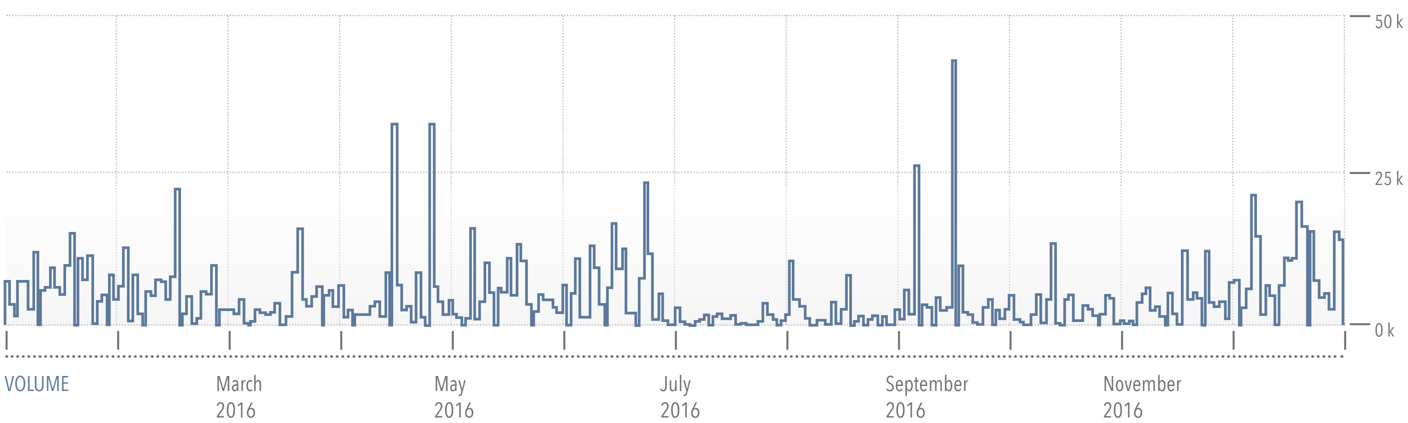
RELATIONSHIPS WITH INVESTORS AND FINANCIAL ANALYSTS

Since the Stock Market listing (1998) the Company has considered financial communication to be strategically important.
Sabaf's financial communication policy is based upon principles of correctness, transparency and continuity, in the belief that that approach allows investors correctly to assess the Company. In that perspective, Sabaf guarantees the utmost openness to dialogue with financial analysis and institutional investors.

During 2016 the Company met the institutional investors at roadshows organised in Milan, Florence and London. Some investors, in addition, had meetings with management at the company headquarters in Ospitaletto, taking the opportunity to visit the production plants.

REMUNERATION OF SHAREHOLDERS AND PERFORMANCE OF STOCK

During 2016, the Sabaf stock recorded its maximum official price on 5 January (11.483 Euro) and its minimum on 28 November (8.700 Euro). The average traded volumes amounted to 5,254 shares per day, equal to an average equivalent value of 50,750 Euro (133,000 Euro in 2015).



The dividend policy adopted by Sabaf is aimed at ensuring the valid remuneration of shareholders also by way of the annual dividend, maintaining a ratio between dividend and profit above 50%.

SOCIALLY RESPONSIBLE INVESTMENTS

Frequently, the Sabaf stock has been subject to analysis also by analysts and managers of SRI funds, which on a number of occasions have also invested in Sabaf.

DISPUTES

There are no disputes in place with shareholders.

SABAF and customers

SALES ANALYSIS

Countries and customers

	2016	2015
Countries	54	52
Customers [14]	293	288

See the Management Report for the analysis of the breakdown of revenues by product family and by geographic area.

In coherence with the commercial policies followed, a large part of the active commercial relationships is characterised by relationships consolidated in the long-term.

There are 31 Customers with annual sales of over one million Euro (34 in 2015).
The distribution by classes of sales is the following:

	2016	2015
< 1,000 Euro	50	43
from 1,001 to 50,000 Euro	176	174
from 50,001 to 100,000 Euro	23	26
from 100,001 to 500,000 Euro	50	43
from 500,001 to 1,000,000 Euro	13	11
from 1,000,001 to 5,000,000 Euro	26	26
> 5,000,000 Euro	5	8

In addition to the management structure at the Ospitaletto site, the sales network is based on the subsidiary companies in Brazil, Turkey, the USA and China and on the representative office in Poland. There are 11 active agency relationships, mainly relating to non-European markets.

THE QUALITY SYSTEM

The quality management system is integrated with the environmental and workplace safety management systems, and it is aimed at allowing for the following objectives to be achieved:

a. to increase customer satisfaction, through the understanding and satisfaction of their present and future needs;
b. continuously to improve the processes and products;
c. to involve partners and suppliers in the continuous improvement process, favouring the "comakership" logic;
d. to develop human resources;
e. to improve the business performance.

Current costs for quality

IN THOUSANDS OF EURO	2016	2015
Product certification	129	91
Quality system certification and management	26	27
Equipment and measuring devices (purchase)	103	84
Equipment and measuring devices (calibration)	30	47
Technical rules, software and magazines	5	2
Training	0	0
Tests at external laboratories	16	6
TOTAL	**309**	**257**

Investments for quality

IN THOUSANDS OF EURO	2016	2015
Equipment and measuring devices (purchase)	131	74
TOTAL	**131**	**74**

14 With sales exceeding 1,000 Euro.

Sites that have obtained the quality certification according to the ISO 9001:2008 Standard:

Year	Site
1993	Sabaf S.p.A
2001	Faringosi Hinges
2008	Sabaf do Brasil
2015	Sabaf Turkey

During the year 2016, Sabaf's Quality System was constantly monitored and maintained to ensure the correct implementation and respect of the requirements of the standard. The plan of internal inspection audits, defined both for the site of Ospitaletto and for the production plant in Brazil, was done and the results did not identify any system criticalities which, therefore, fully satisfies the standard.

In relation to third party audits on the quality management system, CSQ (Certification system of IMQ) performed the annual supervision inspection at the site of Ospitaletto in June 2016, and at the plant in Turkey in May 2016, confirming the adequacy of the system. The verification was carried out by sample at the Italian site and confirmed the quality system also for the Turkish plant. During 2017 all plants will be visited by the certification body for the renewal of the certificate.

In the month of October 2016 the Certification Body TUV NORD performed the periodic supervision audit on the quality management system of Faringosi Hinges s.r.l. The check confirmed the adequate implementation of the system. No non-conformities were identified.

During 2017 training and update courses are scheduled to investigate the new EN ISO 9001:2015 standard so as to prepare to adjust the system to the revision of the standard.

CUSTOMER SATISFACTION

The *customer satisfaction* survey, conducted on a twice yearly basis, falls within the activities of *stakeholder engagement* which Sabaf undertakes in order to constantly improve the quality level of the services offered and to meet the expectations of customers.

The last survey, done in February 2015, confirmed the positive opinion of customers, emphasising among the strengths the promptness, professionalism and expertise in commercial assistance.
Another analysis has been planned for the month of March 2017.

DISPUTES

Sabaf has some initiatives in place to warn some producers against the counterfeiting of components and of cookers and cooker tops, which are promoting or selling devices having components that infringe our patents and trademarks.

SABAF and suppliers

SA8000 STANDARD AND SUPPLIERS

In 2005 Sabaf S.p.A. obtained the certification of conformity to the requirements of the SA8000 standard (Social Accountability 8000) and, therefore, the Company requires from its suppliers compliance, in all their activities, with the principles of the standard, as a minimum criterion for establishing a lasting relationship based upon principles of social responsibility. The supply contracts include a clause of ethical nature inspired by the SA8000 Standard, which binds suppliers to guarantee respect of human and social rights and in particular: to avoid employing persons aged below the age established by the standard, to guarantee to workers a safe workplace, to protect trade union freedoms, to respect the legislation on working hours, to guarantee to workers respect of the legal minimum wage.

Any lack of compliance or lack of acceptance of the principles of the SA8000 Standard may determine the interruption of the supply relationships. During 2016, 13 audits were carried out at suppliers (19 in 2015), relating to the management of quality, environment and social responsibility, which did not identify any critical non-compliance. Against the non-critical non-compliance, the suppliers were asked to make the appropriate interventions.

ANALYSIS OF PURCHASES

The Sabaf Group aims to encourage the development of the territory in which it operates and, therefore, when selecting its suppliers, it favours local companies:

excluding intergroup relationships, the purchases made in Lombardy by Italian companies of the Group represent 48% of the total, the purchases by Sabaf do Brasil from Brazilian suppliers amount to 83% of the total, the purchases by Sabaf Turkey from Turkish suppliers is 77.3% of the total and the purchases of Sabaf Kunshan from Chinese suppliers is 95.5% of the total.

The turnover achieved outside the European Union originates for the most part from suppliers situated in China. Chinese suppliers have signed the clause to comply with the principles of the SA8000 standard.

Territorial distribution of suppliers

	2016		2015	
IN THOUSANDS OF EURO	TURNOVER	%	TURNOVER	%
Province of Brescia	30,814	36.2	27,995	28.8
Italy	28,061	32.9	38,104	39.3
UE	10,246	12.0	11,000	11.3
Brazil	5,208	6.1	4,269	4.4
Turkey	5,578	6.5	5,339	5.5
China	4,282	5.0	6,908	7.1
Non-EU - Others	978	1.1	3,437	3.5
TOTAL	**85,167**	**100**	**97,011**	**100**

Sabaf do Brasil and Sabaf Turkey purchase the materials required for production mainly from local suppliers. The main machines used (die-casting islands, transfer and assembly lines) are, on the other hand, imported from Italy to guarantee homogeneous production processes at Group level, particularly in terms of quality and safety.

RELATIONSHIPS WITH SUPPLIERS AND CONTRACTUAL TERMS

The relationships with suppliers are based upon long-term collaboration and focused upon contractual fairness, integrity and business correctness and the sharing of strategies of growth.

To encourage the sharing with suppliers of the basic values of its business model, Sabaf has broadly distributed the Charter of Values.

Sabaf guarantees absolute impartiality in its choice of suppliers and undertakes strictly to comply with the agreed payment terms.

Sabaf requires from its suppliers the ability to renew themselves technologically, so as always to be able to offer the best quality/price ratios, and it favours the choice of suppliers that have obtained or are obtaining certifications of quality and environmental systems.

In 2016 the turnover of suppliers of the Sabaf Group with the certified quality system was 68.1% of the total (61.9% in 2015).

Breakdown of purchases by nature

	2016		2015	
IN THOUSANDS OF EURO	TURNOVER	%	TURNOVER	%
Raw materials	18,952	22.3	26,056	26.9
Components	28,394	33.3	28,027	28.9
Capital goods	11,465	13.5	11,581	11.9
Services and other purchases	26,356	30.9	31,347	32.3
TOTAL	**85,167**	**100**	**97,011**	**100**

Very short payment timescales are agreed with craftsman suppliers and those that are less structured (mainly at 30 days).

DISPUTES

There are no disputes in place with suppliers.

SABAF and lenders

RELATIONSHIPS WITH CREDIT INSTITUTIONS

The Group operates with a low debt ratio (net debt / shareholders' equity at 31 December 2016 of 0.21; net debt / EBITDA of 0.92) and it has ample unused short-term credit lines.

At 31 December 2016 the net debt amounted to 23.5 million Euro - compared to the 25.9 million Euro of 31 December 2015.

The relationships with banks are always characterised by the utmost transparency. Relationships are always favoured with those institutions able to support the Group in all its financial requirements and to promptly propose solutions against specific requirements.

DISPUTES

There are no disputes in place with lenders.

SABAF and competitors

MAIN ITALIAN AND INTERNATIONAL COMPETITORS

In Italy and in Europe Sabaf estimates that it holds a market share of over 50% in each product segment and it is the only company that provides the complete range of components for gas cooking appliances, while its competitors produce only part of the product range.

Sabaf's main competitors on the international market are Copreci, Burner System International and Defendi.

Copreci is a cooperative located in Spain in the Basque Country, part of Mondragon Cooperative Corporation and with Sabaf it is the main manufacturer of taps and thermostats in Europe.

Burner Systems International (BSI) is a US group that acquired control of the French manufacturer Sourdillon, a longstanding competitor of Sabaf, and Harper Wyman, the leading manufacturer of components for gas cooking appliances for the North American market.

Defendi is an Italian company, acquired in 2013 by the German group EGO, and it is mainly active in the production of burners in Italy, Brazil and Mexico.

Main Italian and international competitors

	TAPS	THERMOSTATS	BURNERS	HINGES
SABAF	**X**	**X**	**X**	**X**
Burner Systems International (U.S.A)	X	X	X	
CMI (Italy)				X
Copreci (Spain)	X	X		
Defendi Italy (Italy)	X		X	
Nuova Star (Italy)				X
Somipress (Italy)			X	

2014 and 2015 economic data of main Italian competitors [15]

	2015			2014		
IN THOUSANDS OF EURO	SALES	OPERATING INCOME	NET PROFIT	SALES	OPERATING INCOME	NET PROFIT
CMI	20,922	1,163	646	19,828	1,146	612
DEFENDI ITALY	53,608	1,006	1,087	54,694	2,930	2,257
NUOVA STAR	27,966	252	79	27,793	449	95
SOMIPRESS GROUP	40,946	3,417	2,046	40,072	3,160	1,720
SABAF GROUP	138,003	14,091	8,998	136,337	13,175	8,338

No further information is available on competitors, due to the difficulty in obtaining the data.

DISPUTES

A dispute is in progress brought against a competitor following and alleged infringement of one of our patents.

15 Sabaf processing from financial statements of various companies. Latest available data.

SABAF, Public Administration and Society

RELATIONSHIPS WITH THE PUBLIC ADMINISTRATION

In line with the relevant policies, Sabaf's relationships with the Public Administration and the Treasury are based upon the utmost transparency and fairness.
Locally, Sabaf has sought to establish an open dialogue with the various authorities to create harmonious industrial development. In that perspective, the Company systematically provides to the Municipality of Ospitaletto a copy of the analyses relating to atmospheric emissions caused by production at its plants.

CHARITABLE INITIATIVES AND DONATIONS

The amount of donations in 2016 was around 36,000 Euro (44,000 Euro in 2015), mainly aimed at supporting initiatives of social and humanitarian nature locally.

DISTANCE ADOPTIONS

Sabaf supports the Association of Volunteers in International Service (AVSI), a non-governmental and not for profit organisation working on international projects of development aid. The donations are aimed at supporting at a distance twenty children who live in various countries of the world.

RELATIONSHIPS WITH UNIVERSITIES AND THE STUDENT WORLD

Sabaf systematically organises company visits with groups of students and contributes its knowledge of best practices in relation to social responsibility to major conventions in various cities in Italy.

RELATIONSHIPS WITH THE TRADE UNION ASSOCIATIONS

Sabaf is one of the founders of **CECED Italia**, the association that develops and coordinates in Italy study activities promoted at European level by Ceced (European Committee of Domestic Equipment Manufacturers) with the related scientific, legal and institutional implications in the domestic appliances sector.

Since 2014 Sabaf S.p.A. has been a member of the Brescia Industrial Association (AIB), which is part of the Confindustria system.

DISPUTES

There are no significant disputes with public institutions or with other representatives of the community.

SABAF and the environment

HEALTH AND SAFETY, ENVIRONMENT AND ENERGY POLICY

Programme and objectives

The protection of the Health and Safety of Workers, the Environment and the efficient and rational use of Natural and Energy resources are for SABAF part of its strategic commitments. As part of the processes for the production of components for gas cookers, it is, for our Organisation, now a continuous challenge to achieve standards of work that guarantee the health and maximum safety of our staff and those who work on our behalf. The reduction of environmental impacts and the reduction in the use of natural and energy resources are an integral part of this challenge, starting with the product design process, through the different phases of its creation, in a perspective that looks at the whole operating life of that product.
For this reason SABAF has adopted and keeps active an Integrated System for the Management of Health, Safety and the Environment, and Energy (EHS&En) which, integrating with the other Management Systems operating in the company, constitutes an effective means for pursuing the constant reduction of risks, environmental impacts and energy consumption through the following instruments:

- Maintaining full compliance with the rules and laws in force and the other requirements using the same proactively as elements of continuous EHS&En supervision of the processes.
- Prior assessment, commencing from the phases of design, modification of processes and purchase of products and services, of the EHS&En aspects.
- The drafting, dissemination and constant implementation of the Policy in order to share the same with and involve all employees and collaborators in achieving our EHS&En performance targets.

SABAF undertakes to pursue the following objectives:

- Prevention of pollution and streamlining of energy use through continuous improvement of its processes and products, aiming them at maximising the profit to be achieved through minimising the environmental impacts and energy consumption.
- Making more efficient the use of Natural and Energy resources in the production phase, with particular reference to water and energy consumption.
- Reducing the quantity of waste produced and improving its quality in terms of hazardousness and recoverability.

Since 2003 the environmental management system of the Ospitaletto production site (which covers about 80% of the Group's total production) has been certified in accordance with the ISO14001 standard.
During the year 2016, Sabaf's Environmental Management System has been constantly monitored and maintained to guarantee the correct implementation and respect of the requirements of the standard.
In relation to third party audits on the system, CSQ performed the supervision inspection, at the Ospitaletto site in July 2016, confirming the adequacy of the system.

Sabaf S.p.A. obtained in 2008 the issuance by the Lombardy Region of the Integrated Environmental Authorisation in accordance with Italian Legislative Decree 18 February 2005, no. 59.

In 2015 the Ospitaletto site was certified in accordance with the ISO 50001 Standard, with a view to reducing the environmental impacts and containing the use of natural and energy resources. The supervision inspection, held in December 2016, confirmed the adequacy of the system.

DIALOGUE WITH ENVIRONMENTAL GROUPS AND INSTITUTIONS

The Group has for some time promoted the dissemination of information regarding lower environmental impacts deriving from the use of gas in cookers rather than electricity: the use of combustible gas for heat production in fact provides much higher yields than those obtainable with electric cookers. In addition, the market of cookers worldwide increasingly requires high power and numerous hobs to rapidly cook meals. Cooker hobs powered electrically lead to an increase in peak energy consumptions, typically at mealtimes, further fuelling the demand for electricity which is already difficult to satisfy.

PROCESS INNOVATION AND ENVIRONMENTAL SUSTAINABILITY

Washing of metals

In the production process of taps, it is essential in a number of phases to proceed with the washing of metals. Traditionally, the washing of metals was done through systems that involved the use of chlorine-based solvents.
From 2013 Sabaf began to assess alternatives that can guarantee equal or superior washing quality, at the same time minimizing the environmental impact and management costs. The identified solution involves the insertion into the production process of machines that use a washing system based upon modified alcohol, a solvent that, due to its properties, can be re-distilled (and therefore is recyclable).
With an investment of over one million Euro, the replacement process involved the complete replacement of all washing systems present both in Italy and in Brazil.
The environmental impact and the management costs have been substantially zeroed.

Product marking

The existing rules require a series of distinctive characteristics to be indicated on products. Traditionally, the printing was always done with an inkjet system: the system only allows for three lines to be printed, for a predefined number of characters for each line, with an annual operating cost of about 60,000 Euro for ink, solvents and maintenance. Sabaf has decided to opt for a fibre optic laser writing system which allows for all necessary characters to be printed on products, without limitation. In recent years, with an investment of about 250,000 Euro, all inkjet systems have been replaced with fibre optic laser writing systems, zeroing the operating costs.

PRODUCT INNOVATION AND ENVIRONMENTAL SUSTAINABILITY

Light-alloy taps

The production of aluminium alloy taps has several advantages compared to the production of brass taps: elimination of the phase of hot moulding the brass, lower lead content in the product, lower weight and consequent reduction in consumption for packaging and transportation. In 2016 the process of replacing brass taps with light-alloy taps, which now represent over 80% of the taps produced, continued.

High efficiency burners

For many years Sabaf has been at the cutting-edge in marketing burners that are characterised by significantly higher yields than standard ones. After the launch of Series III, AE and AEO, from 2012 Sabaf introduced a new family of high efficiency burners, the HE burners, able to reach a yield of up to 68%. HE burners are also characterised by almost total interchangeability with Series II burners. Recently, the DCC range of special burners was completed, which is characterised by energy efficiency exceeding 60%, the highest currently available on the market for burners with multiple rings. Specifically for the Chinese market, then, DCC burners have been created with brass gas ring and efficiency greater than 65%, at the top of what is currently available on that market.
High efficiency burners already represent 14.5% of the total burners produced.

ENVIRONMENTAL IMPACT

Materials used and product recyclability

Sabaf's main product lines - taps, thermostats and burners for gas cooking appliances for domestic use - are characterised by a high energy efficiency and by optimal use of natural resources. The use of combustible gas for heat production allows, in fact, for much higher yields than those that can be obtained with electrical cooking appliances. Sabaf's products can also be easily recycled, as they are almost entirely constituted by brass, alloys of aluminium, copper and steel.

Sabaf also recycles its paper/cardboard, glass, cans and plastic. In 2016 recycling allowed for the recovery of paper/cardboard and of plastic packaging of 96,450 Kg.

MATERIALS USED	2016 CONSUMPTION (t)	2015 CONSUMPTION (t)
Brass	697	1,025
Aluminium alloy	6,703	7,431
Zamak	82	77
Steel	7,250	6,790

100% of the brass and around 65% of the aluminium alloys used are produced by way of scrap recovery; 35% of the aluminium alloys and 100% of the steel are, on the other hand, produced from mineral sources.

The ever reducing consumption of brass is linked to the gradual replacement of brass taps with aluminium alloy taps.

Sabaf's products fully satisfy the requirements of Directive 2002/95/EC (**RoHS Directive**) which aims to limit the use of hazardous substances, such as lead, in the production of electrical and electronic devices, a category that includes all domestic appliances, including gas cooking appliances (which are equipped with electronic ignition).

In addition, Sabaf's products are fully compliant with the requirements of **Directive 2000/53/EC** (End of Life Vehicles), i.e. the content of heavy metals (lead, mercury, cadmium, hexavalent chromium) is lower than the limits imposed by the Directive.

In relation to the **REACH Regulation** (Regulation no. 1907/2006 dated 18.12.2006), Sabaf S.p.A. is classified as a downstream user of substances and preparations. The products supplied by Sabaf are classified as articles that do not give rise to the intentional issuance of substances during normal use; therefore, the registration of the substances contained in them is not required. Sabaf has contacted its suppliers in order to ensure that they fully comply with the REACH Regulation and to obtain confirmation of the fulfilments of the pre-registration and registration obligations of substances or preparations used by them. Sabaf also performs constant monitoring of legislative changes in relation to the REACH Regulation in order to identify and manage any new fulfilments in that regard.

Energy sources

ELECTRICITY	2016 CONSUMPTION (Mwh)	2015 CONSUMPTION (Mwh)
TOTAL	27,189	29,384

METHANE	2016 CONSUMPTION (m^3 X 1000)	2015 CONSUMPTION (m^3 X 1000)
TOTAL	3,432	3,376

Sabaf S.p.A. and Sabaf do Brasil use methane as an energy source for the casting of aluminium and for the firing of enamelled covers. The production of Faringosi Hinges does not use methane as an energy source.

Indicator: Energy intensity

ENERGY INTENSITY	2016 CONSUMPTION	2015 CONSUMPTION
KWh on turnover	0.483	0.470

The energy diagnosis of the energy management system

During 2015 Sabaf S.p.A. and Faringosi Hinges s.r.l. carried out an energy diagnosis, aimed at obtaining in-depth knowledge of the energy consumption profile of their activities and identifying and quantifying the energy saving opportunities.

MAIN ENERGY SOURCES USED

The main sources used are:

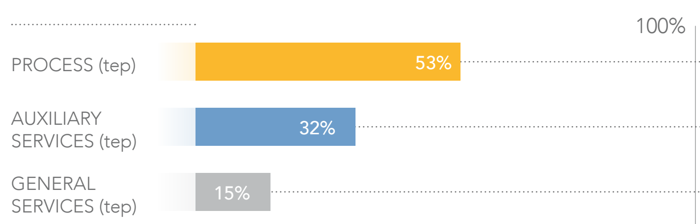
- electricity, for all electrically powered devices present, whether or not they are functional to the production process, which covers 73% of the total energy requirement
- natural gas, linked to the functioning of both the production plants (foundry ovens, burners for washing, enamelling ovens) and the service systems (heating), which covers 27% of the total energy requirement

ANALYSIS OF ENERGY REQUIREMENT TO COMPLETION

The production processes that absorb the most energy are the foundry (54% of the process total) and the glazing line (15% of the process total).

The energy requirement of the auxiliary services is mainly attributable to the production of compressed air (70% of the auxiliary services total) and to the waste treatment systems of the foundry and glazing line (20% of the auxiliary services total).

The energy requirement of the general services relates mostly to heating and lighting.



2016
Targets
and results achieved

As part of the energy diagnosis Sabaf had set itself the following improvement targets:

1 **Search and repair of leaks of compressed air.**

RESULTS ACHIEVED:
This activity led to a 10% performance improvement of the air production sector.

2 **Adjustment of combustion parameters for hot air generators.**

RESULTS ACHIEVED:
Correct maintenance, greater awareness raising and knowledge of users and rational use have led to an improvement, and therefore an energy saving, of 12% compared to the year 2015.

3 **Renewal of lighting systems.**

RESULTS ACHIEVED:
The new LED technology, installed almost all the way through the business and simultaneously the optimisation of the positioning of the drives, has led to an improved performance index by 41% compared to that of the previous year.

2017
Targets

1 **Continuation of search and repair of leaks and optimisation of management of compressed air production process**

2 **Conclusion of activity of renewal of lighting systems**

Water

WATER	2016 CONSUMPTION (m^3)	2015 CONSUMPTION (m^3)
From aqueducts	46,879	50,187
From wells	46,640	38,894
TOTAL	**93,519**	**89,081**

All water used in the production processes by the Group companies is later disposed of: there are, as a result, no discharges of industrial type water. The water used in the die-casting and enamelling processes in Italy, recovered by way of a rainwater collection system or taken from wells, downstream of the production processes, is treated in concentration plants that have significantly reduced the quantities of water necessary and the waste produced.

The environmental improvement targets set for 2017 include optimising processes that involve the use of water.

Waste

Swarfs and waste deriving from the production process are identified and collected separately, only then to be taken for recovery or disposal. Sprues from the die-casting of aluminium are directly re-used.

The waste destined for disposal and recovery is summarised below:

WASTE (t)	2016	2015
URBAN	**152**	**166**
Non-hazardous (disposal)	1,474	1,286
Non-hazardous (recovery)	3,980	4,287
TOT. NON-HAZARDOUS	**5,453**	**5,573**
Hazardous (disposal)	1,188	1,531
Hazardous (recovery)	1,021	865
TOT. HAZARDOUS	**2,209**	**2,396**

It is noted that during 2016 no significant spills occurred.

Atmospheric emissions

A good part of the Sabaf's Group's atmospheric emissions derive from activities defined as "producing negligible pollution".

- Three production processes are performed at Sabaf S.p.A.:
  1. the production of components that constitute the burners (burner nozzle holder and gas rings) involves the melting and subsequent die-casting of aluminium alloy, sandblasting of pieces, a series of mechanical processes with the removal of material, the washing of some components, assembly and testing. That production process involves the emission of an insignificant amount of oil mists, along with dust and carbon dioxide;
  2. the production of burner covers, in which steel is used as a raw material, which undergoes blanking and coining. The semi-finished covers are then washed, sandblasted, applied and enamel fired, a process which generates the emission of dust;
  3. the production of taps and thermostats, in which mainly bars and moulded bodies in brass (in aluminium alloy for the new generation taps) and, in a very small amount, steel bars are used as a raw material. The production cycle is broken down into the following phases: mechanical processing with removal of material of bars and moulded bodies, washing of semi-finished products and components thus obtained, finishing of surfaces of male casing coupling using diamond machine tools, assembly and final testing of finished product. This process generates an insignificant amount of oily mist.
- At Faringosi Hinges steel is used as a raw material for the production of hinges, which undergoes a series of mechanical processes and assemblies that do not involve any significant emission.
- At Sabaf do Brasil the entire production process of the burners is carried out. From the analysis of the internal process no significant emissions are highlighted.
- At Sabaf Turkey the entire production process of the gas rings takes place along with the enamelling of the burner covers. From the internal process analysis, no significant emissions are highlighted.
- At Sabaf China the operations of mechanical processing and assembly of the burners takes place. The emissions are entirely negligible.

The level of efficiency of the purification systems is guaranteed through their regular maintenance and periodic monitoring of all emissions. The monitoring performed during 2015 and 2016 highlighted the conformity with legal limits of all emissions.

CO_2 EMISSIONS (t) [16]	2016	2015
From methane consumption	6,563	6,600
From electricity consumption	9,978	10,784
TOTAL CO_2 EMISSIONS	**16,541**	**17,384**

The use of methane gas for fuelling the smelt furnaces involves the emission into the atmosphere of NO_x and SO_x; however, these emissions are not very significant.
Using a relatively clean fuel such as methane makes Sabaf's contribution to greenhouse gas emissions negligible.

There is no emission of CH_4, N_2O, HFCS, SF_6, greenhouse gases. At Sabaf there are currently no substances harmful to the ozone layer, except for the refrigerant fluid used in some conditioners (R22) which is managed in compliance with the relevant regulations.

ENVIRONMENTAL INVESTMENTS

Current Environmental Costs

IN THOUSANDS OF EURO	2016	2015
Waste disposal	453	449
Consultancy	78	75
Emissions analysis	14	17
Training	2	6
Systems, equipment, materials	12	12
TOTAL	**559**	**559**

Environmental Investments

IN THOUSANDS OF EURO	2016	2015
Systems, equipment, materials	690	650
TOTAL	**690**	**650**

Environmental investments in the year 2016 were made for the vat washing systems introduced to replace the old washing systems.

DISPUTES

There are no significant pending disputes on environmental matters.

16 Calculations made on the basis of the following emission factors: 367 g/KWh for electricity 2015, 367 g/KWh for electricity 2016 (source: TERNA); 1,955 x 1000 m^3 for methane 2015, 1,955 x1000 m^3 for methane 2016 (source: MINISTRY OF THE ENVIRONMENT).

KPMG

KPMG S.p.A.
Revisione e organizzazione contabile
Via Cefalonia, 70
25124 BRESCIA BS
Telefono +39 030 2425720
Email it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

(Translation from the Italian original which remains the definitive version)

Independent auditors' report on the social report

To the board of directors of
SABAF S.p.A.

We have performed a limited assurance engagement in relation to the 2016 social report of the SABAF Group (the "Group"), consisting of the following sections of the group's 2016 annual report:

- "Introduction to Annual Report"
- Section 1 "Business model and strategic approach"
- Section 2 "International dimension and relevant markets"
- Section 4 "Social and environmental sustainability".

Our work was solely performed on the social report as defined above and did not cover the data and information included in section 3 "Corporate governance, risk management, compliance and general remuneration policy", section 5 "Report on operations", or the consolidated and separate financial statements of SABAF S.p.A., which were audited by other auditors.

Directors' responsibility for the social report

The parent's directors are responsible for the preparation of the social report in accordance with the G4 Sustainability Reporting Guidelines, issued in 2013 by GRI – Global Reporting Initiative, that are detailed in the "Methodological note" section of the social report, as well as for that part of internal controls that they consider necessary for the preparation of a social report that is free from material misstatement, due to fraud or unintentional conduct or events. They are also responsible for defining the Group's objectives regarding its sustainability performance, the reporting of the achieved results and the identification of the stakeholders and the significant matters to report.

Auditors' independence and quality control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards

KPMG

SABAF S.p.A.
Independent auditors' report on the social report
31 December 2016

Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

We apply the International Standard on Quality Control 1 (ISQC Italia 1) and, accordingly, we maintain a quality control system which includes documented policies and procedures on the compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Independent auditors' responsibility

Our responsibility is to express a conclusion on the social report based on our procedures. We carried out our work in accordance with the criteria established by International Standard on Assurance Engagements 3000 (Revised) - Assurance Engagements other than Audits or Reviews of Historical Financial Information (ISAE 3000 Revised), issued by the International Auditing and Assurance Standards Board (IAASB) applicable to limited assurance engagements. This standard requires that we plan and perform the engagement to obtain limited assurance about whether the report is free from material misstatement.

The procedures we performed on the social report are based on our professional judgement and include inquiries, primarily of persons responsible for the preparation of the social report, documental analyses, recalculations, findings and other evidence gathering procedures, as appropriate.

These procedures aimed at checking that its content and quality complied with the G4 Sustainability Reporting Guidelines.

Specifically, we carried out the following procedures:

— comparing the information and data presented in the "Economic Value Generated and Distributed" paragraph of the "Introduction to Annual Report" section of social report to the corresponding financial information and data included in the Group's consolidated financial statements as at and for the year ended 31 December 2016, on which other auditors issued their report dated 5 April 2017 pursuant to articles 14 and 16 of Legislative decree no. 39 of 27 January 2010;

— holding interviews aimed at analysing the governance system and the process for managing the sustainable development issues relating to the Group's strategy and activities;

— analysing the reporting of significant matters process, specifically how these matters are identified and prioritised for the each stakeholder category and how the process outcome is validated internally;

— analysing how the processes underlying the generation, recording and management of quantitative data included in the social report operate. In particular, we have performed the following:

  - interviews and discussions with management personnel of SABAF S.p.A. and personnel of the subsidiary Faringosi-Hinges S.r.l., to gather information on the IT, accounting and reporting systems used in preparing the social report, and on the processes and internal control procedures used to gather, combine, process and transmit data and information to the office that prepares the social report;

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- sample-based analysis of documentation supporting the preparation of the social report to confirm the existence and adequacy of processes and that the internal controls correctly manage data and information in relation to the objectives described in the social report;

— analysing the compliance and overall consistency of the qualitative information included in the social report with the guidelines referred to herein in the "Directors' responsibility for the social report" paragraph;

— analysing the stakeholder involvement process, in terms of methods used, by reading the minutes of the meetings or any other information available about the salient features identified;

— obtaining the representation letter signed by the legal representative of SABAF S.p.A. on the compliance of the social report with the guidelines indicated in the "Directors' responsibility for the social report" paragraph and on the reliability and completeness of the information and data contained therein.

