

Annual
Report
2017

IN
CENTERS
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Annual
Report
2017

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Creative concept



Using the "paper-cut" technique, each word was represented by objects, icons, elements cut out by hand to create paper worlds. These were photographed to construct coloured dividers to make the book easier to consult.

Every organisation's goal is to improve, personal and business Increase in different daily situations.

We have chosen eight words that, taken individually, represent areas where Sabaf constantly devotes great attention and effort to increase their value.

This concept is amplified by the initials of these nouns that together form the word "Increase," which is the focus of the 2017 Annual Report. It is a metaphor that represents the value of a great organisation, such as Sabaf, where each part gives value and increases the other, in the increasingly fundamental team-game necessary to compete in today's market.

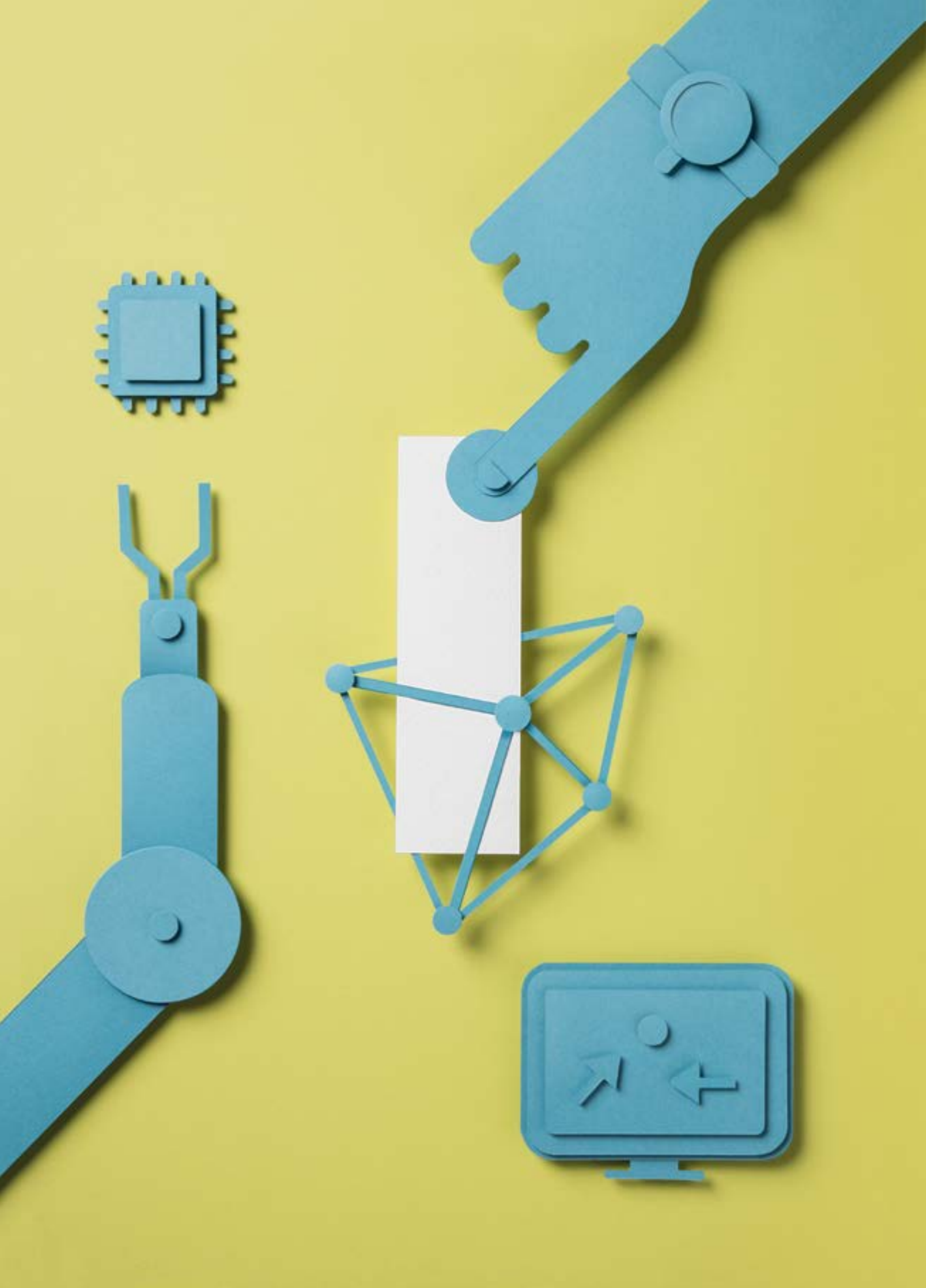
All Creative Agency



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Innovation

Driven by ongoing research and by continuous process and product innovations ensuring social progress, we offer cutting-edge solutions rooted in an experimental approach with a view to creating long-term value.

Introduction to the Annual Report

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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

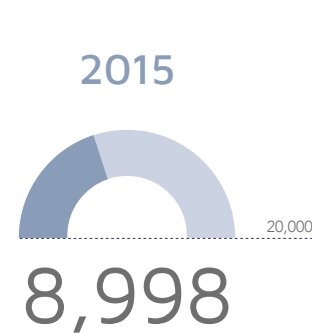
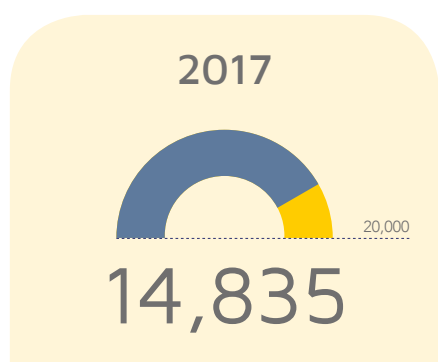
Key performance indicators in summary (KPI)

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

NET PROFIT

€/000



HUMAN CAPITAL



AVERAGE AGE OF PERSONNEL
(sum of employee age/total employees at 31/12)

YEARS



LEVEL OF EDUCATION
(number of graduates/total employees at 31/12)

%



LEAVING TURNOVER
(employees resigned and dismissed/total employees at 31/12)

% ♂

% ♀



HOURS OF TRAINING PER EMPLOYEE
(hours of training/average employees)

HOURS

Year	Average Age of Personnel (Years)	Level of Education (%)	Leaving Turnover (Male %)	Leaving Turnover (Female %)	Hours of Training per Employee (Hours)
2017	39.0	57.3	13.3	10.4	19.8
2016	38.6	57.2	15.4	8.5	15.7
2015	37.7	55.7	25.1	18.9	17.5



INVESTMENTS IN TRAINING/TURNOVER

%



HOURS OF STRIKE FOR INTERNAL CAUSES

N°



TOTAL EMPLOYEES

N°

% ♂

% ♀



ILLNESS RATE
(hours of illness/total hours worked)

%

Year	Investments in Training/Turnover (%)	Hours of Strike for Internal Causes (N°)	Total Employees (N°)	Total Employees (Male %)	Total Employees (Female %)	Illness Rate (%)
2017	0.28	0	756	65.6	34.4	2.50
2016	0.23	0	736	65.5	34.5	3.28
2015	0.33	0	759	65.1	34.9	2.93



INJURY FREQUENCY RATE
(number of injuries - excluding injuries while travelling to/from work - x 1,000,000/total hours worked)



INJURY SEVERITY INDEX
(days of absence (excluding injuries while travelling to/from work) x 1,000/total hours worked)



JOBS CREATED
(lost)

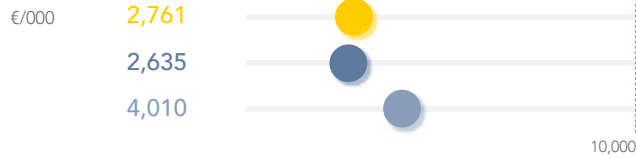
N°

Year	Injury Frequency Rate	Injury Severity Index	Jobs Created (lost)
2017	14.68	0.13	2 ¹
2016	9.21	0.04	(23)
2015	13.73	0.40	33

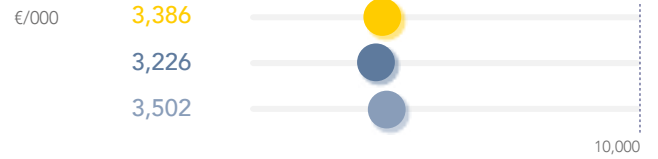
RELATIONAL CAPITAL



VALUE OF GOODS AND SERVICES OUTSOURCED: brass moulding and aluminium die-casting



VALUE OF GOODS AND SERVICES OUTSOURCED: other processing



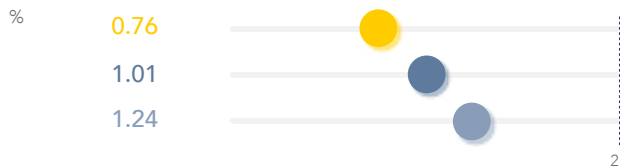
CUSTOMER WASTE (charges from customers and credit notes to customers for returns/turnover)



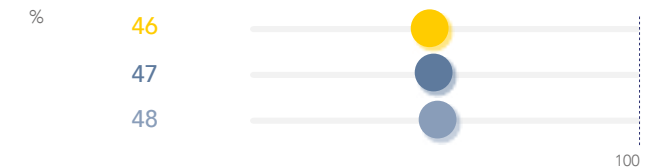
AVERAGE TURNOVER BY CUSTOMER (total turnover/number of customers)



PERCENTAGE OF TURNOVER FROM NEW CUSTOMERS (turnover from new customers/turnover)



PERCENTAGE OF TOP 10 CUSTOMERS



PERCENTAGE OF TOP 20 CUSTOMERS



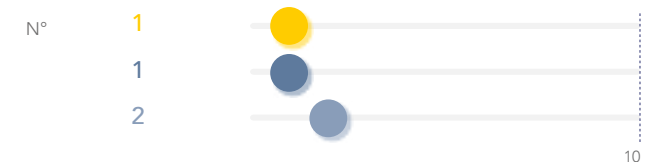
CUSTOMER COMPLAINTS



TURNOVER FROM CERTIFIED SUPPLIERS (turnover from certified suppliers/purchases)

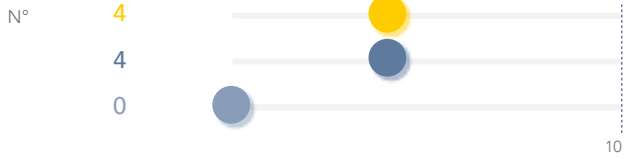


NUMBER OF ANALYSTS WHO FOLLOW THE SECURITY CONTINUOUSLY

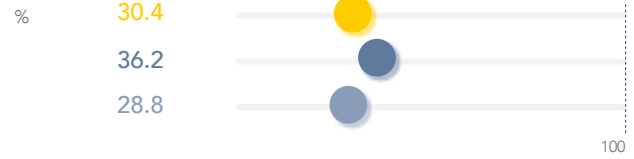




LAWSUITS FILED AGAINST GROUP COMPANIES



TURNOVER PERCENTAGE OF SUPPLIERS IN THE PROVINCE OF BRESCIA

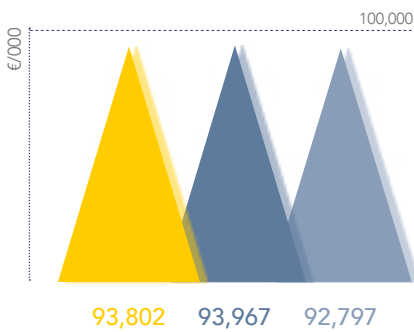


PERK/PROFIT

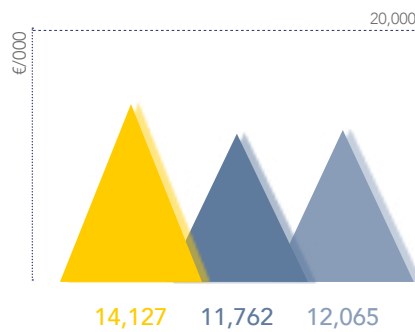


PRODUCTIVE CAPITAL

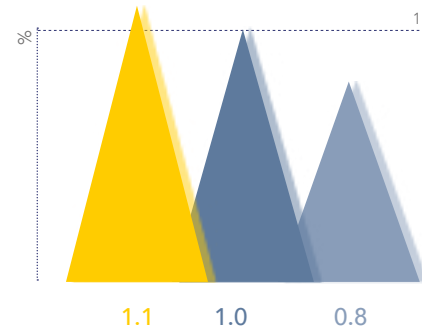
FIXED ASSETS



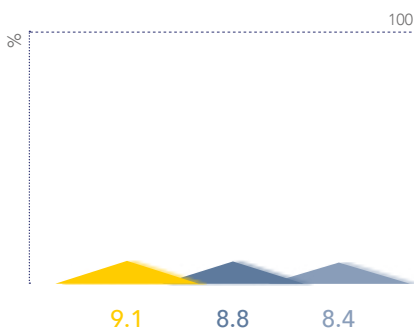
TOTAL NET INVESTMENTS



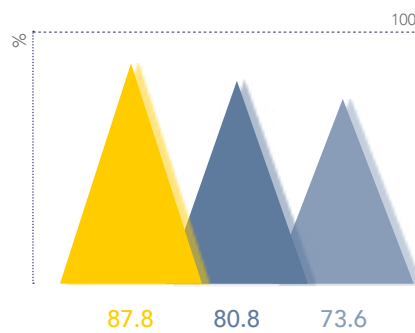
IT BUDGET (investments + current expenditure) / TURNOVER



