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INTRODUCTION TO THE ANNUAL REPORT

The publication of the Sabaf Group Annual Report, now in its thirteenth edition, confirms the Group's commitment, undertaken since 2005, to the integrated reporting of its economic, social and environmental performance.

Sabaf, one of the first companies at international level to take advantage of the trend of integrated reporting, intends to continue along this path, drawing inspiration from the International Framework on Sustainability Reporting of the International Integrated Reporting Council (IIRC), aware that integrated, complete and transparent reporting can help both companies themselves, through a better understanding of the strategy and greater internal cohesion, and the investment community, which can thus understand more clearly the link between strategy, governance and business performance.

The Annual Report provides an overview of the Group's business model and the process of creating corporate value. The Business Model and the main results achieved (Summary Key Performance Indicators) are presented from the perspective of capital used (financial, social and relational, human, intellectual, infrastructural and natural) to create value over time, generating results for the business, with positive impacts on the community and stakeholders as a whole. "Non-financial indicators" include the results achieved in managing and enhancing intangible capital, the main driver that allows monitoring the ability of the company's strategy to create value in a perspective of medium/long-term sustainability.

Sabaf adopts a virtuous approach also in relation to the compliance with the new regulatory requirements in relation to non-financial reporting. On 30 December 2016, Legislative Decree 254 came into force, which, in implementation of Directive 2014/95/EU on Non-financial and diversity information, requires relevant public interest entities (PIEs) to communicate non-financial and diversity information starting with the 2017 financial statements. Therefore, as PIEs, Sabaf prepared the Consolidated Non-financial Statement in which the main policies practised by the company, the management models, risks, the activities carried out by the Group during the year 2017 and the related performance indicators with regard to the issues expressly referred to in Legislative Decree 254/2016 (environmental, social, staff-related, respect for human rights, fight against corruption) are presented, and to the extent necessary to ensure understanding of the company's business, its performance, results and impacts.

The Group's commitment was also confirmed by the "Oscar di Bilancio" award, a historic contest promoted and organised by the Italian Public Relations Federation (FERPI), which for over fifty years has been awarding prizes to the most virtuous businesses in financial reporting and in dealing with all stakeholders. In the 2017 edition, Sabaf was awarded the "Oscar" in the category of "Small and Medium-Sized Listed Companies", for having prepared financial statements that stand out for reporting quality of both financial and sustainability aspects.

Letter of the Chief executive officer to the stakeholders

Dear shareholders and stakeholders,

I sign this first letter as the Group's Chief Executive Officer seven months after my arrival at Sabaf.

An excellent company whose quality I had known, but whose values, ethics and ability to grow while respecting work, people and sustainability I was also able to appreciate during this period.

These are characteristics that we must not take for granted and which we do not intend to disregard in the growth project with which we want to face the future.

Here I found a healthy group with enormous potential: the challenge is to seize the potential to the full to trigger further both organic growth and growth through acquisitions, through a policy of acquisitions that can also increase our product offer in sectors adjacent to those currently in place.

2017 was a year of high volumes and good margins, which allowed the company to return to levels close to 2010. 2018 is expected to be positive, although at a slightly slower pace than the previous year: this is the basis that we intend to consolidate for a qualitative leap forward.

It is not a question of making Sabaf different from what it is, on the contrary; it is a question of making it more aware of its own means and its role as a global player in the market of components for household appliances and similar. We plan to grow and this growth will obviously continue to be driven by the factory of Ospitaletto, and by our factories in Turkey and Brazil, where many of our customers operate, as fuel and flywheel.

The whole world remains our field of action: China, India, the United States and South America are borders in which we want to play an increasingly important role. These are the markets where growth is most significant and we cannot ignore them.

We have the expertise and cutting-edge technologies to ensure that we have the conditions for a sustainable and profitable development. We will continue to invest in these assets, leveraging a young and motivated team whose determination and high level training we consider fundamental.

The Industry 4.0 factory here is already a reality that must allow us to be flexible and ready to seize market opportunities even in a continuously uncertain context like the current one. And to whose fluctuations we want to respond with greater competitiveness and productivity gains, both through further process improvements and through significant differentiation of products and markets. This in order to absorb in a wider scenario what, in some cases, can be local or contingent criticalities.