As required by the G4 Sustainability Reporting Guidelines, the data and information covered by our procedures are set out in the "GRI Content Index" table of the social report.

A limited assurance engagement is less in scope than a reasonable assurance engagement carried out in accordance with ISAE 3000 Revised, and, therefore, it does not offer assurance that we have become aware of all significant matters and events that would be identified during a reasonable assurance engagement.

Conclusions

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Group's 2016 social report has not been prepared, in all material respects, in accordance with the G4 Sustainability Reporting Guidelines, issued in 2013 by GRI – Global Reporting Initiative, that are detailed in the "Methodological note" section of the social report.

Brescia, 6 April 2017

KPMG S.p.A.

(signed on the original)

Paolo Andreasi
Director of Audit

GRI Content Index

KPMG S.p.A. has carried out a "limited assurance engagement" on the Sabaf 2016 Social Report and provides its overall conclusions therein. As far as the scope of activities and procedures are concerned, please refer to the Statement released by the independent auditor on pages 98-100.

GENERAL STANDARD DISCLOSURE	Indicator description	PAGE (or direct reference)	Principle of Global Compact	EXTERNAL ASSURANCE
STRATEGY AND ANALYSIS				
G4-1	Statement from the CEO and Board President	4		✓
G4-2	Key impacts, risks and opportunities	6, 27, 35-37, 53-55		✓
ORGANIZATIONAL PROFILE				
G4-3	Name of the organization	Before the cover page		✓
G4-4	Primary brands, products and services	33-34		✓
G4-5	Location of the headquarter	33, 190		✓
G4-6	Countries where the organization operates	33, 35-36		✓
G4-7	Nature of ownership and legal form	41, 83		✓
G4-8	Markets served	32, 34-35		✓
G4-9	Scale of the organization	10-15, 34-36		✓
G4-10	Total number of employees by employment contract and gender, region and employment type	65-66	6	✓
G4-11	Percentage of total employees covered by collective bargaining agreements	72	3	✓
G4-12	Description of the organization's supply chain	87-88		✓
G4-13	Significant changes	4-5		✓
G4-14	Precautionary approach or principle application modes	28, 51-55		✓
G4-15	Endorsement of externally developed economic, environmental and social charters and principles	8, 41		✓
G4-16	Memberships in industry associations	91		✓
IDENTIFIED MATERAIL ASPECTS AND BOUNDARIES				
G4-17	List of entities included in the organization's consolidated financial statements and those non included in the sustainability report	5, 65		✓
G4-18	Process for defining the report content	5, 29		✓
G4-19	Material Aspects identified	6-7		✓
G4-20	For each material Aspect, report the Aspect Boundary within the organization	7		✓
G4-21	For each material Aspect, report the Aspect Boundary outside the organization	7		✓
G4-22	Effect of any restatements of information provided in previous reports, and the reasons for such restatements.	5		✓
G4-23	Significant changes from previous reporting periods	5		✓

GENERAL STANDARD DISCLOSURE	Indicator description	PAGE (or direct reference)	Principle of Global Compact	EXTERNAL ASSURANCE
STAKEHOLDER ENGAGEMENT				
G4-24	List of stakeholder groups engaged by the organization	29		✓
G4-25	Basis for identification and selection of stakeholders with whom to engage	29		✓
G4-26	Approach to stakeholder engagement	29, 86		✓
G4-27	Key topics and concerns that have been raised through stakeholder engagement and the related responses	5, 86		✓
REPORT PROFILE				
G4-28	Reporting period	5		✓
G4-29	Date of most recent previous report	5		✓
G4-30	Reporting cycle	5		✓
G4-31	Contact point for questions regarding the report or its contents	152		✓
G4-32	GRI content index and the 'in accordance' option the organization has chosen	5, 101		✓
G4-33	External Assurance	98-100		✓
GOVERNANCE				
G4-34	Governance structure of the organization, including committees of the highest governance body	42-50, 109-116, 121		✓
G4-38	Composition of the highest governance body	42-50		✓
G4-39	Report whether the Chair of the highest governance body is also an executive officer	59		✓
ETHICS AND INTEGRITY				
G4-56	Organization's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics.	8-9, 58	10	✓

SPECIFIC STANDARD DISCLOSURES Material Aspects, DMA and Indicators	Indicator Description	PAGE (or direct reference)	Principle of Global Compact	EXTERNAL ASSURANCE
CATEGORY: ECONOMIC				
Material aspect: Economic Performance				
G4-DMA		16		✓
G4-EC1	Direct economic value created and distributed	16		✓
Material aspect: Market Presence				
G4-DMA		6-7, 33-37		✓
G4-EC5	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation	73	6	✓

SPECIFIC STANDARD DISCLOSURES Material Aspects, DMA and Indicators	Indicator Description	PAGE (or direct reference)	Principle of Global Compact	EXTERNAL ASSURANCE
CATEGORY: ENVIRONMENTAL				
Material aspect: Materials				
G4-DMA		5-6, 92-93		✓
G4-EN1	Materials used	93	7, 8	✓
G4-EN2	Recycled input materials	93	8	✓
Material aspect: Energy				
G4-DMA		5-6, 92, 94		✓
G4-EN3	Energy consumption within the organization	94	7, 8	✓
G4-EN5	Energy intensity	94	8	✓
Material aspect: Water				
G4-DMA		5-6, 96		✓
G4-EN8	Total water withdrawal by source	96	7, 8	✓
G4-EN9	Water sources significantly affected by withdrawal of water	Group business processes do not imply such water withdrawals which could significantly affect water sources balance	8	✓
G4-EN10	Percentage and total volume of water recycled and reused	96	8	✓
Material aspect: Emissions				
G4-DMA		5-6, 97		✓
G4-EN15	Direct greenhouse gas emissions	97	7, 8	✓
G4-EN16	Indirect greenhouse gas emissions	97	7, 8	✓
G4-EN20	Emissions of ozone-depleting substances	97	7, 8	✓
G4-EN21	NOx, SOx and other significant air emissions	97	7, 8	✓
Material aspect: Effluents and Waste				
G4-DMA		5-6, 96		✓
G4-EN22	Water discharge	96	8	✓
G4-EN23	Weight of waste and disposal method	96	8	✓
G4-EN24	Total number and volume of significant spills	96	8	✓
Material aspect: Products and Services				
G4-DMA		5-6, 93		✓
G4-EN27	Initiatives aimed at mitigation of environmental impacts of products and services	93, 95	7, 8, 9	✓
Material aspect: Overall				
G4-DMA		5-6		✓
G4-EN31	Environmental protection expenditures and investments	97	7, 8, 9	✓

SPECIFIC STANDARD DISCLOSURES Material Aspects, DMA and Indicators	Indicator Description	PAGE (or direct reference)	Principle of Global Compact	EXTERNAL ASSURANCE
CATEGORY: LABOR PRACTICES AND DECENT WORK				
Material aspect: Employment				
G4-DMA		5-6, 65		✓
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	64-66	6	✓
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	72, 199-200		✓
G4-LA3	Return to work and retention rates after parental leave	75	6	✓
Material aspect: Occupational Health and Safety				
G4-DMA		5-6, 76-77		✓
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities	12, 76-77		✓
G4-LA7	Workers with hight incidence or risk of diseases related to their occupation	77		✓
G4-LA8	Health and safety topics covered in formal agreements with trade unions	80		✓
Material aspect: Training and Education				
G4-DMA		5-6, 70		✓
G4-LA9	Empoloyees training	70	6	✓
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender	72	6	✓
Material aspect: Diversity and Equal Opportunity				
G4-DMA		5-6, 71		✓
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership and other indicators of diversity	44-45, 71	6	✓
Material aspect: Equal Remuneration for Women and Men				
G4-DMA		5-6, 73		✓
G4-LA13	Ratio of basic salary and remuneration of women to men by employee category	73	6	✓
Material aspect: Supplier Assessment for Labor Practices				
G4-DMA		5-6, 87		✓
G4-LA14	Percentage of new suppliers that were screened using labor practices criteria	87		✓

SPECIFIC STANDARD DISCLOSURES Material Aspects, DMA and Indicators	Indicator Description	PAGE (or direct reference)	Principle of Global Compact	EXTERNAL ASSURANCE
CATEGORY: HUMAN RIGHTS				
Material aspect: Non-discrimination				
G4-DMA		5-6, 65, 70		✓
G4-HR3	Number of incidents of discrimination and corrective actions taken	No incidents of discrimination have been detected	6	✓
Material aspect: Freedom of Association and Collective Bargaining				
G4-DMA		5-6		✓
G4-HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be at significant risk	65, 87	3	✓
Material aspect: Child Labor				
G4-DMA		5-6		✓
G4-HR5	Operations and suppliers identified as having significant risk for incidents of child labor	65, 87	5	✓
Material aspect: Forced or Compulsory Labor				
G4-DMA		5-6		✓
G4-HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labor	65, 87	4	✓
Material aspect: Assessment				
G4-DMA		5-6		✓
G4-HR9	Total number and percentage of operations that have been subject to human rights reviews or impact assessments	65, 87	1	✓
Material aspect: Supplier Human Rights Assessment				
G4-DMA		5-6		✓
G4-HR10	Percentage of new suppliers that were screened using human rights criteria	8, 87	2	✓
CATEGORY: PRODUCT RESPONSIBILITY				
Material aspect: Customer Health and Safety				
G4-DMA		5-6, 85		✓
G4-PR1	Health and safety impacts of products and services	85-86		✓
Material aspect: Product and Service Labeling				
G4-DMA		5-6, 86		✓
G4-PR5	Results of surveys measuring customer satisfaction	86		✓

SABAF

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CHAPTER 5

REPORT ON OPERATIONS

BUSINESS AND FINANCIAL SITUATION OF THE GROUP

IN THOUSANDS OF EURO	2016	%	2015	%	2016-2015 CHANGE	% CHANGE
Sales revenue	130,978	100%	138,003	100%	(7,025)	-5.1%
EBITDA	25,365	19.4%	26,172	19.0%	(807)	-3.1%
EBIT	12,530	9.6%	14,091	10.2%	(1,561)	-11.1%
Pre-tax profit	12,446	9.5%	13,473	9.8%	(1,027)	-7.6%
Net Profit	9,009	6.9%	8,998	6.5%	11	+0.1%
Basic earnings per share (€)	0.792	-	0.781	-	0.011	+1.4%
Diluted earnings per share (€)	0.792	-	0.781	-	0.011	+1.4%

In 2016, the Sabaf Group booked a 5.1% drop in sales; taking into consideration the same scope of consolidation, they decreased by 6.7%. Despite the drop in sales volumes, the Group managed to maintain satisfactory income-related performances and to achieve a % EBITDA better than 2015: 2016 EBITDA was equal to 19.4% of sales, compared with 19% in 2015, whereas, due to the greater impact of amortisation/ depreciation, EBIT stood at 9.6% of sales compared with 10.2% in 2015. Net profit of 2016, equal to € 9 million, was mainly unchanged in absolute terms, whereas in percentage terms it reached 6.9% of sales (6.5% in 2015).

The subdivision of sales revenues by product line is shown in the table below:

The families of more mature products (brass valves and thermostats) were those most affected by the downturn because mainly intended for markets (North Africa and Middle East) that experienced a year of crisis. Burners suffered a moderate fall whereas in 2016 the increase in sales of hinges was still confirmed, thanks to the consolidation of important supply contracts and to the increased importance of the new special models.

The geographical breakdown of revenues is shown below:

Sales by product line

IN THOUSANDS OF EURO	2016	%	2015	%	% CHANGE
Brass valves	9,007	*6.9%*	12,689	*9.2%*	-29.0%
Light alloy valves	32,393	*24.7%*	33,784	*24.5%*	-4.1%
Thermostats	7,699	*5.9%*	10,596	*7.7%*	-27.3%
Standard burners	37,338	*28.5%*	37,789	*27.4%*	-1.2%
Special burners	21,215	*16.2%*	21,622	*15.7%*	-1.9%
Accessories and other revenues	12,613	*9.6%*	13,577	*9.8%*	-7.1%
TOTAL GAS PARTS	**120,265**	*91.8%*	**130,057**	*94.3%*	**-7.5%**
Professional burners	2,289	*1.8%*	0	*0.0%*	n.a.
Hinges	8,424	*6.4%*	7,946	*5.7%*	+6.0%
TOTAL	**130,978**	*100.0%*	**138,003**	*100.0%*	**-5.1%**

Sales by geographical area

IN THOUSANDS OF EURO	2016	%	2015	%	% CHANGE
Italy	36,365	*27.8%*	41,244	*29.9%*	-11.8%
Western Europe	8,553	*6.5%*	7,438	*5.4%*	+15.0%
Eastern Europe	34,123	*26.1%*	35,125	*25.5%*	-2.9%
Middle East and Africa	11,698	*8.9%*	16,759	*12.1%*	-30.2%
Asia and Oceania	8,088	*6.2%*	7,019	*5.0%*	+15.2%
South America	20,847	*15.9%*	20,815	*15.1%*	+0.2%
North America and Mexico	11,304	*8.6%*	9,603	*7.0%*	+17.7%
TOTAL	**130,978**	*100%*	**138,003**	*100%*	**-5.1%**

The crisis in the Middle Eastern and African markets (mainly Egypt), related exclusively to external factors (such as low oil price and shortage of strong currency), resulted in a drop in direct sales of more than € 5 million and also affected the sales of the Group in Italy, since our Italian customers are strong exporters to the Middle East. The positive trend of the other international markets, most notably the steady growth in North America, only partially offset the decline in sales in the Middle East, Africa and Italy.

Average sales prices in 2016 were around 1.5% lower compared with 2015.

The average effective purchase prices of the main raw materials (brass, aluminium alloys and steel) decreased allowing a 0.9% savings in sales. Consumption (purchases plus change in inventories) as a percentage of sales was 36.7% in 2016, compared with 38.7% in 2015; the deviation was also affected by the different mix of products sold.

The impact of labour cost on sales increased from 23.6% to 24.5% due to the increased impact of overhead costs.

Operating cash flow (net profit plus depreciation and amortisation) stood at € 21.9 million, equivalent to 16.7% of sales (€ 21.2 million and 15.3%, respectively in 2015).

The impact of net financial expenses on sales remained very low (0.5% compared with 0.4% in 2015), due to the low level of debt and low interest rates.

The 2016 tax rate was 26.9% (33.2% in 2015) and benefited from tax incentives on investment of € 0.4 million.

The Group's statement of financial position, reclassified based on financial criteria, is illustrated below:

IN THOUSANDS OF EURO	31/12/2016	31/12/2015
Non-current assets	*93,967*	*92,797*
Short-term assets [1]	72,908	75,370
Short-term liabilities [2]	(26,824)	(27,207)
Working capital [3]	*46,084*	*48,163*
Short-term financial assets	*0*	*69*
Provisions for risks and charges, Post-employment benefits, deferred taxes	*(4,284)*	*(4,081)*
NET INVESTED CAPITAL	**135,767**	**136,948**
Short-term net financial position	(2,804)	(19,520)
Medium/long-term net financial position	(20,654)	(6,388)
NET FINANCIAL DEBT	**(23,458)**	**(25,908)**
SHAREHOLDERS' EQUITY	**112,309**	**111,040**

Cash flows for the financial year are summarised in the table below:

IN THOUSANDS OF EURO	2016	2015
Opening liquidity	***3,991***	***3,675***
Operating cash flow	25,931	19,131
Cash flow from investments	(11,762)	(12,079)
Free cash flow	***14,169***	***7,052***
Cash flow from financing activities	(2,894)	(5,392)
A.R.C. acquisition	(2,614)	0
Foreign exchange differences due to translation	(509)	(1,344)
CASH FLOW FOR THE PERIOD	**8,152**	**316**
Closing liquidity	***12,143***	***3,991***

Net financial debt and liquidity shown in the tables above are defined in compliance with the net financial position detailed in Note 22 of the consolidated financial statements, as required by CONSOB memorandum of 28 July 2006.

At 31 December 2016, working capital stood at € 46.1 million compared with € 48.2 million at the end of the 2015: its impact on sales was 35.2% (34.9% in 2015).
Also to take advantage of interest rates at historical lows, during the financial year, the Group reformulated the average duration of its loans, entering into unsecured loan agreements totalling € 19.8 million repayable in 5 years and reducing the short-term bank exposure.

At 31 December 2016, the short-term financial position was negative by just € 2.8 million, so the Group considered the liquidity risk negligible.

In 2016, the Sabaf Group made net investments of € 11.8 million. The main investments in the financial year were aimed at increasing production capacity in Turkey and Brazil and the further automation of production of light alloy valves. Investments were also made to improve production processes as well as maintenance and replacement investments designed to keep the capital equipment constantly updated.
The controlling share of A.R.C. s.r.l. was also acquired by investing € 4.8 million (€ 2.6 million net of the financial position of the acquired company). The purposes of this transaction are closely examined in the next paragraph of this report.

The free cash flow (operating cash flow less investments) was € 14.2 and benefited from an improved trend in working capital compared with € 7.1 million in 2015.

During the financial year, the Group paid out dividends of € 5.5 million and purchased treasury shares for € 1.7 million; the net financial debt was € 23.5 million, versus € 25.9 million in 31 December 2015.

Shareholders' equity totalled € 112.3 million at 31 December 2016; the ratio between the net financial debt and the shareholders' equity was 0.21 versus 0.23 in 2015.

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.

Economic and financial indicators

	2016	2015
ROCE (return on capital employed)	9.2%	10.3%
Dividends per share (€)	0.48 [4]	0.48
Net debt/equity ratio	21%	23%
Market capitalisation (31/12)/equity ratio	1.07	1.19
Change in sales	-5.1%	+1.2%

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

THE ACQUISITION OF A.R.C.

In June 2016, the Group acquired the controlling share (70%) of A.R.C. s.r.l., leading company in the production of burners for professional cooking. The transaction allowed the Sabaf Group to enter into a new sector, contiguous with the traditional sector of components for household gas cooking appliances, and to enhance the consolidated international presence of the Group. Loris Gasparini, holding a 30% share in A.R.C., will manage the company as chief executive officer for a period of 5 years, at the end of which, a call option in favour of Sabaf for the residual 30% of the share capital and at the same time a put option in favour of Loris Gasparini can be exercised.
A.R.C., which was consolidated starting from 1 July 2016, ended the 2016 financial year with sales of € 5.1 million (€ 4.4 million in 2015), EBITDA of € 1.1 million (€ 0.9 million in 2015) and a net profit of € 0.7 million (€ 0.6 million in 2015).

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 Group's financial position, results and cash flows are affected by several 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.
The protracted nature of the European crisis, which has become systematic over the years, has had an impact on the transformation of the white goods industry, the sector in which the Sabaf group operates. Indeed, the continuous contraction of demand on mature markets has been accompanied by a further concentration of end markets, a steady increase of sales volumes in emerging markets and, finally, 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, and tailored to the needs of the customer;
- 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 in 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 sales 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.
At the date of this report, the Sabaf Group has already fixed purchase prices for about 50% of its expected requirement for aluminium, steel and brass for 2017.
Any further increase in the price of commodities not hedged could have negative effects on expected profits.
For more information, see Note 35 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. However, transactions also take place 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 about 16% of consolidated sales, the possible depreciation against the euro and the real could lead to a loss in competitiveness on the markets in which sales are made in that currency (mainly South and North America).
At 31 December 2016, the Group had forward sales contracts for a total of 7.5 million dollars, maturing until 31 December 2017. 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 35 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 a 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; the opening up of trade in countries in which it is difficult to enforce industrial patent rights exposes the Group to a greater risk of protection of its own products. 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 structured processes in place to manage innovation and protect intellectual property. In addition, the Group periodically monitors the patent strategies adopted/to be adopted based on the assessments of cost/opportunity.

4 Proposed dividend.

Sales concentration risks

The Group is characterised by a strong concentration in its sales, with 50% arising from revenue achieved with 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 customers in the coming months.

Trade receivable risk

The high concentration of sales to a small number of customers, described in the previous section, 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 a customer. 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 constantly monitored through the preliminary assessment of customers and checks that agreed payment terms are met. There is a credit insurance policy covering 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 bad debt provision considered appropriate.
For more information, see Note 35 of the consolidated financial statements, as regards disclosure for the purposes of IFRS 7.

Risks related to the presence in Turkey and risk of instability in emerging countries

Today, Turkey represents the main production hub of household appliances at the European level. The strong competitiveness of the local industry attracted heavy foreign investments and favoured the growth of important local situations that are gaining a position of increasing importance on the international scenario. In this context, the Sabaf Group started a factory in Turkey at the end of 2012 where it realises today more than 10% of total production. The Turkish market represented in 2016 22% of total sales of the Group (a significant share of Sabaf components are assembled by customers on finished products then exported from Turkey). The recent social and political tensions in Turkey had no effect on the activities of the Sabaf Group, which continued normally. On the other hand, in consideration of the strategic importance of this Country for the sector and for the Group, the management assessed the risks that could arise from the impossibility to operate in Turkey as a result of dramatic events, even if considered unlikely today. In particular, we note that all the products made in Turkey today can be manufactured also in Italy, albeit at higher costs, in such a way as to ensure in this way the continuity of supplies to customers.

40% of Sabaf Group sales are made 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, the Middle East and South America. Any embargoes or major political or economic instability, 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, also through a local network, in order to make strategic and investment decisions fully aware of the exposure to associated risks.

Risks related to growth through acquisitions

The strategy of the Group also provides for the possibility of growth through acquisitions, also in related sectors; the acquisition of control of A.R.C. during 2016 represented a step in that direction. The directors are aware that growth through acquisitions entails specific risk profiles, both during assessment and in the integration process. To this end, the Group intends to develop instruments for the construction of business cases and tools for analysing and supporting the integration processes.

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 has launched policies to strengthen the most critical internal organisational structures and loyalty schemes, including the signing of non-competition agreements with key figures.
On 23 January 2017, the Chief Executive Officer Alberto Bartoli resigned effective as from the date of the Shareholders' Meeting scheduled for 27 April 2017, for strictly personal reasons. The Board of Directors entrusted the Remuneration and Nomination Committee with the task of outlining the professional profile fit for holding the position of Chief Executive Officer to continue the strategy, aimed at pursuing a long-term sustainable growth in the segment of gas cooking components and in related segments. The Board will place on the agenda of the next Shareholders' Meeting the appointment of a director to replace Bartoli.

RESEARCH AND DEVELOPMENT

The most important research and development projects conducted in 2016 were as follows:

Burners

- three series of brass burners were developed for North America;
- a special series of personalised burners was carried out in co-design with a leading North American customer;
- an economical burner with a flat cover was developed to meet the marketing needs of a major Brazilian customer;
- a new burner cup was industrialised for the Brazilian market and its flame-spreader was developed;
- a new version of the high-efficiency double ring burner was developed for the Chinese market (Tower Plus);
- a new line of burners was developed based on the Series II, with burner head in aluminium and brass for the up-market and semi-professional sector;
- an oven burner with an economical nozzle holder was designed.

Valves

- the range of light alloy safety valve for kitchens was expanded by introducing also a version with an electric grill control;
- the technical and economic feasibility for a new series of square ramp simple valves was studied for the US market;
- within the organisation of production, the total traceability on the finished product (part ID through data matrix) was implemented on the first product line (valves with flame failure device for floors), which ensures the possibility of tracing for each part produced all the data relating to the tests carried out during the process. In the medium term, the Group intends to extend this system to other product lines.
- interventions in the process aimed at increasing productivity and automation continued, for both the processing and assembly stages;

Hinges

- different solutions were developed for the application of soft opening/closing hidden cam hinge for oven doors with a damping unit fitted in the oven, customising them according to customer requirements;
- two different types of motorisation for oven doors were developed, one with an electromechanical system and the other with magnetic linear motor.

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 € 314,000 were capitalised, as all the conditions set by international accounting standards were met; in other cases, they were charged to the income statement.

INTEGRATED SUSTAINABILITY AND REPORTING

Since 2005, Sabaf has drawn up an Annual Report on its economic, social and environmental sustainability performance. In 2005, this was a pioneering and almost experimental move, but today the trend suggests that integrated reporting unquestionably represents best practice.
With reference to Italian Legislative Decree no. 254 of 30 December 2016, which implemented directive 2014/95/EU on reporting obligations on non-financial information for the 2017 financial year, the Group is considering the need to establish or update existing policies and procedures for the preparation of the information required. Moreover, the Group already provides in the Annual Report almost all of the information required by the new regulations.

PERSONNEL

The Sabaf Group had 754 employees at 31 December 2016 (759 at 31 December 2015). In 2016, the Sabaf Group suffered no on-the-job deaths or serious accidents that led to serious or very serious injuries to staff for which the Group was 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

In 2016 there was no:

- damage caused to the environment for which the Group was held definitively responsible;
- definitive fines or penalties imposed on the Group for environmental crimes or damage.

For more information, see the “Sabaf and employees” 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 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 described in detail in the report on corporate governance and 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 within the scope of this regulation and can regularly 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, together with information on the roles covered, and requires the systematic and centralised gathering and regular updates of the formal documents relating to the articles of association 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 course of the financial 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 ownership structure, which should be reviewed for reference.

PERSONAL DATA PROTECTION

With reference to Legislative Decree 196 of 30 June 2003, in 2016 the Group continued its work to ensure compliance with current regulations.

DERIVATIVE FINANCIAL INSTRUMENTS

For the comments on this item, please see Note 35 of the consolidated financial statements.

ATYPICAL OR UNUSUAL TRANSACTIONS

Sabaf Group companies did not execute any unusual or atypical transactions in 2016.

SECONDARY OFFICES

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

MANAGEMENT AND COORDINATION

Although Sabaf S.p.A. is actually controlled by the parent company, Giuseppe Saleri S.a.p.A., it 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 Articles of Association. It should also be noted that the Articles of Association 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 activities over its Italian subsidiaries, Faringosi Hinges s.r.l., Sabaf Immobiliare s.r.l. and A.R.C. s.r.l.

INTRA-GROUP TRANSACTION AND RELATED-PARTY TRANSACTIONS

The relationships between the Group companies, including those with the parent company, are regulated under market conditions, as well as the relationships with related parties, defined in accordance with the accounting standard IAS 24. The details of the intra-group transactions and other related-party transactions are given in Note 36 of the consolidated financial statements and in Note 36 of the separate financial statements of Sabaf S.p.A.

TAX CONSOLIDATION SCHEME

Until the 2015 financial year, Italian companies of the Group have been part of the national tax consolidation scheme pursuant to articles 117/129 of the Unified Income Tax Law. In this scheme, Giuseppe Saleri S.a.p.A., the parent company of Sabaf S.p.A., acted as the consolidating company. In 2016, the conditions for the preparation of the tax consolidation scheme fell short, which consequently was discontinued.

SIGNIFICANT EVENTS AFTER YEAR-END AND BUSINESS OUTLOOK

2017 got off to a positive start and sales in the first quarter are expected to increase with a double-digit growth compared with 2016, which was marked by a very weak start.
Although there are uncertainties on some of the main markets in which Sabaf operates, for the whole of 2017, the Group expects to be able to reach sales of around € 140 million and increasing operating margins compared with 2016.
If the economic situation were to change significantly, actual figures might diverge from forecasts.

BUSINESS AND FINANCIAL SITUATION OF SABAF S.P.A.

IN THOUSANDS OF EURO	2016	2015	CHANGE	CHANGE %
Sales revenue	101,523	113,962	(12,439)	-10.9%
EBITDA	13,525	16,123	(2,598)	-16.1%
EBIT	4,070	8,847	(4,777)	-54.0%
Pre-tax profit (EBT)	3,593	8,159	(4,566)	-56.0%
NET PROFIT	**2,460**	**5,642**	**(3,182)**	**-56.4%**

The reclassification based on financial criteria is illustrated below:

IN THOUSANDS OF EURO	31/12/2016	31/12/2015
Non-current assets [5]	*89,258*	*86,088*
Short-term assets [6]	54,475	60,493
Short-term liabilities [7]	(22,441)	(24,932)
Working capital [8]	*32,034*	*35,561*
Financial assets	*3,197*	*2,906*
Provisions for risks and charges, Post-employment benefits, deferred taxes	*(2,888)*	*(3,003)*
NET INVESTED CAPITAL	**121,601**	**121,552**
Short-term net financial position	(12,556)	(20,686)
Medium/long-term net financial position	(17,521)	(4,632)
NET FINANCIAL POSITION	**(30,077)**	**(25,318)**
SHAREHOLDERS' EQUITY	**91,524**	**96,234**

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

IN THOUSANDS OF EURO	2016	2015
Opening liquidity	***1,090***	***1,366***
Operating cash flow	15,205	14,531
Cash flow from investments	(12,591)	(9,035)
Free cash flow	***2,614***	***5,496***
Cash flow from financing activities	(1,907)	(5,772)
CASH FLOW FOR THE PERIOD	**707**	**(276)**
Closing liquidity	***1,797***	***1,090***

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 22 of the separate financial statements, as required by the CONSOB memorandum of 28 July 2006.

The 2016 financial year ended with a decrease in sales of 10.9% compared with 2015. The product family of valves and thermostats was weaker, while sales of burners recorded a moderate decline. The reduction in sales had a negative impact on gross operating profitability: EBITDA was € 13.5 million, or 13.3% of sales (€ 16.1 million in 2015, or 14.1%).

EBIT in 2016 was € 4.1 million, or 4% of sales (€ 8.8 million in 2015, or 7.8%), and net profit was € 2.5 million, or 2.4% of sales (€ 5.6 million in 2015, or 5%).

The impact of the labour costs on sales increased from 24.5% to 26%.
Net finance expense as a percentage of sales was minimal, at 0.4% (substantially unchanged), given the low level of financial debt and the low interest rates.

Operating cash flow (net profit plus depreciation and amortisation) decreased from €16.9 million to €11.5 million, with an impact on sales of 11.3% (vs. 12.6% in 2015).

In 2016, Sabaf S.p.A. invested over € 7 million in plant and equipment. The main investments in the financial year were aimed at the further automation of production of light alloy valves and maintenance of fleet of machines constantly updated and fully efficient. Moreover, € 4.8 million were invested for the acquisition of the 70% share of A.R.C. s.r.l.

At 31 December 2016, working capital stood at € 32 million compared with € 35.6 million the previous year: its percentage impact on sales stood at 31.6% from 31.2% at the end of 2015.

Self-financing generated by operating cash flow was € 15.2 million, compared with € 14.5 million in 2015, thanks to the increase in working capital.

The net financial debt was € 30.1 million, compared with € 25.3 million on 31 December 2015.

At the end of the year, the shareholders' equity amounted to € 91.5 million, compared with € 96.2 million in 2015. The net financial debt/shareholders' equity ratio was 33%, 26% at the end of 2015.

5 Excluding Financial assets.
6 Sum of Inventories, Trade receivables, Tax receivables and Other current receivables.
7 Sum of Trade payables, Tax payables and Other liabilities.
8 Difference between short-term assets and short-term liabilities.

RECONCILIATION BETWEEN PARENT COMPANY AND CONSOLIDATED SHAREHOLDERS' EQUITY AND NET PROFIT FOR THE PERIOD

Pursuant to the CONSOB memorandum of 28 July 2006, a reconciliation statement of the result of the 2016 financial year and Group shareholders' equity at 31 December 2016 with the same values of the parent company Sabaf S.p.A. is given below:

	31.12.2016		31.12.2015	
DESCRIPTION	Profit for the year	Shareholders' equity	Profit for the year	Shareholders' equity
Profit and shareholders' equity of parent company Sabaf S.p.A.	**2,460**	**91,524**	**5,642**	**96,234**
Equity and consolidated company results	6,175	66,276	4,775	56,427
Elimination of the carrying value of consolidated equity investments	521	(49,900)	(1,303)	(45,616)
Goodwill	0	6,422	0	4,445
Put option on A.R.C. minorities	0	(1,522)	0	0
Intercompany eliminations	(60)	(491)	(116)	(450)
Minority interests	(87)	(1,296)	0	0
PROFIT AND SHAREHOLDERS' EQUITY ATTRIBUTABLE TO THE GROUP	9,009	111,013	8,998	111,040

Proposal for approval of the separate financial statements and proposed dividend

As we thank our employees, the Board of Statutory Auditors, the Independent Auditor and the supervisory authorities for their invaluable cooperation, we would kindly ask the shareholders to approve the financial statements ended 31 December 2016 with a profit for the year of € 2,459,688.

The Board of Directors proposes to distribute an ordinary dividend of € 0.48 per share to the shareholders, with the exclusion of the treasury shares on the ex-date, by distributing the entire profit for 2016 and, for the residual part, by distributing a portion of the extraordinary reserve. The dividend is scheduled for payment on 31 May 2017 (ex-date 29 May and record date 30 May 2017).

Ospitaletto, 20 March 2017

The Board of Directors

SABAF

SHARING

CHAPTER 6

CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2016

Group structure and corporate bodies

Group structure

Parent company

SABAF S.p.A.

Subsidiaries and equity interest owned by the Group

Faringosi Hinges s.r.l.	100%
Sabaf Immobiliare s.r.l.	100%
Sabaf do Brasil Ltda.	100%
Sabaf US Corp.	100%
Sabaf Appliance Components (Kunshan) Co. Ltd.	100%
Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki (Sabaf Turkey)	100%
Sabaf Appliance Components Trading (Kunshan) Co. Ltd. in liquidation	100%
A.R.C. s.r.l.	70%

Board of Directors

Chairman	Giuseppe Saleri
Vice Chairman	Cinzia Saleri
Vice Chairman	Ettore Saleri
Vice Chairman	Roberta Forzanini
Chief Executive Officer	Alberto Bartoli
Director	Gianluca Beschi
Director *	Renato Camodeca
Director *	Giuseppe Cavalli
Director *	Fausto Gardoni
Director *	Anna Pendoli
Director *	Nicla Picchi
Director	Alessandro Potestà

Board of Statutory Auditors

Chairman	Antonio Passantino
Statutory Auditor	Luisa Anselmi
Statutory Auditor	Enrico Broli

Independent Auditor

Deloitte & Touche S.p.A.

* Independent directors.