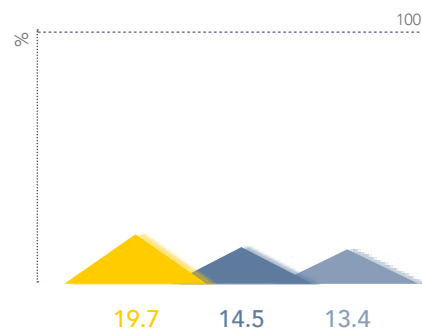
REAL INVESTMENT/TURNOVER



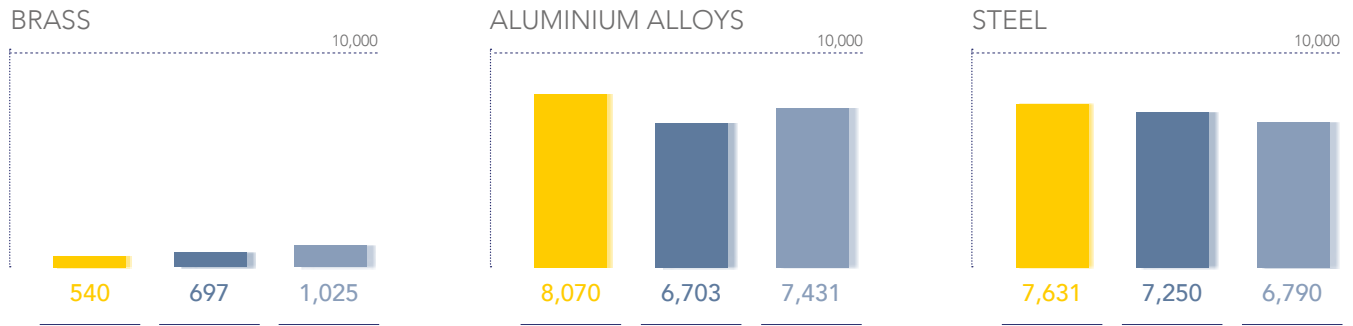
QUANTITIES SOLD OF LIGHT ALLOY VALVES ON TOTAL VALVES AND THERMOSTATS



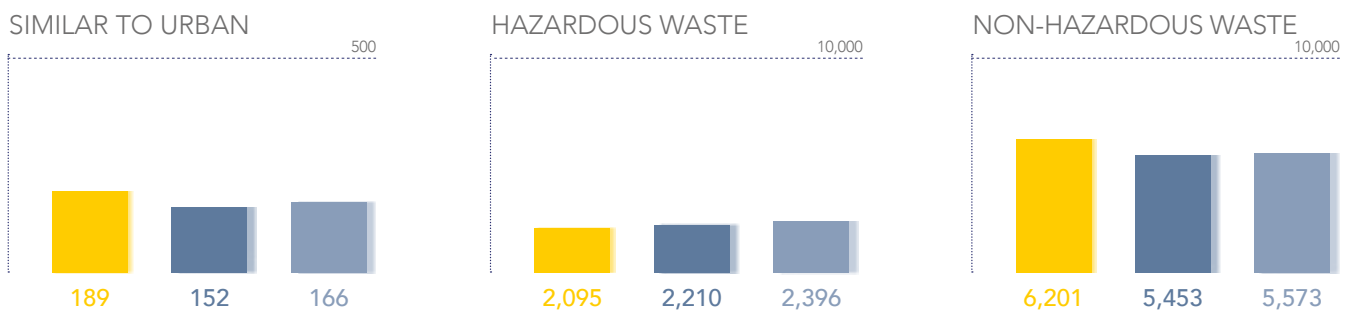
QUANTITIES SOLD OF HIGH ENERGY EFFICIENCY BURNERS ON TOTAL BURNERS



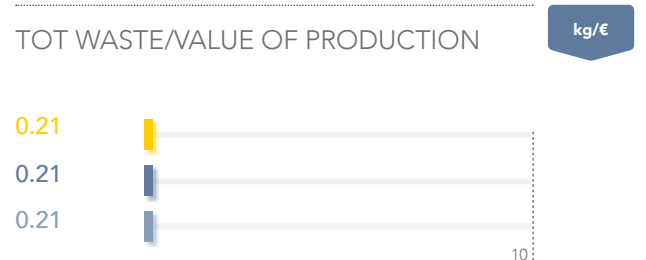
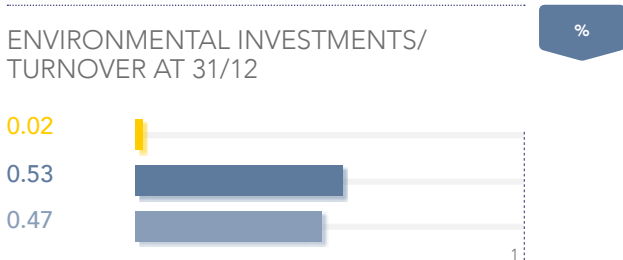
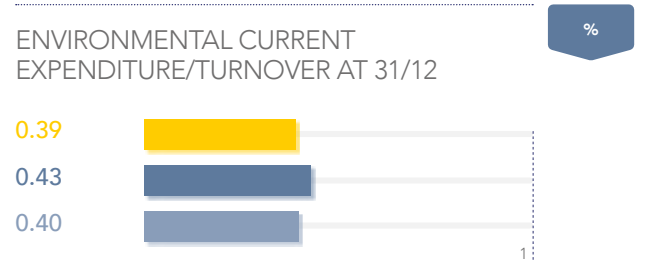
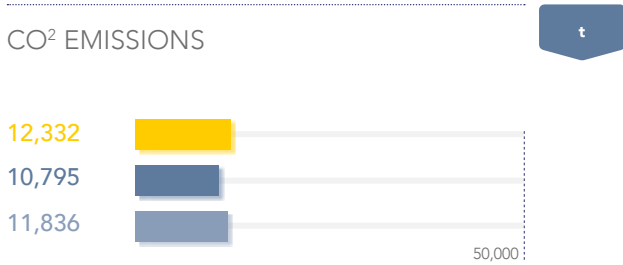
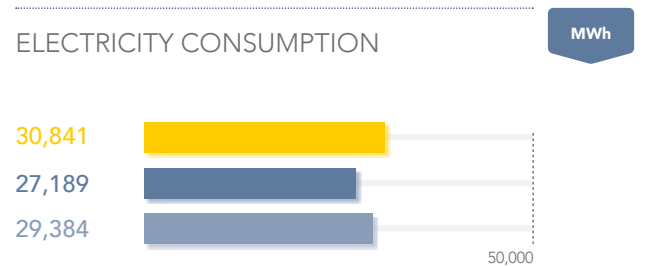
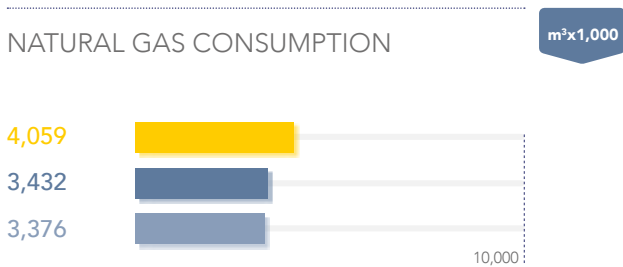
ENVIRONMENTAL CAPITAL



MATERIALS USED (t)



WASTE (t)



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	N°	1,245	1,154	1,069
	NUMBER OF CODES PROVIDED TO THE FIRST 10 CUSTOMERS	N°	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.

» Market share of about 50% in Europe and over 10% worldwide.

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

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.

Burners

These are the components that, by mixing the gas with air and burning the gases used, produce one or more flame rings.

Hinges

These are the components that allow movement and balancing when opening and closing the oven door, washing machine door or dishwasher door.

Accessories

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.

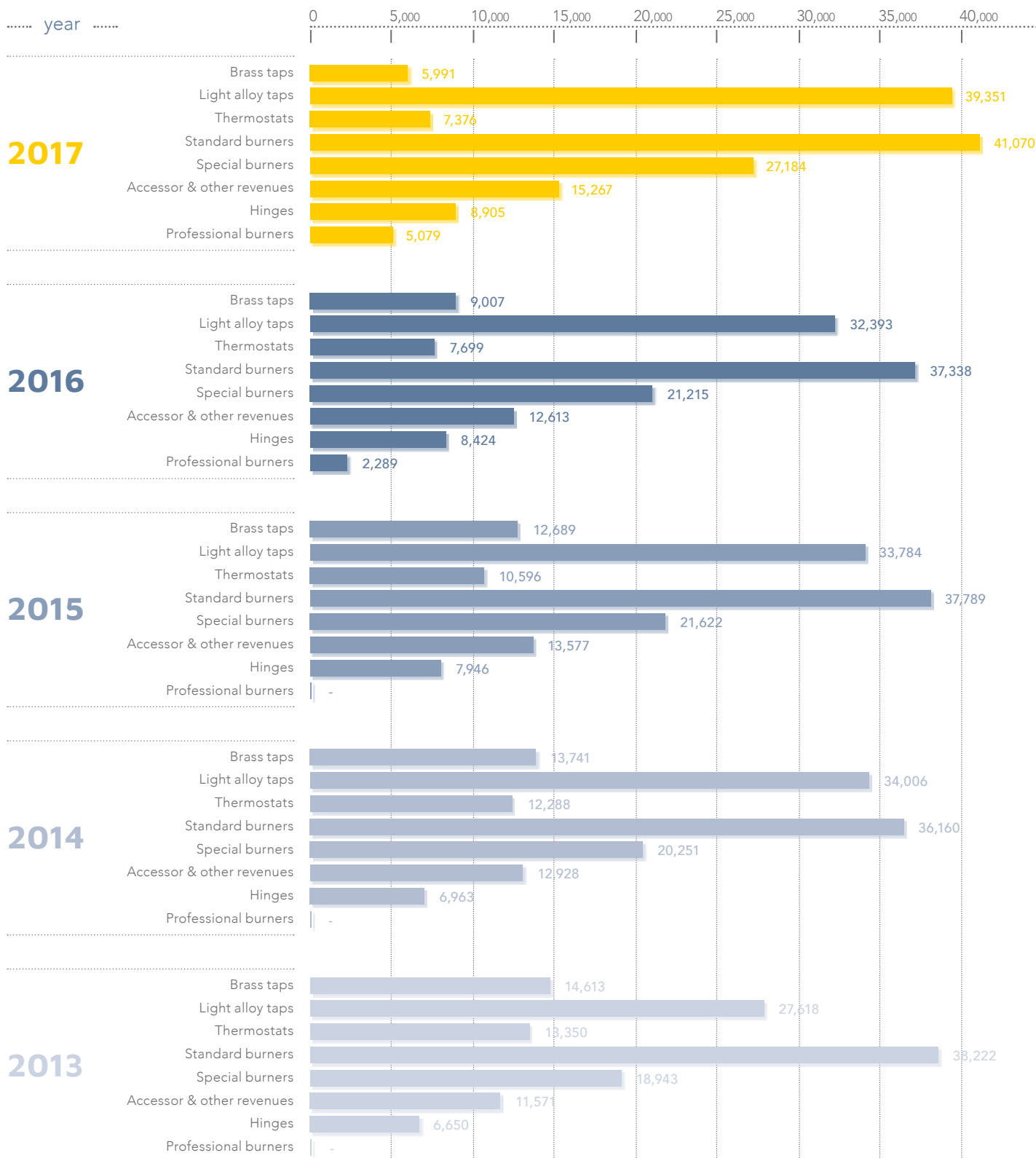
Standard burners are the most popular products, also produced in Turkey and Brazil.

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.

Sales by product family

€/000



TOTAL

150,223 130,978 138,003 136,337 130,967

The industrial footprint

SABAF S.P.A.

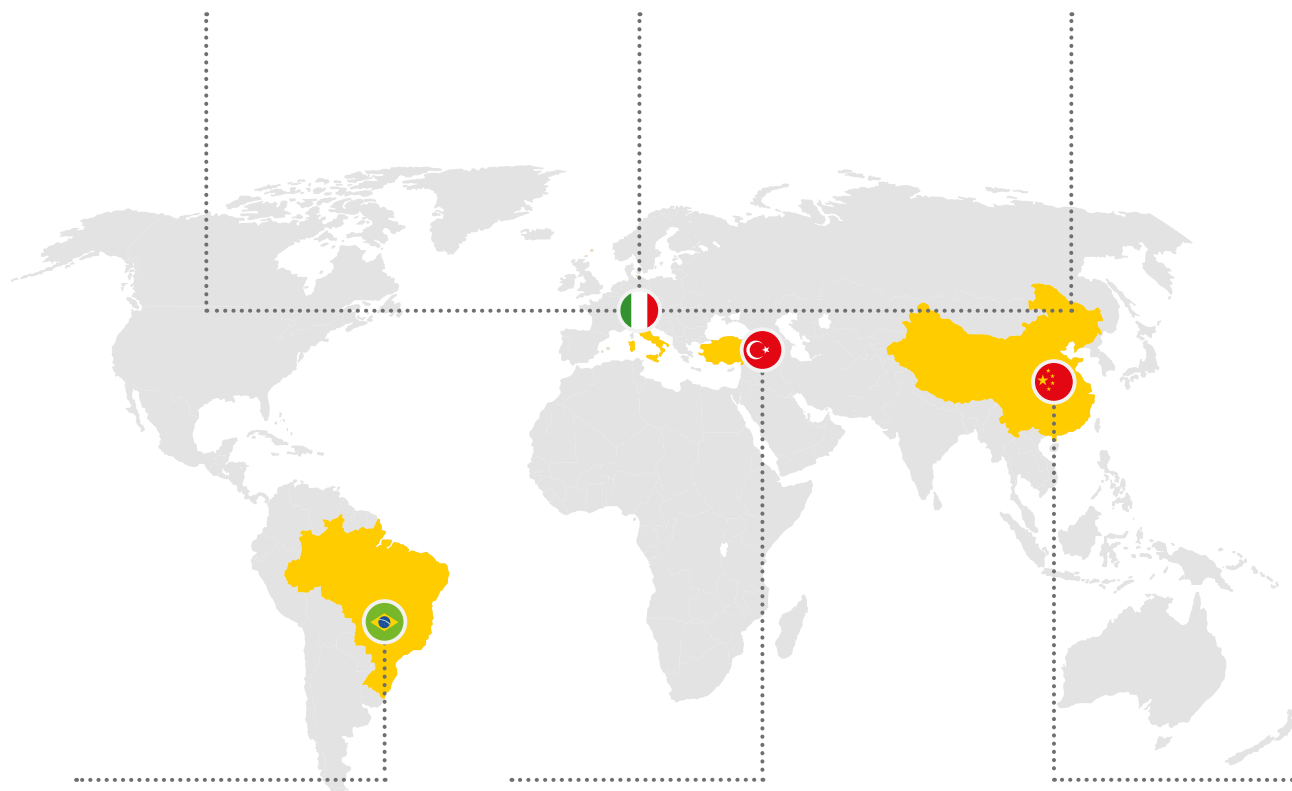
Valves and thermostats
Standard burners
Special burners
Revenue € 115.7 million
542 employees

FARINGOSI HINGES S.R.L.

Oven hinges
Washing machine hinges
Revenue € 8.9 million
46 employees

ARC S.R.L.