In short, we want to grow by exploiting the "muscles" that the Group has developed over the years and that in the near future can help us to further strengthen our company and our image, with a view to achieving profitability that we intend to maintain, because it is the guarantee of a calm and determined growth for the future. We intend to continue a determined investment policy: all the profitability generated, once the dividends have been paid, will be invested in the development of our company.

We know how difficult it is for this country to adopt an effective industrial policy: for example, energy costs are much higher here than elsewhere.

We do not, however, intend to make this an alibi and I would also like to point out that in recent months we have signed the company's supplementary contract after negotiations that were sometimes difficult, but which were carried out without any strike. This confirms our desire for openness and inclination towards social responsibility, through a constructive approach to industrial relations.

We hope that this will be the trait that will characterise Sabaf's future: growth, work ethics, mutual respect between the company and its stakeholders.

Pietro Iotti

Key performance indicators in summary (KPI)

Economic capital		2017	2016	2015
Sales Revenues	€/000	150,223	130,978	138,003
EBITDA	€/000	30,955	25,365	26,172
EBIT	€/000	18,117	12,530	14,091
Pre-tax profit	€/000	17,804	12,446	13,474
Net Profit	€/000	14,835	9,009	8,998
Working capital	€/000	50,753	46,084	48,163
Invested capital	€/000	140,588	135,835	136,948
Shareholders' equity	€/000	115,055	112,309	111,040
Net financial debt	€/000	25,533	23,458	25,908
ROCE (return on capital employed)	%	12.9	9.2	10.3
Dividends paid out	€/000	5,386	5,467	4,613

Human capital		2017	2016	2015
Average age of personnel (sum of employee age/total employees at 31/12)	Years	39.0	38.6	37.7
Level of education (number of graduates/total employees at 31/12)	%	57.3	57.2	55.7
Leaving turnover (employees resigned and dismissed/total employees at 31/12)				
□ men	%	13.3	15.4	25.1
□ women	%	10.4	8.5	18.9
Hours of training per employee (hours of training/average employees)	hours	19.8	15.7	17.5
Investments in training/turnover	%	0.28	0.23	0.33
Hours of strike for internal causes	number	0	0	0
Total employees	number	756	736	759
□ men	%	65.6	65.5	65.1
□ women	%	34.4	34.5	34.9
Illness rate (hours of illness/total hours worked)	%	2.50	3.28	2.93
Injury frequency rate (number of injuries (excluding injuries while travelling to/from work) x 1,000,000/total hours worked)		14.68	9.21	13.73
Injury severity index (days of absence (excluding injuries while travelling to/from work) x 1,000/total hours worked)		0.13	0.04	0.40
Jobs created (lost)	number	2 ¹	-23	33

¹ This figure also takes into account the staff of A.R.C. at 31 December 2016.

Relational capital		2017	2016	2015	
Value of goods and services outsourced:					
<input type="checkbox"/>	brass moulding and aluminium die-casting	€/000	2,761	2,635	4,010
<input type="checkbox"/>	other processing	€/000	3,386	3,226	3,502
Customer waste (charges from customers and credit notes to customers for returns/turnover)		%	0.09	0.09	0.57
Average turnover by customer (total turnover/number of customers)		€/000	366	382	416
Percentage of turnover from new customers (turnover from new customers/turnover)		%	0.76	1.01	1.24
Percentage of top 10 customers		%	46	47	48
Percentage of top 20 customers		%	65	67	68
Customer complaints		number	335	395	320
Turnover from certified suppliers (turnover from certified suppliers/purchases)		%	70.9	68.1	50.1
Number of analysts who follow the security continuously		number	1	1	2
Lawsuits filed against Group companies		number	4	4	0
Turnover percentage of suppliers in the province of Brescia		%	30.4	36.2	28.8
Perk/profit		%	0.14	0.40	0.49

Productive capital		2017	2016	2015	
Fixed assets		€/000	93,802	93,967	92,797
Total Net Investments		€/000	14,127	11,762	12,065
IT Budget (investments + current expenditure)/turnover		%	1.1	1.0	0.8
Real investment/turnover		%	9.1	8.8	8.4
Quantities sold of Light alloy valves on Total valves and thermostats		%	87.8	80.8	73.6
Quantities sold of high energy efficiency Burners on total Burners		%	19.7	14.5	13.4