Consolidated statement of financial position

IN THOUSANDS OF EURO	NOTES	31.12.2016	31.12.2015
ASSETS			
Non-current assets			
Property, plant and equipment	1	73,064	73,037
Investment property	2	6,270	6,712
Intangible assets	3	9,284	7,525
Equity investments	4	306	204
Non-current receivables	5	262	432
Deferred tax assets	21	4,781	4,887
TOTAL NON-CURRENT ASSETS		93,967	92,797
Current assets			
Inventories	6	31,484	31,009
Trade receivables	7	36,842	40,425
Tax receivables	8	3,163	2,489
Other current receivables	9	1,419	1,447
Current financial assets	10	0	69
Cash and cash equivalents	11	12,143	3,991
TOTAL CURRENT ASSETS		85,051	79,430
Assets held for sale		0	0
TOTAL ASSETS		179,018	172,227

SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	12	11,533	11,533
Retained earnings, other reserves		90,471	90,509
Profit for the year		9,009	8,998
Total equity interest of the Parent Company		*111,013*	*111,040*
Minority interests		*1,296*	*0*
TOTAL SHAREHOLDERS' EQUITY		112,309	111,040
Non-current liabilities			
Loans	14	18,892	6,388
Other financial liabilities	15	1,762	0
Post-employment benefit and retirement reserves	16	3,086	2,914
Provisions for risks and charges	17	434	395
Deferred tax liabilities	21	764	772
TOTAL NON-CURRENT LIABILITIES		24,938	10,469
Current liabilities			
Loans	14	14,612	23,480
Other financial liabilities	15	335	31
Trade payables	18	18,977	19,450
Tax payables	19	1,190	1,219
Other payables	20	6,657	6,538
TOTAL CURRENT LIABILITIES		41,771	50,718
Liabilities held for sale		0	0
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		179,018	172,227

Consolidated income statement

IN THOUSANDS OF EURO	NOTES	2016	2015
INCOME STATEMENT COMPONENTS			
Operating revenue and income			
Revenue	23	130,978	138,003
Other income	24	2,819	3,758
TOTAL OPERATING REVENUE AND INCOME		**133,797**	**141,761**
Operating costs			
Materials	25	(47,346)	(54,366)
Change in inventories		(754)	1,025
Services	26	(27,983)	(29,759)
Payroll costs	27	(32,112)	(32,526)
Other operating costs	28	(1,078)	(1,193)
Costs for capitalised in-house work		841	1,230
TOTAL OPERATING COSTS		**(108,432)**	**(115,589)**
OPERATING PROFIT BEFORE DEPRECIATION AND AMORTISATION, CAPITAL GAINS/LOSSES, AND WRITE-DOWNS/WRITE-BACKS OF NON-CURRENT ASSETS		**25,365**	**26,172**
Depreciation and amortisation	1, 2, 3	(12,853)	(12,185)
Capital gains on disposals of non-current assets		18	104
EBIT		**12,530**	**14,091**
Financial income		101	67
Financial expenses	29	(620)	(596)
Exchange rate gains and losses	30	435	(89)
PROFIT BEFORE TAXES		**12,446**	**13,473**
Income tax	31	(3,350)	(4,475)
Minority interests		(87)	0
PROFIT FOR THE YEAR		**9,009**	**8,998**
EARNINGS PER SHARE (EPS)	32		
Base		**0.792 euro**	**0.781 euro**
Diluted		**0.792 euro**	**0.781 euro**

Consolidated statement of comprehensive income

IN THOUSANDS OF EURO	2016	2015
PROFIT FOR THE YEAR	**9,009**	**8,998**
Total profits/losses that will not be subsequently reclassified under profit (loss) for the year:		
Actuarial post-employment benefit reserve evaluation	(41)	49
Tax effect	10	(14)
	(31)	**35**
Total profits/losses that will be subsequently reclassified under profit (loss) for the year:		
Forex differences due to translation of financial statements in foreign currencies	**(340)**	**(3,400)**
TOTAL OTHER PROFITS/(LOSSES) NET OF TAXES FOR THE YEAR	**(371)**	**(3,365)**
TOTAL PROFIT	**8,638**	**5,633**

Statement of changes in consolidated shareholders' equity

IN THOUSANDS OF EURO	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 DEC 2014	**11,533**	**10,002**	**2,307**	**(5)**	**(3,648)**	**(616)**	**82,827**	**8,338**	**110,738**	**0**	**110,738**
Allocation of 2014 profit											
• dividends paid out								(4,613)	(4,613)		(4,613)
• carried forward							3,725	(3,725)	0		0
purchase of treasury shares				(718)					(718)		(718)
Total profit at 31 dec 2015					(3,400)	35		8,998	5,633		5,633
BALANCE AT 31 DEC 2015	**11,533**	**10,002**	**2,307**	**(723)**	**(7,048)**	**(581)**	**86,552**	**8,998**	**111,040**	**0**	**111,040**
Allocation of 2015 profit											
• dividends paid out								(5,467)	(5,467)		(5,467)
• carried forward							3,531	(3,531)	0		0
ARC acquisition and consolidation										1,210	1,210
ARC option							(1,522)		(1,522)		(1,522)
Purchase of treasury shares				(1,676)					(1,676)		(1,676)
Total profit at 31 dec 2016					(340)	(31)		9,009	8,638	86	8,724
BALANCE AT 31 DEC 2016	**11,533**	**10,002**	**2,307**	**(2,399)**	**(7,388)**	**(612)**	**88,561**	**9,009**	**111,013**	**1,296**	**112,309**

Consolidated cash flow statement

	12M 2016	12M 2015
Cash and cash equivalents at beginning of year	*3,991*	*3,675*
Profit for the year	9,009	8,998
Adjustments for:		
• Depreciation and amortisation	12,853	12,185
• Realised gains	(18)	(104)
• Net financial income and expenses	519	529
• Income tax	3,350	4,475
Change in post-employment benefit reserve	(184)	(129)
Change in risk provisions	39	(210)
Change in trade receivables	*5,107*	*107*
Change in inventories	*416*	*(170)*
Change in trade payables	*(1,286)*	*(58)*
Change in net working capital	**4,237**	**(121)**
Change in other receivables and payables, deferred tax	1,363	(72)
Payment of taxes	(4,762)	(5,931)
Payment of financial expenses	(576)	(556)
Collection of financial income	101	67
CASH FLOW FROM OPERATIONS	**25,931**	**19,131**
Investments in non-current assets		
• intangible	(477)	(781)
• tangible	(11,465)	(11,581)
• financial	5	(26)
Disposal of non-current assets	175	309
CASH FLOW ABSORBED BY INVESTMENTS	**(11,762)**	**(12,079)**
Repayment of loans	(33,141)	(19,480)
Raising of loans	37,321	19,488
Short-term financial assets	69	(69)
Purchase of treasury shares	(1,676)	(718)
Payment of dividends	(5,467)	(4,613)
CASH FLOW ABSORBED BY FINANCING ACTIVITIES	**(2,894)**	**(5,392)**
A.R.C. acquisition	(2,614)	0
Foreign exchange differences	(509)	(1,344)
NET FINANCIAL FLOWS FOR THE YEAR	**8,152**	**316**
Cash and cash equivalents at end of year (Note 10)	*12,143*	*3,991*
Current financial debt	14,947	23,511
Non-current financial debt	20,654	6,388
NET FINANCIAL DEBT (NOTE 22)	**23,458**	**25,908**

Explanatory Notes

Accounting Standards

STATEMENT OF COMPLIANCE AND BASIS OF PRESENTATION

The consolidated financial statements of the Sabaf Group for the financial year 2016 have been prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union. Reference to IFRS also includes all current International Accounting Standards (IAS). The financial statements have been prepared in euro, the current currency in the economies in which the Group mainly operates, rounding amounts to the nearest thousand, and are compared with consolidated financial statements for the previous year, prepared according to the same standards. The report consists of the statement of financial position, the income statement, the statement of changes in shareholders' equity, the cash flow statement, and these explanatory notes. The financial statements have been prepared on a historical cost basis except for some revaluations of property, plant and equipment undertaken in previous years, and are considered a going concern. The Company found that, despite the difficult economic and business climate, there were no significant uncertainties (as defined by paragraphs 25 and 26 of IAS 1) regarding the continuity of the Company, also due to the strong competitive position, high profitability and solidity of the financial structure.

FINANCIAL STATEMENTS

The Group has adopted the following formats:

- current and non-current assets and current and non-current liabilities are stated separately in the statement of the financial position;
- an income statement that expresses costs using a classification based on the nature of each item;
- a comprehensive income statement that expresses revenue and expense items not recognised in profit (loss) for the year as required or permitted by IFRS;
- a 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 at 31 December 2016 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.

The participation in the controlled company A.R.C. s.r.l., acquired during the financial year, was consolidated starting from the date of acquisition and therefore for the period from 1 July 2016 to 31 December 2016.

Sabaf U.S. is not consolidated since it is irrelevant for the purposes of the consolidation. Handan A.R.C. Ltdd, Chinese company in which the Group holds a 35% share, was measured at cost in that at 31 December 2016 it has not yet started its activity and therefore it is considered irrelevant.

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

The criteria applied for consolidation are as follows:

a) Assets and liabilities, income and costs in 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. In accordance with the provisions of IFRS 3, the Group has changed the accounting treatment of goodwill on a prospective basis as from the transition date. Therefore, since 1 January 2004, the Group has not amortised goodwill and instead subjects it to impairment testing.
c) Payable/receivable and cost/revenue items between consolidated companies and profits/losses arising from intercompany transactions are eliminated.
d) If minority shareholders exist, the portion of shareholders' equity and net profit for the period pertaining thereto is posted in specific items of the balance sheet and income statement.

INFORMATION RELATED TO IFRS 3

Starting from these consolidated financial statements, A.R.C. s.r.l., company active in the production of burners for professional cooking of which the Group acquired control at the end of June 2016, was consolidated.

The evaluation of A.R.C. in accordance with IFRS 3 revised, namely recognising the fair value of assets, liabilities and contingent liabilities at the acquisition date, is to be considered temporary for the moment, in that, in accordance with IFRS 3 revised, the evaluation becomes final within 12 months from the acquisition date.

The effects of this operation are shown in the following table:

	ORIGINAL VALUES
NON-CURRENT ASSETS	
Property, plant and equipment and intangible assets	303
Financial fixed assets	107
Non-current receivables and deferred tax assets	145
CURRENT ASSETS	
Inventories	891
Trade receivables	1,525
Other receivables	234
Cash and cash equivalents	2,186
TOTAL ASSETS	**5,391**
NON-CURRENT LIABILITIES	
Post-employment benefit reserve	(238)
CURRENT LIABILITIES	
Trade payables	(813)
Sundry payables	(308)
TOTAL LIABILITIES	**(1,359)**
FAIR VALUE OF NET ASSETS ACQUIRED	**4,032**
- % pertaining to Sabaf (70%) (a)	2,823
Total cost of acquisition (b)	4,800
Goodwill deriving from acquisition (b-a) (Note 3)	1,977
Acquired cash and cash equivalents (c)	2,186
Total cash outlay (b-c)	2,614

CONVERSION INTO EURO OF FOREIGN-CURRENCY INCOME STATEMENTS AND STATEMENTS OF FINANCIAL POSITION

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

DESCRIPTION OF CURRENCY	EXCHANGE RATE IN EFFECT AT 31/12/2016	AVERAGE EXCHANGE RATE 2016	EXCHANGE RATE IN EFFECT AT 31/12/2015	AVERAGE EXCHANGE RATE 2015
Brazilian real	3.4305	3.8576	4.3117	3.7004
Turkish lira	3.7072	3.3435	3.1765	3.0255
Chinese renminbi	7.3202	7.3512	7.0608	6.9714

RECONCILIATION BETWEEN PARENT COMPANY AND CONSOLIDATED SHAREHOLDERS' EQUITY AND NET PROFIT FOR THE YEAR

	31.12.2016		31.12.2015	
DESCRIPTION	Profit for the year	Shareholders' equity	Profit for the year	Shareholders' equity
Profit and shareholders' equity of parent company Sabaf S.p.A.	**2,460**	**91,524**	**5,642**	**96,234**
Equity and consolidated company results	6,175	66,276	4,775	56,427
Elimination of consolidated equity investments' carrying value	521	(49,900)	(1,303)	(45,616)
Goodwill	0	6,422	0	4,445
Put option on A.R.C. minorities	0	(1,522)	0	0
Intercompany eliminations	(60)	(491)	(116)	(450)
Minority interests	(87)	(1,296)	0	0
PROFIT AND SHAREHOLDERS' EQUITY ATTRIBUTABLE TO THE GROUP	**9,009**	**111,013**	**8,998**	**111,040**

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

ACCOUNTING POLICIES

The accounting standards and policies applied for the preparation of the consolidated financial statements at 31 December 2016, unchanged versus the previous year, are shown below:

Property, plant and equipment

These are recorded at purchase or manufacturing cost. The cost includes directly chargeable ancillary costs. These costs also include revaluations undertaken in the past based on monetary revaluation rules or pursuant to company mergers. Depreciation is calculated according to rates deemed appropriate to spread the carrying value of tangible assets over their useful working life. Estimated useful working life, in years, is as follows:

Buildings	33
Light constructions	10
General plants	10
Specific plant and machinery	6 – 10
Equipment	4 – 10
Furniture	8
Electronic equipment	5
Vehicles and other transport means	4 – 5

Ordinary maintenance costs are expensed in the year in which they are incurred; costs that increase the asset value or useful working life are capitalised and depreciated according to the residual possibility of utilisation of the assets to which they refer.
Land is not depreciated.

Leased assets

Assets acquired via finance lease contracts are accounted for using the financial method and are reported with assets at their purchase value, less depreciation. Depreciation of such assets is reflected in the consolidated annual financial statements applying the same policy followed for Company-owned property, plant and equipment. Set against recognition of such assets, the amounts payable to the financial lessor are posted among short- and medium-/long-term payables. In addition, financial charges pertaining to the period are charged to the income statement.

Goodwill

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

Other intangible assets

As established by IAS 38, other intangible assets acquired or internally produced are recognised as assets when it is probable that use of the asset will generate future economic benefits and when asset cost can be measured reliably. If it is considered that these future economic benefits will not be generated, the development costs are written down in the year in which this is ascertained.

Such assets are measured at purchase or production cost and - if the assets concerned have a finite useful life - are amortised on a straight-line basis over their estimated useful life.
The useful life of projects for which development costs are capitalised is estimated to be 10 years.
The SAP management system is amortised over five years.

Impairment of value

At each end of reporting period, the Group reviews the carrying value of its tangible and intangible assets to determine whether there are signs of impairment of the value of these assets. If there is any such indication, the recoverable amount of said assets is estimated so as to determine the total of the write-down. If it is not possible to estimate recoverable value individually, the Group estimates the recoverable value of the cash generating unit (CGU) to which the asset belongs.
In particular, the recoverable value of the cash generating units (which generally coincide with the legal entity to which the capitalised assets refer) is verified by determining the value of use. The recoverable amount is the higher of the net selling price and value of use. In measuring the value of use, future cash flows net of taxes, estimated based on past experience, are discounted to their present value using a pre-tax rate that reflects fair market valuations of the present cost of money and specific asset risk. The main assumptions used for calculating the value of use concern the discount rate, growth rate, expected changes in selling prices and cost trends during the period used for the calculation. The growth rates adopted are based on future market expectations in the relevant sector. Changes in the sales prices are based on past experience and on the expected future changes in the market. The Group prepares operating cash flow forecasts based on the most recent budgets approved by the Board of Directors of the consolidated companies, draws up the forecasts for the coming years and determines the terminal value (current value of perpetual income), which expresses the medium and long term operating flows in the specific sector.
If the recoverable amount of an asset (or CGU) is estimated to be lower than its carrying value, the asset's carrying value is reduced to the lower recoverable amount, recognising impairment of value in the income statement.
When there is no longer any reason for a write-down to be maintained, the carrying value of the asset (or of the cash-generating unit) - with the exception of goodwill - is increased to the new value resulting from the estimate of its recoverable value, but not beyond the net carrying value that the asset would have had if it had not been written down for impairment of value. Reversal of impairment loss is recognised in the income statement.

Investment Property

As allowed by IAS 40, non-operating buildings and constructions are assessed at cost net of depreciation and losses due to cumulative impairment of value. The depreciation criterion applied is the asset's estimated useful life, which is considered to be 33 years.
If the recoverable amount of the investment property – determined based on the market value of the properties – is estimated to be lower than its carrying value, the asset's carrying value is reduced to the lower recoverable amount, recognising impairment of value in the income statement.
When there is no longer any reason for a write-down to be maintained, the carrying value of the asset (or CGU) is increased to the new value stemming from the estimate of its recoverable amount – but not beyond the net carrying value that the asset would have had if it had not been written down for impairment of value. Reversal of impairment loss is recognised as income in the income statement.

Equity investments and non-current receivables

Equity investments not classified as held for sale are stated in the accounts at cost, reduced for impairment. The original value is written back in subsequent years if the reasons for write-down cease to exist.
Non-current receivables are stated at their presumed realisable value.

Inventories

Inventories are measured at the lower of purchase or production cost – determined using the weighted average cost method – and the corresponding fair value represented by the replacement cost for purchased materials and by the presumed realisable value for finished and semi-processed products – calculated taking into account any manufacturing costs and direct selling costs yet to be incurred. Inventory cost includes accessory costs and the portion of direct and indirect manufacturing costs that can reasonably be assigned to inventory items. Inventories subject to obsolescence and low turnover are written down in relation to their possibility of use or realisation. Inventory write-downs are eliminated in subsequent years if the reasons for such write-downs cease to exist.

Receivables

Receivables are recognised at their presumed realisable value. Their face value is adjusted to a lower realisable value via specific provisioning directly reducing the item based on in-depth analysis of individual positions. Trade receivables assigned without recourse, despite being transferred legally, continue to be stated with "Trade receivables" until they are collected, which is never prior to the due date. Trade receivables past due and non-recoverable assigned without recourse are recorded under "Other current receivables".

Current financial assets

Financial assets held for trading are measured at fair value, allocating profit and loss effects to finance income or expense.

Provisions for risks and charges

Provisions for risks and charges are provisioned to cover losses and debts, the existence of which is certain or probable, but whose amount or date of occurrence cannot be determined at the end of the year. Provisions are stated in the statement of financial position only when a legal or implicit obligation exists that determines the use of resources with an impact on profit and loss to meet that obligation and the amount can be reliably estimated. If the effect is significant, the provisions are calculated by updating future financial flows estimated at a rate including taxes such as to reflect current market valuations of the current value of the cash and specific risks associated with the liability.

Post-employment benefit reserve

The post-employment benefit reserve (TFR) is provisioned to cover the entire liability accruing vis-à-vis employees in compliance with current legislation and with national and supplementary company collective labour contracts. This liability is subject to revaluation via application of indices fixed by current regulations. Up to 31 December 2006, post-employment benefits were considered defined-benefit plans and accounted for in compliance with IAS 19, using the projected unit-credit method. The regulations of this fund were amended by Italian Law no. 296 of 27 December 2006 and subsequent Decrees and Regulations issued during the first months of 2007 In the light of these changes, and, in particular, for companies with at least 50 employees, post-employment benefits must now be considered a defined-benefit plan only for the portions accruing before 1 January 2007 (and not yet paid at the end of the reporting period). Conversely, portions accruing after that date are treated as defined-contribution plans. Actuarial gains or losses are recorded immediately under "Other total profits/(losses)".

Payables

Payables are recognised at face value; the portion of interest included in their face value and not yet payable at period-end is deferred to future periods.

Loans

Loans are initially recognised at cost, net of related costs of acquisition. This value is subsequently adjusted to allow for any difference between initial cost and repayment value over the loan's duration using the effective interest rate method.
Loans are classified among current liabilities unless the Group has the unconditional right to defer discharge of a liability by at least 12 months after the reference date.

Policy for conversion of foreign currency items

Receivables and payables originally expressed in foreign currencies are converted into euro at the exchange rates in force on the date of the transactions originating them. Forex differences realised upon collection of receivables and payment of payables in foreign currency are posted in the income statement. Income and costs relating to foreign-currency transactions are converted at the rate in force on the transaction date.
At year-end, assets and liabilities expressed in foreign currencies, with the exception of non-current items, are posted at the spot exchange rate in force at the end of the reporting period and related foreign exchange gains and losses are posted in the income statement. If conversion generates a net gain, this value constitutes a non-distributable reserve until it is effectively realised.

Derivative instruments and hedge accounting

The Group's business is exposed to financial risks relating to changes in exchange rates, commodity prices and interest rates. The company uses derivative instruments (mainly forward contracts on currencies and commodity options) to hedge risks stemming from changes in foreign currencies relating to irrevocable commitments or to planned future transactions.
Derivatives are initially recognised at cost and are then adjusted to fair value on subsequent closing dates.
Changes in the fair value of derivatives designated and recognised as effective for hedging future cash flows relating to the Group's contractual commitments and planned transactions are recognised directly in shareholders' equity, while the ineffective portion is immediately posted in the income statement. If the contractual commitments or planned transactions materialise in the recognition of assets or liabilities, when such assets or liabilities are recognised, the gains or losses on the derivative that were directly recognised in equity are factored back into the initial valuation of the cost of acquisition or carrying value of the asset or liability. For cash flow hedges that do not lead to recognition of assets or liabilities, the amounts that were directly recognised in equity are included in the income statement in the same period when the contractual commitment or planned transaction hedged impacts profit and loss – for example, when a planned sale actually takes place.
For effective hedges of exposure to changes in fair value, the item hedged is adjusted for the changes in fair value attributable to the risk hedged and recognised in the income statement. Gains and losses stemming from the derivative's valuation are also posted in the income statement.
Changes in the fair value of derivatives not designated as hedging instruments are recognised in the income statement in the period when they occur.
Hedge accounting is discontinued when the hedging instrument expires, is sold or is exercised, or when it no longer qualifies as a hedge. At this time, the cumulative gains or losses of the hedging instrument recognised in equity are kept in the latter until the planned transaction actually takes place. If the transaction hedged is not expected to take place, cumulative gains or losses recognised directly in equity are transferred to the year's income statement.
Embedded derivatives included in other financial instruments or contracts are treated as separate derivatives when their risks and characteristics are not strictly related to those of their host contracts and the latter are not measured at fair value with posting of related gains and losses in the income statement.

Revenue reporting

Revenue is reported net of return sales, discounts, allowances and bonuses, as well as of the taxes directly associated with sale of goods and rendering of services.
Sales revenue is reported when the company has transferred the significant risks and benefits associated with ownership of the goods and the amount of revenue can be reliably measured.
Revenues of a financial nature are recorded on an accrual basis.

Financial income

Finance income includes interest receivable on funds invested and income from financial instruments, when not offset as part of hedging transactions. Interest income is recorded in the income statement at the time of vesting, taking effective output into consideration.

Financial expenses

Financial expenses include interest payable on financial debt calculated using the effective interest method and bank expenses.

Income taxes for the year

Income taxes include all taxes calculated on the Group's taxable income. Income taxes are directly recognised in the income statement, with the exception of those concerning items directly debited or credited to shareholders' equity, in which case the tax effect is recognised directly in shareholders' equity. Other taxes not relating to income, such as property taxes, are included among operating expenses. Deferred taxes are provisioned in accordance with the global liability provisioning method.
They are calculated on all temporary differences emerging between the taxable base of an asset and liability and its book value in the consolidated financial statements, with the exception of goodwill that is not tax-deductible and of differences stemming from investments in subsidiaries for which cancellation is not envisaged in the foreseeable future. Deferred tax assets on unused tax losses and tax credits carried forward are recognised to the extent that it is probable that future taxable income will be available against which they can be recovered. Current and deferred tax assets and liabilities are offset when income taxes are levied by the same tax authority and when there is a legal right to settle on a net basis. Deferred tax assets and liabilities are measured using the tax rates that are expected to be applicable, according to the respective regulations of the countries where the Group operates, in the years when temporary differences will be realised or settled.

Dividends

Dividends are posted on an accrual basis when the right to receive them materialises, i.e. when shareholders approve dividend distribution.

Treasury shares

Treasury shares are booked as a reduction of shareholders' equity. The carrying value of treasury shares and revenues from any subsequent sales are recognised in the form of changes in shareholders' equity.

Earnings per share

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

Use of estimates

Preparation of the financial statements and notes in accordance with IFRS requires management to make estimates and assumptions that affect the carrying values of assets and liabilities and the disclosures on contingent assets and liabilities as of the end of the reporting period.
Actual results might differ from these estimates.

Estimates are used to measure tangible and intangible assets subject to impairment testing, as described earlier, as well as to measure provisions for bad debts, for inventory obsolescence, depreciation and amortisation, asset write-downs, employee benefits, taxes, and other provisions.
Specifically:

Recoverable value of tangible and intangible assets
The procedure for determining impairment of value of tangible and intangible assets described in "Impairment of value" implies – in estimating the value of use – the use of the Business Plans of investees, which are based on a series of assumptions relating to future events and actions of the investees' management bodies, which may not necessarily come about. In estimating market value, however, assumptions are made on the expected trend in trading between third parties based on historical trends, which may not actually be repeated.

Provisions for bad debts
Receivables are adjusted by the related bad debt provision to take into account their recoverable value. To determine the size of the write-downs, management must make subjective assessments based on the documentation and information available regarding, among other things, the customer's solvency, as well as experience and historical payment trends.

Provisions for inventory obsolescence
Warehouse inventories subject to obsolescence and slow turnover are systematically valued, and written down if their recoverable value is less than their carrying value. Write-downs are calculated based on management assumptions and estimates, resulting from experience and historical results.

Employee benefits
The current value of liabilities for employee benefits depends on a series of factors determined using actuarial techniques based on certain assumptions. Assumptions concern the discount rate, estimates of future salary increases, and mortality and resignation rates. Any change in the above-mentioned assumptions might have significant effects on liabilities for pension benefits.

Income tax
The Group is subject to different bodies of tax legislation on income. Determining liabilities for Group taxes requires the use of management valuations in relation to transactions whose tax implications are not certain at the end of the reporting period. Furthermore, the valuation of deferred taxes is based on income expectations for future years; the valuation of expected income depends on factors that might change over time and have a significant effect on the valuation of deferred tax assets.

Other provisions and reserves
When estimating the risk of potential liabilities from disputes, the Directors rely on communications regarding the status of recovery procedures and disputes from the lawyers who represent the Group in litigation. These estimates are determined taking into account the gradual development of the disputes, considering existing exemptions.

Estimates and assumptions are regularly reviewed and the effects of each change immediately reflected in the income statement.

New accounting standards

Accounting standards and amendments applicable from 1 January 2016

The following IFRS accounting standards, amendments and interpretations were applied by the Group for the first time on 1 January 2016:

- Amendment to IAS 19 "Defined Benefit Plans: Employee Contributions" (published on 21 November 2013): related to the recognition in the financial statements of the contributions made by employees or third parties to defined benefit plans. The application of these amendments did not have any effect on the Group's consolidated financial statements.

- Amendments to IFRS 11 Joint Arrangements – "Accounting for acquisitions of interests in joint operations" (published on 6 May 2014): related to the accounting for acquisitions of interests in a joint operation the activity of which is a business. The application of these amendments did not have any effect on the Group's consolidated financial statements.

- Amendments to IAS 16 – Property, plant and Equipment and to IAS 38 – Intangibles Assets – "Clarification of acceptable methods of depreciation and amortisation" (published on 12 May 2014): according to which a method of depreciation based on revenues is considered generally inappropriate, in that, revenues generated by an asset that includes the use of the asset to be depreciated generally reflect factors other than just consumption of the economic benefits of the asset, a requirement that is, however, required for depreciation. The adoption of this amendment did not have any effect on the Group's consolidated financial statements.

- Amendment to IAS 1 – "Disclosure Initiative" (published on 18 December 2014): the objective of the amendments is to provide clarifications with regard to elements of information that can be perceived as impediments to a clear and intelligible preparation of the financial statements. The adoption of this amendment did not have any effect on the Group's consolidated financial statements.

- On 18 December 2014, the IASB published the document "Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)", (published on 18 December 2014), which contains amendments relating to issues arising following application of the consolidation exception granted to investment entities.

Finally, as part of the annual process of improvement of the standards, on 12 December 2013 the IASB published the document ***"Annual Improvements to IFRSs: 2010-2012 Cycle"*** (including IFRS 2 *Share Based Payments – Definition of vesting condition*, IFRS 3 *Business Combination – Accounting for contingent consideration*, IFRS 8 *Operating segments – Aggregation of operating segments and Reconciliation of total of the reportable segments' assets to the entity's assets*, IFRS 13 *Fair Value Measurement – Short-term receivables and payables*) and on 25 September 2014 the document ***"Annual Improvements to IFRSs: 2012-2014 Cycle"*** (including: IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*, IFRS 7 – *Financial Instruments: Disclosure and IAS 19 – Employee Benefits*) which partially integrate the existing standards.

IFRS and IFRIC accounting standard, amendments approved by the European Union, not yet universally applicable and not adopted early by the Group at 31 December 2016

- Standard **IFRS 15** – ***Revenue from Contracts with Customers*** (published on 28 May 2014 and supplemented with further clarifications published on 12 April 2016), which is scheduled to replace IAS 18 – *Revenue* and IAS 11 – *Construction Contracts*, as well as interpretations IFRIC 13 – *Customer Loyalty Programmes*, IFRIC 15 – *Agreements for the Construction of Real Estate*, IFRIC 18 – *Transfers of Assets from Customers* and SIC 31 – *Revenues-Barter Transactions Involving Advertising Services*. The standard establishes a new revenue recognition model, which will apply to all contracts signed with customers except those falling within the application of other IAS/IFRS standards, such as leases, insurance contracts and financial instruments. The fundamental passages for the recognition of revenues according to the new model are:

    - the identification of the contract with the customer;
    - the identification of the contract's *performance obligations*;
    - the determination of the price;
    - the allocation of the price to the contract's *performance obligations*;
    - the revenue recognition criteria when the entity satisfies each *performance obligation*.

    The principle applies from 1 January 2018, but early application is permitted. Although the systematic analysis of the case and in particular a detailed analysis of the contracts with the customers have not yet been completed, the directors do not expect that the application of IFRS 15 can have a significant impact on the amounts recorded for the revenues and on the related disclosures in the Group's consolidated financial statements.

- Final version of **IFRS 9** – ***Financial Instruments*** (published on 24 July 2014). The document includes the results of the phases relating to the classification and valuation, *Impairment* and *Hedge accounting*, of the IASB project designed to replace IAS 39. The new standard, which replaces the previous versions of IFRS 9, should be applied by financial statements from 1 January 2018 onwards. The directors do not expect that the application of IFRS 9 can have a significant impact on the amounts and on the disclosures in the Group's consolidated financial statements. However, it is not possible to provide a reasonable estimate of the effect as long as the Group has not completed a detailed analysis.

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

On the reporting date of these consolidated financial statements, the competent bodies of the European Union have not yet concluded the approval process necessary for the adoption of the amendments and principles described below.

- On 13 January 2016, the IASB published the standard **IFRS 16** – ***Leases***, which will replace the standard IAS 17 – *Leases*, as well as interpretations IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases–Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The new standard provides a new definition of lease and introduces a criterion based on the control (*right of use*) of an asset in order to distinguish the leasing contracts from the service contracts, identifying the discriminatory ones: the identification of the asset, the right of replacement of the same, the right to obtain substantially all of the economic benefits deriving from the use of the asset and the right to direct the use of the asset underlying the contract. The standard establishes a single model of recognition and measurement of the lease agreements for the lessee which requires the recognition of the asset to be leased (operating lease or otherwise) in assets offset by a financial debt, while also providing the opportunity not to recognise as leases the agreements whose subject matter are "*low-value assets*" and leases with a contract duration equal to or less than 12 months. By contrast, the Standard does not include significant changes for the lessors. The standard applies beginning on 1 January 2019 but early application is permitted, only for Companies that opted for early application of IFRS 15 - *Revenue from Contracts with Customers*. The directors do not expect that the application of IFRS 16 can have a significant impact on the accounting of the leasing contracts and on the related disclosures in the Group's consolidated financial statements.

- On 19 January 2016, the IASB published the document "***Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)***", which contains the amendments to IAS 12. The aim of the document is to provide some clarification on the recognition of deferred tax assets on unrealised losses upon the occurrence of certain circumstances and on the estimate of taxable income for future years. The amendments apply from 1 January 2017 but early application is permitted.

- On 29 January 2016, IASB published the document "***Disclosure Initiative (Amendments to IAS 7)***", which contains the amendments to IAS 7. The aim of the document is to provide some clarification to improve disclosure on financial liabilities. In particular, the amendments require providing disclosures that enable the users of financial statements to understand changes in liabilities arising from financing activities.

- **IFRIC 22** Interpretation "***Foreign Currency Transactions and Advance Consideration***" (published on 8 December 2016). The interpretation aims to provide guidelines for foreign currency transactions if advances or non-cash payments are recognised in the financial statements, prior to the recognition of the related asset, cost or revenue. This document provides guidance on how an entity should determine the date of a transaction, and consequently, the spot exchange rate to be used when foreign currency transactions occur in which the payment is made or received in advance. IFRIC 22 is applicable from 1 January 2018, but early application is permitted. The directors do not expect a significant effect on the Group's consolidated financial statements through the adoption of these changes.

- Amendment to **IAS 40** "***Transfers of Investment Property***" (published on 8 December 2016). These amendments clarify the transfers of a property to, or from, investment property. In particular, an entity must reclassify a property among, or from, investment property only when there is evidence that there was a change in the intended use of the property. This change must refer to a specific event that happened and must not be limited to a change of intention by the Management of an entity. The directors do not expect a significant effect on the Group's consolidated financial statements through the adoption of these changes.