Professional burners
Household special burners
Revenue € 5.1 million
24 employees



SABAF DO BRASIL LTDA

Standard burners
Special burners
Revenue € 11.6 million
87 employees

SABAF BEYAZ ESYA

Standard burners
Revenue € 20 million
96 employees

SABAF APPLIANCE COMPONENTS (KUNSHAN) CO. LTD

Wok burners
Revenue € 1 million
8 employees



150.2
million €

GROUP
SALES 2017



803
employees

TOTAL GROUP EMPLOYEES
AT 31/12/2017

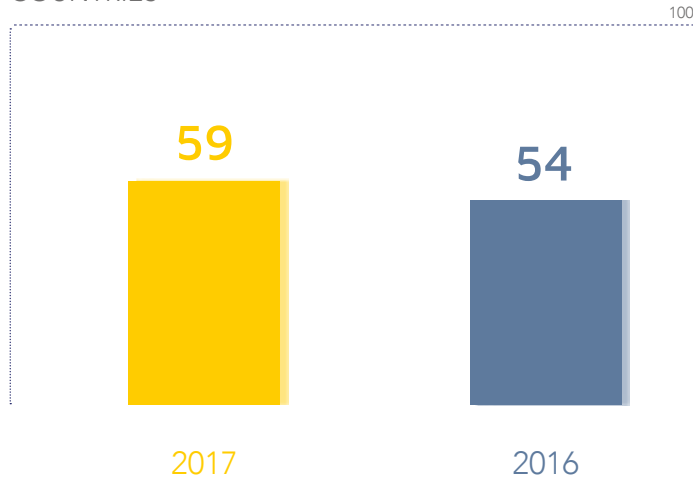
THE REFERENCE MARKETS

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.

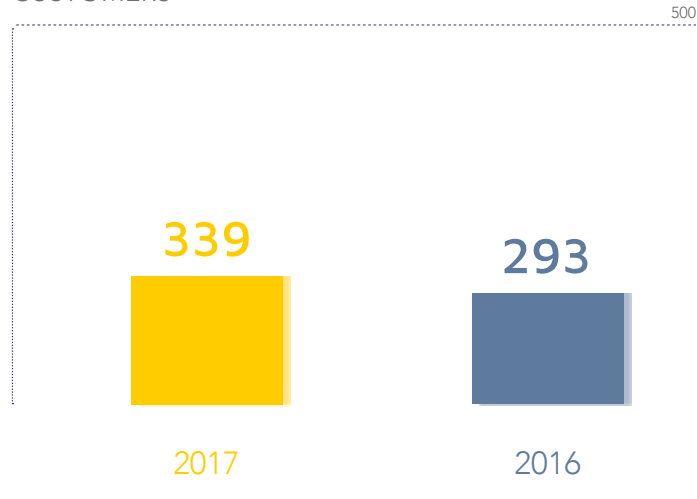
However, the level of saturation is often lower in other markets. The higher economic development rates and the more favourable demographic trend compared to Western Europe are creating great opportunities for groups such as Sabaf, which can both work with multinational manufacturers of household appliances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

COUNTRIES AND CUSTOMERS

COUNTRIES



CUSTOMERS ⁴



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:

IN EURO	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

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.

⁴ With sales over € 1,000.

Sabaf's international development: challenges and opportunities

ANALYSIS OF THE SCENARIO

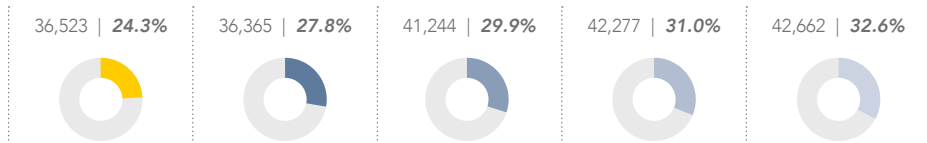
PERFORMANCE DATA ⁵

Italy

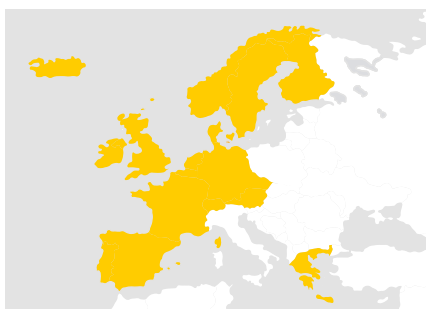


In the last ten years, the production of household appliances in Italy has been strongly reduced: some players left the sector and others relocated part of their activities to Turkey and Eastern Europe. There are still manufacturers focused mainly on the up-market or on special products, strongly dedicated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

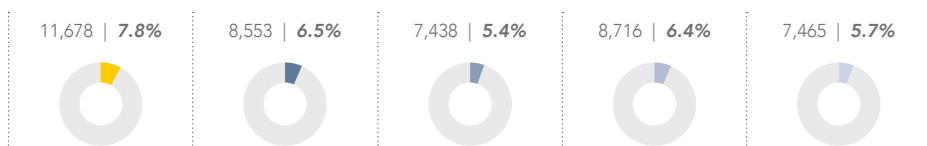


Western Europe



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.



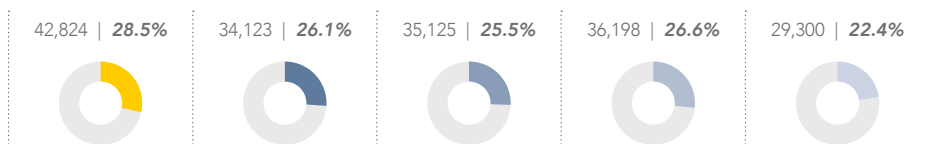
Eastern Europe and Turkey



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

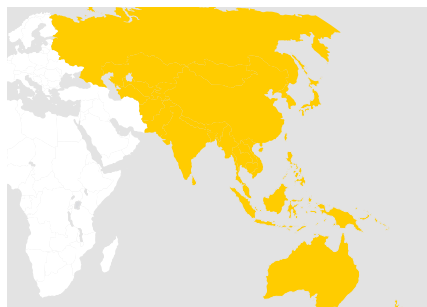
population, the number of new households and the increase in income are converging indicators of a growing demand for durable goods.

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.



Key ● 2017 ● 2016 ● 2015 ● 2014 ● 2013

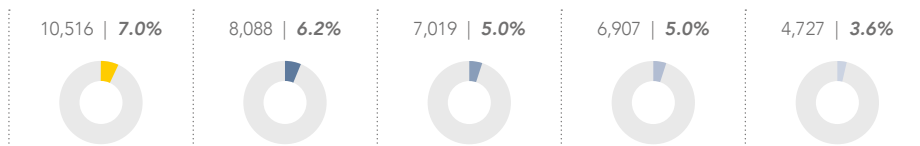
Asia and Oceania



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.

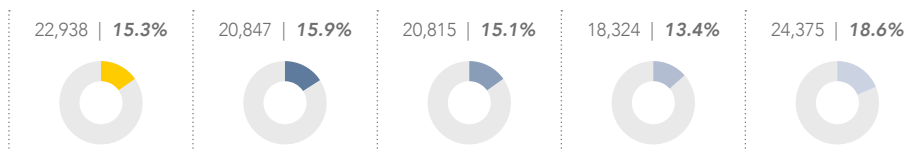


Central and South America



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.

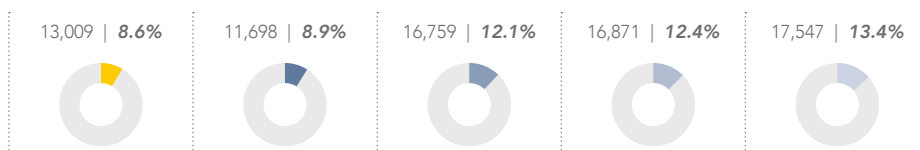


Middle East and Africa

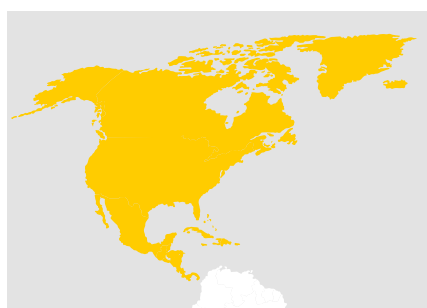


Sabaf has a long-standing presence and reputation in the Middle East and Africa. The social, political and economic difficulties of the area inevitably condition the performance on these markets.

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.

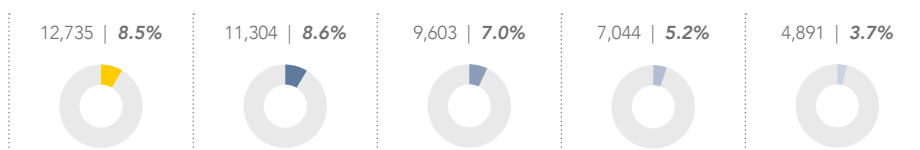


North America and Mexico



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.





Network

Sabaf Group: a complex system, a network where interconnection and communication make the difference.

Consolidated non-financial statement

(prepared pursuant to Article 4
of Legislative Decree 254/2016)

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Methodological note

PREPARATION CRITERIA

The consolidated non-financial statement of the Sabaf Group (hereinafter also referred to as the "Statement"), prepared in accordance with Art. 4 of Legislative Decree 254/2016 (hereinafter also referred to as the "Decree"), contains information (policies practised, risks, management models and performance indicators) on environmental, social, personnel, human rights and anti-corruption issues, to the extent necessary to ensure understanding of the activities carried out by the Group, its performance, results and impact. Each section also describes the main risks, generated or suffered, related to the above issues and deriving from the Group's activities.

The Sabaf Group identified the GRI-G4 Sustainability Reporting Guidelines (hereinafter also referred to as "GRI-G4") defined by the Global Reporting Initiative (GRI) in 2013 as the "reference standard" for fulfilling the obligations of Legislative Decree 254/2016, as the most widely recognised and internationally disseminated Guideli-

nes. This Statement is prepared in accordance with the GRI-G4 core reporting option. The process of defining the contents and determining the relevant aspects, also in relation to the areas envisaged by the Decree, was based on the principles envisaged by GRI-G4 (materiality, stakeholder inclusiveness, sustainability context, completeness, comparability, accuracy, timeliness, clarity, reliability and balance). To help readers find the information in the document, the GRI Content Index is at the bottom of the statement.

This Statement was approved by the Board of Directors on 26 March 2018 and will be prepared annually. In accordance with one of the options envisaged by Art. 5 of Legislative Decree 254/2016, it constitutes a separate report from the Report on operations.

REPORTING BOUNDARY

The reporting boundary of qualitative and quantitative data and information contained in the Consolidated Non-Financial Statement of the Sabaf Group refers to the performance of the Sabaf Group (hereinafter also referred to as "the Group") for the year ended 31 December 2017. In fact, as envisaged by Legislative Decree 254/2016, Art. 4, this Consolidated Non-financial Statement includes the data of the parent company (Sabaf S.p.A.) and its subsidiaries consolidated on a line-by-line basis. Any limitations to this boundary refer to individual performance indicators and are properly indicated in the Statement. It is also pointed out that, compared to the previous reporting year, the company A.R.C. s.r.l. was included in the boundary in 2017; therefore, the 2016 data represented in the Statement do not include A.R.C. s.r.l.

REPORTING PROCESS

The preparation of the Group's Consolidated Non-Financial Statement was based on a structured reporting process that involved all Italian and foreign structures, departments and companies responsible for the relevant areas and the related data and information that are the subject matter of the Group's non-financial reporting. They were asked to contribute to the identification and evaluation of significant projects/initiatives to be described in the document and to data collection, analysis and consolidation phase, each for its own area of competence. In particular, the data and information included in this Statement derive from the company information system used for the management and accounting of the Group and from a non-financial reporting system (data collection sheets) specifically implemented to meet the requirements of Legislative Decree 254/2016 and GRI-G4. In order to ensure the reliability of the information contained in the Statement, directly measurable quantities have been included, limiting the use of estimates as much as possible. Calculations are based on the best information available or on sample surveys. The estimated quantities are clearly indicated as such. The economic and financial data and information are derived from the Consolidated Financial Statements at 31 December 2017.

Business model, strategic approach and sustainable creation of value

Strategic approach and creation of value

SUSTAINABLE VALUE CREATION

For the Sabaf Group, respect for business ethics and socially responsible behaviour are the fundamental elements of its business model. Accordingly, the Group developed a strategy and a governance model that can guarantee sustainable growth over time.

The Sabaf Group is aware that sustainable growth depends on the degree of harmony and the sharing of values with its stakeholders: compliance with common values increases mutual trust, encourages the development of common knowledge, and therefore contributes to the containment of transaction costs and control costs; in essence, it benefits the Group and all its stakeholders.

VALUES, VISION AND MISSION

Sabaf takes the Person as its original value and therefore as the fundamental criterion of every choice: this results in an entrepreneurial vision that ensures dignity and freedom to the Person within shared rules of behaviour. The centrality of the Person represents a universal value, i.e. a hyper-standard applicable without differences in time and space. In compliance with this universal value, the Sabaf Group operates by promoting cultural diversity through the criterion of equity in space and time. Such a moral commitment implies an a priori renunciation of all choices that do not respect

the physical, cultural and moral integrity of the Person, even if such decisions can be efficient, economically convenient and legally acceptable. Respecting the value of the Person means that, first of all, the dimension of the category of Being in relation to Doing and Having is the overriding consideration, and therefore implies the protection and enhancement of the "essential" manifestations expressing the fullness of the Person.

The Charter of Values of Sabaf

The Charter of Values is the governance tool through which the Sabaf Group clearly explains the Company's values, standards of behaviour and commitments in relations with its stakeholders – shareholders, employees, customers, suppliers, lenders, the Public Administration, the community and the environment.

The spirit of the Charter is to reconcile the principles of economic management with ethics based on the centrality of Man, as an essential condition for the sustainable growth of business in the long term. Sustainable growth, intended as the ability to combine at the same time:

- **economic sustainability**, i.e. operate in such a way that company choices increase the value of the company not only in the short term but above all are able to guarantee business continuity in the long term through the application of an advanced model of corporate governance;
- **social sustainability**, i.e. promote ethical behaviour in business and reconcile the legitimate expectations of the various stakeholders in accordance with common shared values;
- **environmental sustainability**, i.e. produce by minimising the direct and indirect environmental impacts of its production activities to preserve the natural environment for the benefit of future generations in compliance with current laws on the subject.

The Charter aims to give a vision of ethics, focusing mainly on positive and just actions to be taken and not only on incorrect behaviour to be avoided. This vision is the basis for a positive use of freedom by decision-makers, where ethical references guide decisions in a manner consistent with the Group's culture of social responsibility. The Sabaf Group aims to develop a process based on people being given a sense of responsibility within shared rules of behaviour with which to voluntarily comply.