Environmental capital		2017	2016	2015	
Materials used					
<input type="checkbox"/>	brass	t	540	697	1,025
<input type="checkbox"/>	aluminium alloys	t	8,070	6,703	7,431
<input type="checkbox"/>	steel	t	7,631	7,250	6,790
Waste					
<input type="checkbox"/>	similar to urban	t	189	152	166
<input type="checkbox"/>	hazardous waste	t	2,095	2,210	2,396
<input type="checkbox"/>	non-hazardous waste	t	6,201	5,453	5,573
Natural gas consumption		m ³ x 1000	4,059	3,432	3,376
Electricity consumption		MWh	30,841	27,189	29,384
CO ₂ emissions		t	12,332	10,795	11,836
Environmental current expenditure/turnover at 31/12		%	0.39	0.43	0.40
Environmental investments/turnover at 31/12		%	0.02	0.53	0.47
Tot waste/value of production		Kg/€	0.21	0.21	0.21

Intellectual capital		2017	2016	2015
Capitalised investments in research and development	€/000	337	231	297
Hours dedicated to the development of new products/hours worked	%	1.4	1.5	1.4
Hours dedicated to process engineering/hours worked (hours dedicated to orders for the construction of new machines for new products or to increase production capacity/total hours worked)	%	2.5	2.3	3.0
Investments in intangible assets/turnover	%	0.6	0.4	0.6
Current expenditure on quality/turnover	%	0.20	0.24	0.19
Investments on quality/turnover	%	0.12	0.10	0.05
Values of waste/turnover (production waste/turnover)	%	0.74	0.87	1.22
Impact of quality costs/turnover (production waste + charges and returns from customers/turnover)	%	0.83	0.96	1.80
Number of samples for customers	number	1,245	1,154	1,069
Number of codes provided to the first 10 customers	number	1,620	2,303	2,278

Generated and distributed economic value

The analysis of the determination and distribution of economic value among stakeholders, prepared in accordance with the indications of the GRI is shown below.

The table was prepared distinguishing between three levels of economic value. The generated one, the distributed one and the one retained by the Group. The economic value represents the overall wealth created by Sabaf, which is then distributed among the various stakeholders: suppliers (operating costs), employees, lenders, shareholders, public administration and community (external perks).

(thousands of Euro)	2017	2016	Change
Economic value generated by the Group	155,408	134,937	20,471
Revenue	150,223	130,978	19,245
Other income	3,325	2,752	573
Financial income	214	101	113
Value adjustments	1,474	842	632
Bad debt provision	(93)	(189)	96
Exchange rate differences	274	435	(161)
Income/expenses from the sale of property, plant and equipment and intangible assets	(12)	18	(30)
Value adjustments to property, plant and equipment and intangible assets	0	0	0
Profits/losses from equity investments	3	0	3
Economic value distributed by the Group	133,063	118,396	14,667
Remuneration of suppliers	88,636	76,809	11,827
<i>of which for environmental expenses</i>	580	559	21
Remuneration of employees	35,328	32,112	3,216
Remuneration of lenders	804	621	183
Remuneration of shareholders ²	5,386	5,467	(81)
Remuneration of the Public Administration ³	2,888	3,351	(463)
External perks	21	36	(15)
Economic value retained by the Group	22,345	16,541	5,804
Depreciations and amortisation	12,826	12,853	(27)
Provisions	26	127	(101)
Use of provisions	(36)	(67)	31
Reserves	9,529	3,628	5,901

² The amount is estimated on the basis of the proposed dividend

³ Includes deferred taxes

Products and markets

The Sabaf Group is one of the world's leading manufacturers of components for household gas cooking appliances, with a market share of about 50% in Europe and over 10% worldwide.

The reference market is represented by manufacturers of household appliances and in particular of kitchens, hobs and ovens. Most of sales are made by the supply of original equipment, while sales of spare parts are negligible.