Comments on significant balance sheet items

1. PROPERTY, PLANT AND EQUIPMENT

	PROPERTY	PLANT AND EQUIPMENT	OTHER ASSETS	ASSETS UNDER CONSTRUCTION	TOTAL
COST					
AT 31 DECEMBER 2014	**52,177**	**168,178**	**35,891**	**3,850**	**260,096**
Increases	119	8,574	1,753	1,135	11,581
Disposals	-	(1,173)	(93)	(14)	(1,280)
Change in scope of consolidation	-	112	160	-	272
Reclassifications	-	2,750	105	(2,899)	(44)
Forex differences	(1,071)	(1,912)	(667)	(13)	(3,663)
AT 31 DECEMBER 2015	**51,225**	**176,529**	**37,149**	**2,059**	**266,962**
Increases	95	8,417	2,275	1,101	11,888
Disposals	(1)	(3,075)	(312)	-	(3,388)
Change in scope of consolidation	-	1,335	584	-	1,919
Reclassifications	1	875	177	(1,476)	(423)
Forex differences	(52)	657	430	86	1,121
AT 31 DECEMBER 2016	**51,268**	**184,738**	**40,303**	**1,770**	**278,079**
ACCUMULATED DEPRECIATIONS					
AT 31 DECEMBER 2014	**14,178**	**140,932**	**30,503**	**-**	**185,613**
Depreciations for the year	1,450	7,277	2,421	-	11,148
Eliminations for disposals	-	(1,101)	(108)	-	(1,209)
Change in scope of consolidation	-	1	20	-	21
Reclassifications	5	35	20	-	60
Forex differences	(163)	(1,085)	(460)	-	(1,708)
AT 31 DECEMBER 2015	**15,470**	**146,059**	**32,396**	**-**	**193,925**
Depreciations for the year	1,442	7,961	2,328	-	11,731
Eliminations for disposals	-	(3,066)	(231)	-	(3,297)
Change in scope of consolidation	-	1,145	492	-	1,637
Reclassifications	5	40	21	-	66
Forex differences	59	588	306	-	953
AT 31 DECEMBER 2016	**16,976**	**152,727**	**35,312**	**-**	**205,015**
NET CARRYING VALUE					
AT 31 DECEMBER 2016	**34,292**	**32,011**	**4,991**	**1,770**	**73,064**
AT 31 DECEMBER 2015	**35,755**	**30,470**	**4,753**	**2,059**	**73,037**

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

	31.12.2016	31.12.2015	VAR.
Land	6,688	6,624	64
Industrial buildings	27,604	29,131	(1,527)
TOTAL	**34,292**	**35,755**	**(1,463)**

The net carrying value of industrial property includes an amount of € 2,211,000 (€ 2,297,000 at 31 December 2015) relating to industrial buildings held under finance leases.

The main investments in the financial year were aimed at increasing production capacity in Turkey and Brazil and the further automation of production of light alloy valves. Investments were also made to improve production processes as well as maintenance and replacement investments designed to keep the capital equipment constantly updated. Decreases mainly relate to the disposal of machinery no longer in use. Assets under construction include machinery under construction and advance payments to suppliers of capital equipment.

At 31 December 2016, the Group found no endogenous or exogenous indicators of impairment of its property, plant and equipment. As a result, the value of property, plant and equipment was not submitted to impairment testing.

2. INVESTMENT PROPERTY

COST	
AT 31 DECEMBER 2014	**13,257**
Increases	-
Disposals	(121)
AT 31 DECEMBER 2015	**13,136**
Increases	-
Disposals	-
AT 31 DECEMBER 2016	**13,136**

ACCUMULATED DEPRECIATIONS	
AT 31 DECEMBER 2014	**6,029**
Depreciations for the year	442
Eliminations for disposals	(47)
AT 31 DECEMBER 2015	**6,424**
Depreciations for the year	442
Eliminations for disposals	-
AT 31 DECEMBER 2016	**6,866**

NET CARRYING VALUE	
AT 31 DECEMBER 2016	**6,270**
AT 31 DECEMBER 2015	**6,712**

This item includes non-operating buildings owned by the Group: these are mainly properties for residential use, held for rental or sale.

At 31 December 2016, the Group found no endogenous or exogenous indicators of impairment of its investment property. As a result, the value of investment property was not submitted to impairment testing.

3. INTANGIBLE ASSETS

	GOODWILL	PATENTS, SOFTWARE AND KNOW-HOW	DEVELOPMENT COSTS	OTHER INTANGIBLE ASSETS	TOTAL
COST					
AT 31 DECEMBER 2014	**9,008**	**5,980**	**4,318**	**644**	**19,950**
Increases	-	193	414	155	762
Reclassifications	-	66	(47)	-	19
Decreases	-	-	-	-	-
Forex differences	-	(8)	-	-	(8)
AT 31 DECEMBER 2015	**9,008**	**6,231**	**4,685**	**799**	**20,723**
Increases	-	155	314	18	487
Change in the scope of consolidation	1,977	13	-	19	2,009
Reclassifications	-	62	(44)	(30)	(12)
Decreases	-	-	-	(15)	(15)
Forex differences	-	6	-	-	6
AT 31 DECEMBER 2016	**10,985**	**6,467**	**4,955**	**791**	**23,198**

	GOODWILL	PATENTS, SOFTWARE AND KNOW-HOW	DEVELOPMENT COSTS	OTHER INTANGIBLE ASSETS	TOTAL
AMORTISATION/WRITE-DOWNS					
AT 31 DECEMBER 2014	**4,563**	**5,528**	**2,011**	**489**	**12,591**
2015 Amortisation	-	209	336	67	612
Decreases	-	-	-	-	-
Forex differences	-	(5)	-	-	(5)
AT 31 DECEMBER 2015	**4,563**	**5,732**	**2,347**	**556**	**13,198**
2016 Amortisation	-	266	352	98	716
Change in the scope of consolidation	-	3	-	8	11
Decreases	-	-	-	(15)	(15)
Forex differences	-	4	-	-	4
AT 31 DECEMBER 2016	**4,563**	**6,005**	**2,699**	**647**	**13,914**

	GOODWILL	PATENTS, SOFTWARE AND KNOW-HOW	DEVELOPMENT COSTS	OTHER INTANGIBLE ASSETS	TOTAL
NET CARRYING VALUE					
AT 31 DECEMBER 2016	**6,422**	**462**	**2,256**	**144**	**9,284**
AT 31 DECEMBER 2015	**4,445**	**499**	**2,338**	**243**	**7,525**

Goodwill

Goodwill recognised at 31 December 2016 is allocated:

- to "Hinges" (CGU) cash generating units of € 4.445 million;
- to the "Professional burners" CGU of € 1.977 million. This allocation, which derives from the acquisition of the equity investment in A.R.C. s.r.l. carried out during the financial year, is to be considered temporary for the moment, in that, in accordance with IFRS 3 revised, the evaluation of assets, liabilities and contingent liabilities at fair value at the date of acquisition will become final no later than 12 months from the date of acquisition.

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

Goodwill allocated to the Hinges CGU

In the course of 2016, the Hinges CGU achieved better results, both in terms of sales development and profitability, which turned out to be greater than the budget. The 2017-2021 forward plan, drafted at the end of 2016, plans a further gradual improvement of sales and the maintaining of profitability, to be considered as durably acquired also in a future perspective. At 31 December 2016, the Group tested the carrying value of its CGU Hinges for impairment, determining its recoverable value, considered to be equivalent to its usable value, by discounting expected future cash flow in the forward plan drafted by the management. Cash flows for the period from 2017 to 2021 were augmented by the so-called terminal value, which expresses the operating flows that the CGU is expected to generate from the sixth year to infinity and determined based on the perpetual income. The value of use was calculated based on a discount rate (WACC) of 7.76% (8.45% in the impairment test conducted while preparing the consolidated financial statements at 31 December 2015) and a growth rate (g) of 1.50%, which is in line with historical data.

The recoverable value calculated on the basis of the above-mentioned assumptions and valuation techniques is € 12,851 million, compared with a carrying value of the assets allocated to the Hinges unit of € 7,279 million; consequently, the value recorded for goodwill at 31 December 2016 was deemed recoverable.

Sensitivity analysis

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

IN THOUSANDS OF EURO	GROWTH RATE				
DISCOUNT RATE	1.00%	1.25%	1.50%	1.75%	2.00%
6.76%	14,247	14,779	15,363	16,004	16,713
7.26%	13,077	13,518	13,998	14,520	15,093
7.76%	12,081	12,451	12,851	13,284	13,754
8.26%	11,222	11,536	11,874	12,237	12,629
8.76%	10,474	10,743	11,031	11,340	11,671

Goodwill allocated to the Professional burners CGU

At 31 December 2016, the Group tested the carrying value of its Professional burners CGU for impairment, determining its recoverable value, considered to be equivalent to its usable value, by discounting expected future cash flow in the forward plan prepared during the acquisition of the equity investment in A.R.C. and adjusted at the end of 2016 on the basis of further elements known. Cash flows for the 2017-2019 period were augmented by the so-called terminal value, which expresses the operating flows that the CGU is expected to generate from the fourth year to infinity and determined based on the perpetual income. The value of use was calculated based on a discount rate (WACC) of 5.79% and a growth rate (g) of 1.50%.

The recoverable value calculated on the basis of the above-mentioned assumptions and valuation techniques is € 7,396 million, compared with a carrying value of the assets allocated to the Professional burners unit of € 3,246 million (including minority interests); consequently, the value recorded for goodwill at 31 December 2016 was deemed recoverable.

Sensitivity analysis

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

IN THOUSANDS OF EURO	GROWTH RATE				
DISCOUNT RATE	1.00%	1.25%	1.50%	1.75%	2.00%
4.79%	8,517	9,103	9,778	10,565	11,492
5.29%	7,472	7,922	8,431	9,011	9,680
5.79%	6,645	7,000	7,396	7,842	8,346
6.29%	5,974	6,261	6,578	6,929	7,322
6.79%	5,419	5,655	5,913	6,197	6,511

Patents, software and know-how

Software investments include the application development of the Group's management system (SAP) and CAD development.

Development costs

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

4. EQUITY INVESTMENTS

	31.12.2015	CHANGE IN SCOPE OF CONSOLIDATION	OTHER CHANGES	31.12.2016
Sabaf US	139	-	-	139
ARC Handan Burners Co.	-	101	-	101
Other equity investments	65	6	(5)	66
TOTAL	**204**	**107**	**(5)**	**306**

The 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 50% (therefore, the Group's share is 35%). The aim of Handan ARC Burners is to produce and market in China burners for professional cooking; the first machineries were installed during 2016 and the start of production is expected for the beginning of 2017.

5. NON-CURRENT RECEIVABLES

	31.12.2016	31.12.2015	CHANGE
Tax receivables	225	395	(170)
Guarantee deposits	37	35	2
Other	-	2	(2)
TOTAL	**262**	**432**	**(170)**

Tax receivables relate to indirect taxes expected to be recovered after 2017.

6. INVENTORIES

	31.12.2016	31.12.2015	CHANGE
Commodities	9,740	10,407	(667)
Semi-processed goods	10,893	10,564	329
Finished products	13,308	12,155	1,153
Obsolescence provision	(2,457)	(2,117)	(340)
TOTAL	**31,484**	**31,009**	**475**

The value of final inventories at 31 December 2016 remained substantially unchanged compared with the end of the previous year. The obsolescence provision reflects the improved estimate of the obsolescence risk, based on specific analyses conducted at the end of the year on slow-moving and non-moving products.

7. TRADE RECEIVABLES

	31.12.2016	31.12.2015	CHANGE
Total trade receivables	37,576	41,439	(3,863)
Bad debt provision	(734)	(1,014)	280
NET TOTAL	**36,842**	**40,425**	**(3,583)**

At 31 December 2016, trade receivables included balances totalling USD 5,658,000, booked at the EUR/USD exchange rate in effect on 31 December 2016, i.e. 1.0541. The amount of trade receivables recognised in the financial statements includes € 1.1 million of receivables assigned without recourse to factoring companies (€ 2.3 million at 31 December 2015) and approximately € 22.4 million in insured receivables (€ 23.5 million at 31 December 2015).

The bad debt provision was adjusted to the better estimate of the credit risk at the end of the reporting period.

The reduction in trade receivables is attributable not only to the decline in sales but also to lower receivables past due compared to the previous year, as shown in the following table:

	31.12.2016	31.12.2015	CHANGE
Current receivables (not past due)	32,616	35,497	(2,881)
Outstanding up to 30 days	3,296	2,498	798
Outstanding from 30 to 60 days	218	570	(352)
Outstanding from 60 to 90 days	136	812	(676)
Outstanding for more than 90 days	1,310	2,062	(752)
TOTAL	**37,576**	**41,439**	**(3,863)**

8. TAX RECEIVABLES

	31.12.2016	31.12.2015	CHANGE
From Giuseppe Saleri SapA for IRES	1,158	1,204	(46)
From inland revenue for income tax	1,028	614	414
From inland revenue for VAT	533	70	463
Other tax receivables	444	601	(157)
TOTAL	**3,163**	**2,489**	**674**

Until the 2015 financial year, Italian companies of the Group have been part of the national tax consolidation scheme pursuant to articles 117/129 of the Unified Income Tax Law. In this scheme, Giuseppe Saleri S.a.p.A., the parent company of Sabaf S.p.A., acted as the consolidating company. In 2016, the conditions for the preparation of the tax consolidation scheme fell short, which consequently was discontinued.

The receivable from Giuseppe Saleri S.a.p.A. recognised at 31 December 2016 derives 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 the consolidating company presented an application for a refund and which will revert to the Sabaf Group companies for the share pertaining to them as soon as it is refunded.

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

9. OTHER CURRENT RECEIVABLES

	31.12.2016	31.12.2015	CHANGE
Credits to be received from suppliers	706	865	(159)
Advances to suppliers	168	170	(2)
Other	545	412	133
TOTAL	**1,419**	**1,447**	**(28)**

At 31 December 2016 Credits to be received from suppliers included € 411,000 related to the relief due to the parent company as an energy-intensive business (so-called "energy-intensive bonuses") for the years 2014 and 2015, of which € 194,000 received at the beginning of 2017.

10. CURRENT FINANCIAL ASSETS

	31.12.2016	31.12.2015	CHANGE
Currency derivatives	-	69	(69)
TOTAL	**0**	**69**	**(69)**

11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents, which amounted to € 12,143,000 at 31 December 2016 (€ 3,991,000 at 31 December 2015) consisted of bank current account balances of approximately € 8.4 million and sight deposits of approximately € 3.7 million.

12. SHARE CAPITAL

The parent company's share capital consists of 11,533,450 shares with a par value of € 1.00 each. The share capital paid in and subscribed did not change during the year.

13. TREASURY SHARES

During the financial year Sabaf S.p.A. acquired 171,061 treasury shares at an average unit price of € 9,794; there have been no sales.

At 31 December 2016, the parent company Sabaf S.p.A. held 233,139 treasury shares, equal to 2.021% of share capital (62,078 treasury shares at 31 December 2015), reported in the financial statements as an adjustment to shareholders' equity at a unit value of € 10,289 (the market value at year-end was € 10.4).

There were 11,300,311 outstanding shares at 31 December 2016 (11,471,372 at 31 December 2015).

14. LOANS

	31.12.2016		31.12.2015	
	CURRENT	NON CURRENT	CURRENT	NON CURRENT
Property leasing	145	1,611	142	1,756
Property mortgages	-	-	934	-
Unsecured loans	6,656	17,281	2,707	4,632
Short-term bank loans	7,802	-	13,666	-
Advances on bank receipts or invoices	2	-	5,988	-
Interest payable	7	-	43	-
TOTAL	**14,612**	**18,892**	**23,480**	**6,388**

During the financial year, the Group reformulated the average duration of its loans, entering into 4 unsecured loan agreements totalling € 19.8 million repayable in five years in quarterly fixed instalments, with rates ranging from 0.60% to 1%.

Only one of the outstanding unsecured loans of € 5 million at 31 December 2016 has covenants, defined with reference to the consolidated financial statements at the end of the reporting period, as specified below:

- Commitment to maintain a ratio of net financial position to shareholders' equity of less than 1
- Commitment to maintain a ratio of net financial position to EBITDA of less than 2

widely observed at 31 December 2016.

All outstanding bank loans are denominated in euro, with the exception of a short-term loan of USD 2 million and a short-term loan of 1.5 million Turkish lira.

Note 35 provides information on financial risks, pursuant to IFRS 7.

15. OTHER FINANCIAL LIABILITIES

	31.12.2016		31.12.2015	
	CURRENT	NON CURRENT	CURRENT	NON CURRENT
Option on minorities	-	1,522	-	-
Payables to A.RC. shareholders	60	240	-	-
Currency derivatives	238	-	17	-
Derivative instruments on interest rates	37	-	14	-
TOTAL	**335**	**1,762**	**31**	**0**

In June 2016, as part of the acquisition of 70% of A.R.C. S.r.l., Sabaf signed with Loris Gasparini (current minority shareholder by 30% of A.R.C.) an agreement that aimed to regulate Gasparini's right to leave A.R.C. and the interest of Sabaf to acquire 100% of the shares after expiry of the term of five years from the signing of the purchase agreement of 24 June 2016, by signing specific option agreements. Therefore, the agreement envisaged specific option rights to purchase (by Sabaf) and sell (by Gasparini) exercisable as from 24 June 2021, the remaining shares of 30% of A.R.C., with strike prices contractually defined on the basis of final income parameters from A.R.C. at 31 December 2020.

Pursuant to the provisions of IAS 32, the assignment of an option to sell (put option) in the terms described above required the initial recording of a liability corresponding to the estimated redemption value, expected at the time of any exercise of the option: to this end, a non-current financial liability of € 1.522 million was recognised in these consolidated financial statements. Note that, during the subsequent periods until the date the option is exercised, the Group will be obliged to evaluate as and when the outlay estimate and to determine the adjustment to the recorded liability, opting for the application of the fair value measurement criteria in compliance with IAS 39.

The payable to the A.R.C. shareholders of € 300,000 at 31 December 2016 is related to the part of the price still to be paid to the sellers, which was deposited on an escrow account and will be released in favour of the sellers at constant rates in 5 years, in accordance with contractual agreements and guarantees issued by the sellers.

Other financial liabilities also included:

- the negative fair value of term sales contracts totalling USD 7.5 million at an exchange rate of 1.104 agreed with regard to the foreign exchange rate risk described in Note 35. Exchange rate losses of the same amount were recorded in the income statement;
- the negative fair value of IRS hedging rate risks of unsecured loans pending, for a notional amount of approximately € 13 million and expiry until 31 December 2021. Exchange rate losses in the same amount were recognised in the income statement.

16. POST-EMPLOYMENT BENEFIT AND RETIREMENT RESERVES

	31.12.2016	31.12.2015	CHANGE
Post-employment benefit reserve	2,961	2,914	47
Retirement reserve	125	-	125
TOTAL	**3,086**	**2,914**	**172**

Following the revision of IAS 19 - Employee benefits, from 1 January 2013 all actuarial gains or losses are recorded immediately in the comprehensive income statement ("Other comprehensive income") under the item "Actuarial income and losses".

Post-employment benefits are calculated as follows:

FINANCIAL ASSUMPTIONS	31.12. 2016	31.12.2015
Discount rate	1.15%	1.60%
Inflation	1.75%	2.00%

DEMOGRAPHIC THEORY	31.12. 2016	31.12.2015
Mortality rate	ISTAT 2010 M/F	ISTAT 2010 M/F
Disability rate	INPS 1998 M/F	INPS 1998 M/F
Staff turnover	3% - 6%	3% - 6%
Advance payouts	5% - 7% per year	5% - 7% per year
Retirement age	pursuant to legislation in force on 31 December 2016	pursuant to legislation in force on 31 December 2016

17. PROVISIONS FOR RISKS AND CHARGES

	31.12.2015	PROVISIONS	UTILISATIONW	RELEASE OF EXCESS PORTION	EXCHANGE RATE DIFFERENCES	31.12.2016
Reserve for agents' indemnities	297	-	-	(66)	-	231
Product guarantee fund	60	35	(35)	-	-	60
Reserve for legal risks	38	100	(10)	-	15	143
TOTAL	**395**	**135**	**(45)**	**(66)**	**15**	**434**

The reserve for agents' indemnities covers amounts payable to agents if the Group terminates the agency relationship.
The product guarantee fund covers the risk of returns or charges by customers for products already sold. The fund was adjusted at the end of the year, on the basis of analyses conducted and past experience.

The reserve for legal risks, set aside for moderate disputes, was adjusted to reflect the outstanding disputes.
The provisions booked to the provision for risks, which represent the estimate of future payments made based on historical experience, have not been time-discounted because the effect is considered negligible.

18. TRADE PAYABLES

	31.12.2016	31.12.2015	CHANGE
TOTAL	18,977	19,450	(473)

Average payment terms did not change versus the previous year. At 31 December 2016, there were no overdue payables of a significant amount and the Group did not receive any injunctions for overdue payables.

19. TAX PAYABLES

	31.12.2016	31.12.2015	CHANGE
To Giuseppe Saleri SapA for income tax	-	157	(157)
To inland revenue for income tax	361	-	361
Withholding taxes	788	844	(56)
Other tax payables	41	218	(177)
TOTAL	1,190	1,219	(29)

20. OTHER CURRENT PAYABLES

	31.12.2016	31.12.2015	CHANGE
To employees	3,965	4,032	(67)
To social security institutions	2,139	2,022	117
To agents	268	317	(49)
Advances from customers	181	103	78
Other current payables	104	64	40
TOTAL	6,657	6,538	119

At the beginning of 2017, payables due to employees and social security institutions were paid in accordance with the scheduled expiry dates.

21. DEFERRED TAX ASSETS AND LIABILITIES

	31.12.2016	31.12.2015
Deferred tax assets	4,781	4,887
Deferred tax liabilities	(764)	(772)
NET POSITION	4,017	4,115

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

	Depreciation and amortisation and leasing	Provisions and value adjustments	Fair value of derivative instruments	Goodwill	Tax incentives	Actuarial post-employment benefit reserve evaluation	Other temporary differences	TOTAL
AT 31 DECEMBER 2015	**(26)**	**1,014**	**(14)**	**1,771**	**843**	**200**	**327**	**4,115**
To the income statement	48	6	81	-	(141)	-	(31)	(37)
To shareholders' equity	-	-	-	-	-	10	-	10
Forex differences	1	20	-	-	(107)	-	(7)	(93)
Change in scope of consolidation	-	22	-	-	-	-	-	22
AT 31 DECEMBER 2016	**23**	**1,062**	**67**	**1,771**	**595**	**210**	**289**	**4,017**

Deferred tax assets relating to goodwill, equal to € 1,771,000, refer to the exemption of the value of the equity investment in Faringosi Hinges s.r.l. made in 2011 pursuant to Italian law Decree 98/2011. The future tax benefit can be made in ten annual portions starting in 2018.

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 in Turkey.

22. NET FINANCIAL POSITION

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

		31.12.2016	31.12.2015	CHANGE
A.	Cash (Note 11)	12	11	1
B.	Positive balances of unrestricted bank accounts (Note 11)	8,376	3,822	4,554
C.	Other cash equivalents	3,755	158	3,597
D.	**LIQUIDITY (A+B+C)**	**12,143**	**3,991**	**8,152**
E.	Current bank payables (Note 14)	7,811	19,697	(11,886)
F.	Current portion of non-current debt (Note 14)	6,801	3,783	3,018
G.	Other current financial payables (Note 15)	335	31	304
H.	**CURRENT FINANCIAL DEBT (E+F+G)**	**14,947**	**23,511**	**(8,564)**
I.	**NET CURRENT FINANCIAL DEBT (H-D)**	**2,804**	**19,520**	**(16,716)**
J.	Non-current bank payables (Note 14)	17,281	4,632	12,649
K.	Other non-current financial payables (Note 14)	3,373	1,756	1,617
L.	**NON-CURRENT FINANCIAL DEBT (J+K)**	**20,654**	**6,388**	**14,266**
M.	**NET FINANCIAL DEBT (I+L)**	**23,458**	**25,908**	**(2,450)**

The consolidated cash flow statement shows changes in cash and cash equivalents (letter D of this schedule).

Comments on key income statement items

23. REVENUE

In 2016, sales revenues totalled € 130,978,000, down by € 7,025,000 (-5.1%) compared with 2015. Taking into consideration the same scope of consolidation (i.e. excluding the contribution of A.R.C.), the drop in revenues was 6.7%.

Revenue by product family

	2016	%	2015	%	% CHANGE
Brass valves	9,007	*6.9%*	12,689	*9.2%*	-29.0%
Light alloy valves	32,393	*24.7%*	33,784	*24.5%*	-4.1%
Thermostats	7,699	*5.9%*	10,596	*7.7%*	-27.3%
Standard burners	37,338	*28.5%*	37,789	*27.4%*	-1.2%
Special burners	21,215	*16.2%*	21,622	*15.7%*	-1.9%
Accessories	12,613	*9.6%*	13,577	*9.8%*	-7.1%
Household gas parts	120,265	*91.8%*	130,057	*94.3%*	-7.5%
Professional gas parts	2,289	*1.8%*	0	*0.0%*	n.a.
Hinges	8,424	*6.4%*	7,946	*5.7%*	+6.0%
TOTAL	**130,978**	***100%***	**138,003**	***100%***	**-5.1%**

Revenues by geographical area

	2016	%	2015	%	% CHANGE
Italy	36,365	*27.8%*	41,244	*29.9%*	-11.8%
Western Europe	8,553	*6.5%*	7,438	*5.4%*	+15.0%
Eastern Europe	34,123	*26.1%*	35,125	*25.5%*	-2.9%
Middle East and Africa	11,698	*8.9%*	16,759	*12.1%*	-30.2%
Asia and Oceania	8,088	*6.2%*	7,019	*5.0%*	+15.2%
South America	20,847	*15.9%*	20,815	*15.1%*	+0.2%
North America and Mexico	11,304	*8.6%*	9,603	*7.0%*	+17.7%
TOTAL	**130,978**	***100%***	**138,003**	***100%***	**-5.1%**

The 2016 sales performance was negatively affected by the crisis of the Middle East and African markets (mainly Egypt), which recorded a downturn in direct sales of more than € 5 million. The crisis in the Middle Eastern and African markets (mainly Egypt) also affected the sales of the Group in Italy, since our Italian customers are strong exporters to the Middle East. The positive trend of the other international markets, most notably the steady growth in North America, only partially offset the decline in sales in the Middle East, Africa and Italy.

The analysis by product family shows a sharp decline in more mature products (brass valves and thermostats), mainly intended for markets in crisis. A good increase in sales of hinges was confirmed also in 2016, thanks to the positive trend of the North American market and to the launch of new supply contracts.
Average sales prices in 2016 were around 1.5% lower compared with 2015.

24. OTHER INCOME

	2016	2015	CHANGE
Sale of trimmings	1,684	2,822	(1,138)
Contingent income	146	263	(117)
Rental income	85	117	(32)
Use of provisions for risks and charges	67	69	(2)
Other income	837	487	350
TOTAL	**2,819**	**3,758**	**(939)**

Lower revenues from the sale of trimmings were determined by a revision of production processes, which allowed to increase their re-utilisation as an alternative to sales.

25. MATERIALS

	2016	2015	CHANGE
Commodities and outsourced components	42,540	49,431	(6,891)
Consumables	4,806	4,935	(129)
TOTAL	**47,346**	**54,366**	**(7,020)**

In 2016, the effective purchase prices of the main raw materials (aluminium alloys, steel and brass) were on average lower than in 2015, allowing a saving of 0.9% of sales. Consumption (purchases plus change in inventories) as a percentage of sales was 36.7% in 2016, compared with 38.7% in 2015.

26. COSTS FOR SERVICES

	2016	2015	CHANGE
Outsourced processing	8,435	9,823	(1,388)
Natural gas and power	4,622	4,902	(280)
Maintenance	4,071	3,556	515
Transport	1,848	2,059	(211)
Advisory services	1,639	1,670	(31)
Directors' fees	1,181	1,101	80
Travel expenses and allowances	693	884	(191)
Insurance	675	506	169
Commissions	648	651	(3)
Canteen	395	430	(35)
Temporary agency workers	125	164	(39)
Other costs	3,651	4,013	(362)
TOTAL	**27,983**	**29,759**	**(1,776)**

The lower costs for outsourced processing were related to lower production volumes in Italy. The increase in maintenance costs was due to activities in progress for the ongoing adaptation of plants, machinery and equipment at the premises of all the factories of the Group. Other costs included expenses for the registration of patents, waste disposal, cleaning, leasing third-party assets and other minor charges.

Costs for advisory services related to technical (€ 437,000), sales (€ 375,000) and legal, administrative and general (€ 827,000) services.

27. PERSONNEL COSTS

	2016	2015	CHANGE
Salaries and wages	22,284	21,974	310
Social Security costs	7,088	7,110	(22)
Temporary agency workers	1,216	1,340	(124)
Post-employment benefit reserve and other costs	1,524	2,102	(578)
TOTAL	**32,112**	**32,526**	**(414)**

Average Group headcount in 2016 totalled 755 employees (588 blue-collars, 153 white-collars and supervisors, 14 managers), compared with 748 in 2015 (590 blue-collars, 145 white-collars and supervisors, 13 managers). The average number of temporary staff was 40 in 2016 (72 in 2015).
During the financial year, the Group made use of the temporary lay-off scheme in periods characterised by low production requirements: this allowed savings in personnel costs of € 689,000 (€ 333,000 in 2015).

28. OTHER OPERATING COSTS

	2016	2015	CHANGE
Non-income taxes	488	498	(10)
Other operating expenses	205	127	78
Contingent liabilities	69	163	(94)
Losses and write-downs of trade receivables	189	356	(167)
Provisions for risks	127	18	109
Other provisions	-	31	(31)
TOTAL	**1,078**	**1,193**	**(115)**

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

29. FINANCIAL EXPENSES

	2016	2015	CHANGE
Interest paid to banks	243	260	(17)
Interest paid on finance lease contracts	22	29	(7)
IRS spreads payable	37	14	23
Banking expenses	264	237	27
Other financial expense	55	55	0
TOTAL	**621**	**595**	**26**

30. EXCHANGE RATE GAINS AND LOSSES

In 2016, the Group reported net foreign exchange gains of € 435,000, versus net losses of € 89,000 in 2015.

31. INCOME TAXES

	2016	2015	CHANGE
Current taxes	3,454	3,935	(481)
Deferred tax liabilities	73	611	(538)
Balance of previous FY	(176)	(71)	(105)
TOTAL	**3,351**	**4,475**	**(1,124)**

The current income taxes include the IRES of € 2,078,000, the IRAP of € 452,000 and foreign income taxes of € 924,000 (€ 2,616,000, € 1,177,000 and € 538,000 respectively in 2015).

Reconciliation between the tax burden booked in the financial statements and the theoretical tax burden calculated according to the statutory tax rates currently in force in Italy is shown in the following table:

	2016	2015
Theoretical income taxes	3,280	3,705
Permanent tax differences	202	51
Taxes related to previous years	(138)	(44)
Tax effect from different foreign tax rates	(109)	(114)
Effect of non-recoverable tax losses	162	149
Booking of tax incentives for investments in Turkey	(408)	(165)
Adjustment of the deferred taxation for a change in the IRES rate	-	425
Other differences	(71)	(55)
Income taxes booked in the accounts, excluding IRAP and withholding taxes (current and deferred)	**2,918**	**3,952**
IRAP (current and deferred)	433	523
TOTAL	**3,351**	**4,475**

Theoretical taxes were calculated applying the current corporate income tax (IRES) rate, i.e. 27.50%, to the pre-tax result. IRAP is not taken into account for the purpose of reconciliation because, as it is a tax with a different assessment basis from pre-tax profit, it would generate distorting effects.

No significant tax disputes were pending at 31 December 2016.

32. EARNINGS PER SHARE

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

EARNINGS	2016	2015
	Euro '000	Euro '000
Profit for the year	9,009	8,998

NUMBER OF SHARES	2016	2015
Weighted average number of ordinary shares for determining basic earnings per share	11,376,320	11,523,219
Dilutive effect from potential ordinary shares	-	-
Weighted average number of ordinary shares for determining diluted earnings per share	11,376,320	11,523,219

EARNINGS PER SHARE (€)	2016	2015
Basic earnings per share	0.792	0.781
Diluted earnings per share	0.792	0.781

Basic earnings per share are calculated on the average number of outstanding shares minus treasury shares, equal to 157,130 in 2016 (10,231 in 2015).
Diluted earnings per share are calculated taking into account any shares approved but not yet subscribed, of which there were none in 2016 and 2015.

33. DIVIDENDS

On 25 May 2016, shareholders were paid an ordinary dividend of € 0.48 per share (total dividends of € 5,467,000).
The Directors have recommended payment of an unchanged dividend of € 0.48 per share this year. This dividend is subject to approval of shareholders in the annual Shareholders' Meeting and was not included under liabilities.
The dividend proposed is scheduled for payment on 31 May 2017 (ex-date 29 May and record date 30 May).

34. INFORMATION BY BUSINESS SEGMENT

Below is the information by business segment for 2016 and 2015.

	2016 FY			2015 FY		
	Gas parts (household and professional)	Hinges	TOTAL	Gas parts (household and professional)	Hinges	TOTAL
Sales	122,636	8,342	**130,978**	130,048	7,955	**138,003**
Ebit	11,643	887	**12,530**	13,493	598	**14,091**

35. INFORMATION ON FINANCIAL RISK

Categories of financial instruments

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

FINANCIAL ASSETS	31.12.2016	31.12.2015
Amortised cost		
• Cash and cash equivalents	12,143	3,991
• Trade receivables and other receivables	38,261	41,872
Income statement fair value		
• Derivative to hedge cash flows	-	69

FINANCIAL LIABILITIES	31.12.2016	31.12.2015
Amortised cost		
• Loans	33,504	29,868
• Other financial liabilities	1,822	-
• Trade payables	18,977	19,450
Income statement fair value		
• Derivative to hedge cash flows	275	31

The Group is exposed to financial risks related to its operations, mainly:

- credit risk, with special reference to normal trade relations with customers;
- market risk, relating to the volatility of prices of commodities, foreign exchange and interest rates;
- liquidity risk, which can be expressed by the inability to find financial resources necessary to ensure Group operations.

It is part of the Sabaf Group's policies to hedge exposure to changes in prices and in fluctuations in exchange and interest rates via derivative financial instruments. Hedging is done using forward contracts, options or combinations of these instruments. Generally speaking, the maximum duration covered by such hedging does not exceed 18 months. The Group does not enter into speculative transactions. When the derivatives used for hedging purposes meet the necessary requisites, hedge accounting rules are followed.