According to this approach, it is still imperative to comply absolutely with the law and regulations in force in Italy and in the other countries where the Group operates, as well as with all the internal regulations of the Group and the values declared in the Charter.

The Charter of Values also represents a reference document as part of the Organisation, Management and Control Model pursuant to Legislative Decree 231/2001 and, as such, sets out a series of general rules of behaviour Group employees are required to comply with.

Vision

Combine business decisions and results with ethical values by going beyond family capitalism and opting for a managerial rationale oriented not only towards the creation of value but also towards the respect of values.

Mission

Consolidate the technological and market leadership in the design, production and distribution of the entire range of components for household gas cooking appliances through constant attention to innovation, safety and the enhancement of internal expertise.

Associate the growth of company services with social and environmental sustainability, promoting an open dialogue with the legitimate expectations of stakeholders.

Table summarising the Policies of the Sabaf Group with reference to the contents of Legislative Decree 254/2016

TOPIC ENVISAGED BY LEGISLATIVE DECREE 254/2016	REFERENCE POLICIES
ENVIRONMENT BASIC PRINCIPLES <ul style="list-style-type: none"> • Raise staff awareness and train the personnel to promote environmental awareness • Minimise direct and indirect environmental impacts • Adopt a precautionary approach to environmental impacts • Encourage the development and diffusion of environmentally friendly technologies and products • Define environmental objectives and improvement programmes • Search for the right balance between economic objectives and environmental sustainability 	<ul style="list-style-type: none"> • Charter of Values • Manual of the Integrated Management System of Health and Safety, Environment and Energy in compliance with ISO 14001, ISO 50001 and OHSAS 18001 standards
HUMAN RIGHTS BASIC PRINCIPLES <ul style="list-style-type: none"> • Adopt socially responsible behaviour • Promote respect for the fundamental human rights of workers in all countries where the Group operates • Avoid all forms of discrimination and favouritism in respect of employment and occupation • Enhance and respect diversity 	<ul style="list-style-type: none"> • Charter of Values • Manual of the Social Responsibility Management System in compliance with SA8000 Standard
PERSONNEL BASIC PRINCIPLES <ul style="list-style-type: none"> • Encourage continuous learning, professional growth and knowledge sharing • Provide clear and transparent information on the tasks to be carried out and the position held • Encourage teamwork and the dissemination of creativity in order to allow the full expression of individual skills • Adopt criteria of merit and competence in employment relationships • Encourage the involvement and satisfaction of all the personnel 	<ul style="list-style-type: none"> • Charter of Values • Manual of the Social Responsibility Management System in compliance with SA8000 Standard
HEALTH AND SAFETY BASIC PRINCIPLES <ul style="list-style-type: none"> • Reach working standards that guarantee health and maximum safety, also through the modernisation and continuous improvement of workplaces • Minimise any form of exposure to risks at work • Disseminate the culture of risk prevention through systematic and effective training • Promote the protection not only of oneself, but also of colleagues and third parties • Encourage the diffusion of products with security systems 	<ul style="list-style-type: none"> • Charter of Values • Manual of the Integrated Management System of Health and Safety, Environment and Energy in compliance with ISO 14001, ISO 50001 and OHSAS 18001 standards
ANTI-CORRUPTION BASIC PRINCIPLES <ul style="list-style-type: none"> • Raise awareness among all those who work for Sabaf so that they behave correctly and transparently in the performance of their activities • Comply with local anti-corruption regulations 	<ul style="list-style-type: none"> • Organisation, management and control Model pursuant to Legislative Decree 231/2001
SUPPLY CHAIN BASIC PRINCIPLES <ul style="list-style-type: none"> • Ensure absolute impartiality in the choice of suppliers • Establish long-term relationships based on fairness in negotiations, integrity and contractual fairness 	<ul style="list-style-type: none"> • Charter of Values

BUSINESS MODEL

Strategic pillars of Sabaf's Business Model

In line with its shared values and mission, the Company believes that there is a successful industrial and cultural model to be consolidated both through organic growth and growth through acquisitions.

The distinctive features of the Sabaf model are set below:

Innovation

For Sabaf, innovation represents one of the essential elements of Sabaf's industrial model and one of its main strategic levers. Thanks to continuous innovation, the Group has managed to achieve excellent results, identifying technological and production solutions that are among the most advanced and effective currently available and establishing a virtuous circle of continuous improvement of processes and products, until acquiring technological competence with characteristics that are difficult to match for competitors. The know-how acquired over the years in the development and internal production of machinery, tools and presses, which is integrated synergistically with the know-how in the development and production of our products, represents the critical success factor of the Group.

The investments in innovation allowed the company to become a world leader in a highly specialised sector and to achieve high levels of technological development, specialisation and production flexibility over time. The production sites in Italy and abroad are designed to guarantee products according to the highest levels of technology available today and represent a cutting-edge model both for environmental protection and safety of the employees.

Eco-efficiency

Sabaf's product innovation strategy is based on the search for improved environmental performance. Attention to environmental issues is reflected both in innovative production processes that have a lower energy impact in the manufacture of products, and, above all, in the design of eco-efficient products during their daily use. Innovation efforts are directed towards the development of burners that reduce fuel consumption (natural gas or other gases) and emissions (carbon dioxide and carbon monoxide, in particular) in users.

Safety

Safety has always been one of the essential elements of Sabaf's business project. Safety for Sabaf is not just a matter of complying with existing standards but a management philosophy oriented towards the continuous improvement of its performance, in order to guarantee the end user an increasingly safe product. In addition to investing in research and development of new products, the Group has chosen to play an active role in disseminating a safety culture: Sabaf has long been promoting the introduction of regulations worldwide - in the various institutional venues - that make it compulsory to adopt products with thermoelectric safety devices. Sabaf also promoted the ban on the use of zamak (zinc and aluminium alloy) for the production of gas valves for cooking, in consideration of the intrinsic danger. To date, the use of zamak is still permitted in Brazil, Mexico and other South American countries, limiting business opportunities in the valves segment for Sabaf.

Success on international markets

Sabaf pursues its growth through its success in international markets by trying to replicate its industrial model in emerging countries and adapting it to the local culture.

In line with its reference values and mission, the Group is seeking to bring know-how and cutting-edge technologies to these countries, operating in full respect of human rights and the environment and in compliance with the United Nations Code of Conduct for Transnational Corporations. This choice is driven by the awareness that only by operating in a socially responsible way is it possible to ensure long-term development of industrial experience in emerging markets.

Widening the range of components and partnerships with multinational groups

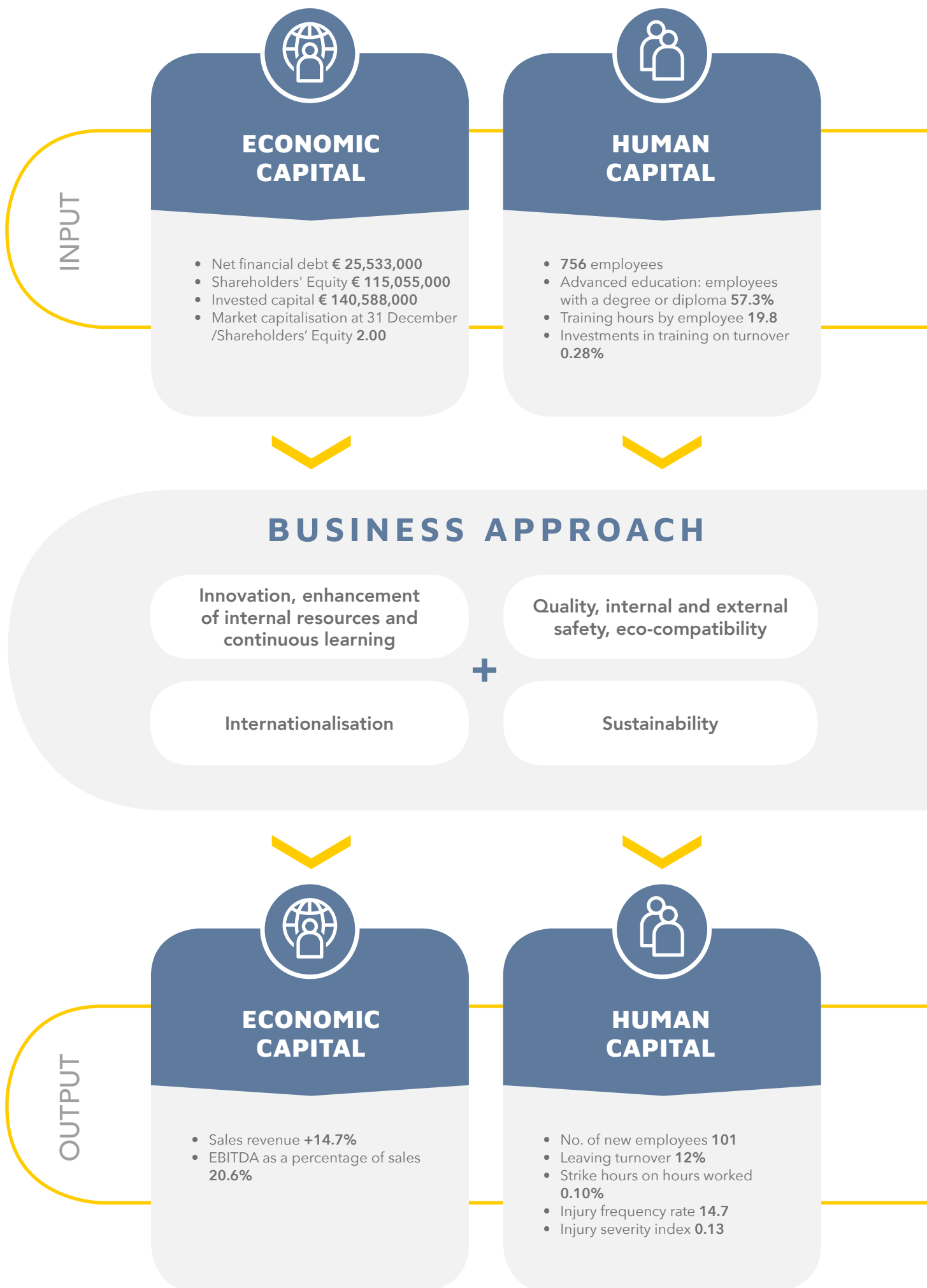
The continuous expansion of the range aims to increase customer loyalty through the widest satisfaction of needs. The possibility of offering a complete range of components is an additional distinguishing feature for Sabaf compared to its competitors.

This expansion is pursued both through internal research and through growth through acquisitions, including in adjacent sectors. An example of this is the acquisition in 2016 of the majority shareholding in A.R.C. s.r.l., leading company in the production of burners for professional cooking.

The Group also intends to further strengthen its collaboration with customers and its position as sole supplier of a complete range of products in the cooking components market, also thanks to its ability to adapt production processes to specific customer needs.

Enhancement of intangible assets and of its intellectual capital

Sabaf carefully monitors and increases the value of its intangible assets: the high technical and professional competence of the people who work there, the image synonymous with quality and reliability, the reputation of a company attentive to social and environmental issues and the requirements of its stakeholders. The promotion of the idea of work and relations with stakeholders as a passion for a project based on common values in which everyone can recognise themselves symmetrically represents not only a moral commitment, but the real guarantee of enhancement of intangible assets. In this perspective, the sharing of values represents the link between the promotion of a corporate culture oriented towards social responsibility and the enhancement of its intellectual capital.





RELATIONAL CAPITAL

- Turnover from the top 10 customers **46%**
- No. of Customers **339**
- Purchases from suppliers in the province of Brescia **30.4%**



PRODUCTIVE CAPITAL

- Production sites **6**
- Real investment on turnover **9.1%**
- Value of property, plant and equipment **€ 78,766,000**



DISTINCTIVE FEATURES



Internal and verticalised production of:

components
and products



machinery, tools and presses
based on specific know-how



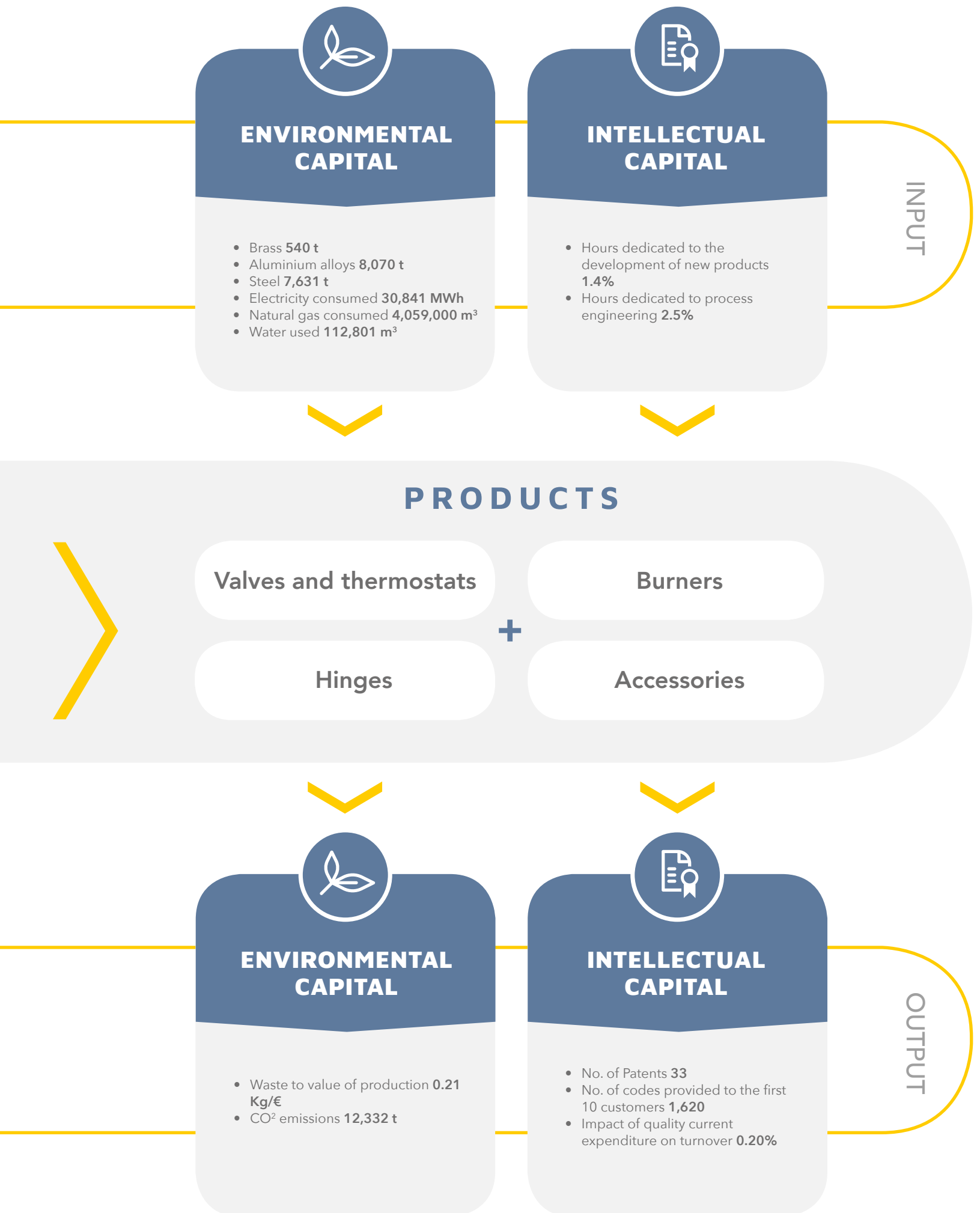
RELATIONAL CAPITAL

- Average turnover by customer **€ 366,000**
- Customer complaints **335**
- Lawsuits filed against Group companies **4**
- Perk/profit **0.14%**
- No. of samples for customers **1,245**



PRODUCTIVE CAPITAL

- Burners sold No. of parts **35,200,000**
- High efficiency burners **19.7%**
- Valves and thermostats sold No. of Parts **19,700,000**
- Light alloy valves and thermostats sold **87.8%**



Sabaf 4.0

"Industry 4.0" indicates the fourth industrial revolution, i.e., the one that will lead to a production almost entirely based on the use of intelligent machines, interconnected and connected to the Internet. However, these machines are not yet able to work alone: because a more powerful data processing and storage capacity will have to be combined with a better efficiency in obtaining value. Today, only 1% of the data collected is used by companies to refine their processes on the basis of the information available.