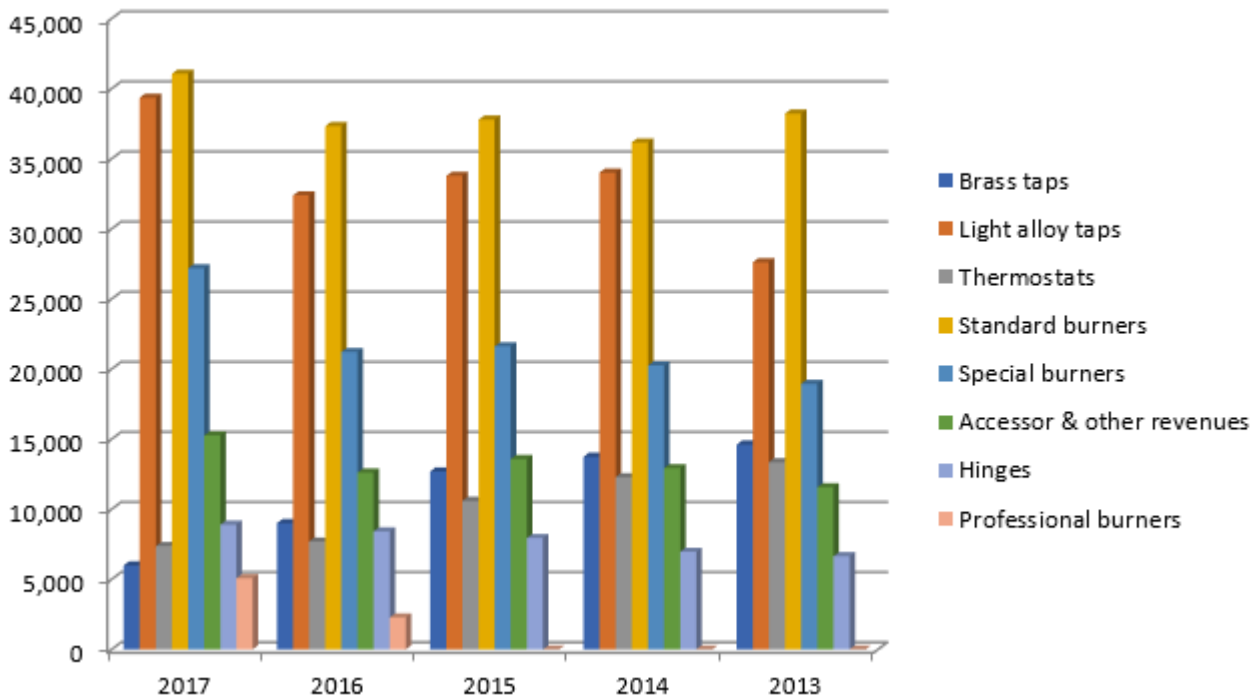
The sector of manufacturers of gas cooking appliances is characterised by the presence of:

- large multinational groups with a consolidated international presence in sales and production, with strong brands;
- manufacturers located in Countries with low labour costs that aim both to seize the opportunities offered by domestic markets and to develop rapidly on a global scale;
- manufacturers focused on specific markets, where they have leadership positions;
- manufacturers (mainly Italian manufacturers with a strong vocation for export) occupying segments where the level of product differentiation is highest (for example, built-in hobs and ovens or large free-standing kitchens).

The product range

Valves and thermostats	Burners	Hinges	Accessories
These are the components that regulate the flow of gas to the covered (of the oven or grill) or uncovered burners; the thermostats are characterised by the presence of a thermoregulator to keep the chosen temperature constant.	These are the components that, by mixing the gas with air and burning the gases used, produce one or more flame rings.	These are the components that allow movement and balancing when opening and closing the oven door, washing machine door or dishwasher door.	The Group also produces and markets a wide range of accessories, which integrate the offer of the main product lines.

Sales by product family



Sales of light alloy valves, which have now almost completely replaced brass valves, are steadily increasing. Continuous improvements in the production process allowed competitiveness to be further enhanced.

In recent years, sales of thermostats have been affected by the difficulties of the main end market (North Africa).