Credit risk management

Trade receivables involve producers of domestic appliances, multinational groups and smaller manufacturers in a few or single markets. The Company assesses the creditworthiness of all its customers at the start of supply and systemically on at least an annual basis. After this assessment, each customer is assigned a credit limit.

A credit insurance policy is in place, which guarantees cover for approximately 60% of trade receivables.

Credit risk relating to customers operating in emerging economies is generally attenuated by the expectation of revenue through letters of credit.

Forex risk management

The key currencies other than the euro to which the Group is exposed are the US dollar, the Brazilian real and the Turkish lira, in relation to sales made in dollars (chiefly on some Asian and American markets) and the production units in Brazil and Turkey. Sales in US dollars represented 16% of total revenue in 2016, while purchases in dollars represented 2% of total revenue. Transactions in dollars were partly hedged by these derivative financial instruments: at 31 December 2016, the Group had in place forward sales contracts for a total of 7,500,000 dollars, maturing on 31 December 2017.

Sensitivity analysis

With reference to financial assets and liabilities in US dollars at 31 December 2016, a hypothetical and immediate revaluation of 10% of the euro against the dollar would have led to a loss of € 331,000, without considering the pending forward sale contracts.

Interest rate risk management

At 31 December 2016, gross financial debt of the Group was at a floating rate for approximately 70% and at a fixed rate for approximately 30%; to reach an optimum mix of floating and fixed rates in the structure of the loans, the Group also used derivative financial instruments. At 31 December 2016, three interest rate swap (IRS) contracts totalling € 13 million were in place, mirrored in mortgages with the same residual debt, through which the Group transformed the floating rate of the mortgages into fixed rate. Considering the IRS in place, at the end of 2016, the fixed-rate portion amounted to approximately 70% of the total financial debt. The derivative contracts were not designated as a cash flow hedge and were therefore recognised using the "income statement fair value" method.

Sensitivity analysis

With reference to financial assets and liabilities at variable rate at 31 December 2016 and 31 December 2015, a hypothetical increase (decrease) in the interest rate of 100 base points versus the interest rates in effect at the same date – all other variables being equal - would lead to the following effects:

	31.12.2016	31.12.2015
	FINANCIAL EXPENSES	FINANCIAL EXPENSES
Increase of 100 base points	20	116
Decrease of 100 base points	-	(116)

Commodity price risk management

A significant portion of the Group's acquisitions is represented by brass, steel and aluminium alloys. Sale prices of products are generally renegotiated annually; as a result, the Group is unable to pass on to customers any changes in the prices of commodities during the year. The Group protects itself from the risk of changes in the price of brass and aluminium with supply contracts signed with suppliers for delivery up to twelve months in advance or, alternatively, with derivative financial instruments. In 2016 and 2015, the Group did not use financial derivatives on commodities. To stabilise the rising costs of commodities, Sabaf preferred to execute transactions on the physical market, fixing prices with suppliers for immediate and deferred delivery.

Liquidity risk management

The Group operates with a low debt ratio (net financial debt / shareholders' equity at 31 December 2016 of 21%, net financial debt / EBITDA of 0.92) and has unused short-term lines of credit.
To minimise the risk of liquidity, the Administration and Finance Department:

- maintains a correct balance of net financial debt, financing investments with capital and with medium to long-term debt.
- verifies systematically that the short-term accrued cash flows (amounts received from customers and other income) are expected to accommodate the deferred cash flows (short-term financial debt, payments to suppliers and other outgoings);
- regularly assesses expected financial needs in order to promptly take any corrective measures.

Below is an analysis by expiration date of financial payables at 31 December 2016 and 31 December 2015:

AT 31 DECEMBER 2016	CARRYING VALUE	CONTRACTUAL FINANCIAL FLOWS	WITHIN 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 TO 5 YEARS	MORE THAN 5 YEARS
Short-term bank loans	7,811	7,811	5,811	2,000	-	-
Unsecured loans	23,937	24,388	1709	5,129	17,550	-
Finance leases	1,756	2,007	47	141	754	1,065
Payables to ARC shareholders	300	300	-	60	240	-
ARC option	1,522	1,522	-	-	1,522	-
TOTAL FINANCIAL PAYABLES	**35,326**	**36,028**	**7,567**	**7,330**	**20,066**	**1,065**
Trade payables	18,977	18,977	18,340	637	-	-
TOTAL	**54,303**	**55,005**	**25,907**	**7,967**	**20,066**	**1,065**

AT 31 DECEMBER 2015	CARRYING VALUE	CONTRACTUAL FINANCIAL FLOWS	WITHIN 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 TO 5 YEARS	MORE THAN 5 YEARS
Short-term bank loans	19,697	19,697	17,697	2,000	-	-
Unsecured loans	7,339	7,506	700	2,099	4,707	-
Property mortgages	934	942	-	942	-	-
Finance leases	1,898	2,195	47	141	754	1,253
TOTAL FINANCIAL PAYABLES	**29,868**	**30,340**	**18,444**	**5,182**	**5,461**	**1,253**
Trade payables	19,450	19,450	18,350	1,100	-	-
TOTAL	**49,318**	**49,790**	**36,794**	**6,282**	**5,461**	**1,253**

The various due dates are based on the period between the end of the reporting period and the contractual expiration date of the commitments, the values indicated in the table correspond to non-discounted cash flows. Cash flows include the shares of principal and interest; for floating rate liabilities, the shares of interest are determined based on the value of the reference parameter at the end of the reporting period and increased by the spread set forth in each contract.

Hierarchical levels of fair value assessment

The revised IFRS 7 requires that financial instruments reported in the statement of financial position at fair value must be classified based on a hierarchy that reflects the significance of the input used in determining the fair value. IFRS 7 makes a distinction between the following levels:

- Level 1 – quotations found on an active market for assets or liabilities subject to assessment;
- Level 2 – input other than prices listed in the previous point, which can be observed (prices) or indirectly (derivatives from prices) on the market;
- Level 3 – input based on observable market data

The following table shows the assets and liabilities valued at fair value at 31 December 2016, by hierarchical level of fair value assessment.

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Other financial liabilities (currency derivatives)	-	238	-	238
Other financial liabilities (derivatives on interest rates)	-	37	-	37
Other financial liabilities (ARC put option)	-	-	1,522	1,522
TOTAL LIABILITIES	**0**	**275**	**1,522**	**1,797**

36. RELATED-PARTY TRANSACTIONS

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

Impact of related-party transactions on balance sheet items

	TOTAL 2016	PARENT COMPANY	NON-CONSOLIDATED SUBSIDIARIES	OTHER RELATED PARTIES	TOTAL RELATED PARTIES	IMPACT ON THE TOTAL
Trade receivables	36,842	-	221	-	221	0.60%
Tax receivables	3,163	1,158	-	-	1,158	36.61%
Trade payables	18,977	-	-	2	2	0.01%

	TOTAL 2015	PARENT COMPANY	NON-CONSOLIDATED SUBSIDIARIES	OTHER RELATED PARTIES	TOTAL RELATED PARTIES	IMPACT ON THE TOTAL
Trade receivables	40,425	-	39	-	39	0.10%
Tax receivables	2,489	1,204	-	-	1,204	48.37%
Trade payables	1,219	157	-	-	157	12.88%

Impact of related-party transactions on income statement items

	TOTAL 2016	PARENT COMPANY	NON-CONSOLIDATED SUBSIDIARIES	OTHER RELATED PARTIES	TOTAL RELATED PARTIES	IMPACT ON THE TOTAL
Other income	2,819	10	-	-	10	0.35%
Services	(27,983)	-	(181)	(22)	(203)	0.73%

	TOTAL 2015	PARENT COMPANY	NON-CONSOLIDATED SUBSIDIARIES	OTHER RELATED PARTIES	TOTAL RELATED PARTIES	IMPACT ON THE TOTAL
Other income	3,758	10	-	-	10	0.27%
Services	(29,759)	-	(180)	(34)	(214)	0.72%

Transactions with the parent company, Giuseppe Saleri S.a.p.A., comprise:

- administration services provided by Sabaf S.p.A. to the parent company;
- transactions as part of the domestic tax consolidation scheme, which generated the payables and receivables shown in the tables (Note 8).

Transactions are regulated by specific contracts regulated at arm's length conditions. Transactions with non-consolidated subsidiaries were solely of a commercial nature.

Fees to directors, statutory auditors and executives with strategic responsibilities

Please see the 2016 Report on Remuneration for this information.

37. SHARE-BASED PAYMENTS

At 31 December 2016, there were no equity-based incentive plans for the Group's directors and employees.

38. SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

Pursuant to CONSOB memorandum of 28 July 2006, no events or significant non-recurring transactions occurred during 2016.

39. ATYPICAL AND/OR UNUSUAL TRANSACTIONS

Pursuant to CONSOB memorandum of 28 July 2006, the Group declares that no atypical and/or unusual transactions as defined by the CONSOB memorandum were executed during 2016.

40. COMMITMENTS

Guarantees issued

The Sabaf Group has issued sureties to guarantee consumer and mortgage loans granted by banks to Group employees for a total of € 5,510,000 (€ 6,010,000 at 31 December 2015).

41. SCOPE OF CONSOLIDATION AND SIGNIFICANT EQUITY INVESTMENTS

Companies consolidated using the full line-by-line consolidation method

COMPANY NAME	REGISTERED OFFICES	SHARE CAPITAL	SHAREHOLDERS	OWNERSHIP %
Faringosi Hinges s.r.l.	Ospitaletto (BS)	EUR 90.000	Sabaf S.p.A.	100%
Sabaf Immobiliare s.r.l.	Ospitaletto (BS)	EUR 25.000	Sabaf S.p.A.	100%
Sabaf do Brasil Ltda	Jundiaì (SP, Brazil)	BRL 24.000.000	Sabaf S.p.A.	100%
Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki	Manisa (Turkey)	TRK 28.000.000	Sabaf S.p.A.	100%
Sabaf Appliance Components Trading Ltd.	Kunshan (China)	EUR 200.000	Sabaf S.p.A.	100%
Sabaf Appliance Components Ltd.	Kunshan (China)	EUR 4.400.000	Sabaf S.p.A.	100%
A.R.C. s.r.l.	Campodarsego (PD) - Italy	EUR 45.000	Sabaf S.p.A.	70%

Non-consolidated companies valued at cost

COMPANY NAME	REGISTERED OFFICES	SHARE CAPITAL	SHAREHOLDERS	OWNERSHIP %	HOLDING %
Sabaf US Corp.	Plainfield (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.	50%	35%

42. GENERAL INFORMATION ON THE PARENT COMPANY

Registered and administrative office:
Via dei Carpini, 1
25035 Ospitaletto (Brescia)

Contacts:
Tel.: +39 030 - 6843001
Fax: +39 030 - 6848249
E-mail: info@sabaf.it
Website: web: *www.sabaf.it*

Tax information:
R.E.A. Brescia: 347512
Tax Code: 03244470179
VAT number: 01786910982

APPENDIX

Information as required by Article 149-*duodecies* of the CONSOB Issuers' Regulation

The following table, prepared pursuant to Article 149-duodecies of the CONSOB Issuers' Regulation, shows fees relating to 2016 for auditing and for services other than auditing provided by the Independent Auditor and its network.

IN THOUSANDS OF EURO	PARTY PROVIDING THE SERVICE	RECIPIENT	FEES PERTAINING TO THE 2016 FINANCIAL YEAR
Audit	Deloitte & Touche S.p.A.	Parent company	57
	Deloitte & Touche S.p.A.	Italian subsidiaries	28
	Deloitte network	Sabaf do Brasil	24
	Deloitte network	Sabaf Turkey	22
Certification services	Deloitte & Touche S.p.A.	Parent company	2 [1]
	Deloitte & Touche S.p.A.	Italian subsidiaries	1 [1]
Other services	Deloitte & Touche S.p.A.	Parent company	14 [2]
	Deloitte network	Sabaf do Brasil	2 [3]
TOTAL			**150**

1 Signing of Unified Tax Return, IRAP and 770 forms
2 Audit agreed upon procedures relating to interim management reports, auditing of statements and training activities.
3 Tax assistance regarding *transfer pricing*.

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

in accordance with Article 154 bis of Italian Legislative Decree 58/98

Alberto Bartoli, the Chief Executive Officer, and Gianluca Beschi, the Financial Reporting Officer of Sabaf S.p.A., have taken into account the requirements of Article 154-bis, paragraphs 3 and 4, of Legislative Decree 58 of 24 February 1998 and can certify

- the adequacy, in relation to the business characteristics and
- the actual application

of the administrative and accounting procedures for the formation of the consolidated financial statements during the 2016 financial year.

They also certify that:

- the Consolidated financial statements:
  - were prepared in accordance with the international accounting policies recognised in the European Community in accordance with EC regulation 1606/2002 of the European Parliament and Council of 19 July 2002 and with the measures issued in implementation of Article 9 of Italian Legislative Decree 38/2005;
  - are consistent with accounting books and records;
  - provide a true and fair view of the operating results, financial position and cash flows of the issuer and of the companies included in the consolidation;

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

Ospitaletto, 20 March 2017

Chief Executive Officer	**The Financial Reporting Officer**
Alberto Bartoli	Gianluca Beschi

Deloitte.

Deloitte & Touche S.p.A.
Via Cefalonia, 70
25124 Brescia
Italia

Tel: +39 02 83327030
Fax: +39 02 83327029
www.deloitte.it

INDEPENDENT AUDITORS' REPORT
PURSUANT TO ART. 14 AND 16 OF
LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010

To the Shareholders of
SABAF S.p.A.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Sabaf Group, which comprise the consolidated statement of financial position as at December 31, 2016, the consolidated income statement, consolidated statement of comprehensive income, statement of changes in consolidated shareholders' equity and the consolidated cash flow statement for the year then ended, and the related explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

The Company's Directors are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) issued pursuant to art. 11 of Italian Legislative Decree 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation that give a true and fair view of consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Sabaf Group as at December 31, 2016, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005.

Deloitte.

Report on Other Legal and Regulatory Requirements

Opinion on the consistency of the report on operations and of certain information included in the report on corporate governance and ownership structure with the consolidated financial statements

We have performed the procedures indicated in the Auditing Standard (SA Italia) n° 720B in order to express, as required by law, an opinion on the consistency of the report on operations and of certain information included in the report on corporate governance required by art. 123-bis, n° 4, of Italian Legislative Decree n° 58/98, which are the responsibility of the Directors of Sabaf S.p.A., with the consolidated financial statements of the Sabaf Group as at December 31, 2016. In our opinion the report on operations and the information included in the report on corporate governance and ownership structure referred to above are consistent with the consolidated financial statements of the Sabaf Group as at December 31, 2016.

DELOITTE & TOUCHE S.p.A.

Signed by
Andrea Restelli
Partner

Brescia, Italy
April 5, 2017

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

SABAF

7

PASSION

CHAPTER 7

SEPARATE FINANCIAL STATEMENTS AT 31 DECEMBER 2016

Corporate bodies

Board of Directors

Chairman	Giuseppe Saleri
Vice Chairman	Cinzia Saleri
Vice Chairman	Ettore Saleri
Vice Chairman	Roberta Forzanini
Chief Executive Officer	Alberto Bartoli
Director	Gianluca Beschi
Director *	Renato Camodeca
Director *	Giuseppe Cavalli
Director *	Fausto Gardoni
Director *	Anna Pendoli
Director *	Nicla Picchi
Director	Alessandro Potestà

Board of Statutory Auditors

Chairman	Antonio Passantino
Statutory Auditor	Luisa Anselmi
Statutory Auditor	Enrico Broli

Independent Auditor

Deloitte & Touche S.p.A.

* Independent directors.

Statement of financial position

IN EURO	NOTES	31.12.2016	31.12.2015
ASSETS			
Non-current assets			
Property, plant and equipment	1	31,092,204	31,939,736
Investment property	2	1,645,412	1,837,259
Intangible assets	3	3,095,000	3,197,864
Equity investments	4	50,098,459	45,819,480
Non-current financial assets	5	2,137,353	1,837,054
of which from related parties	*36*	*1,897,353*	*1,837,054*
Non-current receivables		11,621	9,183
Deferred tax assets	21	3,315,263	3,284,696
TOTAL NON-CURRENT ASSETS		**91,395,312**	**87,925,272**
Current assets			
Inventories	6	23,492,840	24,674,840
Trade receivables	7	27,465,436	32,870,713
of which from related parties	*36*	*1,191,581*	*2,008,185*
Tax receivables	8	2,477,294	1,749,451
of which from related parties	*36*	*1,083,666*	*1,113,702*
Other current receivables	9	1,039,324	1,197,919
Current financial assets	10	1,060,000	1,069,431
of which from related parties	*36*	*1,000,000*	*1,000,000*
Cash and cash equivalents	11	1,796,980	1,089,671
TOTAL CURRENT ASSETS		**57,331,874**	**62,652,025**
Assets held for sale		**0**	**0**
TOTAL ASSETS		**148,727,186**	**150,577,297**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	12	11,533,450	11,533,450
Retained earnings, other reserves		77,530,764	79,058,252
Profit for the year		2,459,688	5,642,123
TOTAL SHAREHOLDERS' EQUITY		**91,523,902**	**96,233,825**
Non-current liabilities			
Loans	14	17,281,379	4,631,730
Other financial liabilities	15	240,000	0
Post-employment benefit and retirement reserves	16	2,435,538	2,527,275
Provisions for risks and charges	17	322,979	326,140
Deferred tax liabilities	21	129,289	150,017
TOTAL NON-CURRENT LIABILITIES		**20,409,185**	**7,635,162**
Current liabilities			
Loans	14	14,054,604	21,762,487
Other financial liabilities	15	298,161	13,610
Trade payables	18	16,010,381	18,202,899
of which to related parties	*36*	104,142	852,935
Tax payables	19	641,944	787,676
Other payables	20	5,789,009	5,941,638
TOTAL CURRENT LIABILITIES		**36,794,099**	**46,708,310**
Liabilities held for sale		**0**	**0**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**148,727,186**	**150,577,297**

Income statement

IN EURO	NOTES	2016	2015
INCOME STATEMENT COMPONENTS			
Operating revenue and income			
Revenue	23	101,523,407	113,962,039
of which from related parties	36	*6,680,209*	*7,274,762*
Other income	24	2,278,649	2,733,344
TOTAL OPERATING REVENUE AND INCOME		**103,802,056**	**116,695,383**
Operating costs			
Materials	25	(36,875,454)	(43,860,895)
Change in inventories		(1,182,000)	(402,180)
Services	26	(26,031,824)	(28,750,556)
of which by related parties	36	*(4,151,074)*	*(4,162,137)*
Payroll costs	27	(26,382,450)	(27,967,750)
Other operating costs	28	(647,178)	(821,303)
Costs for capitalised in-house work		841,526	1,230,058
TOTAL OPERATING COSTS		**(90,277,380)**	**(100,572,626)**
OPERATING PROFIT BEFORE DEPRECIATION AND AMORTISATION, CAPITAL GAINS/ LOSSES, WRITE-DOWNS/WRITE-BACKS OF NON-CURRENT ASSETS		**13,524,676**	**16,122,757**
Depreciations and amortisation	1,2,3	(9,020,829)	(8,736,191)
Capital gains/(losses) on disposals of non-current assets		87,113	157,965
Write-downs/write-backs of non-current assets	29	(521,021)	1,302,841
of which by related parties	36	*(521,021)*	*1,302,841*
EBIT		**4,069,939**	**8,847,372**
Financial income		84,559	73,091
Financial expenses	30	(512,872)	(500,483)
Exchange rate gains and losses	31	(48,356)	(260,920)
PROFIT BEFORE TAXES		**3,593,270**	**8,159,060**
Income tax	32	(1,133,582)	(2,516,937)
PROFIT FOR THE YEAR		**2,459,688**	**5,642,123**

Comprehensive income statement

IN EURO	2016	2015
PROFIT FOR THE YEAR	2,459,688	5,642,123
Total profits/losses that will not be subsequently reclassified under profit (loss) for the year:		
• Actuarial post-employment benefit reserve evaluation	(35,894)	37,619
• Tax effect	8,615	(8,114)
Total other profits/(losses) net of taxes for the year	**(27,279)**	**29,505**
TOTAL PROFIT	2,432,409	5,671,628

Statement of changes in shareholders' equity

IN THOUSANDS OF EURO	Share capital	Share premium reserve	Legal reserve	Treasury shares	Cash flow hedge reserve	Actuarial post-employment benefit reserve evaluation	Other reserves	Profit for the year	Total shareholders' equity
BALANCE AT 31 DEC 2014	11,533	10,002	2,307	(5)	0	(535)	64,714	7,878	95,894
Allocation of 2014 profit									
• dividends paid out								(4,613)	(4,613)
• to reserve							3,265	(3,265)	
Purchase of treasury shares				(718)					(718)
Total profit at 31 December 2015						29	0	5,642	5,671
BALANCE AT 31 DEC 2015	11,533	10,002	2,307	(723)	0	(506)	67,979	5,642	96,234
Allocation of 2015 profit									
• dividends paid out								(5,467)	(5,467)
• to reserve							175	(175)	
Purchase of treasury shares				(1,676)					(1,676)
Total profit at 31 December 2016						(27)	0	2,460	2,433
BALANCE AT 31 DEC 2016	11,533	10,002	2,307	(2,399)	0	(533)	68,154	2,460	91,524

Cash flow Statement

IN THOUSANDS OF EURO	2016	2015
Cash and cash equivalents at beginning of year	**1,090**	**1,366**
Profit for the year	2,460	5,642
Adjustments for:		
• Depreciation and amortisation	9,021	8,736
• Realised gains	(87)	(158)
• Write-downs/write-backs of non-current assets	521	(1,303)
• Net financial income and expenses	428	427
• Non-monetary foreign exchange differences	(60)	281
• Income tax	1,133	2,517
Change in post-employment benefit reserve	(131)	(149)
Change in risk provisions	(3)	(189)
Change in trade receivables	*5,405*	*1,825*
Change in inventories	*1,182*	*402*
Change in trade payables	*(2,192)*	*630*
Change in net working capital	**4,395**	**2,857**
Change in other receivables and payables, deferred tax	367	75
Payment of taxes	(2,450)	(3,814)
Payment of financial expenses	(474)	(465)
Collection of financial income	85	73
CASH FLOW FROM OPERATIONS	**15,205**	**14,531**
Investments in non-current assets		
• intangible	(735)	(646)
• tangible	(7,298)	(9,601)
• financial	(4,800)	(1,394)
Disposal of non-current assets	242	2,606
CASH FLOW ABSORBED BY INVESTMENTS	**(12,591)**	**(9,035)**
Repayment of loans	(19,077)	(7,834)
Raising of loans	24,243	8,463
Change in financial assets	69	(1,069)
Sale of treasury shares	(1,675)	(719)
Payment of dividends	(5,467)	(4,613)
CASH FLOW ABSORBED BY FINANCING ACTIVITIES	**(1,907)**	**(5,772)**
TOTAL FINANCIAL FLOWS	**707**	**(276)**
Cash and cash equivalents at end of year (Note 11)	**1,797**	**1,090**
Current financial debt	14,353	21,776
Non-current financial debt	17,521	4,632
NET FINANCIAL DEBT (NOTE 22)	**30,077**	**25,318**

Explanatory notes

Accounting standards

STATEMENT OF COMPLIANCE AND BASIS OF PRESENTATION

The separate financial statements of Sabaf S.p.A. for the financial year 2016 have been prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Union. Reference to IFRS also includes all current International Accounting Standards (IAS).
The separate financial statements are drawn up in euro, which is the currency in the economy in which the Company operates. The income statement, the comprehensive income statement and the statement of financial position schedules are prepared in euro, while the cash flow statement, the statement of changes in shareholders' equity and the values reported in the explanatory notes are in thousands of euro.
The financial statements have been prepared on a historical cost basis except for some revaluations of property, plant and equipment undertaken in previous years, and are considered a going concern. The Company found that, despite the difficult economic and business climate, there were no significant uncertainties (as defined by paragraphs 25 and 26 of IAS 1) regarding the continuity of the Company, also due to the strong competitive position, high profitability and solidity of the financial structure.
Sabaf S.p.A., as the Parent Company, also prepared the consolidated financial statements of the Sabaf Group at 31 December 2016.

FINANCIAL STATEMENTS

The Company has adopted the following formats:

- current and non-current assets and current and non-current liabilities are stated separately in the statement of the financial position;
- an income statement that expresses costs using a classification based on the nature of each item;
- a comprehensive income statement that expresses revenue and expense items not recognised in profit for the year as required or permitted by IFRS;
- a cash flow statement that presents financial flows originating from operating activity, using the indirect method.

Use of these formats permits the most meaningful representation of the Company's capital, business and financial status.

ACCOUNTING POLICIES

The accounting standards and policies applied for the preparation of the separate financial statements at 31 December 2016, unchanged versus the previous year, are shown below:

Property, plant and equipment

These are recorded at purchase or manufacturing cost. The cost includes directly chargeable ancillary costs. These costs also include revaluations undertaken in the past based on monetary revaluation rules or pursuant to company mergers.
Depreciation is calculated according to rates deemed appropriate to spread the carrying value of tangible assets over their useful working life. Estimated useful working life, in years, is as follows:

Buildings	33
Light constructions	10
General plant	10
Specific plant and machinery	6 - 10
Equipment	4
Furniture	8
Electronic equipment	5
Vehicles and other transport means	5

Ordinary maintenance costs are expensed in the year in which they are incurred; costs that increase the asset value or useful working life are capitalised and depreciated according to the residual possibility of utilisation of the assets to which they refer.
Land is not depreciated.

Investment Property

Investment property is valued at cost, including revaluations undertaken in the past based on monetary revaluation rules or pursuant to company mergers.
The depreciation is calculated based on the estimated useful life, considered to be 33 years.
If the recoverable amount of the investment property – determined based on the market value of the properties – is estimated to be lower than its carrying value, the asset's carrying value is reduced to the lower recoverable amount, recognising impairment of value in the income statement.
When there is no longer any reason for a write-down to be maintained, the carrying value of the asset (or cash generating unit) is increased to the new value stemming from the estimate of its recoverable amount – but not beyond the net carrying value that the asset would have had if it had not been written down for impairment of value. Reversal of impairment loss is recognised in the income statement.

Intangible assets

As established by IAS 38, intangible assets acquired or internally produced are recognised as assets when it is probable that use of the asset will generate future economic benefits and when asset cost can be measured reliably. If it is considered that these future economic benefits will not be generated, the development costs are written down in the year in which this is ascertained.

Such assets are measured at purchase or production cost and - if the assets concerned have a finite useful life - are amortised on a straight-line basis over their estimated useful life. The useful life of projects for which development costs are capitalised is estimated to be 10 years. The SAP management system is amortised over five years.

Equity investments and non-current receivables

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

Impairment of value

At each end of the reporting period, Sabaf S.p.A. reviews the carrying value of its property, plant and equipment, intangible assets and equity investments to determine whether there are signs of impairment of the value of these assets. If there is any such indication, the recoverable amount of said assets is estimated so as to determine the total of the write-down. If it is not possible to estimate the recoverable value individually, the Company estimates the recoverable value of the cash generating unit (CGU) to which the asset belongs. In particular, the recoverable value of the cash generating units (which generally coincide with the legal entity to which the capitalised assets refer) is verified by determining the value of use.
The recoverable amount is the higher of the net selling price and value of use. In measuring the value of use, future cash flows net of taxes, estimated based on past experience, are discounted to their present value using a pre-tax rate that reflects fair market valuations of the present cost of money and specific asset risk. The main assumptions used for calculating the value of use concern the discount rate, growth rate, expected changes in selling prices and cost trends during the period used for the calculation. The growth rates adopted are based on future market expectations in the relevant sector. Changes in the sales prices are based on past experience and on the expected future changes in the market. The Company prepares operating cash flow forecasts based on the most recent budgets approved by the Boards of Directors of the investees, draws up four-year forecasts and determines the terminal value (current value of perpetual income), which expresses the medium and long term operating flows in the specific sector.
Furthermore, the Company checks the recoverable value of its investees at least once a year when the separate financial statements are prepared.
If the recoverable amount of an asset (or CGU) is estimated to be lower than its carrying value, the asset's carrying value is reduced to the lower recoverable amount, recognising impairment of value in the income statement.
When there is no longer any reason for a write-down to be maintained, the carrying value of the asset (or of the cash-generating unit) is increased to the new value stemming from the estimate of its recoverable value – but not beyond the net carrying value that the asset would have had if it had not been written down for impairment of value. Reversal of impairment loss is recognised in the income statement.

Inventories

Inventories are measured at the lower of purchase or production cost – determined using the weighted average cost method – and the corresponding fair value represented by the replacement cost for purchased materials and by the presumed realisable value for finished and semi-processed products – calculated taking into account any manufacturing costs and direct selling costs yet to be incurred. Inventory cost includes accessory costs and the portion of direct and indirect manufacturing costs that can reasonably be assigned to inventory items. Inventories subject to obsolescence and low turnover are written down in relation to their possibility of use or realisation. Inventory write-downs are eliminated in subsequent years if the reasons for such write-downs cease to exist.

Receivables

Receivables are recognised at their presumed realisable value. Their face value is adjusted to a lower realisable value via specific provisioning directly reducing the item based on in-depth analysis of individual positions. Trade receivables assigned without recourse, despite being transferred legally, continue to be stated with "Trade receivables" until they are collected. Advance payments obtained with regard to the sale of trade receivables are recognised under current loans.

Current and non-current financial assets

Financial assets held for trading are measured at fair value, allocating profit and loss effects to finance income or expense.

Provisions for risks and charges

Provisions for risks and charges are provisioned to cover losses and debts, the existence of which is certain or probable, but whose amount or date of occurrence cannot be determined at the end of the year. Provisions are stated in the statement of financial position only when a legal or implicit obligation exists that determines the use of resources with an impact on profit and loss to meet that obligation and the amount can be reliably estimated. If the effect is significant, the provisions are calculated by updating future financial flows estimated at a rate including taxes such as to reflect current market valuations of the current value of the cash and specific risks associated with the liability.

Post-employment benefit reserve

The post-employment benefit reserve (TFR) is provisioned to cover the entire liability accruing vis-à-vis employees in compliance with current legislation and with national and supplementary company collective labour contracts. This liability is subject to revaluation via application of indices fixed by current regulations. Up to 31 December 2006, post-employment benefits were considered defined-benefit plans and accounted for in compliance with IAS 19, using the projected unit-credit method. The regulations of this fund were amended by Italian Law no. 296 of 27 December 2006 and subsequent Decrees and Regulations issued during the first months of 2007 In the light of these changes, and, in particular, for companies with at least 50 employees, post-employment benefits must now be considered a defined-benefit plan only for the portions accruing before 1 January 2007 (and not yet paid as at the end of the reporting period). Conversely, portions accruing after that date are treated as defined-contribution plans.
Actuarial gains or losses are recorded immediately under "Other total profits/(losses)".

Payables

Payables are recognised at face value; the portion of interest included in their face value and not yet payable at period-end is deferred to future periods.

Loans

Loans are initially recognised at cost, net of related costs of acquisition. This value is subsequently adjusted to allow for any difference between initial cost and repayment value over the loan's duration using the effective interest rate method.
Loans are classified among current liabilities unless the Company has the unconditional right to defer discharge of a liability by at least 12 months after the reference date.

Policy for conversion of foreign currency items

Receivables and payables originally expressed in foreign currencies are converted into euro at the exchange rates in force on the date of the transactions originating them. Forex differences realised upon collection of receivables and payment of payables in foreign currency are posted in the income statement. Income and costs relating to foreign-currency transactions are converted at the rate in force on the transaction date.
At year-end, assets and liabilities expressed in foreign currencies are posted at the spot exchange rate in force at the end of the reporting period and related foreign exchange gains and losses are posted in the income statement. If conversion generates a net gain, this value constitutes a non-distributable reserve until it is effectively realised.

Derivative instruments and hedge accounting

The Company's business is exposed to financial risks relating to changes in exchange rates, commodity prices and interest rates. The Company may decide to use derivative financial instruments to hedge these risks.
Derivatives are initially recognised at cost and are then adjusted to fair value on subsequent closing dates.
Changes in the fair value of derivatives designated and recognised as effective for hedging future cash flows relating to the Company's contractual commitments and planned transactions are recognised directly in shareholders' equity, while the ineffective portion is immediately posted in the income statement. If the contractual commitments or planned transactions materialise in the recognition of assets or liabilities, when such assets or liabilities are recognised, the gains or losses on the derivative that were directly recognised in equity are factored back into the initial valuation of the cost of acquisition or carrying value of the asset or liability. For cash flow hedges that do not lead to recognition of assets or liabilities, the amounts that were directly recognised in equity are included in the income statement in the same period when the contractual commitment or planned transaction hedged impacts profit and loss – for example, when a planned sale actually takes place.
For effective hedges of exposure to changes in fair value, the item hedged is adjusted for the changes in fair value attributable to the risk hedged and recognised in the income statement. Gains and losses stemming from the derivative's valuation are also posted in the income statement.
Changes in the fair value of derivatives not designated as hedging instruments are recognised in the income statement in the period when they occur.
Hedge accounting is discontinued when the hedging instrument expires, is sold or is exercised, or when it no longer qualifies as a hedge. At this time, the cumulative gains or losses of the hedging instrument recognised in equity are kept in the latter until the planned transaction actually takes place. If the transaction hedged is not expected to take place, cumulative gains or losses recognised directly in equity are transferred to the year's income statement.

Embedded derivatives included in other financial instruments or contracts are treated as separate derivatives when their risks and characteristics are not strictly related to those of their host contracts and the latter are not measured at fair value with posting of related gains and losses in the income statement.

Revenue reporting

Revenue is reported net of return sales, discounts, allowances and bonuses, as well as of the taxes directly associated with sale of goods and rendering of services.
Sales revenue is reported when the company has transferred the significant risks and benefits associated with ownership of the goods and the amount of revenue can be reliably measured.
Revenues of a financial nature are recorded on an accrual basis.

Financial income

Finance income includes interest receivable on funds invested and income from financial instruments, when not offset as part of hedging transactions. Interest income is recorded in the income statement at the time of vesting, taking effective output into consideration.

Financial expenses

Financial expenses include interest payable on financial debt calculated using the effective interest method and bank expenses.