For us, who have been on the road to Industry 4.0 for about ten years, through the use of robots and the ability of the different work phases to communicate with each other, the new frontier is to achieve greater flexibility, to respond faster and with high quality standards to cycles in an increasingly volatile market.

Our goal is to make the data resulting from these integrations available and usable in real time to the people directly involved in the processes, **because it is only the knowledge of man that can guarantee the true revolution 4.0**, especially in a verticalised and integrated reality like Sabaf. We must learn to use all this to the best of our ability to achieve higher performance, saving time, waste, costs and energy.

We must all become the minds of new and powerful processes. Sabaf's knowledge, its history, tradition, skills and new frontiers of work. Here's what "Industry 4.0" means to us

Sabaf and the lean philosophy

Japanese model, lean production, total quality. These are the formulas by which the manufacturing industry tries to keep up with the times, with the global challenges that make the market uncertain and competitive advantages not acquired forever.

Sabaf has been committed to the philosophy of continuous improvement for some time and applies, both in the factory and in the office, many techniques typical of lean manufacturing and lean office.

This is a necessary way not to lose market share in a reality made complicated by the difficult economic moment, not only for the household appliances sector. We also know that continuous

improvement is an objective that must concern everyone, at all levels. If we want to keep up with the times, everyone must **make every effort to do excellently what they already know how to do well**. Everyone is invited to bring out their own skills and to share their experience and knowledge with others.

We are aware that every resource that is misused or not used is a wasted resource, whether it is energy, time, people, intelligence or raw materials.

Finally, we know that continuous improvement implies people's propensity to change, as Charles Darwin taught us: *it is not the strongest or the smartest species to survive, but the one that best adapts to change.*

GOVERNANCE OF SOCIAL RESPONSIBILITY AND STAKEHOLDER ENGAGEMENT

Social responsibility in business processes

» To transform the values and principles of sustainable development into intervention choices and management activities, Sabaf applies a structured methodology, the key factors of which are as follows:



The precautionary approach

The awareness of the social and environmental aspects that accompany the Group's activities, together with the consideration of the importance of a cooperative approach with stakeholders and the Group's good reputation, has led Sabaf to adopt a **precautionary approach** in managing the economic, social and environmental variables that it has to manage on a daily basis. To this end, the Group analysed specifically the main risks of the different operating dimensions. Detailed information on the internal control system and on the risk management system is provided in the next paragraph. "**Corporate Governance, Risk Management and Compliance**".

Stakeholder Engagement

Sabaf is committed to constantly strengthening the social value of its business activities through careful management of relations with stakeholders.

The company intends to establish an open and transparent dialogue, encouraging opportunities for discussion in order to identify lawful expectations, increase trust in the Company, manage risks and identify new opportunities.



The identification of stakeholders is an essential starting point for defining social and environmental reporting processes. The "stakeholder map" provides a summary representation of Sabaf's main stakeholders, identified on the basis of their business characteristics, the characteristic aspects of the market and the intensity of their relations with the latter. The Annual Report is the preferred communication tool for presenting the significant economic, social and environmental performance achieved during the year.

The initiatives for involving each stakeholder that are carried out periodically are described below (generally every two or three years). The relevant issues arising from these activities are reported in the following paragraphs.

EMPLOYEES	CUSTOMERS	SUPPLIERS	SHAREHOLDERS	COMMUNITY AND INSTITUTIONS	Stakeholder
Employee satisfaction survey and climate analysis Meetings with employees Meetings with trade unions	Customer Satisfaction Survey	Questionnaire Regular meetings	Questionnaire dedicated to financial analysts and investment fund managers Meetings with ethical fund managers	Multi-stakeholder Panel Dialogue with universities	Stakeholder engagement initiatives undertaken



Sabaf complies with the Code of Conduct of CECED

Sabaf complied with the Code of Conduct of CECED Italia, an association representing over 100 companies in the household appliances industry.

The **CECED Code of Conduct** confirms the commitment of the European household appliance industry to **ethical** and **fair** behaviour. The Code aims to promote fair and sustainable standards in **working conditions** and **environmental protection** to support **fair competition** in **global markets**.

The producers complying with the Code commit themselves voluntarily to implement decent working conditions, which include compliance with common standards regarding **minimum age, working hours, hygiene and safety conditions**, respect for **freedom of association** and **collective bargaining**, as well as respect for environmental standards. The signatory companies also undertake to **raise awareness** among their **suppliers** of the principles of the Code of Conduct and encourage them to pursue them. They also require that the same principles be proposed to the whole supply chain through the latter.

The Annual Report of Sabaf is also the tool through which the Group reports year by year on the practical implementation of the principles of the Code and the progress achieved, as specifically required of the companies complying with it.



Sabaf complies with the Global Compact

In April 2004, Sabaf complied formally with the Global Compact, the United Nations initiative for companies that commit to upholding and promoting the ten universally accepted principles of human rights, labour rights, environmental protection and anti-corruption. With the publication of the 2017 Annual Report, we renew our commitment to making the Global Compact and its principles an integral part of our strategy, culture and day-to-day operations, and we also commit to explicitly declare our commitment to all employees, partners, customers and the general public.

The consolidated non-financial statement sets out in detail the actions taken by the Sabaf Group in support of the ten principles; the references are contained in the table of contents of GRI indicators, according to the guideline "Making the connection. The GRI Guidelines and the UNGC Communication on Progress".

THE 10 PRINCIPLES OF THE GLOBAL COMPACT

Human rights

PRINCIPLE I

Businesses should support and respect the protection of internationally proclaimed human rights; and

PRINCIPLE II

make sure that they are not - even if indirectly - complicit in human rights abuses.

Labour

PRINCIPLE III

Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining

PRINCIPLE IV

The elimination of all forms of forced and compulsory labour.

PRINCIPLE V

The effective abolition of child labour.

PRINCIPLE VI

The elimination of discrimination in respect of employment and occupation

Environment

PRINCIPLE VII

Businesses should support a precautionary approach to environmental challenges and

PRINCIPLE VIII

undertake initiatives to promote greater environmental responsibility; and

PRINCIPLE IX

encourage the development and diffusion of environmentally friendly technologies.

Fight against corruption

PRINCIPLE X

Businesses should work against corruption in all its forms, including extortion and bribery.

MATERIALITY ANALYSIS

The GRI-G4 Guidelines require that the contents of the Non-Financial Statement be defined on the basis of a materiality analysis. In compliance with the requests of GRI-G4, Sabaf has started since 2014 a process of identifying the (relevant) material aspects to be reported, i.e. those aspects:

- of significant economic, environmental or social impact for Sabaf's business;
- that could substantially affect the assessments and decisions of stakeholders.

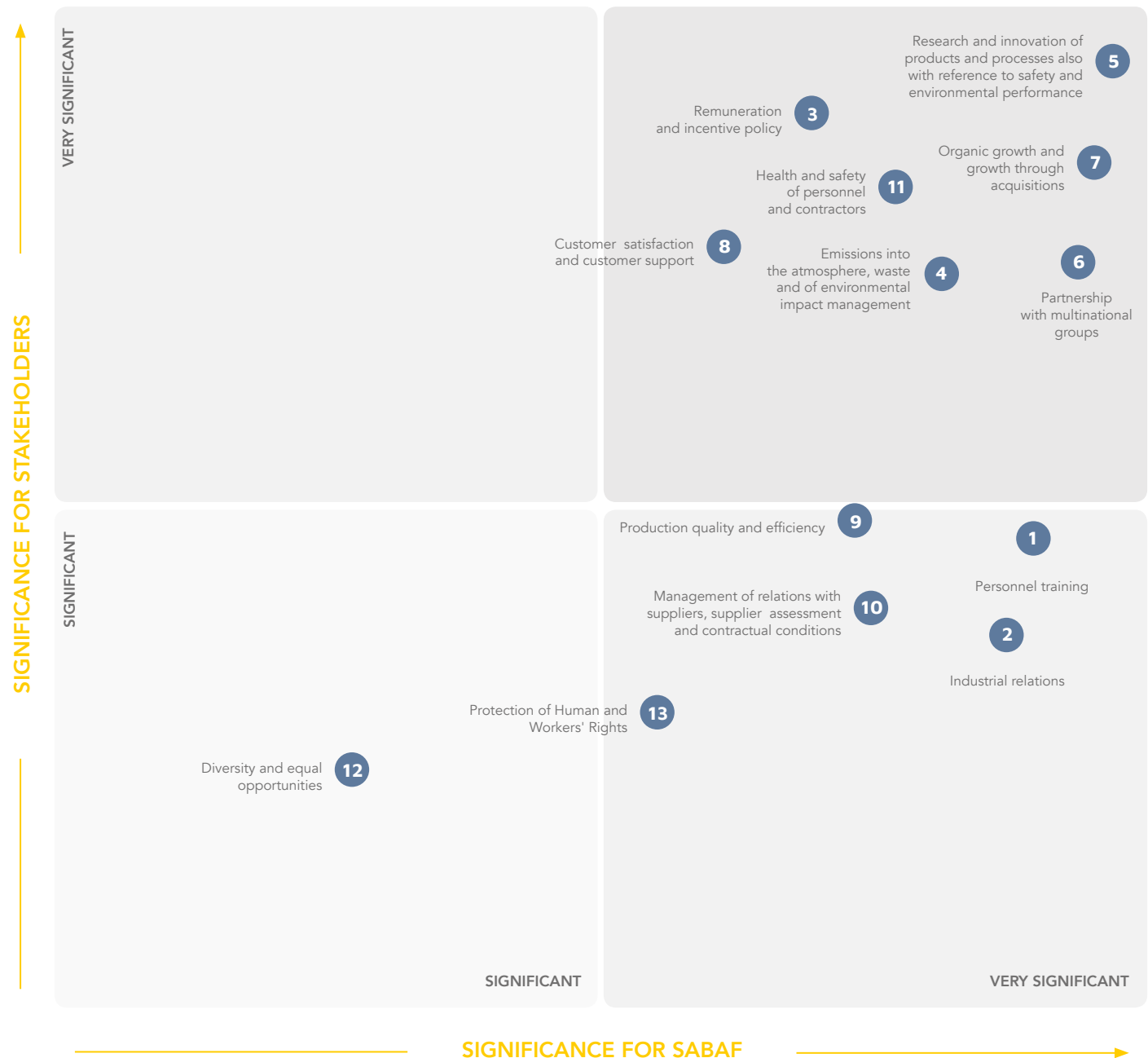
From this perspective, materiality takes into consideration not only the point of view of the organisation but also that of stakeholders.

In consideration of business priorities and the development of the external context, the most important aspects were updated in 2017.

It is noted that in defining material aspects, the following topics are considered preconditions for operating and are therefore considered very important for both Sabaf and its stakeholders:

- a) creation and distribution of sustainable value over time;
- b) a transparent and effective governance system to support business;
- c) constant attention to compliance with the law in the performance of its activities.⁶

Materiality matrix



⁶ This includes the fight against corruption, which is an essential aspect of managing the Group's business and therefore included in the preconditions, and is discussed in this document in the section "Corporate Governance, Risk Management and Compliance".

Material aspects

ID	MATERIAL ASPECT	IMPORTANCE OF THE ASPECT FOR SABAF	LINK TO THE GRI-G4 ASPECTS	INTERNAL IMPACTS	EXTERNAL IMPACTS
1	Personnel training	Training activities with the aim of guaranteeing the continuous professional growth of employees	Training and education (G4-LA9)	Sabaf	
2	Industrial relations	Relations between Sabaf and the internal trade union representatives, based on the principles of transparency and mutual correctness	Freedom of Association and Collective Bargaining (G4-HR4)	Sabaf	Trade unions
3	Remuneration and incentive policy	Definition of fixed and variable components of remuneration for employees Incentive system based on the achievement of pre-established targets in order to pursue company targets	Market Presence (G4-EC5) Training and education (G4-LA11) Equal Remuneration for Woman and Man (G4-LA13)	Sabaf	Trade unions
4	Emissions into the atmosphere, waste and management of environmental impacts	Definition of monitoring and reduction activities of emissions of polluting substances into the atmosphere and of waste generated by the production processes of Sabaf	Energy (G4-EN3, G4-EN5) Emissions (G4-EN15, G4-EN16, G4-EN20, G4-EN21) Effluents and Waste (G4-EN22, G4-EN23, G4-EN24)	Sabaf	Environment, Community
5	Research and innovation of products and processes also with reference to safety and environmental performance	Identification of new technological and production solutions (also with particular attention to safety and environmental performance) that allow the company to strengthen its leadership in the industrial sector to which it belongs	Product and Services (G4-EN27) Customer Health and Safety (G4-PR1)	Sabaf	Customers, Community, Environment
6	Partnership with multinational groups	Sabaf's opening to strategic collaborations with the main players in the sector	(*)	Sabaf	Customers
7	Organic growth and growth through acquisitions	Boost the Group's expansion, both through organic growth and through acquisitions, maintaining the excellence of its economic results and preserving its financial solidity	(*)	Sabaf	Customers, Community

(*) With regard to these aspects (not directly related to an Aspect envisaged by the GRI-G4 Guidelines), Sabaf indicates in the document the management approach adopted and the related indicators.