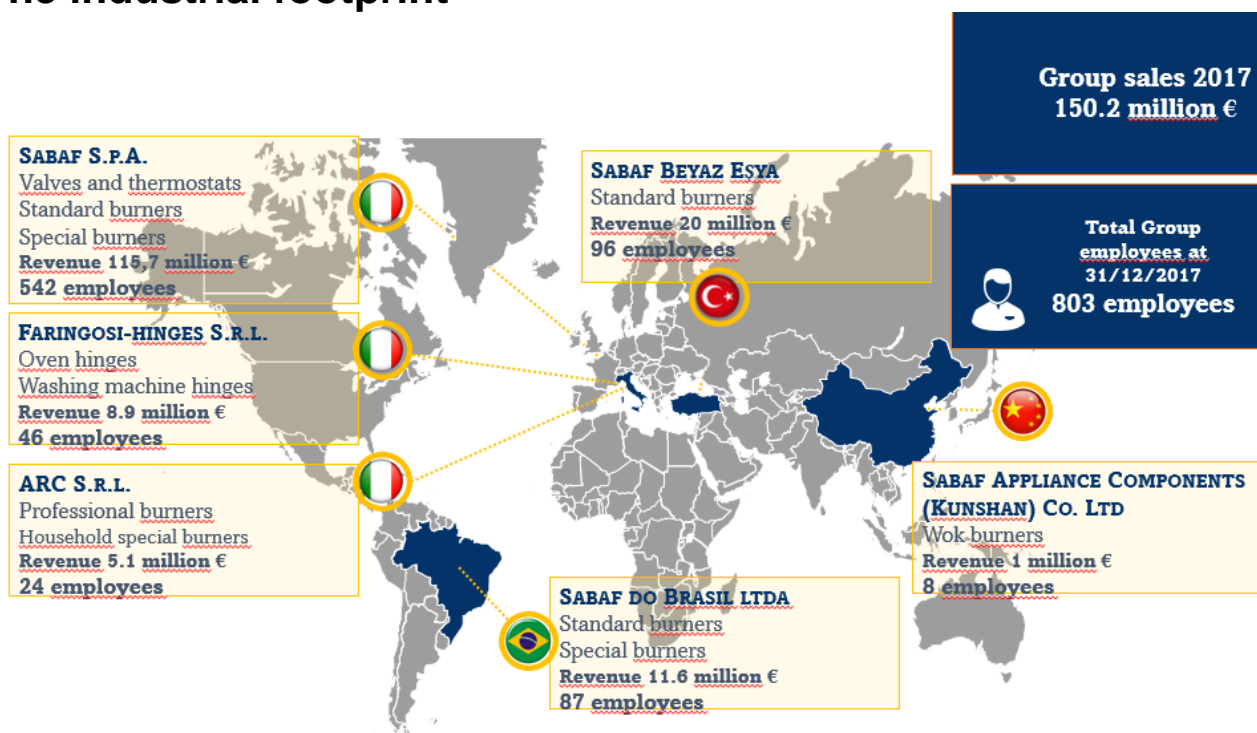
The product family with the highest growth rates is that of special burners, where innovation has been strongest in recent years.

Standard burners are the most popular products, also produced in Turkey and Brazil.

There was a good increase in sales of hinges, benefiting from solid partnerships with the main customers and the development of new products that anticipated market requirements.

Starting from 2016, the Group entered the professional burners sector, through the acquisition of A.R.C. This is a business that, thanks to its integration with Sabaf, offers excellent prospects for further development.

The industrial footprint



The reference markets

In Western Europe, which accounts for about half of the final destination market for Sabaf products, the saturation level reached by cooking appliances (the portion of families of household appliances) is close to 100%. Therefore, purchases of new appliances are mainly represented by replacement purchases. The move, purchase or renovation of a house often provide opportunities to purchase a new cooking appliance. Therefore, the market trend is directly affected by the general economic trend and in particular by the levels of disposable income for households, consumer confidence and the trend in real estate activity.

However, the level of saturation is often lower in other markets. The higher economic development rates and the more favourable demographic trend compared to Western Europe are creating great opportunities for groups such as Sabaf, which can both work with multinational manufacturers of household appliances and support local producers.