Income taxes for the year

Income taxes include all taxes calculated on the Company's taxable income. Income taxes are directly recognised in the income statement, with the exception of those concerning items directly debited or credited to shareholders' equity, in which case the tax effect is recognised directly in shareholders' equity. Other taxes not relating to income, such as property taxes, are included among operating expenses. Deferred taxes are provisioned in accordance with the global liability provisioning method. They are calculated on all temporary differences that emerge from the taxable base of an asset or liability and its book value. Current and deferred tax assets and liabilities are offset when income taxes are levied by the same tax authority and when there is a legal right to settle on a net basis. Deferred tax assets and liabilities are measured using the tax rates that are expected to be applicable in the years when temporary differences will be realised or settled.

Dividends

Dividends are posted on an accrual basis when the right to receive them materialises, i.e. when shareholders approve dividend distribution.

Treasury shares

Treasury shares are booked in a specific reserve as a reduction of shareholders' equity. The carrying value of treasury shares and revenues from any subsequent sales are recognised in the form of changes in shareholders' equity.

Use of estimates

Preparation of the separate financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the carrying values of assets and liabilities and the disclosures on contingent assets and liabilities at the end of the reporting period. Actual results might differ from these estimates. Estimates are used to measure tangible and intangible assets and investments subject to impairment testing, as described earlier, as well as to measure the ability to recover prepaid tax assets, provisions for bad debts, for inventory obsolescence, depreciation and amortisation, asset write-downs, employee benefits, taxes, other provisions and reserves. Specifically:

Recoverability of value of tangible and intangible assets and investments
The procedure for determining impairment of value of tangible and intangible assets described in "Impairment of value" implies – in estimating the value of use – the use of the Business Plans of investees, which are based on a series of assumptions relating to future events and actions of the investees' management bodies, which may not necessarily come about. In estimating market value, however, assumptions are made on the expected trend in trading between third parties based on historical trends, which may not actually be repeated.

Provisions for bad debts
Receivables are adjusted by the related bad debt provision to take into account their recoverable value. To determine the size of the write-downs, management must make subjective assessments based on the documentation and information available regarding, among other things, the customer's solvency, as well as experience and historical payment trends.

Provisions for inventory obsolescence
Warehouse inventories subject to obsolescence and slow turnover are systematically valued, and written down if their recoverable value is less than their carrying value. Write-downs are calculated based on management assumptions and estimates, resulting from experience and historical results.

Employee benefits
The current value of liabilities for employee benefits depends on a series of factors determined using actuarial techniques based on certain assumptions. Assumptions concern the discount rate, estimates of future salary increases, and mortality and resignation rates. Any change in the above-mentioned assumptions might have an effect on liabilities for pension benefits.

Income tax
Determining liabilities for Company taxes requires the use of management valuations in relation to transactions whose tax implications are not certain at the end of the reporting period. Furthermore, the valuation of deferred taxes is based on income expectations for future years; the valuation of expected income depends on factors that might change over time and have a significant effect on the valuation of deferred tax assets.

Other provisions and reserves
When estimating the risk of potential liabilities from disputes, the Directors rely on communications regarding the status of recovery procedures and disputes from the lawyers who represent the Company in litigation. These estimates are determined taking into account the gradual development of the disputes, considering existing exemptions.

Estimates and assumptions are regularly reviewed and the effects of each change immediately reflected in the income statement.

New accounting standards

Accounting standards and amendments applicable from 1 January 2016
The following IFRS accounting standards, amendments and interpretations were applied for the first time by the Company from 1 January 2016:

- Amendment to **IAS 19** ***"Defined Benefit Plans: Employee Contributions"*** (published on 21 November 2013): related to the recognition in the financial statements of the contributions made by employees or third parties to defined benefit plans. The adoption of these amendments did not have any effect on the Company's separate financial statements.

- Amendments to **IFRS 11** ***Joint Arrangements – "Accounting for acquisitions of interests in joint operations"*** (published on 6 May 2014): related to the accounting for acquisitions of interests in a joint operation the activity of which is a business. The adoption of these amendments did not have any effect on the Company's separate financial statements.

- Amendments to **IAS 16** – ***Property, plant and Equipment*** and to **IAS 38 –** ***Intangibles Assets – "Clarification of acceptable methods of depreciation and amortisation"*** (published on 12 May 2014): according to which a method of depreciation based on revenues is considered generally inappropriate, in that, revenues generated by an asset that includes the use of the asset to be depreciated generally reflect factors other than just consumption of the economic benefits of the asset, a requirement that is, however, required for depreciation. The adoption of this amendment did not have any effect on the Company's separate financial statements.

- Amendment to **IAS 1** – ***"Disclosure Initiative"*** (published on 18 December 2014): the objective of the amendments is to provide clarifications with regard to elements of information which can be perceived as impediments to a clear and intelligible preparation of the financial statements. The adoption of this amendment did not have any effect on the Company's separate financial statements.

- Amendment to **IAS 27** ***Equity Method in Separate Financial Statements*** (published on 12 August 2014): the document introduces the option of using the shareholders' equity method for valuing investments in subsidiaries, companies under joint control and associate companies in the separate financial statements of an entity. The adoption of this amendment did not have any effect on the Company's separate financial statements.

Finally, as part of the annual process of improvement of the standards, on 12 December 2013 the **IASB** published the document ***"Annual Improvements to IFRSs: 2010-2012 Cycle"*** (including **IFRS 2** ***Share Based Payments – Definition of vesting condition***, **IFRS 3** ***Business Combination – Accounting for contingent consideration***, **IFRS 8** ***Operating segments – Aggregation of operating segments and Reconciliation of total of the reportable segments' assets to the entity's assets***, **IFRS 13** ***Fair Value Measurement – Short-term receivables and payables***) and on 25 September 2014 the document ***"Annual Improvements to IFRSs: 2012-2014 Cycle"*** (including: IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 – Financial Instruments: Disclosure and IAS 19 – Employee Benefits) which partially integrate the existing standards.

IFRS and IFRIC accounting standards, amendments and interpretations approved by the European Union, not yet universally applicable and not adopted early by the Company at 31 December 2016

- Standard **IFRS 15** – ***Revenue from Contracts with Customers*** (published on 28 May 2014 and supplemented with further clarifications published on 12 April 2016), which is scheduled to replace **IAS 18** – ***Revenue*** and **IAS 11** – ***Construction Contracts***, as well as interpretations **IFRIC 13** – ***Customer Loyalty Programmes,***

IFRIC 15 – ***Agreements for the Construction of Real Estate***, **IFRIC 18** – ***Transfers of Assets from Customers*** and **SIC 31** – ***Revenues-Barter Transactions Involving Advertising Services***. The standard establishes a new revenue recognition model, which will apply to all contracts signed with customers except those falling within the application of other IAS/IFRS standards, such as leases, insurance contracts and financial instruments. The fundamental passages for the recognition of revenues according to the new model are:

- the identification of the contract with the customer;
- the identification of the contract's *performance obligations*;
- the determination of the price;
- the allocation of the price to the contract's *performance obligations*;
- the revenue recognition criteria when the entity satisfies each *performance obligation*.

The principle applies from 1 January 2018, but early application is permitted. Although the systematic analysis of the case and in particular a detailed analysis of the contracts with the customers have not yet been completed, the directors do not expect that the application of **IFRS 15** can have a significant impact on the amounts recorded for the revenues and on the related disclosures in the Company's separate financial statements.

- Final version of **IFRS 9** – ***Financial Instruments*** (published on 24 July 2014). The document includes the results of the phases relating to the classification and valuation, Impairment and Hedge accounting, of the **IASB** project designed to replace **IAS 39**. The new standard, which replaces the previous versions of **IFRS 9**, should be applied by financial statements from 1 January 2018 onwards. The directors do not expect that the application of **IFRS 9** can have a significant impact on the amounts and on the disclosures in the Company's separate financial statements. However, it is not possible to provide a reasonable estimate of the effect as long as the Company has not completed a detailed analysis of the related contract.

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

On the reporting date of these separate financial statements, the competent bodies of the European Union have not yet concluded the approval process necessary for the adoption of the amendments and principles described below.

- On 13 January 2016, the IASB published the standard **IFRS 16** – ***Leases***, which will replace the standard **IAS 17** – ***Leases***, as well as interpretations **IFRIC 4** ***Determining whether an Arrangement contains a Lease***, **SIC-15** ***Operating Leases–Incentives*** and **SIC-27** ***Evaluating the Substance of Transactions Involving the Legal Form of a Lease***. The new standard provides a new definition of lease and introduces a criterion based on the control (right of use) of an asset in order to distinguish the leasing contracts from the service contracts, identifying the discriminatory ones: the identification of the asset, the right of replacement of the same, the right to obtain substantially all of the economic benefits deriving from the use of the asset and the right to direct the use of the asset underlying the contract. The standard establishes a single model of recognition and measurement of the lease agreements for the lessee which requires the recognition of the asset to be leased (operating lease or otherwise) in assets offset by a financial debt, while also providing the opportunity not to recognise as leases the agreements whose subject matter are "low-value assets" and leases with a contract duration equal to or less than 12 months. By contrast, the Standard does not include significant changes for the lessors. The standard applies beginning on 1 January 2019 but early application is permitted, only for Companies that opted for early application of IFRS 15 - Revenue from Contracts with Customers. The directors do not expect that the application of IFRS 16 can have a significant impact on the accounting of the leasing contracts and on the related disclosures in the Company's separate financial statements.

- On 19 January 2016, the IASB published the document "Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)", which contains the amendments to IAS 12. The aim of the document is to provide some clarification on the recognition of deferred tax assets on unrealised losses upon the occurrence of certain circumstances and on the estimate of taxable income for future years. The amendments apply from 1 January 2017 but early application is permitted.

- On 29 January 2016, IASB published the document "***Disclosure Initiative*** (Amendments to **IAS 7**)", which contains the amendments to IAS 7. The aim of the document is to provide some clarification to improve disclosure on financial liabilities. In particular, the amendments require providing disclosures that enable the users of financial statements to understand changes in liabilities arising from financing activities.

- **IFRIC 22** Interpretation ***"Foreign Currency Transactions and Advance Consideration"*** (published on 8 December 2016). The interpretation aims to provide guidelines for foreign currency transactions if advances or non-cash payments are recognised in the financial statements, prior to the recognition of the related asset, cost or revenue. This document provides guidance on how an entity should determine the date of a transaction, and consequently, the spot exchange rate to be used when foreign currency transactions occur in which the payment is made or received in advance. IFRIC 22 is applicable from 1 January 2018, but early application is permitted. The directors do not expect a significant effect on the Company's separate financial statements through the adoption of these changes.

- Amendment to **IAS 40** ***"Transfers of Investment Property"*** (published on 8 December 2016). These amendments clarify the transfers of a property to, or from, investment property. In particular, an entity must reclassify a property among, or from, investment property only when there is evidence that there was a change in the intended use of the property. This change must refer to a specific event that happened and must not be limited to a change of intention by the Management of an entity. The directors do not expect a significant effect on the Company's separate financial statements through the adoption of these changes.

Comments on the main items of the statement of financial position

1. PROPERTY, PLANT AND EQUIPMENT

	PROPERTY	PLANT AND EQUIPMENT	OTHER ASSETS	ASSETS UNDER CONSTRUCTION	TOTAL
COST					
AT 31 DECEMBER 2014	**6,208**	**147,785**	**29,579**	**3,709**	**187,281**
Increases	67	7,802	1,038	749	9,656
Disposals	-	(2,891)	(106)	-	(2,997)
Reclassification	-	2,668	63	(2,786)	(55)
AT 31 DECEMBER 2015	**6,275**	**155,364**	**30,574**	**1,672**	**193,885**
Increases	53	5,325	1,462	758	7,598
Disposals	(1)	(2,982)	(236)	-	(3,219)
Reclassification	-	684	19	(1,003)	(300)
AT 31 DECEMBER 2016	**6,327**	**158,391**	**31,819**	**1,427**	**197,964**
ACCUMULATED DEPRECIATION					
AT 31 DECEMBER 2014	**2,535**	**127,774**	**25,579**	**0**	**155,888**
Depreciations for the year	176	5,847	1,841	-	7,864
Eliminations for disposals	-	(1,701)	(106)	-	(1,807)
AT 31 DECEMBER 2015	**2,711**	**131,920**	**27,314**	**0**	**161,945**
Depreciations for the year	176	6,200	1,702	-	8,078
Eliminations for disposals	-	(2,973)	(178)	-	(3,151)
AT 31 DECEMBER 2016	**2,887**	**135,147**	**28,838**	**0**	**166,872**
NET CARRYING VALUE					
AT 31 DECEMBER 2016	**3,440**	**23,244**	**2,981**	**1,427**	**31,092**
AT 31 DECEMBER 2015	**3,564**	**23,444**	**3,260**	**1,672**	**31,940**

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

	31.12.2016	31.12.2015	CHANGE
Land	1,291	1,291	-
Industrial buildings	2,149	2,273	(124)
TOTAL	**3,440**	**3,564**	**(124)**

The main investments in the financial year were aimed at the further automation of production of light alloy valves. Investments were also made to improve production processes as well as maintenance and replacement investments designed to keep the capital equipment constantly updated.
Decreases mainly relate to the disposal of obsolete machinery.

Assets under construction include machinery under construction and advance payments to suppliers of capital equipment.
At 31 December 2016, the Company found no endogenous or exogenous indicators of impairment of its property, plant and equipment. As a result, the value of property, plant and equipment was not submitted to impairment testing.

2. INVESTMENT PROPERTY

COST	
AT 31 DECEMBER 2014	**6,675**
Increases	-
Disposals	-
AT 31 DECEMBER 2015	**6,675**
Increases	-
Disposals	-
AT 31 DECEMBER 2016	**6,675**

ACCUMULATED DEPRECIATIONS	
AT 31 DECEMBER 2014	**4,646**
Depreciations for the year	192
AT 31 DECEMBER 2015	**4,838**
Depreciations for the year	192
AT 31 DECEMBER 2016	**5,030**

NET CARRYING VALUE	
AT 31 DECEMBER 2016	**1,645**
AT 31 DECEMBER 2015	**1,837**

This item includes non-operating buildings owned by the Group. During the year this item did not undergo any changes except for depreciation and amortisation for the year. At 31 December 2016, the Company found no endogenous or exogenous indicators of impairment of its investment property. As a result, the value of investment property was not submitted to impairment testing.

3. INTANGIBLE ASSETS

	PATENTS, KNOW-HOW AND SOFTWARE	DEVELOPMENT COSTS	OTHER INTANGIBLE ASSETS	TOTAL
COST				
AT 31 DECEMBER 2014	**5,855**	**4,308**	**1,786**	**11,949**
Increases	192	414	21	627
Reclassifications	66	(46)	-	20
Decreases	-	-	-	-
AT 31 DECEMBER 2015	**6,113**	**4,676**	**1,807**	**12,596**
Increases	108	313	53	474
Reclassifications	54	(87)	207	174
Decreases	-	-	-	-
AT 31 DECEMBER 2016	**6,275**	**4,902**	**2,067**	**13,244**
AMORTISATION AND WRITE-DOWNS				
AT 31 DECEMBER 2014	**5,416**	**2,011**	**1,290**	**8,717**
2015 amortisation	203	336	142	681
Decreases	-	-	-	-
AT 31 DECEMBER 2015	**5,619**	**2,347**	**1,432**	**9,398**
2016 amortisation	254	350	147	751
Decreases	-	-	-	-
AT 31 DECEMBER 2016	**5,873**	**2,697**	**1,579**	**10,149**
NET CARRYING VALUE				
AT 31 DECEMBER 2016	**402**	**2,205**	**488**	**3,095**
AT 31 DECEMBER 2015	**494**	**2,329**	**375**	**3,198**

Intangible assets have a finite useful life and, as a result, are amortised throughout their life. The main investments in the year relate to the development of new products, mainly related to the expansion of the range of burners (research and development activities carried out during the financial year are set out in the Report on Operations). Software investments include the application development of the management system (SAP) and CAD development. Other intangible assets refer, in the main, to improvements to third-party leased assets.

At 31 December 2016, the Company found no endogenous or exogenous indicators of impairment of its intangible assets. As a result, the value of property, plant and equipment was not submitted to impairment testing.

4. EQUITY INVESTMENTS

	31.12.2016	31.12.2015	CHANGE
In subsidiaries	50,039	45,760	4,279
Other equity investments	59	59	-
TOTAL	**50,098**	**45,819**	**4,279**

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

	SABAF IMMOBILIARE	FARINGOSI HINGES	SABAF DO BRASIL	SABAF MEXICO	SABAF U.S.	SABAF APPLIANCE COMPONENTS (CHINA)	SABAF A.C. TRADING (CHINA)	SABAF TURKEY	A.R.C. S.R.L.	TOTAL
HISTORICAL COST										
AT 31 DEC 2014	13,475	10,329	8,469	548	139	3,400	200	13,351	0	49,911
Increases/reductions of capital	-	-	-	-	-	1,000	-	(1,346)	-	(346)
Equity investment liquidation	-	-	-	(548)	-	-	-	-	-	(548)
AT 31 DEC 2015	13,475	10,329	8,469	0	139	4,400	200	12,005	0	49,017
Purchase of equity investments	-	-	-	-	-	-	-	-	4,800	4,800
AT 31 DEC 2016	13,475	10,329	8,469	0	139	4,400	200	12,005	4,800	53,817
PROVISION FOR WRITE-DOWNS										
AT 31 DEC 2014	0	1,882	0	548	0	2,683	0	0	0	5,113
Write-downs (write-backs) (Note 28)	-	(1,882)	-	-	-	574	-	-	-	(1,308)
Equity investment liquidation	-	-	-	(548)	-	-	-	-	-	(548)
AT 31 DEC 2015	0	0	0	0	0	3,257	0	0	0	3,257
Write-downs (write-backs) (Note 28)	-	-	-	-	-	521	-	-	-	521
AT 31 DEC 2016	0	0	0	0	0	3,778	0	0	0	3,778
NET CARRYING VALUE										
AT 31 DEC 2016	13,475	10,329	8,469	0	139	622	200	12,005	4,800	50,039
AT 31 DEC 2015	13,475	10,329	8,469	0	139	1,143	200	12,005	0	45,760
PORTION OF SHAREHOLDERS' EQUITY (CALCULATED IN COMPLIANCE WITH IAS/IFRS)										
AT 31 DEC 2016	30,027	5,546	10,628	0	(25)	683	266	14,805	3,025	64,955
AT 31 DEC 2015	28,679	4,922	7,145	0	(32)	1,302	293	14,085	0	56,394
DIFFERENCE BETWEEN SHAREHOLDERS' EQUITY AND CARRYING VALUE										
AT 31 DEC 2016	16,552	(4,783)	2,159	0	(164)	61	66	2,800	(1,775)	14,916
AT 31 DEC 2015	15,204	(5,407)	(1,324)	0	(171)	159	93	2,080	-	10,634

Faringosi Hinges s.r.l

In the course of 2016, the Faringosi Hinges achieved better results, both in terms of sales development and profitability, which turned out to be greater than the budget. The 2017-2021 forward plan, drafted at the end of 2016, plans a further gradual improvement of sales and the maintaining of profitability, to be considered as durably acquired also in a future perspective. At 31 December 2016, Sabaf S.p.A. tested the carrying value of the equity investment for impairment, determining its recoverable value, considered to be equivalent to its usable value plus available liquidity, by discounting expected future cash flows in the forward plan drafted by the management. Cash flows for the period from 2017 to 2021 were augmented by the so-called terminal value, which expresses the operating flows that the investee is expected to generate from the sixth year to infinity and determined based on the perpetual income. The value of use was calculated based on a discount rate (WACC) of 7.76% (8.45% in the impairment test conducted while drafting the separate financial statements at 31 December 2015) and a growth rate (g) of 1.50%, which is in line with historical data.

The recoverable value calculated on the basis of the above-mentioned assumptions and valuation techniques is € 12.700 million, compared with a carrying value of the equity investment of € 10.329 million; consequently, the value recorded for equity investment at 31 December 2016 was deemed recoverable.

Sensitivity analysis

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

IN THOUSANDS OF EURO	GROWTH RATE				
DISCOUNT RATE	1.00%	1.25%	1.50%	1.75%	2.00%
6.76%	14,086	14,619	15,202	15,844	16,553
7.26%	12,922	13,363	13,842	14,365	14,937
7.76%	11,930	12,300	12,700	13,133	13,603
8.26%	11,076	11,390	11,727	12,091	12,483
8.76%	10,332	10,601	10,889	11,198	11,529

Sabaf do Brasil

In 2016, Sabaf do Brasil continued to obtain positive results, which improved compared with 2015. The increase in shareholders' equity (converted into euros at the end-of-year exchange rate) also benefits from the revaluation of the Brazilian real.

Sabaf U.S.

The subsidiary Sabaf U.S. operates as a commercial support for North America.

The difference between the carrying value and the shareholders' equity of the investee is attributable to the non-durable losses taking into consideration expected development on the North American market.

Sabaf Appliance Components

Sabaf Appliance Components (Kunshan) Co., Ltd. has been producing burners for the Chinese market since 2015. Furthermore, the company has performed the function as distributor on the Chinese market of Sabaf products manufactured in Italy and Turkey. Low production volumes have enabled the company to reach the break-even point in 2016. At 31 December 2016, the value of the equity investment decreased by € 521,000, adjusting it to the shareholders' equity at the end of the year, in that the loss was considered permanent.

Sabaf Appliance Components Trading

Sabaf Appliance Components Trading (Kunshan) Co., Ltd., was founded during 2012 in order to perform the function as distributor. During 2015, this activity was centralised at Sabaf Appliance Components; however, the company went into liquidation; the process of liquidation will end in 2017.

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

Sabaf Turkey achieved extremely satisfactory results in 2016 as well. The conversion into euro of the shareholders' equity at the end of the financial year was affected by the strong devaluation of the Turkish lira at the end of 2016; however, the shareholders' equity remains higher than the carrying value of the equity investment.

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

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

At 31 December 2016, the Company tested the carrying value of the equity investment for impairment, determining its recoverable value, considered to be equivalent to its usable value plus available liquidity, by discounting expected future cash flows in the forward plan prepared during the acquisition of the equity investment in A.R.C. and adjusted at the end of 2016 on the basis of further elements known.

Cash flows for the period from 2017 to 2019 were augmented by the so-called terminal value, which expresses the operating flows that the investee is expected to generate from the sixth year to infinity and determined based on the perpetual income. The value of use was calculated based on a discount rate (WACC) of 5.79% and a growth rate (g) of 1.50%.

The portion pertaining to Sabaf S.p.A. of the recoverable value calculated on the basis of the above-mentioned assumptions and valuation techniques is € 6.938 million, compared with a carrying value of the equity investment of € 4.8 million; consequently, the carrying value recorded for equity investment at 31 December 2016 was deemed recoverable.

Sensitivity analysis

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

IN THOUSANDS OF EURO	GROWTH RATE				
DISCOUNT RATE	1.00%	1.25%	1.50%	1.75%	2.00%
4.79%	7,718	8,129	8,601	9,152	9,801
5.29%	6,989	7,304	7,660	8,067	8,535
5.79%	6,413	6,661	6,938	7,250	7,603
6.29%	5,945	6,146	6,368	6,614	6,889
6.79%	5,559	5,724	5,905	6,104	6,323

As part of the acquisition of 70% of A.R.C. S.r.l., Sabaf S.p.A. signed with Loris Gasparini (current minority shareholder by 30% of A.R.C.) an agreement that aimed to regulate Gasparini's right to leave A.R.C. and the interest of Sabaf to acquire 100% of the shares after expiry of the term of five years from the signing of the purchase agreement of 24 June 2016, by signing specific option agreements. Therefore, the agreement envisaged specific option rights to purchase (by Sabaf) and sell (by Gasparini) exercisable as from 24 June 2021, the remaining shares of 30% of A.R.C., with strike prices contractually defined on the basis of final income parameters from A.R.C. at 31 December 2020.

The option for the purchase of the residual 30% of A.R.C. represents a derivative instrument; since the exercise price defined by contract was considered representative of the fair value of the portion that can be potentially acquired, no value was recorded in the separate financial statements ended 31 December 2016.

5. NON-CURRENT FINANCIAL ASSETS

	31.12.2016	31.12.2015	CHANGE
Financial receivables from subsidiaries	1,897	1,837	60
Fixed bank account	240	-	240
TOTAL	**2,137**	**1,837**	**300**

At 31 December 2016 and at 31 December 2015, financial receivables from subsidiaries consist of an interest-bearing loan of USD 2 million, maturing in March 2017, granted to the subsidiary Sabaf do Brasil with the aim of optimising the Group's exposure to foreign exchange rate risk.

As part of the acquisition of 70% of A.R.C., Sabaf S.p.A. paid to a fixed bank account the total amount of € 300,000, of which € 240,000 falling due after 12 months. This amount was deducted from the consideration agreed to guarantee the commitments assumed by the sellers and is payable in equal instalments over five years. (Note 15)

6. INVENTORIES

	31.12.2016	31.12.2015	CHANGE
Commodities	7,455	8,758	(1,303)
Semi-processed goods	9,310	9,326	(16)
Finished products	8,773	8,461	312
Provision for inventory write-downs	(2,045)	(1,870)	(175)
TOTAL	**23,493**	**24,675**	**(1,182)**

The value of final inventories at 31 December 2016 was lower than the previous year as a result of the decline in production and sales volumes. The obsolescence provision, which refers € 470,000 to commodities, € 645,000 to semi-processed goods and € 930,000 to finished products, reflects the improved estimate of the risk of obsolescence, based on specific analyses conducted at the end of the year on slow-moving and non-moving articles.

7. TRADE RECEIVABLES

	31.12.2016	31.12.2015	CHANGE
Total trade receivables	28,065	33,821	(5,756)
Bad debt provision	(600)	(950)	350
NET TOTAL	**27,465**	**32,871**	**(5,406)**

At 31 December 2016, trade receivables included balances totalling USD 2,925,000, booked at the EUR/USD exchange rate in effect on 31 December 2016, i.e. 1.0541. The amount of trade receivables recognised in the financial statements includes € 1.1 million of receivables assigned without recourse to factoring companies (€ 2.3 million at 31 December 2015) and approximately € 14 million in insured receivables (€ 13.9 million at 31 December 2015). The bad debt provision was adjusted to the better estimate of the credit risk at the end of the reporting period.

The reduction in trade receivables is attributable not only to the decline in sales but also to lower receivables past due compared to the previous year, as shown in the following table:

	31.12.2016	31.12.2015	CHANGE
Current receivables (not past due)	24,378	28,280	(3,902)
Outstanding up to 30 days	2,242	2,233	9
Outstanding from 31 to 60 days	184	415	(231)
Outstanding from 61 to 90 days	64	730	(666)
Outstanding for more than 90 days	1,197	2,163	(966)
TOTAL	**28,065**	**33,821**	**(5,756)**

8. TAX RECEIVABLES

	31.12.2016	31.12.2015	CHANGE
From Giuseppe Saleri SapA for IRES	1,083	1,114	(31)
From inland revenue for income tax	992	605	387
From inland revenue for VAT	402	30	372
TOTAL	**2,477**	**1,749**	**728**

Until the 2015 financial year, Sabaf S.p.A. has been part of the national tax consolidation scheme pursuant to Articles 117/129 of the Unified Income Tax Law. In this scheme, Giuseppe Saleri S.a.p.A., the parent company of Sabaf S.p.A., acted as the consolidating company. In 2016, the conditions for the preparation of the tax consolidation scheme fell short, which consequently was discontinued.

The receivable from Giuseppe Saleri S.a.p.A. recognised at 31 December 2016 derives 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 the consolidating company presented an application for a refund and which will revert to Sabaf as soon as it is refunded.

The tax receivable for income taxes is generated by the higher tax payments on account paid in during the year compared with the tax due.

9. OTHER CURRENT RECEIVABLES

	31.12.2016	31.12.2015	CHANGE
Credits to be received from suppliers	678	857	(179)
Advances to suppliers	54	33	21
Due from INAIL	58	32	26
Other	249	276	(27)
TOTAL	**1,039**	**1,198**	**(159)**

At 31 December 2016, credits to be received from suppliers included € 411,000 related to the relief due to the Company as an energy-intensive business (so-called "energy-intensive bonuses") for the years 2014 and 2015, of which € 194,000 received at the beginning of 2017.

10. CURRENT FINANCIAL ASSETS

	31.12.2016	31.12.2015	CHANGE
Financial receivables from subsidiaries	1,000	1,000	-
Fixed bank account (Note 5)	60	-	60
Currency derivatives	-	69	(69)
TOTAL	**1,060**	**1,069**	**(9)**

At 31 December 2016 and at 31 December 2015, financial receivables from subsidiaries consist of an interest-bearing loan of € 1 million to Sabaf Appliance Components Co., Ltd. to support the Chinese subsidiary's working capital. The loan has a term of 12 months and was renewed in December 2016 for the same period.

11. CASH AND CASH EQUIVALENTS

The item Cash and cash equivalents, equal to € 1,797,000 at 31 December 2016 (€ 1,090,000 at 31 December 2015) refers almost exclusively to bank current account balances.

12. SHARE CAPITAL

At 31 December 2016 the parent company's share capital consists of 11,533,450 shares with a par value of € 1.00 each. The share capital paid in and subscribed did not change during the year.

13. TREASURY SHARES

During the financial year, Sabaf S.p.A. acquired 171,061 treasury shares at an average unit price of € 9.794; there have been no sales.

At 31 December 2016, the Company held 233,139 treasury shares, equal to 2.021% of share capital (62,078 treasury shares at 31 December 2015), reported in the financial statements as an adjustment to shareholders' equity at a unit value of € 10.289 (the market value at year-end was € 10.4).

There were 11,300,311 outstanding shares at 31 December 2016 (11,471,372 at 31 December 2015).

14. LOANS

	31.12.2016		31.12.2015	
	CURRENT	NON CURRENT	CURRENT	NON CURRENT
Unsecured loans	6,656	17,281	2,707	4,632
Short-term bank loans	7,397	-	13,194	-
Advances on bank receipts or invoices	2	-	5,825	-
Interest payable	-	-	36	-
TOTAL	14,055	17,281	21,762	4,632

During the financial year, the Company reformulated the average duration of its loans, entering into 4 unsecured loan agreements totalling € 19.8 million repayable in five years in quarterly fixed instalments, a rates ranging from 0.60% to 1%.
Only one of the outstanding unsecured loans of € 5 million at 31 December 2016 has covenants, defined with reference to the consolidated financial statements at the end of the reporting period, as specified below:

- Commitment to maintain a ratio of net financial position to shareholders' equity of less than 1
- Commitment to maintain a ratio of net financial position to EBITDA of less than 2

widely observed at 31 December 2016.
All outstanding bank loans are denominated in euro, with the exception of a short-term loan of USD 2 million.
Note 35 provides information on financial risks, pursuant to IFRS 7.

15. OTHER FINANCIAL LIABILITIES

	31.12.2016		31.12.2015	
	CURRENT	NON CURRENT	CURRENT	NON CURRENT
Payables to A.RC. shareholders	60	240	-	-
Currency derivatives	201	-	17	-
Derivative instruments on interest rates	37	-	14	-
TOTAL	298	240	31	0

The payable to the A.R.C. shareholders of € 300,000 at 31 December 2016 is related to the part of the price still to be paid to the sellers, which was deposited on an fixed account (Note 5) and will be released in favour of the sellers at constant rates in 5 years, in accordance with contractual agreements and guarantees issued by the sellers.

Other financial liabilities also include:

- the negative fair value of term sales contracts totalling USD 6 million at an exchange rate of 1.1061 agreed with regard to the foreign exchange rate risk described in Note 35. Exchange rate losses of the same amount were recorded in the income statement;
- the negative fair value of IRS hedging rate risks of unsecured loans pending, for a notional amount of approximately € 13 million and expiry until 31 December 2021. Exchange rate losses in the same amount were recognised in the income statement.

16. POST-EMPLOYMENT BENEFIT RESERVE

	31.12.2016	31.12.2015	CHANGE
Post-employment benefit reserve	2,436	2,527	(91)
TOTAL	2,436	2,527	(91)

Following the revision of IAS 19 - Employee benefits, from 1 January 2013 all actuarial gains or losses are recorded immediately in the comprehensive income statement ("Other comprehensive income") under the item "Actuarial income and losses".

Post-employment benefits are calculated as follows:

Financial assumptions

	31.12.2016	31.12.2015
Discount rate	1.15%	1.60%
Inflation	1.75%	2.00%

Demographic theory

	31.12.2016	31.12.2015
Mortality rate	ISTAT 2010 M/F	ISTAT 2010 M/F
Disability rate	INPS 1998 M/F	INPS 1998 M/F
Staff turnover	6%	6%
Advance payouts	5% per year	5% per year
Retirement age	pursuant to legislation in force on 31 December 2016	pursuant to legislation in force on 31 December 2015

17. PROVISIONS FOR RISKS AND CHARGES

	31.12.2015	PROVISIONS	UTILISATION	RELEASE OF EXCESS PORTION	31.12.2016
Reserve for agents' indemnities	266	-	-	(53)	213
Product guarantee fund	60	35	(35)	-	60
Reserve for legal risks	-	50	-	-	50
TOTAL	**326**	**85**	**(35)**	**(53)**	**323**

The reserve for agents' indemnities covers amounts payable to agents if the Company terminates the agency relationship.
The product guarantee fund covers the risk of returns or charges by customers for products already sold.

The reserve for legal risks is allocated for disputes of a modest size.
The provisions booked to the provisions for risks, which represent the estimate of future payments made based on historical experience, have not been discounted because the effect is considered negligible.

18. TRADE PAYABLES

	31.12.2016	31.12.2015	CHANGE
TOTAL	**16,010**	**18,203**	**(2,193)**

The decrease in trade payables compared to the previous financial year is related to lower purchase volumes; average payment terms did not change versus the previous year. The amount of trade payables in currencies other than the euro is not significant.

At 31 December 2016, there were no overdue payables of a significant amount and the Company did not receive any injunctions for overdue payables.