ID	MATERIAL ASPECT	IMPORTANCE OF THE ASPECT FOR SABAF	LINK TO THE GRI-G4 ASPECTS	INTERNAL IMPACTS	EXTERNAL IMPACTS
8	Customer satisfaction and customer support	Ability to respond effectively to customer expectations, at all stages of the relationship (from design to after-sales service)	Product and Service Labeling (G4-PR5)	Sabaf	Customers
9	Production quality and efficiency	Search for better product or process performance and solutions in terms of environmental impact Designing new eco-efficient products	Please refer to aspects 4 and 5	Sabaf	Customers, Environment, Community
10	Management of relations with suppliers, supplier assessment and contractual conditions	Sabaf's commitment to defining a relation with the supply chain based on the principles of fairness in negotiations, integrity and contractual fairness Sharing corporate values with suppliers Sabaf defines minimum criteria for the creation of a lasting relationship with suppliers, based on the principles of social responsibility	Supplier Assessment for Labor Practices (G4-LA15) Supplier Human Rights Assessment (G4-HR11)	Sabaf	Suppliers, Environment, Community
11	Health and safety of personnel and contractors	Management, in compliance with the regulations on occupational health and safety, of topics related to the health and safety of workers: training, prevention, monitoring, improvement objectives	Occupational Health and Safety (G4-LA6)	Sabaf	Suppliers
12	Diversity and equal opportunities	Commitment to ensuring equal opportunities for women and protected categories.	Diversity and equal opportunity (G4-LA12)	Sabaf	
13	Protection of Human and Workers' Rights	Protection of human rights as provided for in the "Universal Declaration of Human Rights" and the principles laid down in the conventions of the International Labour Organisation Socially responsible management of work processes and working conditions in the supply chain according to the requirements of the SA8000 standard	Non-discrimination (G4-HR3) Child Labor (G4-HR5) Forced or Compulsory Labor (G4-HR6) Supplier Human Rights Assessment (G4-HR11)	Sabaf	Suppliers



Competence

While we invest considerably in cutting-edge technology, we are particularly committed to developing the skills and professionalism of our staff, so as to create a sustainable competitive advantage.

Corporate Governance, Risk Management e Compliance

Corporate Governance

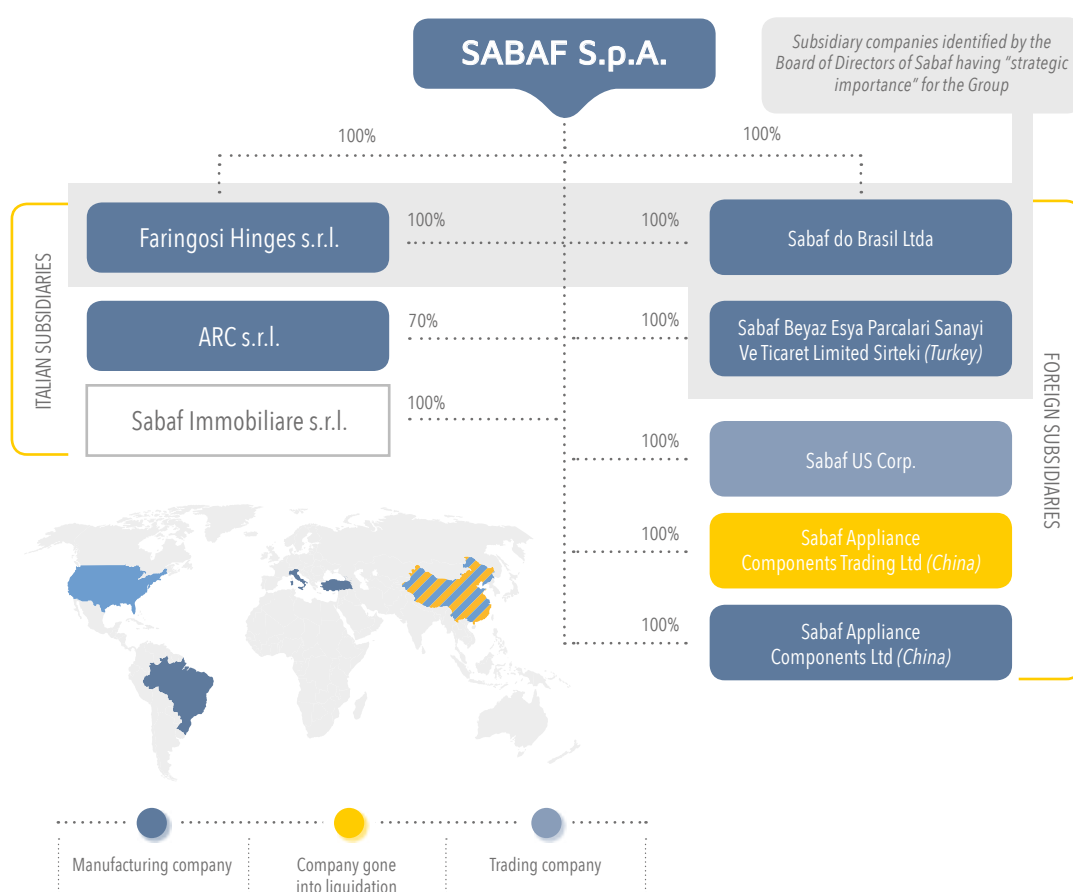
OVERVIEW

The corporate governance model of Sabaf has always been based on a strict separation between the shareholding structure and management of the Company and of the Group. This model was confirmed also following the changes in the shareholding structure in 2016 and 2017, where, however, the Saleri family is the main shareholder.

The purpose of this section is to highlight the choices made by Sabaf and the peculiarities of its governance system, revised in the light of the new features introduced by the Corporate Governance Code. Where possible, a comparison with other listed companies is also provided, using the information collected by Assonime in its document Notes and Studies "Corporate Governance in Italy: self-discipline, remuneration and compliance-or-explain", published in February 2018 and concerning the Corporate Governance reports for the 2016 financial year of 221 listed Italian companies, available at 15 July 2017, 90% of which (i.e. 199 companies) has formally chosen to comply with the Corporate Governance Code. The benchmark used below takes into account, where available, a panel of "non-financial" companies only.

Finally, a further comparison is provided on the composition and operation of the Board of Directors, using the data provided by the 2017 Italia Board Index Observatory, published by Spencer Stuart, which analyses the characteristics and operation of the Boards of Directors of the top 100 listed Italian (industrial and financial) companies in order of capitalisation as of February 2017, as well as providing a comparison with the main European and non-European countries.

The information below is a summary but does not replace the "Report on corporate governance and ownership structure" prepared by the Issuer pursuant to Art. 123-bis of the TUF for 2017 and available on the Company's website: www.sabaf.it, under the section Investors/Corporate Governance.



The Group operates through manufacturing and commercial companies in Italy and abroad, all of which are 100% owned by the Parent Company.

Specifically:

- Production activity is carried out by:
 - the Parent Company Sabaf S.p.A., valves and burners,
 - the Italian company Faringosi Hinges, hinges,
 - the subsidiary in Brazil, burners,
 - the subsidiary in Turkey, burners,
 - the subsidiary Sabaf Appliance Components in China, burners (production started in 2015),
 - the subsidiary ARC s.r.l., professional burners (acquired in 2016).
- The subsidiary Sabaf US carries out commercial supporting activities.
- The subsidiary Sabaf Appliance Components Trading (China) was liquidated in 2015.
- The company Sabaf Immobiliare is engaged in the management of the real estate assets.

THE GOVERNANCE STRUCTURE

Sabaf adopted a traditional model of management and control, characterised by the presence of:

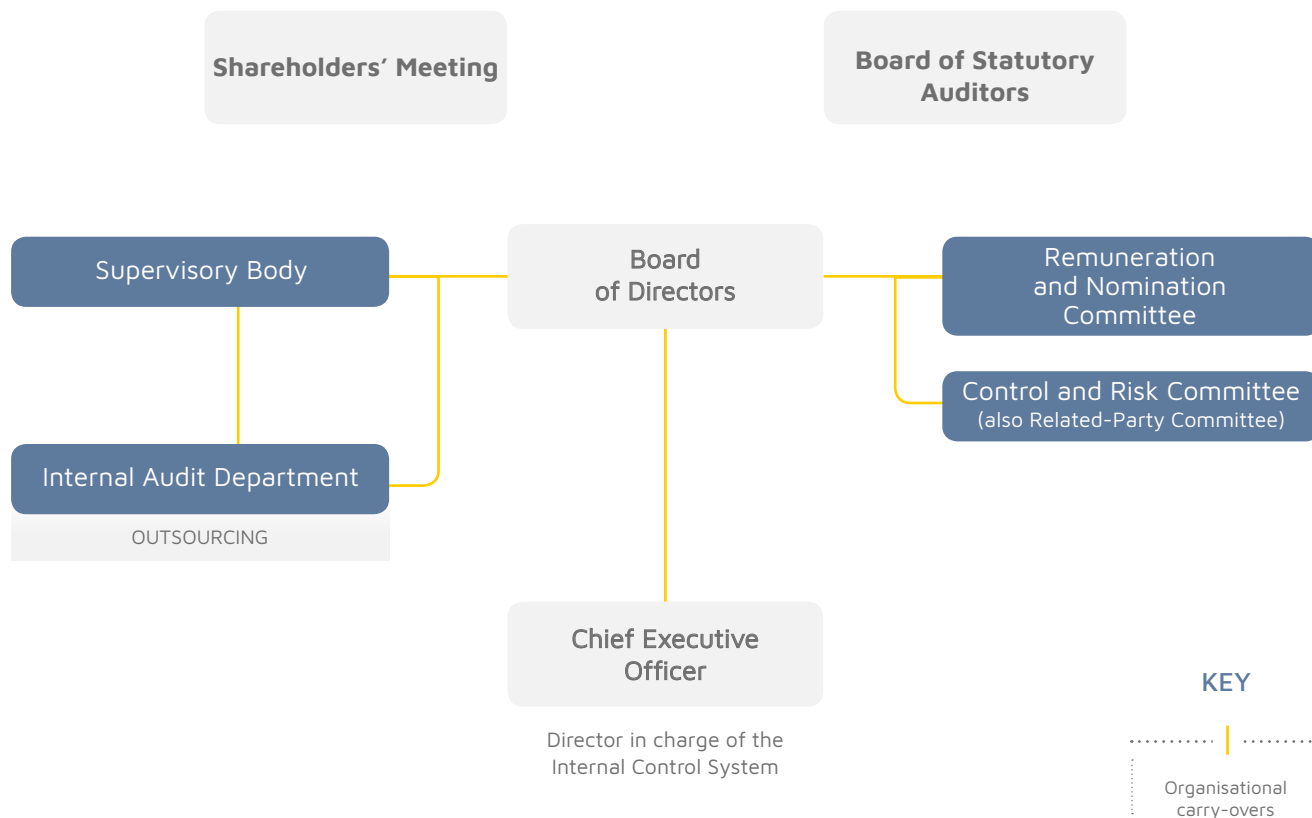
- **Shareholders' Meetings** (ordinary and extraordinary) called to pass resolutions pursuant to the laws in force and the Company's Bylaws;
- **Board of Statutory Auditors**, in charge of supervising: (i) compliance with the law and Articles of Incorporation and adherence to principles of proper management 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 Corporate Governance Code; (iv) risk management; (v) the regulatory audit 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, in accordance with the provisions of the Corporate Governance Code the Company complied with, by:

- a) the Committees set up when the Board of Directors renews the bodies within its members, each one with proposal and advisory functions on specific matters and without decision-making powers, such as:
 - **Control and Risk Committee** that also takes on the functions of the Related-Party Committee;
 - **Remuneration and Nomination Committee** that takes on the functions envisaged by the previous mandate of the Remuneration Committee and integrates them with those relating to the appointment and composition of the control bodies indicated by the Code;
- b) the **Internal Audit department** in charge of checking the operation and adequacy of the internal control and risk management system.

Finally, the Group's administration and control model is completed by the presence of the **Supervisory Body**, set up following the adoption of the organisation, management and control model pursuant to Legislative Decree 231/2001, adopted by Sabaf since 2006.

The Governance Structure



BOARD OF DIRECTORS

The Board of Directors currently in office is composed of 12 members ⁷ including: (i) 6 executive directors, (ii) 1 non-executive director and (iii) 5 non-executive and independent directors (including an expression of the minority list, consistently with 44% of the sample analysed by Assonime in 2017).

	OFFICE	COMPONENTS
EXECUTIVE DIRECTORS	Chairman	Giuseppe Saleri
	Vice Chairman	Ettore Saleri
	Vice Chairman	Cinzia Saleri
	Vice Chairman	Roberta Forzanini
	Chief Executive Officer	Pietro Iotti
	Executive Director	Gianluca Beschi
NON-EXECUTIVE DIRECTORS	Director	Giuseppe Cavalli
	Director	Fausto Gardoni
	Director	Renato Camodeca <i>Lead Independent Director</i>
	Director	Nicla Picchi
	Director	Anna Pendoli
	Director	Alessandro Potestà

INDEPENDENT DIRECTORS PURSUANT TO TUF AND/OR CODE

Composition of the Board of Directors



SABAF

ASSONIME AVERAGE 2017



Policy on the composition of corporate bodies

On 26 March 2018, the Board of Directors of Sabaf S.p.A. adopted a Policy on the composition of the Corporate Bodies.

This Policy sets out the Company's guidelines on the characteristics considered functional to ensuring an optimal composition of the corporate bodies (Board of Directors and Board of Statutory Auditors), with the aim of guiding the names put forward by the Shareholders when renewing the Corporate Bodies, so that the benefits that can derive from a balanced composition of the Board and Board of Statutory Auditors inspired by criteria of diversity are taken into consideration.