Countries and customers

	2017	2016
Countries	59	54
Customers ⁴	339	293

In line with the followed commercial policies, most of the active commercial relations are characterised by relations consolidated over the long term. There are 32 customers with annual sales of more than € 1 million (31 in 2016). The distribution by class of turnover is as follows:

	2017	2016
> € 5,000,000	7	5
from € 1,000,001 to € 5,000,000	25	26
from € 500,001 to € 1,000,000	16	13
from € 100,001 to € 500,000	52	50
< € 100,000	310	249

⁴ With sales over € 1,000

In addition to the management structure at the Ospitaletto headquarters, the commercial network is based on the subsidiaries in Brazil, Turkey, the USA and China. There are 11 agency relationships, mainly relating to non-European markets.

Sabaf's international development: challenges and opportunities

Analysis of the scenario

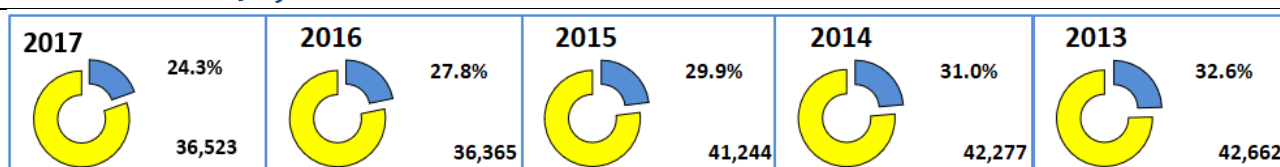
Performance data⁵

Italy

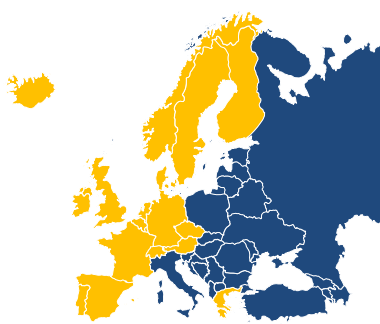


In the last ten years, the production of household appliances in Italy has been strongly reduced: some players left the sector and others relocated part of their activities to Turkey and Eastern Europe. There are still manufacturers focused mainly on the up-market or on special products, strongly dedicated to exports, which continue to show excellent results.

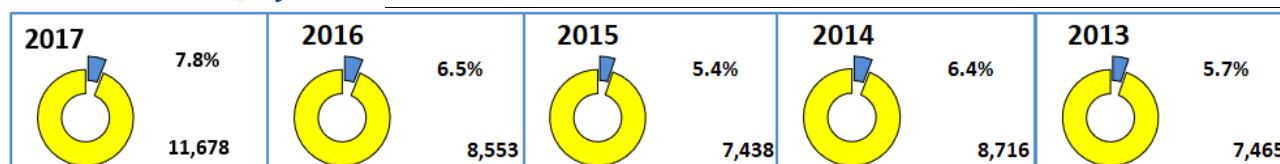
The importance of the Italian market for Sabaf is consequently lower than in the past. The majority (estimated at approximately 80%) of Sabaf's sales in Italy are destined for household appliances exported by our customers.



Western Europe

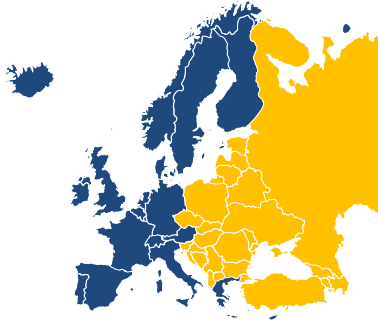


The same trend that characterised Italy was also seen in the other Western European countries: in Western Europe, up-market products remain high, where Sabaf is significantly increasing its share.



⁵ Sales by geographical area (€/000) and percentage incidence on Group sales

Eastern Europe and Turkey

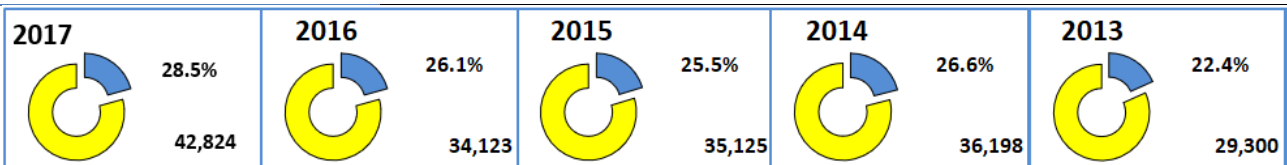


Turkey is now the state where the largest number of household appliances is produced. In this context, the opening of a production plant in Turkey and the development of new trade relations are key elements in support of the growth strategy.