19. TAX PAYABLES

	31.12.2016	31.12.2015	CHANGE
To inland revenue for IRPEF tax deductions	642	788	(146)
TOTAL	**642**	**788**	**(146)**

20. OTHER CURRENT PAYABLES

	31.12.2016	31.12.2015	CHANGE
To employees	3,472	3,658	(186)
To social security institutions	1,937	1,861	76
Advances from customers	108	88	20
To agents	241	281	(40)
Other current payables	31	54	(23)
TOTAL	**5,789**	**5,942**	**(153)**

At the beginning of 2017, payables due to employees and social security institutions were paid in accordance with the scheduled expiry dates.

21. DEFERRED TAX ASSETS AND LIABILITIES

	31.12.2016	31.12.2015
Deferred tax assets	3,315	3,285
Deferred tax liabilities	(129)	(150)
NET POSITION	**3,186**	**3,135**

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

	Amortisation and leasing	Provisions and value adjustments	Fair value of derivative instruments	Goodwill	Actuarial post-employment benefit reserve evaluation	Other temporary differences	TOTAL
AT 31 DECEMBER 2014	**353**	**933**	**0**	**1,993**	**203**	**94**	**3,576**
To the income statement	-	(140)	(19)	(222)	(25)	(27)	(433)
To shareholders' equity	-	-	-	-	(8)	-	(8)
AT 31 DECEMBER 2015	**353**	**793**	**(19)**	**1,771**	**170**	**67**	**3,135**
To the income statement	40	(23)	76	-	-	(50)	43
To shareholders' equity	-	-	-	-	8	-	8
AT 31 DECEMBER 2016	**393**	**770**	**57**	**1,771**	**178**	**17**	**3,186**

Deferred tax assets relating to goodwill refer to the exemption of the value of the investment in Faringosi Hinges s.r.l. made in 2011 pursuant to Italian law Decree 98/2011. The future tax benefit can be made in ten annual portions starting in 2018.

22. NET FINANCIAL POSITION

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

		31.12.2016	31.12.2015	CHANGE
A.	Cash (Note 11)	4	6	(2)
B.	Positive balances of unrestricted bank accounts (Note 11)	1,793	1,084	709
C.	Other cash equivalents	0	0	0
D.	**LIQUIDITY (A+B+C)**	**1,797**	**1,090**	**707**
E.	Current bank payables (Note 14)	7,399	19,055	(11,656)
F.	Current portion of non-current debt (Note 14)	6,656	2,707	3,949
G.	Other current financial payables (Note 15)	298	14	284
H.	**CURRENT FINANCIAL DEBT (E+F+G)**	**14,353**	**21,776**	**(7,423)**
I.	**NET CURRENT FINANCIAL POSITION (H-D)**	**12,556**	**20,686**	**(8,130)**
J.	Non-current bank payables (Note 14)	17,281	4,632	12,649
K.	Other non-current financial payables	240	0	240
L.	**NON-CURRENT FINANCIAL DEBT (J+K)**	**17,521**	**4,632**	**12,889**
M.	**NET FINANCIAL DEBT (I+L)**	**30,077**	**25,318**	**4,759**

The cash flow statement shows changes in cash and cash equivalents (letter D of this schedule).

Comments on key income statement items

23. REVENUE

In 2016, sales revenue totalled € 101,523,000, down by € 12,439,000 (-10.9%) compared with 2015.

Revenue by geographical area

	2016	%	2015	%	% CHANGE
Italy	31,431	30.9%	38,081	33.4%	-17.5%
Western Europe	6,868	6.8%	6,481	5.7%	+6.0%
Eastern Europe and Turkey	27,365	26.9%	28,322	24.8%	-3.4%
Asia and Oceania (excluding Middle East)	7,064	7.0%	6,347	5.6%	+11.3%
Central and South America	10,373	10.2%	11,991	10.5%	-13.5%
Middle East and Africa	11,254	11.1%	16,479	14.5%	-31.7%
North America and Mexico	7,168	7.1%	6,261	5.5%	+14.5%
TOTAL	**101,523**	**100%**	**113,962**	**100%**	**-10.9%**

Revenue by product family

	2016	%	2015	%	% CHANGE
Brass valves	9,002	8.9%	12,673	11.1%	-29.0%
Light alloy valves	32,406	31.9%	33,663	29.6%	-3.7%
Thermostats	7,690	7.6%	10,513	9.2%	-26.9%
TOTAL VALVES AND THERMOSTATS	**49,098**	**48.4%**	**56,849**	**49.9%**	**-13.6%**
Standard burners	21,483	21.2%	22,983	20.2%	-6.5%
Special burners	19,438	19.1%	20,773	18.2%	-6.4%
TOTAL BURNERS	**40,921**	**40.3%**	**43,756**	**38.4%**	**-6.5%**
Accessories and other revenues	***11,504***	***11.3%***	***13,357***	***11.7%***	***-13.9%***
TOTAL	**101,523**	**100.0%**	**113,962**	**100%**	**-10.9%**

The 2016 sales performance was negatively affected by the crisis of the Middle East and African markets (mainly Egypt), which recorded a downturn in direct sales of more than € 5 million. The crisis in these markets also affected the sales realised in Italy, since our Italian customers are strong exporters to the Middle East. The positive trend of the other international markets, most notably the steady growth in North America, only partially offset the decline in sales in the Middle East, Africa and Italy.

The analysis by product family shows a sharp decline in more mature products (brass valves and thermostats), mainly intended for markets in crisis. Average sales prices in 2016 were around 1.3% lower compared with 2015.

24. OTHER INCOME

	2016	2015	CHANGE
Sale of trimmings	958	1,403	(445)
Services to subsidiaries	154	280	(126)
Contingent income	136	260	(124)
Rental income	85	116	(31)
Use of provisions for risks and charges	88	158	(70)
Services to parent company	10	10	-
Other income	848	506	342
TOTAL	**2,279**	**2,733**	**(454)**

Lower income from the sale of trimmings is due to the recovery in the production process of a greater portion of generated trimmings.
Services to subsidiaries and to the parent company refer to administrative, commercial and technical services within the scope of the Group.
Other income includes the charge to customers for sharing the development and industrialisation of new products.

25. PURCHASES OF MATERIALS

	2016	2015	CHANGE
Commodities and outsourced components	33,692	40,279	(6,587)
Consumables	3,183	3,582	(399)
TOTAL	**36,875**	**43,861**	**(6,986)**

In 2016, the effective purchase prices of the main raw materials (aluminium alloys, steel and brass) were on average lower than in 2015, allowing a saving of 1.1% of sales. Consumption (purchases plus change in inventories) as a percentage of sales was 37.5% in 2016, compared with 38.8% in 2015.

26. COSTS FOR SERVICES

	2016	2015	CHANGE
Outsourced processing	7,587	9,202	(1,615)
Property rental	3,995	4,032	(37)
Electricity and natural gas	3,526	3,874	(348)
Maintenance	2,813	2,661	152
Advisory services	1,377	1,488	(111)
Transport and export expenses	1,134	1,392	(258)
Directors' fees	1,061	1,049	12
Insurance	562	443	119
Commissions	545	574	(29)
Travel expenses and allowances	478	674	(196)
Waste disposal	352	364	(12)
Canteen	282	315	(33)
Temporary agency workers	99	145	(46)
Other costs	2,221	2,538	(317)
TOTAL	**26,032**	**28,751**	**(2,719)**

The fall in outsourced processing costs was due to the partial insourcing of certain phases of burner production.
The reduction in energy costs results from lower production volumes and, to a lesser extent, from the reduction in the price of electrical energy and gas (on average -3% compared with 2015). Moreover, during the financial year, steps were taken to improve energy efficiency (installation of LED lighting systems, repair of compressed air leaks).
The change in maintenance costs is linked to the normal cyclic nature of maintenance operations; the maintenance policies, aimed at guaranteeing constant efficiency of all the production plants, did not register any changes.
Costs for advisory services related to technical (€ 343,000), sales (€ 374,000) and legal, administrative and general (€ 660,000) services. Other costs included expenses for the registration of patents, leasing third-party assets, cleaning costs, costs related to the research and development activity and other minor charges.

27. PAYROLL COSTS

	2016	2015	CHANGE
Salaries and wages	18,322	18,767	(445)
Social Security costs	5,959	6,131	(172)
Temporary agency workers	845	1,182	(337)
Post-employment benefit reserve and other costs	1,256	1,888	(632)
TOTAL	**26,382**	**27,968**	**(1,586)**

Average of the Company headcount in 2016 totalled 543 employees (424 blue-collars, 110 white-collars and supervisors, 9 managers), compared with 552 in 2015 (428 blue-collars, 115 white-collars and supervisors, 9 managers). The average number of temporary staff, with supply contract, was 26 in 2016 (32 in 2015).
During the financial year, the Company used the temporary lay-off scheme in periods characterised by low production requirements: this allowed savings in personnel costs of € 689,000 (€ 333,000 in 2015).

28. OTHER OPERATING COSTS

	2016	2015	CHANGE
Losses and write-downs of trade receivables	171	360	(189)
Non-income related taxes and duties	181	179	2
Contingent liabilities	56	159	(103)
Reserves for risks	85	8	77
Other provisions	-	31	(31)
Other operating expenses	154	84	70
TOTAL	**647**	**821**	**(174)**

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

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

	2016	2015	CHANGE
Write-back of Faringosi Hinges	-	1,882	(1,882)
Write-down of Sabaf Appliance Components	(521)	(574)	53
Write-down of other equity investments	-	(5)	5
TOTAL	**(521)**	**1,303**	**(1,824)**

The write-down of the equity investment in Sabaf Appliance Components is commented in Note 4, to which reference is made.

30. FINANCIAL EXPENSES

	2016	2015	CHANGE
Interest paid to banks	241	248	(7)
Banking expenses	229	210	19
Other financial expense	43	42	1
TOTAL	**513**	**500**	**13**

31. EXCHANGE RATE GAINS AND LOSSES

During the 2016 financial year, the Company reported net foreign exchange losses of € 48,000 (net loss of € 261,000 in 2015).

32. INCOME TAX

	2016	2015	CHANGE
Current taxes	1,314	2,126	(812)
Deferred tax assets and liabilities	(43)	433	(476)
Taxes related to previous financial years	(137)	(42)	(95)
TOTAL	**1,134**	**2,517**	**(1,383)**

Current taxes include IRES of € 1,034,000 and IRAP of € 280,000 (€ 1,734,000 and € 392,000 respectively in 2015).

Reconciliation between the tax burden booked in the financial statements and the theoretical tax burden calculated according to the statutory tax rates currently in force in Italy is shown in the following table:

	2016	2015
Theoretical income tax	988	2,244
Permanent tax differences	4	(496)
Taxes related to previous financial years	(131)	(37)
Adjustment of the deferred taxation for a change in the IRES rate (Note 21)	-	390
Other differences	7	16
IRES (CURRENT AND DEFERRED)	**868**	**2,117**
IRAP (current and deferred)	266	400
TOTAL	**1,134**	**2,517**

Theoretical taxes were calculated applying the current corporate income tax (IRES) rate, i.e. 27.50%, to the pre-tax result. IRAP is not taken into account for the purpose of reconciliation because, as it is a tax with a different assessment basis from pre-tax profit, it would generate distorting effects.

Tax position

No significant tax disputes were pending at 31 December 2016.

33. DIVIDENDS

On 25 May 2016, shareholders were paid an ordinary dividend of € 0.48 per share (total dividends of € 5,467,000).
The Directors have recommended payment of an unchanged dividend of € 0.48 per share this year. This dividend is subject to approval of shareholders in the annual Shareholders' Meeting and was not included under liabilities in these financial statements.
The dividend proposed is scheduled for payment on 31 May 2017 (ex-date 29 May and record date 30 May).

34. SEGMENT REPORTING

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

35. INFORMATION ON FINANCIAL RISK

Categories of financial instruments

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

	31.12.2016	31.12.2015
FINANCIAL ASSETS		
Income statement fair value		
• Derivative cash flow hedges (on currency)	-	69
AMORTISED COST		
• Cash and cash equivalents	1,797	1,090
• Trade receivables and other receivables	*28,505*	*34,069*
• Non-current loans	1,897	1,837
• Current loans	1,000	1,000
• Other financial assets	300	-
FINANCIAL LIABILITIES		
Income statement fair value		
• Derivative cash flow hedges (on currency)	201	-
• Derivative cash flow hedges (on interest rates)	37	14
AMORTISED COST		
• Loans	31,336	26,394
• Other financial liabilities	300	-
• Trade payables	16,010	18,203

The Company is exposed to financial risks related to its operations, mainly:

- credit risk, with special reference to normal trade relations with customers;
- market risk, relating to the volatility of prices of commodities, foreign exchange and interest rates;
- liquidity risk, which can be expressed by the inability to find financial resources necessary to ensure Company operations.

It is part of Sabaf's policies to hedge exposure to changes in prices and in fluctuations in exchange and interest rates via derivative financial instruments. Hedging is done using forward contracts, options or combinations of these instruments. Generally speaking, the maximum duration covered by such hedging does not exceed 18 months. The Company does not enter into speculative transactions. When the derivatives used for hedging purposes meet the necessary requisites, hedge accounting rules are followed.

Credit risk management

Trade receivables involve producers of domestic appliances, multinational groups and smaller manufacturers in a few or single markets. The Company assesses the creditworthiness of all its customers at the start of supply and systemically on at least an annual basis. After this assessment, each customer is assigned a credit limit.

A credit insurance policy is in place, which guarantees cover for approximately 50% of trade receivables.

Credit risk relating to customers operating in emerging economies is generally attenuated by the expectation of revenue through letters of credit.

Forex risk management

The main exchange rate to which the Company is exposed is the euro/USD in relation to sales made in dollars (mainly in North America) and, to a lesser extent, to some purchases (mainly from Asian manufacturers). Sales in US dollars represented 10.6% of total revenue in 2016, while purchases in dollars represented 2.7% of total revenue. The operations in dollars were partially hedged through forward sales contracts. At 31 December 2016, there were forward sales of dollars, maturing on 31 December 2017, for a total of USD 6 million.

Sensitivity analysis

With reference to financial assets and liabilities in US dollars at 31 December 2016, a hypothetical and immediate revaluation of 10% of the euro against the dollar would have led to a loss of € 210,000, without considering the pending forward sale contracts.

Interest rate risk management

At 31 December 2016, gross financial debt of the Company was at a floating rate for approximately 70% and at a fixed rate for approximately 30%; to reach an optimum mix of floating and fixed rates in the structure of the loans, the Company also used derivative financial instruments. At 31 December 2016, three interest rate swap (IRS) contracts totalling € 13 million were in place, mirrored in mortgages with the same residual debt, through which the Company transformed the floating rate of the mortgages into fixed rate. Considering the IRS in place, at the end of 2016, the fixed-rate portion amounted to approximately 70% of the total financial debt. The derivative contracts were not designated as a cash flow hedge and were therefore recognised using the "income statement fair value" method.

Sensitivity analysis

With reference to financial assets and liabilities at variable rate at 31 December 2016 and 31 December 2015, a hypothetical increase (decrease) in the interest rate of 100 base points versus the interest rates in effect at the same date – all other variables being equal - would lead to the following effects:

	31.12.2016	31.12.2015
	FINANCIAL EXPENSES	FINANCIAL EXPENSES
Increase of 100 base points	20	80
Decrease of 100 base points	-	(80)

Commodity price risk management

A significant portion of the purchase costs of the company is represented by brass and aluminium alloys. Sales prices of products are generally renegotiated annually; as a result, the Company is unable to immediately pass on to customers any changes in the prices of commodities during the year. The Company protects itself from the risk of changes in the price of brass and aluminium with supply contracts signed with suppliers for delivery up to twelve months in advance or, alternatively, with derivative financial instruments. In 2016 and 2015, the Company did not use financial derivatives on commodities. To stabilise the rising costs of commodities, Sabaf preferred to execute transactions on the physical market, fixing prices with suppliers for immediate and deferred delivery.

Liquidity risk management

The Group operates with a low debt ratio (net financial debt / shareholders' equity at 31 December 2016 of 32.9%, net financial debt / EBITDA of 2.22) and has unused short-term lines of credit. To minimise the risk of liquidity, the Administration and Finance Department:

- maintains a correct balance of net financial debt, financing investments with capital and with medium to long-term debt.
- verifies systematically that the short-term accrued cash flows (amounts received from customers and other income) are expected to accommodate the deferred cash flows (short-term financial debt, payments to suppliers and other outgoings);
- regularly assesses expected financial needs in order to promptly take any corrective measures.

Below is an analysis by expiration date of financial payables at 31 December 2016 and 31 December 2015:

AT 31 DECEMBER 2016

	CARRYING VALUE	CONTRACTUAL FINANCIAL FLOWS	WITHIN 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 TO 5 YEARS	MORE THAN 5 YEARS
Unsecured loans	23,937	24,388	1,709	5,129	17,550	-
Short-term bank loans	7,399	7,399	5,399	2,000	-	-
Payables to ARC shareholders	300	300	-	60	240	-
TOTAL FINANCIAL PAYABLES	**31,636**	**32,087**	**7,108**	**7,189**	**17,790**	**0**
Trade payables	16,010	16,010	15,373	637	-	-
TOTAL	**47,646**	**48,097**	**22,481**	**7,826**	**17,790**	**0**

AT 31 DECEMBER 2015

	CARRYING VALUE	CONTRACTUAL FINANCIAL FLOWS	WITHIN 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 TO 5 YEARS	MORE THAN 5 YEARS
Unsecured loans	7,339	7,506	700	2,099	4,707	-
Short-term bank loans	19,055	19,055	17,055	2,000	-	-
TOTAL FINANCIAL PAYABLES	**26,394**	**26,561**	**17,755**	**4,099**	**4,707**	**0**
Trade payables	18,203	18,203	17,232	971	-	-
TOTAL	**44,597**	**44,764**	**34,987**	**5,070**	**4,707**	**0**

The various due dates are based on the period between the end of the reporting period and the contractual expiration date of the commitments, the values indicated in the table correspond to non-discounted cash flows. Cash flows include the shares of principal and interest; for floating rate liabilities, the shares of interest are determined based on the value of the reference parameter at the end of the reporting period increased by the spread set forth in each contract.

Hierarchical levels of fair value assessment

The revised IFRS 7 requires that financial instruments reported in the statement of financial position at fair value must be classified based on a hierarchy that reflects the significance of the input used in determining the fair value. IFRS 7 makes a distinction between the following levels:

- Level 1 – quotations found on an active market for assets or liabilities subject to assessment;
- Level 2 – input other than prices listed in the previous point, which can be observed (prices) or indirectly (derivatives from prices) on the market;
- Level 3 – input based on observable market data

The following table shows the assets and liabilities valued at fair value at 31 December 2016, by hierarchical level of fair value assessment.

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Other financial liabilities (currency derivatives)	-	201	-	201
Other financial liabilities (derivatives on interest rates)	-	37	-	37
Option on minorities A.R.C.	-	-	0	0
TOTAL LIABILITIES	**0**	**238**	**0**	**238**

36. RELATIONS BETWEEN GROUP COMPANIES AND WITH RELATED PARTIES

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

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

	TOTAL 2016	SUBSIDIARIES	PARENT COMPANY	OTHER RELATED PARTIES	TOTAL RELATED PARTIES	IMPACT ON THE TOTAL
Non-current financial assets	2,137	1,897	-	-	1,897	88.77%
Trade receivables	27,465	1,192	-	-	1,192	4.34%
Tax receivables	2,477	-	1,084	-	1,084	43.76%
Current financial assets	1,060	1,000	-	-	1,000	94.34%
Trade payables	16,010	104	-	2	106	0.66%

	TOTAL 2015	SUBSIDIARIES	PARENT COMPANY	OTHER RELATED PARTIES	TOTAL RELATED PARTIES	IMPACT ON THE TOTAL
Non-current financial assets	1,837	1,837	-	-	1,837	100%
Trade receivables	32,871	2,008	-	-	2,008	6.11%
Tax receivables	1,749	-	1,114	-	1,114	63.69%
Current financial assets	1,069	1,000	-	-	1,000	93.55%
Trade payables	18,203	853	-	-	853	4.69%

Impact of related-party transactions on income statement accounts

	TOTAL 2016	SUBSIDIARIES	PARENT COMPANY	OTHER RELATED PARTIES	TOTAL RELATED PARTIES	IMPACT ON THE TOTAL
Revenue	101,523	6,680	-	-	6,680	6.58%
Other income	2,279	399	10	-	409	17.95%
Materials	36,895	916	-	-	916	2.48%
Services	26,032	4,129	-	22	4,151	15.95%
Capital gains on non-current assets	87	66	-	-	66	75.86%
Write-downs of non-current assets	521	521	-	-	521	100%
Financial income	85	82	-	-	82	96.47%

	TOTAL 2015	SUBSIDIARIES	PARENT COMPANY	OTHER RELATED PARTIES	TOTAL RELATED PARTIES	IMPACT ON THE TOTAL
Revenue	113,962	7,275	-	-	7,275	6.38%
Other income	2,733	400	10	-	410	15.00%
Materials	43,861	727	-	-	727	1.66%
Services	28,751	4,162	-	34	4,196	14.59%
Capital gains on non-current assets	158	100	-	-	100	63.29%
Write-downs of non-current assets	1,303	1,303	-	-	1,303	100%
Financial income	73	73	-	-	73	100%

Relations with subsidiaries mainly consist of:

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

Relations with the parent company Giuseppe Saleri S.a.p.A., which does not exercise management or coordination activities pursuant to Article 2497 of the Italian Civil Code, consist of provision of administrative services.

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

37. SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

Pursuant to CONSOB memorandum of 28 July 2006, no events or significant non-recurring transactions occurred during 2016.

38. ATYPICAL AND/OR UNUSUAL TRANSACTIONS

Pursuant to CONSOB memorandum of 28 July 2006, the Company declares that no atypical and/or unusual transactions as defined by the CONSOB memorandum were executed during 2016.

39. COMMITMENTS

Guarantees issued

Sabaf S.p.A. also issued sureties to guarantee mortgage loans granted by banks to employees for a total of € 5,510,000 (€ 6,010,000 at 31 December 2015).

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

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

41. SHARE-BASED PAYMENTS

At 31 December 2016, there were no equity-based incentive plans for the Company's directors and employees.

List of investments with additional information required by Consob
(Communication DEM76064293 of 28 July 2006)

IN SUBSIDIARIES [1]

COMPANY NAME	REGISTERED OFFICES	SHARE CAPITAL AT 31 DECEMBER 2016	SHAREHOLDERS	OWNERSHIP %	SHAREHOLDERS' EQUITY AT 31 DECEMBER 2016	2016 PROFIT (LOSS)
Faringosi Hinges s.r.l.	Ospitaletto (BS)	EUR 90,000	Sabaf S.p.A.	100%	EUR 5,546,105	EUR 629,046
Sabaf Immobiliare s.r.l.	Ospitaletto (BS)	EUR 25,000	Sabaf S.p.A.	100%	EUR 23,409,330	EUR 1,517,481
Sabaf do Brasil Ltda	Jundiaì (Brazil)	BRL 24,000,000	Sabaf S.p.A.	100%	BRL 36,458,354	BRL 5,649,678
Sabaf US Corp.	Plainfield (USA)	USD 100,000	Sabaf S.p.A.	100%	USD -26,387	USD 8,564
Sabaf Appliance Components (Kunshan) Co., Ltd.	Kunshan (China)	EUR 4,400,000	Sabaf S.p.A.	100%	CNY 5,335,695	CNY -4,015,644
Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki	Manisa (Turkey)	TRY 28,000,000	Sabaf S.p.A.	100%	TRY 52,641,491	TRY 10,977,294
Sabaf Appliance Components Trading (Kunshan) Co., Ltd. in liquidazione	Kunshan (China)	EUR 200,000	Sabaf S.p.A.	100%	CNY 1,950,327	CNY -136,963
A.R.C. s.r.l.	Campodarsego (PD)	EUR 45,000	Sabaf S.p.A.	70%	EUR 4,321,471	EUR 667,167

Other significant equity investments: None

Origin, possibility of utilisation and availability of reserves

DESCRIPTION	AMOUNT	POSSIBILITY OF UTILISATION	AVAILABLE SHARE	AMOUNT SUBJECT TO TAXATION FOR THE COMPANY IN THE CASE OF DISTRIBUTION
CAPITAL RESERVE:				
Share premium reserve	10,002	A, B, C	10,002	0
Revaluation reserve, Law 413/91	42	A, B, C	42	42
Revaluation reserve, Law 342/00	1,592	A, B, C	1,592	1,592
RETAINED EARNINGS:				
Legal reserve	2,307	B	0	0
Other retained earnings	65,769	A, B, C	65,425	0
VALUATION RESERVE:				
Post-employment benefit actuarial reserve	(532)		0	0
TOTAL	**79,180**		**77,061**	**1,634**

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

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

Statement of Revaluations of equity assets at 31 december 2016

		GROSS VALUE	CUMULATIVE DEPRECIATION	NET VALUE
Investment property	Law 72/1983	137	(137)	0
	1989 merger	516	(433)	83
	Law 413/1991	47	(41)	6
	1994 merger	1,483	(1,001)	482
	Law 342/2000	2,870	(2,282)	588
		5,053	**(3,894)**	**1,159**
Plants and machinery	Law 576/75	205	(205)	0
	Law 72/1983	2,224	(2,224)	0
	1989 merger	6,140	(6,140)	0
	1994 merger	6,820	(6,820)	0
		15,389	**(15,389)**	**0**
Industrial and commercial equipment	Law 72/1983	**161**	**(161)**	**0**
Other assets	Law 72/1983	**50**	**(50)**	**0**
TOTAL		**20,653**	**(19,494)**	**1,159**

GENERAL INFORMATION

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

Registered and administrative office:
Via dei Carpini, 1
25035 Ospitaletto (Brescia)

Contacts:
Tel: +39 030 - 6843001
Fax: +39 030 – 6848249
E-mail: info@sabaf.it
Website: *www.sabaf.it*

Tax information:
R.E.A. Brescia: 347512
Tax Code: 03244470179
VAT Number: 01786911082

APPENDIX

Information pursuant to article 149 *duodecies* of the CONSOB Issuers' Regulation

The following table, prepared pursuant to Article 149-*duodecies* of the CONSOB Issuers' Regulation, shows fees relating to 2016 for auditing services and for services other than auditing provided by the Independent Auditor. No services were provided by entities belonging to the network.

IN THOUSANDS OF EURO	PARTY PROVIDING THE SERVICE	FEES PERTAINING TO THE 2016 FINANCIAL YEAR
Audit	Deloitte & Touche S.p.A.	57
Certification services	Deloitte & Touche S.p.A.	2 [2]
Other services	Deloitte & Touche S.p.A.	14 [3]
TOTAL		**73**

2 Signing of Unified Tax Return, IRAP and 770 forms.
3 Audit agreed upon procedures relating to interim management reports, auditing of statements and training activities.

CERTIFICATION OF SEPARATE FINANCIAL STATEMENTS

pursuant to Article 154-bis of Italian Legislative Decree 58/98

Alberto Bartoli, the Chief Executive Officer, and Gianluca Beschi, the Financial Reporting Officer of Sabaf S.p.A., have taken into account the requirements of Article 154-bis, paragraphs 3 and 4, of Legislative Decree 58 of 24 February 1998 and can certify

- the adequacy, in relation to the business characteristics and
- the actual application

of the administrative and accounting procedures for the formation of the separate financial statements during the 2016 financial year.

They also certify that:

- the separate financial statements:
  - were prepared in accordance with the international accounting policies recognised in the European Community in accordance with EC regulation 1606/2002 of the European Parliament and Council of 19 July 2002 and with the measures issued in implementation of Article 9 of Italian Legislative Decree 38/2005;
  - are consistent with accounting books and records;
  - provide a true and fair view of the financial position and performance of the issuer;

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

Ospitaletto, 20 March 2017

Chief Executive Officer	**The Financial Reporting Officer**
Alberto Bartoli	Gianluca Beschi

Deloitte.

Deloitte & Touche S.p.A.
Via Cefalonia, 70
25124 Brescia
Italia

Tel.: +39 02 83327030
Fax: +39 02 83327029
www.deloitte.it

INDEPENDENT AUDITORS' REPORT
PURSUANT TO ART. 14 AND 16 OF
LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010

To the Shareholders of
SABAF S.p.A.

Report on the Separate Financial Statements

We have audited the accompanying separate financial statements of Sabaf S.p.A., which comprise the statement of financial position as at December 31, 2016, the income statement, comprehensive income statement, statement of changes in shareholders' equity and the cash flow statement for the year then ended, and the related explanatory notes.

Management's Responsibility for the Separate Financial Statements

The Company's Directors are responsible for the preparation of these separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005.

Auditor's Responsibility

Our responsibility is to express an opinion on these separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) issued pursuant to art. 11 of Italian Legislative Decree 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation that give a true and fair view of separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the separate financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the separate financial statements give a true and fair view of the financial position of Sabaf S.p.A. as at December 31, 2016, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005.

Deloitte.

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Report on Other Legal and Regulatory Requirements

Opinion on the consistency of the report on operations and of certain information included in the report on corporate governance and ownership structure with the separate financial statements

We have performed the procedures indicated in the Auditing Standard (SA Italia) n° 720B in order to express, as required by law, an opinion on the consistency of the report on operations and of certain information included in the report on corporate governance and ownership structure required by art. 123-bis, n° 4, of Italian Legislative Decree n° 58/98, which are the responsibility of the Directors of Sabaf S.p.A., with the separate financial statements of Sabaf S.p.A as at December 31, 2016. In our opinion the report on operations and the information included in the report on corporate governance and ownership structure referred to above are consistent with the separate financial statements of Sabaf S.p.A as at December 31, 2016.

DELOITTE & TOUCHE S.p.A.

Signed by
Andrea Restelli
Partner

Brescia, Italy
April 5, 2017

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

SABAF S.P.A.

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING OF SABAF S.P.A.

in accordance with Art. 2429, 2nd Paragraph of the Italian Civil Code and Art. 153 of Italian Legislative Decree no. 58/1998

Dear Shareholders,

We hereby report to you on the supervisory activity performed during the 2016 financial year.
This report is drafted in accordance with Art. 2429, 2nd Paragraph of the Italian Civil Code and Art. 153 of Italian Legislative Decree no. 58/1998, in light of the CONSOB recommendations, the Rules of Conduct of the Board of Statutory Auditors of listed companies issued by CNDCEC and the indications contained in the Self-Regulation Code of Borsa Italiana, which applies to your Company.
We note below the activity performed.

1. Supervisory activity on compliance with the law and the articles of association and respect of the principles of correct administration

During the 2016 financial year, the Board met on six occasions and attended nine meetings of the Board of Directors, five meetings of the Control and Risks Committee and two meetings of the Company's Control Bodies (Board of Statutory Auditors, Control and Risks Committee, Supervisory Body, Appointed Executive, Head of the Internal Audit Function, Independent Auditing Company).
During the Board of Directors' meetings, the Board of Statutory Auditors obtained information on the general management performance, on its outlook, as well as on the most significant economic, financial and capital operations performed by the Company and by its subsidiaries.
In that regard, it is noted that, during 2016:

- we have not identified or received information on any atypical and/or unusual operations performed with third parties, with related parties or within the group. That fact is also confirmed by the Directors in their management report;
- no significant operations that require a mention in this report have been performed;
- intergroup operations and operations with related parties are of ordinary nature and reduced significance compared to the group's activity as a whole, as highlighted in note no. 36 of the Separate Financial Statements and in the corresponding note of the Consolidated Financial Statements. The Board believes that the conditions under which those operations were concluded are congruous and compliant with the Company's interests.

The Board of Statutory Auditors has expressed its favourable opinion with reference to the work plan prepared by the Head of the Internal Audit Function.

In conclusion, based upon the activity performed, we have not identified any violations of the law and/or the articles of association or any manifestly imprudent or risky operations or operations in potential conflict of interest or such as to compromise the integrity of the company's finances.

2. Supervisory activity on the adequacy of the organisational structure and the internal control system

The Board has overseen the existence of an adequate **organisational structure** in relation to the company's dimensions.
In that regard, it is noted that the Company has for some time now adopted an Organisation Model compliant with the provisions of Italian Legislative Decree 231/2001, recently updated in relation to the latest organisational and regulatory changes.
During the financial year, the Board of Statutory Auditors maintained a constant information flow with the Supervisory Body.
The information acquired has not identified any criticalities with respect to the correct implementation of the organisation model that must be highlighted in this report.
With reference to the adequacy of the **internal control system**, the Board expresses its positive assessment and acknowledges that there are no findings to be reported to the Shareholders' Meeting.
The information sources based upon which the Board has been able to express its assessment are the following:

- periodic meetings with the Company assigned the Internal Audit Function and with the Representative of that Function. During those meetings, the Board had the opportunity to assess the activity performed and the results of the same. In that regard, it is noted that the Company itself performs the Internal Audit Function also with reference to the strategic subsidiaries;
- periodic meetings with the Independent Auditing Company;
- the report of the Head of the Internal Audit Function on the control system, examined during the meeting of the Control and Risks Committee held on 1 February 2017;
- attendance at meetings of the Control and Risks Committee;
- the report of the Control and Risks Committee to the Board of Directors on the adequacy and effective functioning of the internal control system and the risk management system;
- meetings with the Appointed Executive;
- examination of the company procedures, therein including those provided within the Organisation Model adopted by Sabaf (and by the subsidiary Faringosi Hinges S.r.l.) in application of Italian Legislative Decree 231/2001 and those established by the Appointed Executive in charge of preparing the corporate accounting documents, in accordance with Italian Law 262/2005.

As already highlighted by the Directors in the Management Report, it is worth noting that on 23 January 2017, the Managing Director submitted his resignation commencing from the shareholders' meeting convened to approve the financial statements (27 April 2017). The Board has been informed that activities are in progress with a view to identifying the new Managing Director.

3. Supervisory activity on the adequacy of the administrative-accounting system and the auditing activity

The Board has overseen the adequacy of the **administrative-accounting system**, as well as the reliability of the latter correctly to represent the management facts, by way of:

- obtaining information from the Appointed Executive;
- examining the procedures in support of the administration function;
- periodic meetings with the Company assigned the Internal Audit Function and with the Representative of that Function;
- meetings and periodic reports of the Independent Auditing Company.