The Policy sets out the following characteristics for the composition of each of the two bodies:

1. *Independence*
2. *Training and professional experience*
3. *Gender*
4. *Age and seniority in office*
5. *Numbers*

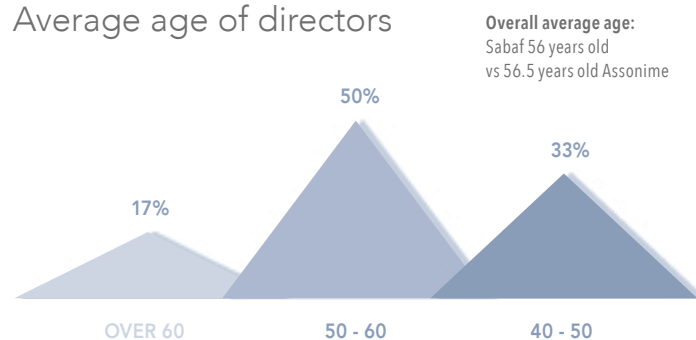
For further information, the Policy on the composition of the Corporate Bodies is published on the Company's website and described in the Report on corporate governance and ownership structure, in compliance with the provisions of art. 123-bis, (2), (d-bis) of the Consolidated Law on Finance.

Observations

50% of the members of the Board in office are between 50 and 60 years old; the average age is in line with the average of the Assonime sample (56 vs 56.5 years old). In the last three years, the Board has met a number of times lower than the average number of meetings of the Assonime sample (8 meetings of the BoD of Sabaf in 2017) with an average attendance rate of 95%, in line with other companies of the research (92% in 2017).

The meetings were attended by the *Board of Statutory Auditors* and - in turn - the managers of Sabaf, who were invited to attend and report on specific issues on the agenda.

Average age of directors

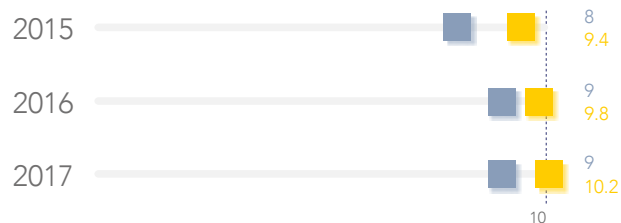


The comparison was carried out using the data provided by the 2017 Italia Board Index Observatory, published by Spencer Stuart, which analyses the characteristics and operation of the Boards of Directors of the top 100 listed Italian (industrial and financial) companies in order of capitalisation as of February 2017, as well as providing a comparison with the main European and non-European countries.

During the financial year, the Board of Directors carried out its assessment of the size, membership (including professional competences, managerial skills and seniority) and operation of the Board of Directors and its Committees, opting for the self-assessment of individual directors, coordinated by the Lead Independent Director.

The results of the assessment were generally positive, and were discussed at the Board of Directors' meeting of 19 December 2017.

Number of meetings (2015-2017)



Average attendance at the Meetings (2015-2017)^(*)



■ Sabaf ■ Assonime Average

(*) 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 listing on the stock exchange in 1998.

Ettore Saleri

Vice Chairman

Member of the Saleri family, he began his career at Sabaf in 1994. Subsequently, he abandoned his operational role and followed the interests of the Group through the Holding. Deputy Chairman since 2009.

Cinzia Saleri

Vice Chairman

Member of the Saleri family, she follows the interests of the Group through the Holding. Appointed Vice Chairman of Sabaf S.p.A. in 2012.



Giuseppe Cavalli

Director

Mechanical engineer, he held management positions in the production sector in various Italian manufacturing companies in the household appliances sector. Today, he is General Manager of the Alfa Acciai Group.

Renato Camodeca

Director

He is a university professor of economics, a former member of the Boards of Statutory Auditors and of the Supervisory Boards of listed and unlisted companies, and he is Lead Independent Director at Sabaf.

Fausto Gardoni

Director

At the top of leading industrial companies with management responsibilities. In Sabaf since 2009, he holds the position of Chairman of the Remuneration and Nomination Committee.

Roberta Forzanini

Vice Chairman

Member of the Saleri family, Civil Lawyer of the Court of Brescia, enrolled with the bar association since 2000. Appointed Vice Chairman of Sabaf in May 2015.



Pietro Iotti

Chief Executive Officer

Mechanical Engineer, he holds positions of increasing responsibility in several industrial companies. In Sabaf since 2017, he holds the position of Chief Executive Officer.



Gianluca Beschi

Executive Director

Certified public accountant, at Sabaf since 1997 as Investor Relations Manager, Head of Management Control and Head of Internal Control. In 2012, he was appointed Director of Administration, Finance and Control.



Anna Pendoli

Director

She carries out the profession of real estate broker, Appointed by the minority lists of Independent directors of Sabaf in May 2015.



Nicla Picchi

Director

Degree in Law, Partner of Studio Picchi & Associati where she works as a lawyer. In Sabaf since 2006, she is also Chairman of SB 231 of Sabaf S.p.A. and of the subsidiary Faringosi-Hinges. She has been chairman of the Control and Risk Committee since 2015.

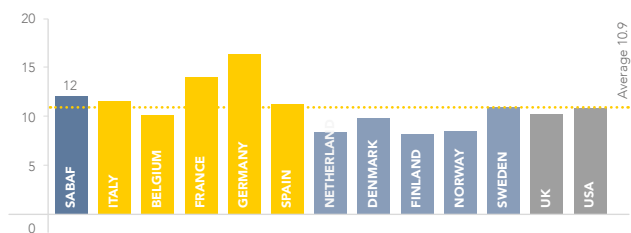


Alessandro Potestà

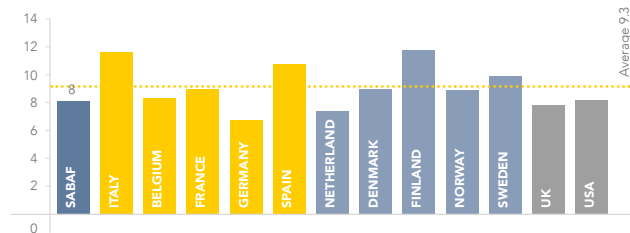
Director

Degree in Economics and Commerce, he held management positions in investments and Corporate Development. Today he is Senior Portfolio Manager at Quaestio Capital Management SGR S.p.A.

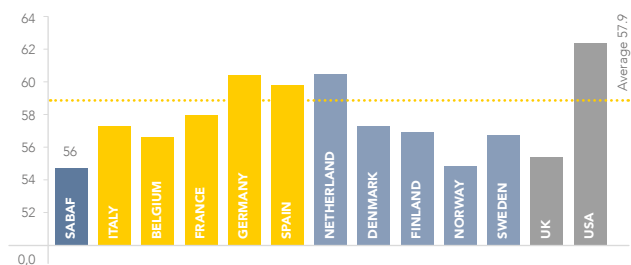
Average size of the BoD



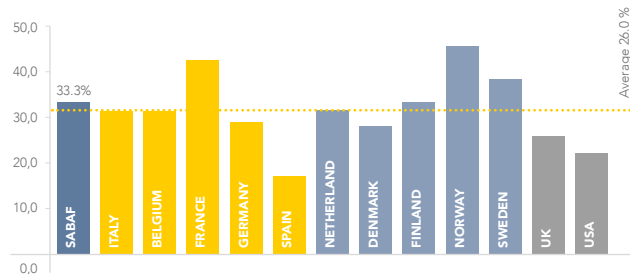
Average number of meetings of the BoD



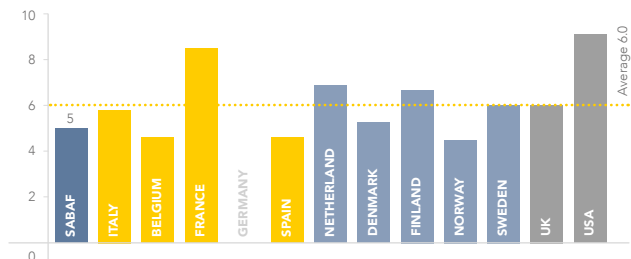
Average Age of Directors



% of Women in the BoD



Average number of Independent Directors



Source: Spencer Stuart - Italia Board Index 2017

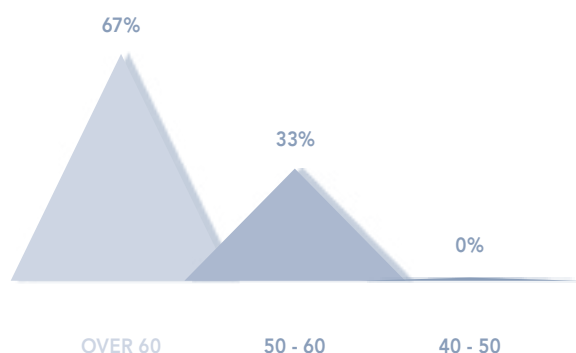
BOARD OF STATUTORY AUDITORS

The Board of Statutory Auditors, appointed by the Shareholders' Meeting on 5 May 2015 for the period 2015 to 2017, is composed of 3 members ⁸ with an average age of 65 years (higher than the Assonime average, 56.4 years).

The Chairman of the Board of Statutory Auditors is the expression of the minority list.

OFFICE	COMPONENTS
Chairman	Antonio Passantino
Statutory Auditor	Enrico Broli
Statutory Auditor	Luisa Anselmi

Age of statutory auditors



Overall average age:
Sabaf 65 years old
vs 56.4 years old Assonime

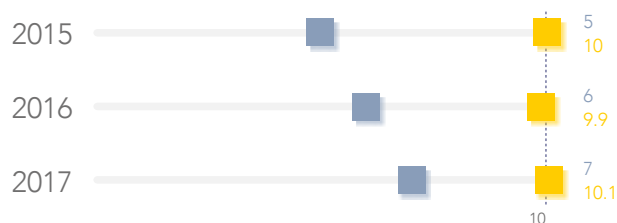
Observations

The Board of Statutory Auditors of Sabaf met on average 6 times in the last three years (7 meetings in 2017), a number of times lower than the average number of meetings of the Assonime sample (10 meetings on average).

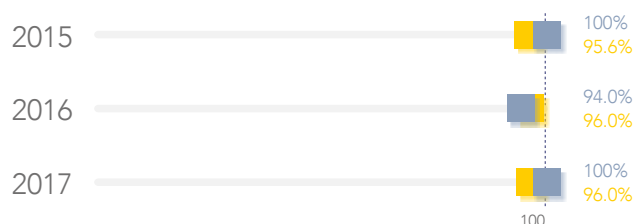
The average attendance of members at meetings was 98% in the period 2015 to 2017 (100% in 2017), in line or higher than that of other listed companies of the research.

In general, the commitment of the Board of Statutory Auditors of Sabaf is achieved not only by carrying out checks and attending the periodic meetings required by law, but also by involving all members in the meetings of the Board of Directors and of the Control and Risk Committee, in the half-yearly collective meetings with the Control Bodies and individual meetings with the independent auditors.

Number of meetings (2015-2017)



Average attendance at the Meetings (2015-2017) ^(*)



■ Sabaf ■ Assonime Average

⁸ The Curriculum Vitae of each statutory auditor is available on the Company's website.

^(*) Assonime panel including financial companies

CONTROL AND RISK COMMITTEE

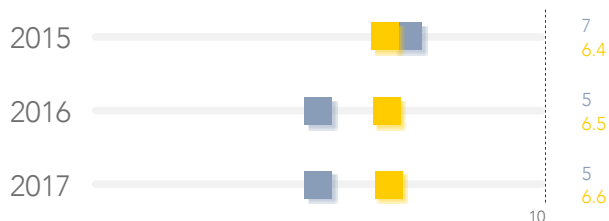
The Control and Risk Committee currently in office, set up within the Board, is composed of 3 members, in line with the vast majority of cases in the Assonime sample (3 members, 78% in cases). In line with the choice made by about 57% of the Assonime panel, the CRC of Sabaf is made up exclusively of independent directors. The Committee was also assigned the functions pertaining to the Related-Party Committee.

OFFICE	COMPONENTS
Chairman	Nicla Picchi
Member	Giuseppe Cavalli
Member	Renato Camodeca

Observations

In 2017, the Committee met on 5 occasions (Assonime average: 6.6 meetings). In the last three years, the number of meetings and the attendance of the directors to the committees are on average in line with the Assonime sample.

Number of meetings (2015-2017)



Average attendance at the Meetings (2015-2017) (*)



REMUNERATION AND NOMINATION COMMITTEE

The Remuneration and Nomination Committee, set up within the Board, comprises four non-executive members, the majority of them independent (in line with the choice made by 44% of the Assonime panel), with the knowledge and experience in accounting, finance and remuneration policies that is deemed adequate by the Board of Directors.

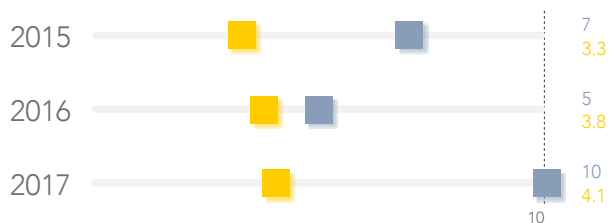
OFFICE	COMPONENTS
Chairman	Fausto Gardoni
Member	Giuseppe Cavalli
Member	Renato Camodeca
Member	Alessandro Potestà

Observations

In the last three years, the Committee met a number of times higher than the Assonime average.

In particular, during the last financial year, the Committee met 8 times with the aim, among other things, of preparing the 2017 incentive plan, outlining the profile and remuneration of the new Chief Executive Officer and updating the Group's Remuneration Policy.

Number of meetings (2015-2017) (*)



Average attendance at the Meetings (2015-2017) (**)



■ Sabaf ■ Assonime Average

GOVERNANCE OF SUSTAINABILITY

Sabaf has always believed that **social and environmental aspects** are an integral part of the Group's strategy and, as such, are the responsibility of the **Board of Directors**.