Sabaf estimates that about 75% of sales in Turkey are exported by our customers (mainly in Europe); however, the Turkish domestic market is of increasing importance: the average age of the population, the number of new households and the increase in income are converging indicators of a growing demand for durable goods.

The Group's strategy is to further develop its activities in Turkey in the coming years.

The Group is also active in other Eastern European markets, where it intends to conclude new partnership agreements with customers and strengthen those already in place.



Asia and Oceania

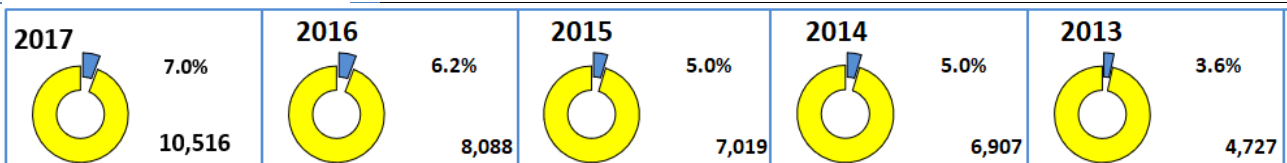


China, with its production of about 26 million hobs per year, is the most important market in the world.

After many years of commercial presence only, in 2015 Sabaf started to produce in China a special burner that guarantees an efficiency of more than 63% for the built-in hobs.

The Group, aware that it offers high quality products that are increasingly competitive compared to those supplied by local competitors, aims to establish long-term partnerships with the main Chinese hob manufacturers.

Another market with great potential is the Indian market, for which Sabaf developed a range of dedicated burners and where sales are constantly increasing, even if still with modest absolute values.



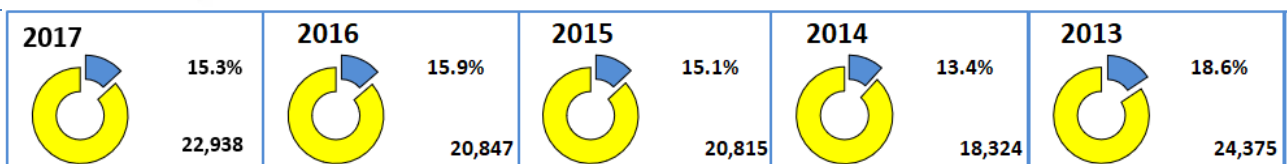
Central and South America



For future development, Sabaf can count on a **consolidated production presence** (a factory in Brazil has been operating since 2001).

The Sabaf Group believes that the development potential of this area is still extremely interesting, considering the significant size of the market and the demographic growth trends.

The product range for the local market was recently expanded, with the production of special burners in Brazil, also to meet the specific nature of demand.

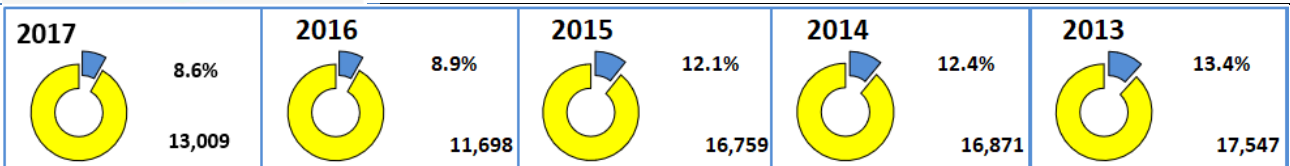


Middle East and Africa



Sabaf has a long-standing presence and reputation in the Middle East and Africa. The social, political and economic difficulties of the area inevitably condition the performance on these markets.

The Group also considers the Middle East and Africa among the most promising markets in the medium term, also in view of demographic trends and the growing rate of urbanisation.



North America and Mexico



Sabaf's presence in North America is relatively recent, but sales and market share have been growing steadily in recent years. Future plans also include the development of products co-designed with major customers and a more direct coverage on the market, possibly also through a production site.