Based upon the information gathered, no findings have emerged.
The Managing Director and the Appointed Executive have certified with a specific report attached to the 2016 financial statements:

- the adequacy and effective application of the administrative and accounting procedures for producing the financial statements;
- the conformity of the same to the international accounting standards and their correspondence to the records of the accounting ledgers and deeds as well as their suitability to provide a true and accurate representation of the Company's capital, economic and financial situation.

A similar declaration has been made with reference to the consolidated financial statements.
With reference to the **statutory auditing** activity, it is noted that the same was entrusted, by resolution of the shareholders' meeting dated 28 April 2009, to Deloitte & Touche S.p.A. for the period 2009/2017.
During the financial year, the Board held periodic meetings with representatives of the Independent Auditing Company during which no significant data and information emerged that requires a mention in this report.
The procedures adopted in relation to the work plan submitted by the Independent Auditing Company have been examined. We have also received the technical information requested in relation to the accounting standards applied, as well as the accounts representation criteria of the most significant economic, capital and financial facts.
It is also noted that the Independent Auditing Company submitted on 5 April 2017 the report referred to in Art. 19, 3rd paragraph of Italian Legislative Decree 39/2010, which does not highlight any fundamental issues found during the audit or any significant deficiencies identified in the internal control system in relation to the financial reporting process.
The Independent Auditing Company, in accordance with the provisions of Art. 17, 9th Paragraph of Italian Legislative Decree 39/2010, has confirmed its independence to the Board of Statutory

Auditors and has communicated the overall fees for the auditing and other services rendered by the same, and by other entities belonging to the same network, to the Company and to the subsidiaries, as set out in the appendices to the separate and consolidated financial statements.
The Board of Statutory Auditors confirms that in the financial year just ended and up to today's date no critical profile has emerged in relation to the independence of the Independent Auditing Company. Finally, it is acknowledged that the supervisory activity described in this paragraph and in the paragraph above has allowed the Board of Statutory Auditors to fulfil its internal control and statutory audit committee function, pursuant to Art. 19 of Italian Legislative Decree 39/2010, with respect to which it has no findings to report.

4. Proposals in relation to the separate Financial Statements and the consolidated Financial Statements, their approval and the matters under the remit of the Board of Statutory Auditors

The Company drafted the 2016 financial statements in accordance with international accounting standards (IAS/IFRS). The separate Financial Statements show a financial year profit of Euro 2,459,688 and a shareholders' equity of Euro 91,523,902. Those financial statements were audited by the Company Deloitte & Touche Spa which issued its report dated 5 April 2017 without findings or information requests. The financial statements, together with the management report, were made available to us within the legal timescales and we have no particular comments to report.
The Company has also drafted the 2016 consolidated financial statements of the Sabaf Spa Group. The consolidated financial statements show a net financial year profit of Euro/thousand 9,009 and shareholders' equity of Euro/thousand 112,309.
Those financial statements have also been subject to statutory audit by Deloitte & Touche Spa which issued its report on 5 April 2017 without findings or information requests.
It is also acknowledged that the Independent Auditing Company has expressed, in the reports set out above, a positive opinion with reference to the coherence of the management report and the information contained in the corporate governance report and ownership structure indicated in Art. 123 bis of Italian Legislative Decree 58/98, both with respect to the separate financial statements and the consolidated financial statements.
Insofar as the Board is responsible, we have overseen the general layout of the separate financial statements and the consolidated financial statements, verifying their compliance with the law and the relevant accounting standards.
In particular, the outcomes of the impairment test conducted with reference to the value of the investments held in the subsidiaries, Faringosi Hinges S.r.l. and the newly acquired A.R.C. S.r.l., indicated in the separate financial statements, and the goodwill value recorded with reference to the same in the consolidated financial statements, have been assessed.
The test, conducted by external professionals specifically instructed based upon the provisional plans developed by the Board of Directors of the subsidiary, led:

- For Faringosi Hinges S.r.l., to the determination of the recoverable value of the investment of between Euro 11.7 and 13.8 million, higher values than the book value of the same, amounting to Euro 10.329 million. Based upon those valuations, the Board of Directors has kept unchanged the book value of the investment with respect to the initial historical cost (amounting to Euro 10.329 million), as restored in the previous financial year;
- For A.R.C. S.r.l., to the determination of the recoverable value of the investment of between Euro 6.4 and 7.7 million, higher values than the book value of the same, amounting to Euro 4.8 million. Based upon those valuations, the Board of Directors has kept unchanged the book value of the investment with respect to the acquisition cost incurred in the financial year (amounting to Euro 4.8 million).

In that regard, the Board has no comments to make. Finally, we acknowledge that no derogations have been made from the accounting standards adopted.

5. Methods of concrete implementation of the corporate governance rules

Your Company has accepted the Self-Regulation Code approved by the Corporate Governance Committee of listed companies.
In the annual Report on Corporate Governance and Ownership Structures, drafted in accordance with Art. 123 bis of Italian Legislative Decree 58/1998, the Board of Directors acknowledges the acceptance of the Self-Regulation Code and the methods of concrete implementation of the corporate governance rules adopted by the Company, in accordance with Art. 123 bis, 2nd paragraph, letter a).
During the financial year, the Board has overseen the methods of concrete application of the corporate governance rules adopted by the Company and, in that regard, it believes that the same have been effectively and correctly applied.
Insofar as we are aware, we inform you of the following:

- the Board of Directors has checked the continued existence of the requirements of independence for the directors qualified as such upon their appointment. The Board of Statutory Auditors has checked the correct application of the assessment criteria and procedures adopted by the Board;
- we have performed the self-assessment of the requirement of independence for the members of the Board of Statutory Auditors, as required by the Self-Regulation Code, both initially, after appointment and later, on an annual basis (most recently during the meeting held on 2 March 2017), with methods compliant with those adopted by the directors;
- we have respected the provisions of the management regulation and those on the processing of confidential and privileged corporate information.

6. Supervisory activities on relationships with subsidiary and parent companies

The Board has overseen the adequacy of the instructions imparted by the Company to the subsidiaries, in accordance with Art. 114, 2nd Paragraph of Italian Legislative Decree 58/1998.
In that regard, it is noted that the Company, by way of the Managing Director, the Administration, Finance and Control Director and the other managers with strategic responsibilities, performs constant control over the operations of the subsidiaries, also due to the use, by the same, of a common accounting and management system (SAP), which is constantly accessible to management of the parent company.
From the periodic meetings with management and the Company assigned the Internal Audit no elements of criticality have emerged which require a mention in this report.
Finally, it is acknowledged that, at today's date, no communications have been received from the Control Bodies of the subsidiary and/or parent companies containing findings to be noted in this report.

7. Supervisory activity over operations with related parties

In relation to the provisions of Art. 2391 bis of the Italian Civil Code, we acknowledge that the Board has adopted a procedure for the regulation of Operations with Related Parties, whose main objective is to define the guidelines and criteria for identifying Operations with Related Parties and structuring the roles, responsibilities and operating methods so as to guarantee, for those operations, adequate information transparency and the respective procedural and substantial correctness.
That procedure has been prepared in compliance with what was established by the Consob Regulation on Related Parties (no. 17221 dated 12 March 2010 as amended and supplemented) and it has recently been updated.
The Board has overseen the effective application of the rules by the Company and it has no comments in that regard.

8. Conclusions

During the supervisory activity conducted during the financial year, no omissions, censurable facts, irregularities or circumstances that require reporting to the Supervisory Authority or a mention herein were identified.
It is also acknowledged that the Board has not received reports in accordance with Art. 2408 of the Italian Civil Code, nor has it become aware of cases and/or lawsuits to be noted in this report.
With reference to the financial statements, the Board has acknowledged the resolution proposals submitted by the Board of Directors, both with reference to the approval of the draft financial statements and to the proposal of distribution of the dividend. In that regard, it is noted that the dividend that the Board proposes to distribute, albeit in a higher amount than the financial year profit emerging from the separate financial statements, amounts to approximately 60% of the group's consolidated profit, a result towards which the subsidiary companies greatly contributed.

Ospitaletto, 5 April 2017

Chairman of the Board of Statutory Auditors
Dott. Antonio Passantino

Statutory Auditor
Dott. Enrico Broli

Statutory Auditor
Dott.ssa Luisa Anselmi


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CHAPTER 8

REPORT ON REMUNERATION

pursuant to Article 123-ter of the TUF and
Article 84-quater of the Issuers' Regulations

SECTION I - REMUNERATION POLICY

Sabaf S.p.A.'s General Remuneration Policy (hereinafter also "remuneration policy"), approved by the Board of Directors on 22 December 2011 and updated on 20 March 2013 and 4 August 2015, defines the criteria and guidelines for the remuneration of members of the Board of Directors, executives with strategic responsibilities and members of the Board of Statutory Auditors.
The remuneration policy was prepared:

- pursuant to Article 6 of the Corporate Governance Code of listed companies, approved in March 2010 and subsequent amendments and supplements;
- in line with Recommendations 2004/913/EC and 2009/385, which were incorporated into law with Article 123-ter of the Consolidated Law on Finance (TUF).

This Policy, applied from the date of approval by the Board of Directors, was fully implemented as of 2012 following the appointment of the corporate bodies.

With the introduction of the Policy, the remuneration system was extended to include a long-term incentive component, which was previously not provided for.

Corporate bodies and persons involved in preparing, approving and implementing the remuneration policy

The General Remuneration Policy was approved by the Board of Directors on 22 December 2011 and updated on 20 March 2013 and 4 August 2015, at the proposal of the Remuneration Committee, as explained in the paragraphs below.
No independent experts or advisors contributed to the preparation of the policy, nor were the remuneration policies of other companies used for reference purposes.
Specifically, it is the responsibility:

- of the Remuneration and Nomination Committee:
  - to make proposals to the Board of Directors, in the absence of the persons directly concerned, for remuneration of the CEO and directors holding specific positions,
  - to make suggestions concerning the setting of targets to which the annual variable component and long-term incentives should be linked, in order to ensure alignment with shareholders' long-term interests and the company's strategy,
  - to evaluate the criteria for the remuneration of executives with strategic responsibilities and make appropriate recommendations to the Board,
  - to monitor the application of decisions adopted by the Board;
- of the Board of Directors, to properly implement the remuneration policy;
- of the Human Resources Department, to actually enact what is decided upon by the Board.

The Remuneration and Nomination Committee currently in office comprises four non-executive members, the majority of them independent (Fausto Gardoni, Giuseppe Cavalli and Renato Camodeca and Alessandro Potestà), with the knowledge and experience in accounting, finance and remuneration policies that is deemed adequate by the Board of Directors.

Purpose of the remuneration policy

The Company's intention is that the General Remuneration Policy:

- attracts, motivates and increases the loyalty of persons with appropriate professional expertise;
- brings the interests of the management into line with those of the shareholders;
- favours the creation of sustainable value for shareholders in the medium to long term, and maintains an appropriate level of competitiveness for the company in the sector in which it operates.

Fixed annual component

Directors

At the proposal of the Board of Directors, having obtained the opinion of the Remuneration and Nomination Committee, the shareholders determine a maximum total for the remuneration of all members of the Board, including a fixed amount and attendance fees.

In accordance with this maximum total, at the proposal of the Remuneration and Nomination Committee and subject to the opinion of the Board of Statutory Auditors, the Board of Directors determines additional remuneration for directors vested with special powers.

The fixed component is such that it is able to attract and motivate individuals with appropriate expertise for the roles entrusted to them within the Board, and is set with reference to the remuneration awarded for the same positions by other listed Italian industrial groups of a similar size.

It is the practice of Sabaf S.p.A. to appoint exponents of the Saleri family, controlling shareholder of the Company through the Company Giuseppe Saleri S.a.p.A., as Chairman and Vice Chairmen. To these directors, although executives, are not recognised variable compensations, but only additional compensations to those as directors for the particular offices held.

Directors who sit on committees formed within the Board (Internal Control and Risk Committee, Remuneration and Nomination Committee) are granted remuneration that includes a fixed salary and attendance fees intended to reward the commitment required of them.

Other executives with strategic responsibilities

Employment relationships with other executives with strategic responsibilities are governed by the Collective National Contract for Industrial Managers. In this regard, fixed remuneration is determined so that it is sufficient in itself to guarantee an appropriate basic salary level, even in the event that the variable components are not paid owing to a failure to reach objectives.

Board of Statutory Auditors

The amount of remuneration for Auditors is set by the Shareholders' Meeting, which establishes a fixed amount for the Chairman and the other Statutory Auditors.

Annual variable component

The Chief Executive Officer, other executives with strategic responsibilities and other managers identified by the CEO from amongst managers who report directly to him or who report to the above-mentioned managers, are granted annual variable remuneration related to an MBO plan.

This plan sets a common objective (Group EBIT, which is considered to be the Group's main indicator of financial performance) and quantifiable and measurable individual objectives, both economic-financial and technical-productive in nature. All objectives are set by the Board of Directors, at the proposal of the Remuneration and Nomination Committee, in accordance with the budget.

The variable component may not exceed 25% of the fixed annual gross salary; it may be only partially granted in the event that the objectives are not completely met.

75% of the variable component is paid out in the April of the following year, and 25% in the January of the second subsequent year.

Non-executive directors are not granted any variable remuneration.

Long-term incentives

A long-term financial incentive dependent on measurable and predetermined performance targets relating to the creation of value for shareholders over the long term has been established.

The incentive extends over three years (2015-2017) and is exclusively aimed at the Chief Executive Officer and executives with strategic responsibilities.

The performance targets, set in accordance with the three-year business plan, are proposed by the Remuneration and Nomination Committee to the Board of Directors, as the body responsible for approving the long-term financial incentive.

The targets that set the parameters for the long-term incentive (consolidated Group EBITDA, share value and consolidated Group free cash flow) were defined by the Board of Directors on 4 August 2015, on the recommendation of the Remuneration and Nomination Committee.

The total long-term variable component for three years may not exceed 50% of the fixed annual gross salary; it may be only partially granted in the event that the objectives are not completely met. In the event that the objectives assigned are exceeded by more than 10%, an increase of 5% of the fixed annual gross salary and remuneration is granted, weighted based on the weight of the objective.

The variable component is paid in full following the approval of the financial statements of the third year to which the incentive relates (2017).

At the date of this report for the two executives with strategic responsibilities identified as such by the Board of Directors on 4 August 2016 a long-term incentive was not instituted.

Incentives based on financial instruments

The remuneration policy in force does not provide for the use of incentives based on financial instruments (stock options, stock grants, phantom stocks or others).

Remuneration for offices in subsidiaries

Directors and other executives with strategic responsibilities may be granted remuneration – exclusively as a fixed amount – for offices held in subsidiaries. As well as the approval of the subsidiaries' corporate bodies, this remuneration is subject to the favourable opinion of the Remuneration and Nomination Committee.

Non-monetary benefits

The Company has taken out a third-party civil liability insurance policy in favour of directors, statutory auditors and executives for unlawful acts committed in the exercise of their respective duties, in violation of obligations established by law and the Bylaws, with the sole exclusion of deliberate intent. The stipulation of this policy was approved by the Shareholders' Meeting.

The Company also provides a life insurance policy and cover for medical expenses (FASI) for executives, as established by the Collective National Contract for Industrial Managers; moreover, it has stipulated an additional policy to cover medical expenses not covered by FASI reimbursements.

Lastly, at the proposal of the Remuneration and Nomination Committee, and having consulted with the CEO, the Board of Directors also assigns company cars to executives.

Indemnity against the early termination of employment

There are no agreements for directors or other executives with strategic responsibilities governing ex ante financial settlements following the early termination of the employment relationship.

For the end of the relationship for reasons other than just cause or justified reasons provided by the employer, it is the Company's policy to pursue consensual agreements to end the employment relationship, in accordance with legal and contractual obligations.

The Company does not provide directors with benefits subsequent to the end of their mandate.

The Company has entered into a non-competition agreement with the CEO and with certain executives who report to him, the terms of which were approved by the Board of Directors, after obtaining the opinion of the Remuneration and Nomination Committee.

Claw Back clauses

The Company has decided not to establish mechanisms for the ex-post adjustment of the variable remuneration component or claw back clauses to demand the return of all or part of the variable components of remuneration paid out (or to withhold deferred sums), which were determined on the basis of data subsequently found to be clearly incorrect.
This decision was made as the variable incentive plans are based on pre-established, quantifiable and measurable performance data, both economic-financial and technical-productive in nature, the achievement of which is verified in advance.
The company reserves the unilateral right to include claw back clauses in future annual and/or long-term variable incentive plans.

SECTION II - REMUNERATION OF THE MEMBERS OF THE BOARD OF DIRECTORS AND THE BOARD OF STATUTORY AUDITORS AND OTHER EXECUTIVES WITH STRATEGIC RESPONSIBILITIES IN 2016

This section, which details remuneration paid to directors and statutory auditors:

- adequately describes each of the items that make up the remuneration, showing their consistency with the Company's remuneration policy approved the previous year;
- analytically illustrates the remuneration paid in the financial year under review (2016), for any reason and in any form, by the Company or by subsidiaries or affiliates, identifying any components of this remuneration that relate to activities undertaken in previous years to the year under review.

The components of the remuneration paid to directors for 2016

The remuneration granted to directors for 2016, in accordance with the Policy described in Section I, consisted of the following components:

- fixed remuneration, approved by the Shareholders' Meeting of 5 May 2015, totalling €225,000, of which €15,000 are to be allocated indiscriminately to every director, and €10,000 to every non-executive member of the Internal Control and Risk Committee and/or the Remuneration and Nomination Committee;
- additional remuneration, approved by the Shareholders' Meeting of 5 May 2015, totalling €755,000 divided among Directors vested with special powers (Chairman, Vice Chairmen and Chief Executive Officer) as detailed in the table below;
- additional remuneration, approved by the Shareholders' Meeting of 28 April 2016, totalling €15,000, attributed entirely to the newly-elected director by the Shareholders' Meeting itself;
- an attendance fee of €1,000, due to non-executive directors only, for every occasion on which they attend Board of Directors' meetings and the meetings of committees formed within the Board.

With regard to the variable incentive plan established for 2015, the remuneration that accrued and was paid out during the year with regard to the CEO, Alberto Bartoli, and the remuneration accrued by the Director Gianluca Beschi was an overall €79,993.

With reference to the MBO 2016 plan, given the failure to achieve the objectives assigned, a compensation has not been accrued.

There are no incentive plans based on financial instruments, or compensation for termination of employment.

The Company has entered into a non-competition agreement with the CEO and with certain executives who report to him, the terms of which were approved by the Board of Directors, after obtaining the opinion of the Remuneration and Nomination Committee.

Remuneration of Statutory Auditors for 2016

The remuneration granted to the Statutory Auditors for 2016 consists of a fixed payment determined by the Shareholders' Meeting of 5 May 2015.

Remuneration of executives with strategic responsibilities for 2016

The executive with strategic responsibilities (three persons, two of whom are already directors at Sabaf, identified as strategic directors by the Board of Directors on 4 August 2016) receives a fixed remuneration component for employment totalling €379,426, and a variable component totalling €67,150, disbursed in 2016 in relation to the 2015 variable incentive plan (MBO).

Other remuneration totalling €91,500 was also disbursed by subsidiaries.

In 2016, overall variable remuneration of €33,050 was accrued for the achievement of some of the objectives of the 2016 MBO plan. Its payment is deferred and dependent upon the continuation of the employment relationship.
There are no incentive plans based on financial instruments outstanding.

For details on the fees paid in the 2016 financial year, please refer to the tables below (Tab. 1 and Tab. 2), which contain remuneration paid to directors and statutory auditors, listed by name, and, at the aggregate level, other executives with strategic responsibilities currently in office, taking into account any roles held for less than the entire year. Remuneration received from subsidiaries and/or affiliates, with the exception of that waived or paid back to the Company, is also indicated separately.

With particular reference to Table 1, the column:

- "Fixed remuneration" shows, for the portion relating to 2016, the fixed remuneration approved by the Board of Directors on 5 May 2015; meeting attendance fees as approved by the Board of Directors on 5 May 2015; employee compensation due for the year gross of social security contributions and income taxes owed by the employee. Eventual flat-rate reimbursements are excluded.
- "Remuneration for attendance at Committee meetings", shows, for the portion relating to 2016, the remuneration due to directors who attended the meetings of the Committees set up within the Board and the related attendance fees as approved by the Board of Directors on 5 May 2015.
- "Bonus and other incentives" includes the remuneration paid in 2016 to executives with strategic responsibilities for objectives met in the year, set out in the 2015 MBO plan. This value corresponds to the sum of the amounts provided in Table 2 in the "Bonus for the year - payable/paid", "Bonus of previous years - payable/paid" and "Other bonuses" columns.
- "Non-monetary benefits" shows, according to accrual and tax liability criteria, the value of outstanding insurance policies and the company cars assigned.
- "Other remuneration" shows, for the portion attributable to 2016, any other remuneration resulting from other services provided.
- "Indemnity for end of office or termination of employment relationship" records the portions for the year relating to payments accrued under the scope of the Non-Competition Agreement signed by the CEO and Executives with strategic responsibilities.
- "Total" shows the sum of the amounts provided under the previous items.

For a breakdown of other items, see attachment 3A, statement 7-bis and 7-ter of Consob Regulation 11971 of 14 May 1999.

Finally, pursuant to Article 84-quater, paragraph four of the Consob Issuers' Regulations, Table 3 shows shareholdings in Sabaf S.p.A. held by directors and executives with strategic responsibilities, as well as their non-separated spouses and dependent children, directly or through subsidiaries, trust companies or third parties, as shown in the shareholder register, communications received and other information acquired from the same parties. This includes all persons who held office during the year, even for only part of the year. The number of shares held is shown by individual director and in aggregate form for executives with strategic responsibilities.

TAB. 1 - Remuneration paid to members of the Board of Directors and Board of Statutory Auditors and other executives with strategic responsibilities in 2016

FIGURES IN EURO

Name and surname	Office	Period of office	Expiry of office	Fixed remuneration	Remuneration for attendance at Committee meetings	Variable remuneration (non equity)		Non-monetary benefits	Other remuneration	Total	Fair Value of equity remunera-tion	Indemnity for end of office or termination employment relationship
						Bonus and other incentives	Profit sharing					
BOARD OF DIRECTORS												
Giuseppe Saleri	Chairman	1 Jan - 31 Dec 2016	Approval of 2017 F.S.									
(I) Remuneration at Sabaf S.p.A.				120,000 [(a)]	0	0	0	0	0	120,000	0	0
(II) Remuneration from subsidiaries and affiliates				8,000	0	0	0	0	0	8,000	0	0
(III) TOTAL				**128,000**	**0**	**0**	**0**	**0**	**0**	**128,000**	**0**	**0**

(a) Of which €15,000 as Director and €105,000 as Chairman.

Ettore Saleri	Vice Chairman	1 Jan - 31 Dec 2016	Approval of 2017 F.S.									
(I) Remuneration at Sabaf S.p.A.				140,000 [(a)]	0	0	0	0	0	140,000	0	0
(II) Remuneration from subsidiaries and affiliates				8,000	0	0	0	0	0	8,000	0	0
(III) TOTAL				**148,000**	**0**	**0**	**0**	**0**	**0**	**148,000**	**0**	**0**

(a) Of which €15,000 as Director and €125,000 as Vice Chairman.

Cinzia Saleri	Vice Chairman	1 Jan - 31 Dec 2016	Approval of 2017 F.S.									
(I) Remuneration at Sabaf S.p.A.				140,000 [(a)]	0	0	0	0	0	140,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) TOTAL				**140,000**	**0**	**0**	**0**	**0**	**0**	**140,000**	**0**	**0**

(a) Of which €15,000 as Director and €125,000 as Vice Chairman.

Name and surname	Office	Period of office	Expiry of office	Fixed remuneration	Remuneration for attendance at Committee meetings	Variable remuneration (non equity)		Non-monetary benefits	Other remuneration	Total	Fair Value of equity remunera-tion	Indemnity for end of office or termination employment relationship
						Bonus and other incentives	Profit sharing					
Roberta Forzanini	**Vice Chairman**	**1 Jan - 31 Dec 2016**	**Approval of 2017 F.S.**									
(I) Remuneration at Sabaf S.p.A.				140,000 [a]	0	0	0	0	0	140,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) TOTAL				**140,000**	**0**	**0**	**0**	**0**	**0**	**140,000**	**0**	**0**

(a) Of which €15,000 as Director and €125,000 as Vice Chairman.

Alberto Bartoli	**CEO**	**1 Jan - 31 Dec 2016**	**Approval of 2017 F.S.**									
(I) Remuneration at Sabaf S.p.A.				290,000 [a]	0	0 [b]	0	0	0	290,000	0	0
(II) Remuneration from subsidiaries and affiliates				11,000	0	0	0	0	0	11,000	0	0
(III) TOTAL				**301,000**	**0**	**0**	**0**	**0**	**0**	**301,000**	**0**	**0**

(a) Of which €15,000 as Director and €275,000 as Chief Executive Officer.
(b) Compensation accrued in the 2016 financial year in reference to the MBO plan – for details, please refer to what is reported in Tab. 2.

Gianluca Beschi	**Director**	**1 Jan - 31 Dec 2016**	**Approval of 2017 F.S.**									
(I) Remuneration at Sabaf S.p.A.				159,499 [a]	0	0 [b]	0	14,371	0	173,870	0	0
(II) Remuneration from subsidiaries and affiliates				40,000	0	0	0	0	0	40,000	0	0
(III) TOTAL				**199,499**	**0**	**0**	**0**	**14,371**	**0**	**213,870**	**0**	**0**

(a) Of which €15,000 as director and €144,499 as Administration, Finance and Control Director.
(b) Compensation accrued in the 2016 financial year in reference to the MBO plan – for details, please refer to what is reported in Tab. 2.

Renato Camodeca	**Director**	**1 Jan - 31 Dec 2016**	**Approval of 2017 F.S.**									
(I) Remuneration at Sabaf S.p.A.				24,000 [a]	28,000 [b]	0	0	0	0	52,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) TOTAL				**24,000**	**28,000**	**0**	**0**	**0**	**0**	**52,000**	**0**	**0**

(a) Of which €15,000 as director and €9,000 in board meeting attendance fees.
(b) Of which €20,000 as a member of the Internal Control and Risk Committee and the Remuneration and Nomination Committee (i.e., €10,000 each) and €8,000 in Committee meeting attendance fees.

Giuseppe Cavalli	**Director**	**1 Jan - 31 Dec 2016**	**Approval of 2017 F.S.**									
(I) Remuneration at Sabaf S.p.A.				23,000 [a]	27,000 [b]	0	0	0	0	50,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) TOTAL				**23,000**	**27,000**	**0**	**0**	**0**	**0**	**50,000**	**0**	**0**

(a) Of which €15,000 as director and €8,000 in board meeting attendance fees.
(b) Of which €20,000 as a member of the Internal Control and Risk Committee and the Remuneration and Nomination Committee (i.e., €10,000 each) and €7,000 in Committee meeting attendance fees.

Name and surname	Office	Period of office	Expiry of office	Fixed remuneration	Remuneration for attendance at Committee meetings	Variable remuneration (non equity)		Non-monetary benefits	Other remuneration	Total	Fair Value of equity remunera-tion	Indemnity for end of office or termination employment relationship
						Bonus and other incentives	Profit sharing					
Fausto Gardoni	Director	1 Jan - 31 Dec 2016	Approval of 2017 F.S.									
(I) Remuneration at Sabaf S.p.A.				24,000 (a)	15,000 (b)	0	0	0	0	39,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) TOTAL				**24,000**	**15,000**	**0**	**0**	**0**	**0**	**39,000**	**0**	**0**

(a) Of which €15,000 as director and €9,000 in board meeting attendance fees.
(b) Of which €10,000 as a member of the Remuneration and Nomination Committee and €5,000 in Committee meeting attendance fees.

Nicla Picchi	Director	1 Jan - 31 Dec 2016	Approval of 2017 F.S.									
(I) Remuneration at Sabaf S.p.A.				23,000 (a)	13,000 (b)	0	0	0	15,000	51,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	5,000	5,000	0	0
(III) TOTAL				**23,000**	**13,000**	**0**	**0**	**0**	**20,000** (c)	**56,000**	**0**	**0**

(a) Of which €15,000 as director and €8,000 in board meeting attendance fees.
(b) Of which €10,000 as a member of the Internal Control and Risk Committee and €3,000 in Committee meeting attendance fees.
(c) Of which €15,000 as member of the Sabaf S.p.A. Supervisory Body and €5,000 as member of the Supervisory Body of the subsidiary Faringosi Hinges S.r.l.

Anna Pendoli	Director	1 Jan - 31 Dec 2016	Approval of 2017 F.S.									
(I) Remuneration at Sabaf S.p.A.				24,000 (a)	0	0	0	0	0	24,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) TOTAL				**24,000**	**0**	**0**	**0**	**0**	**0**	**24,000**	**0**	**0**

(a) Of which €15,000 as director and €9,000 in board meeting attendance fees.

Alessandro Potestà	Director	28 Apr - 31 Dec 2016	Approval of 2017 F.S.									
(I) Remuneration at Sabaf S.p.A.				15,000	0	0	0	0	0	15,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) TOTAL				**15,000**	**0**	**0**	**0**	**0**	**0**	**15,000**	**0**	**0**

Name and surname	Office	Period of office	Expiry of office	Fixed remuneration	Remuneration for attendance at Committee meetings	Variable remuneration (non equity)		Non-monetary benefits	Other remuneration	Total	Fair Value of equity remunera-tion	Indemnity for end of office or termination employment relationship
						Bonus and other incentives	Profit sharing					
BOARD OF STATUTORY AUDITORS												
Antonio Passantino	**Chairman**	**1 Jan - 31 Dec 2016**	**Approval of 2017 F.S.**									
(I) Remuneration at Sabaf S.p.A.				24,000	0	0	0	0	0	24,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) TOTAL				**24,000**	**0**	**0**	**0**	**0**	**0**	**24,000**	**0**	**0**
Luisa Anselmi	**Chairman**	**1 Jan - 31 Dec 2016**	**Approval of 2017 F.S.**									
(I) Remuneration at Sabaf S.p.A.				16,000	0	0	0	0	0	16,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) TOTAL				**16,000**	**0**	**0**	**0**	**0**	**0**	**16,000**	**0**	**0**
Enrico Broli	**Statutory Auditor**	**1 Jan - 31 Dec 2016**	**Approval of 2017 F.S.**									
(I) Remuneration at Sabaf S.p.A.				16,000	0	0	0	0	0	16,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) TOTAL				**16,000**	**0**	**0**	**0**	**0**	**0**	**16,000**	**0**	**0**

Name and surname	Office	Period of office	Expiry of office	Fixed remuneration	Remuneration for attendance at Committee meetings	Variable remuneration (non equity)		Non-monetary benefits	Other remuneration	Total	Fair Value of equity remunera-tion	Indemnity for end of office or termination employment relationship
						Bonus and other incentives	Profit sharing					
OTHER EXECUTIVES WITH STRATEGIC RESPONSIBILITIES												
Other executives with strategic responsibilities (n° 3) *(a)*		**1 Jan - 31 Dec 2016**	**N/A**									
(I) Remuneration at Sabaf S.p.A.				379,426	0	33,050 *(b)*	0	49,781	0	462,257	0	41,713
(II) Remuneration from subsidiaries and affiliates				94,000	0	0	0	0	0	94,000	0	0
(III) TOTAL				**473,426**	**0**	**33,050**	**0**	**49,781**	**0**	**556,257**	**0**	**41,713**

(a) Of which 2 have been identified as strategic managers by the Board of Directors on 4 August 2016 (and already executives at Sabaf).
(b) Compensation accrued in the 2016 financial year in reference to the MBO plan – for details, please refer to what is reported in Tab. 2.

TAB. 2 - Monetary incentive plans for members of the administration body and other executives with strategic responsibilities

FIGURES IN EURO

Name and surname	Office	Plan	Payable / Paid	Deferred	Deferment period	No longer payable	Payable / Paid	Still Deferred	Other bonuses
			Bonus for the year			Bonus of previous years			
Alberto Bartoli	**CEO**								
Remuneration at Sabaf S.p.A.		2015 MBO Plan (March 2015)	-	-	0	0	54,000	0	0
Remuneration at Sabaf S.p.A.		2016 MBO Plan (March 2016)	0	0	75% 17 Mar 25% 17 Dec	-	-	-	0
TOTAL			**0**	**0**	**-**	**0**	**54,000**	**0**	**0**
Gianluca Beschi	**Executive Director**								
Remuneration at Sabaf S.p.A.		2015 MBO Plan (March 2015)	-	-	-	0	25,993	0	0
Remuneration at Sabaf S.p.A.		2016 MBO Plan (March 2016)	0	0	75% 17 Mar 25% 17 Dec	-	-	-	0
TOTAL			**0**	**0**	**-**	**0**	**25,993**	**0**	**0**
Other executives with strategic responsibilities (n° 3)									
Remuneration at Sabaf S.p.A.		2015 MBO Plan (March 2015)	-	-	-	0	67,150	0	0
Remuneration at Sabaf S.p.A.		2016 MBO Plan (March 2016)	0	33,050	75% 17 Mar 25% 17 Dec	-	-	-	0
TOTAL			**0**	**33,050**	**-**	**0**	**67,150**	**0**	**0**

TAB. 3 - Shareholdings of members of the administration and control bodies and other executives with strategic responsibilities

FIGURES IN EURO

Surname and Name	Office	Type of Ownership	Investee Company	No. shares held at 31 Dec 2015	No. shares acquired	No. shares sold	No. shares held at 31 Dec 2016
Saleri Giuseppe	Chairman	Indirect through the subsidiary Giuseppe Saleri S.a.p.A.	Sabaf S.p.A.	5,850,003	-	2,306,690	3,543,313
Roberta Forzanini	Vice Chairman	Direct	Sabaf S.p.A.	4,051	-	2,080	1,971
Bartoli Alberto	CEO	Direct	Sabaf S.p.A.	7,500	-	-	7,500
		Indirect through spouse		1,000			1,000
Cavalli Giuseppe	Independent Director	Indirect through spouse	Sabaf S.p.A.	5,000	-	-	5,000
Anna Pendoli	Director	Direct	Sabaf S.p.A.	450,000	-	-	450,000

Executives with strategic responsibilities (n° 3)	-	Direct	Sabaf S.p.A.	4,300	-	-	4,300

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