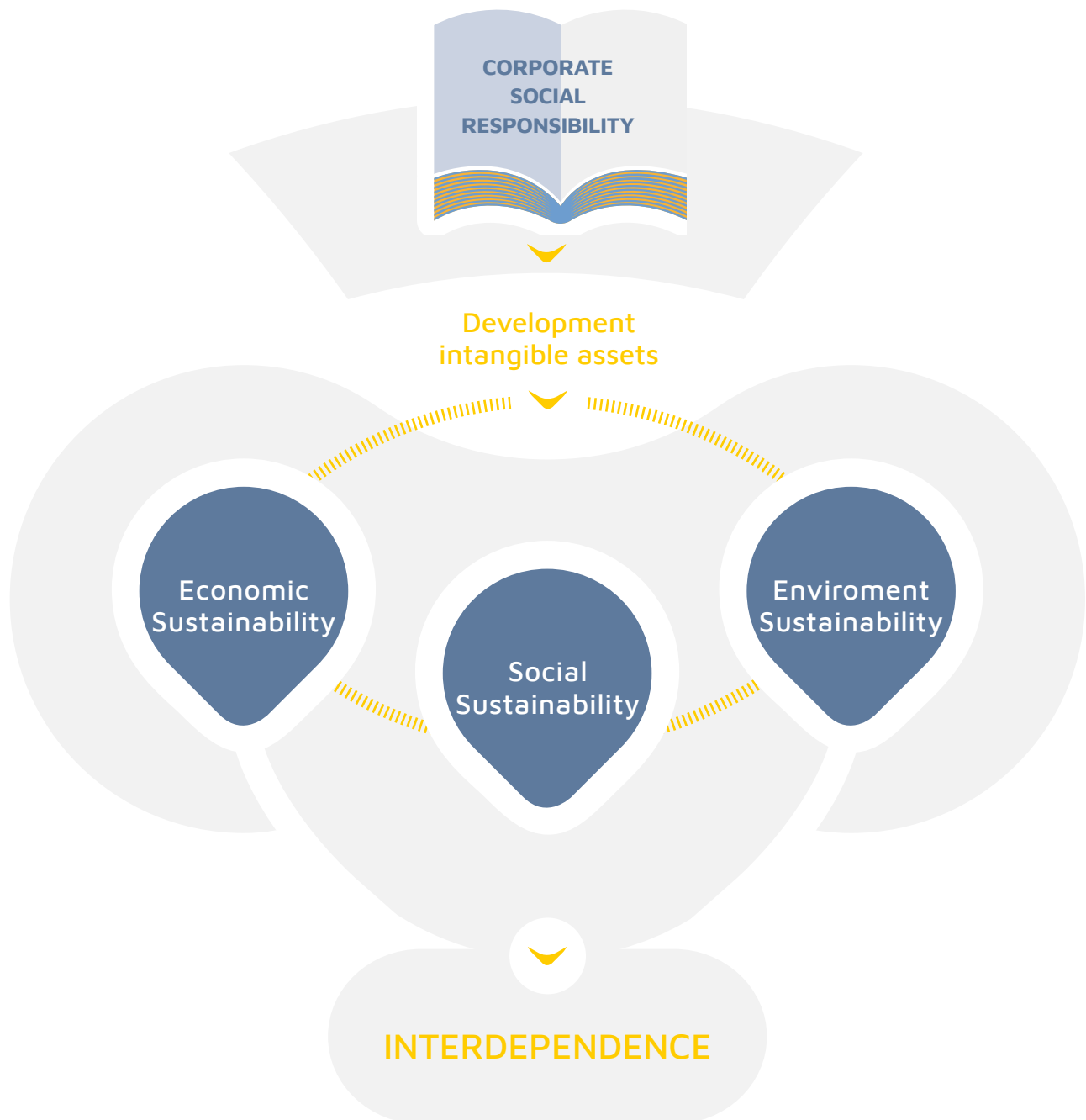
With reference to the governance of these topics, at the meeting of the Board of Directors on 3 August 2017, which, among other things, granted powers to executive directors following the appointment of the new Chief Executive Officer, it was confirmed that the criteria for implementing Corporate Social Responsibility ("CSR") are the responsibility of the Board itself.

In confirmation of the Group's commitment with regard to sustainability issues, Sabaf has adopted a **Social Responsibility System in 2005 that complies with the international standard SA8000** and, also starting from that same year, Sabaf publishes its economic, social and environmental sustainability performance jointly in its Annual Report.

Within the SA8000 Certified System, Sabaf, in addition to having identified a Head of Social Responsibility Management System, created a **Social Performance Team (SPT)** made up of Representatives of the Social Responsibility Department and some Workers' Representatives for Social Responsibility, to whom the following tasks are also assigned:

- encourage a constant dialogue between the Workers and the Company Management;
- identify and assess the risks related to the aspects of Ethics and Social Responsibility;
- monitor the activities carried out in the workplace and check the implementation and effectiveness of the Social Responsibility System.

All Sabaf employees, as part of their responsibilities and competences, are required to implement CSR every day in the performance of their activities.



INTERNAL AUDIT AND SUPERVISORY BODY

Internal Audit

On 5 May 2015, the Board of Directors, subject to the favourable opinion of the Control and Risk Committee, as well as after hearing the Board of Statutory Auditors, renewed the engagement of an independent external company, Protiviti s.r.l., to carry out the functions of the Internal Audit Department for the period from 2015 to 2017. It then identified Emma Marcandalli, the company's Managing Director, as Head of that department. This choice is related to the greater skills and efficiency that an external

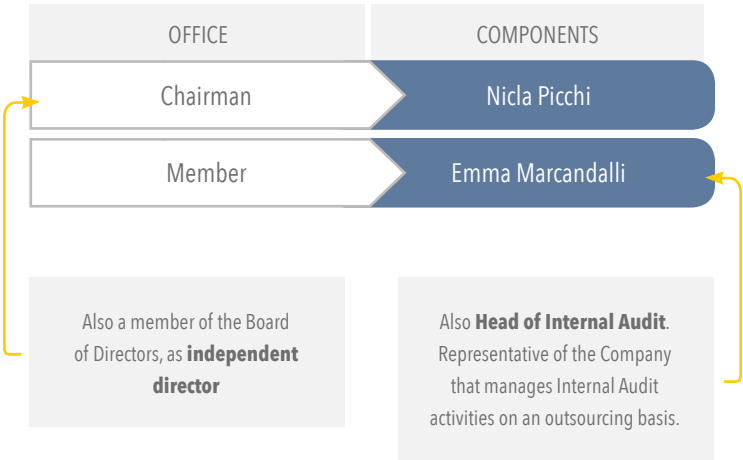
subject specialised in internal control issues can guarantee, also taking into account the size of the Sabaf Group.

The Head of the Internal Audit department is responsible for verifying that the internal control and risk management system is working properly. He/She reports hierarchically to the Board of Directors and is not responsible for any operational areas and remains in office for the entire term of the Board that appointed him/her.

Supervisory Body

The appointment of the Supervisory Body was renewed on 5 May 2015 by the Board of Directors of Sabaf for the period 2015 to 2017; it is composed of a non-executive and independent member and an external member.

During 2017, the Supervisory Body of Sabaf met 4 times, asking the Company's management to attend the meetings in order to carry out in-depth analysis on specific aspects.

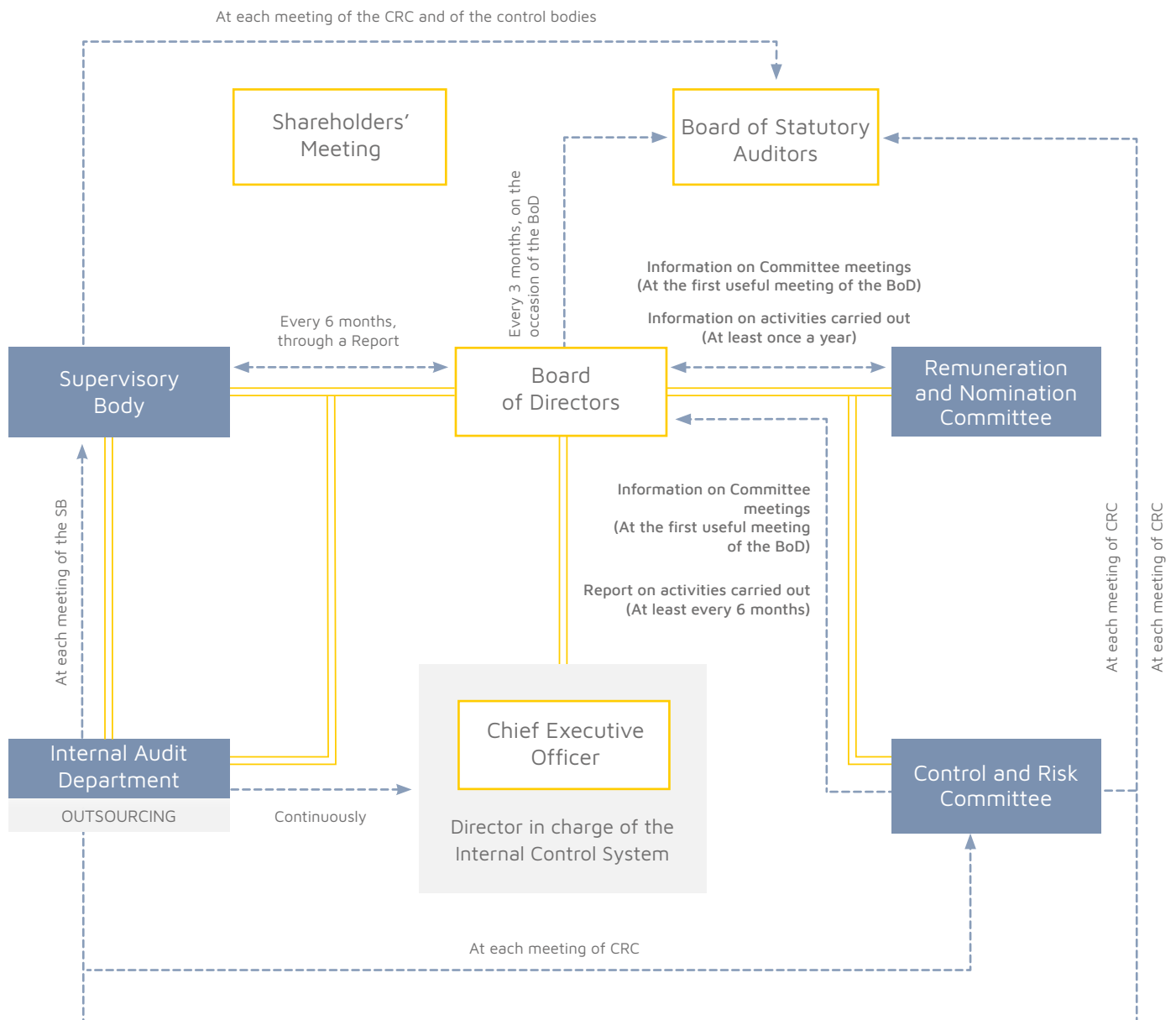


INFORMATION FLOWS

The administration and control model of Sabaf operates through a network of periodic and systematic information flows between the various corporate bodies. Each body, according to the timing and methods defined by the Bylaws, the

Governance Model and other internal documents, reports to the functionally superior body on the activities carried out in the reference period and those planned for the following period, any observations noted and suggested actions.

Information flows within the governance structure



KEY

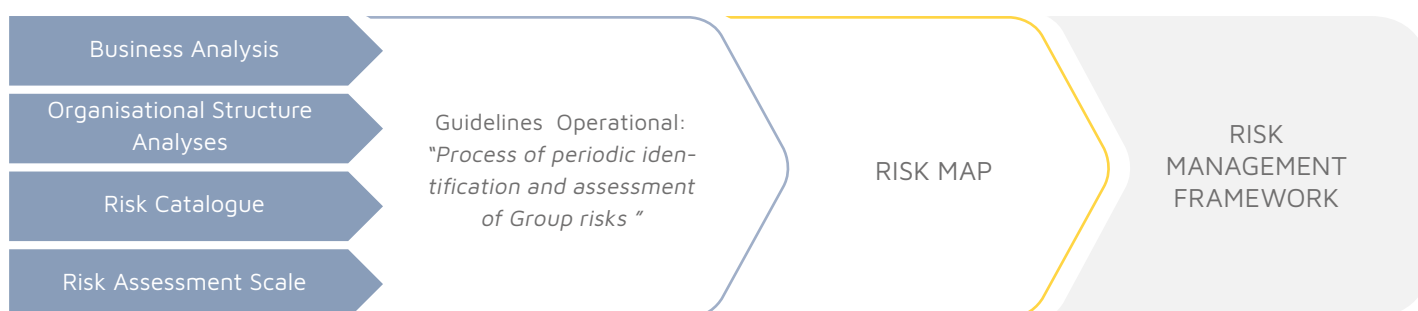


Risk Management



In the course of its business, Sabaf defines its strategic and operational objectives and identifies, assesses and manages risks that could prevent the achievement of these objectives.

In recent years, Sabaf has gradually moved closer to the concepts of risk assessment and risk management, developing a structured process of periodic identification, assessment and management of risks, defined and formalised in a Guideline of the Corporate Governance Manual.



The Guidelines define the roles and responsibilities of the risk assessment and risk management processes, indicating the subjects to be involved, the frequency of the process and the assessment scales.

ASSESSMENT SCALES		1	2	3	4
IMPACT	Economic-financial losses	< € 0.2 mil	€ 0.2 - € 0.5 mil	€ 0.5 - € 1.2 mil	> € 1.2 mil
	HSE	Limited damage to health / safety / environment	Moderate damage to health / safety / environment	Serious damage to health / safety / environment	Very serious damage to health / safety / environment
	Reputational damage	Negligible impacts on stakeholder confidence	Moderate impacts on stakeholder confidence	Significant impacts on stakeholder confidence	Damaged stakeholder confidence
	Operational damage	No impact on business processes	Low impacts on efficiency / continuity	Significant impacts on efficiency / continuity	Critical impacts on efficiency / continuity
PROBABILITY	Frequency of occurrence	Once every 3 years or more	Once every 2 years	Once a year	Several times a year
	Quality indicators	Unlikely/ Remote	Not very likely	Likely	Very likely
RISK MANAGEMENT LEVEL		Optimal	Adequate (with room for improvement)	To be strengthened	Nonexistent / lacking

Each risk is subject to an assessment that is broken down as follows:

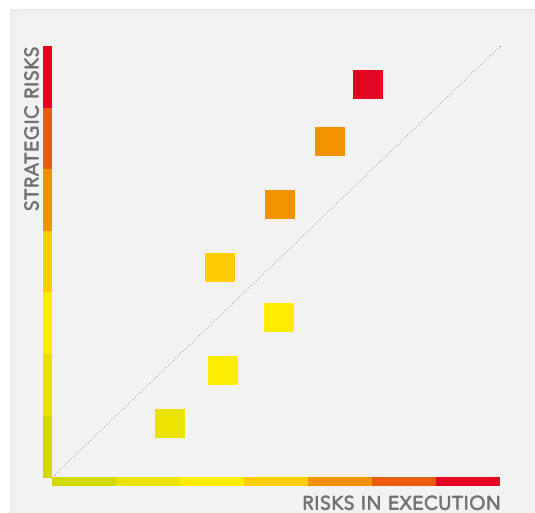
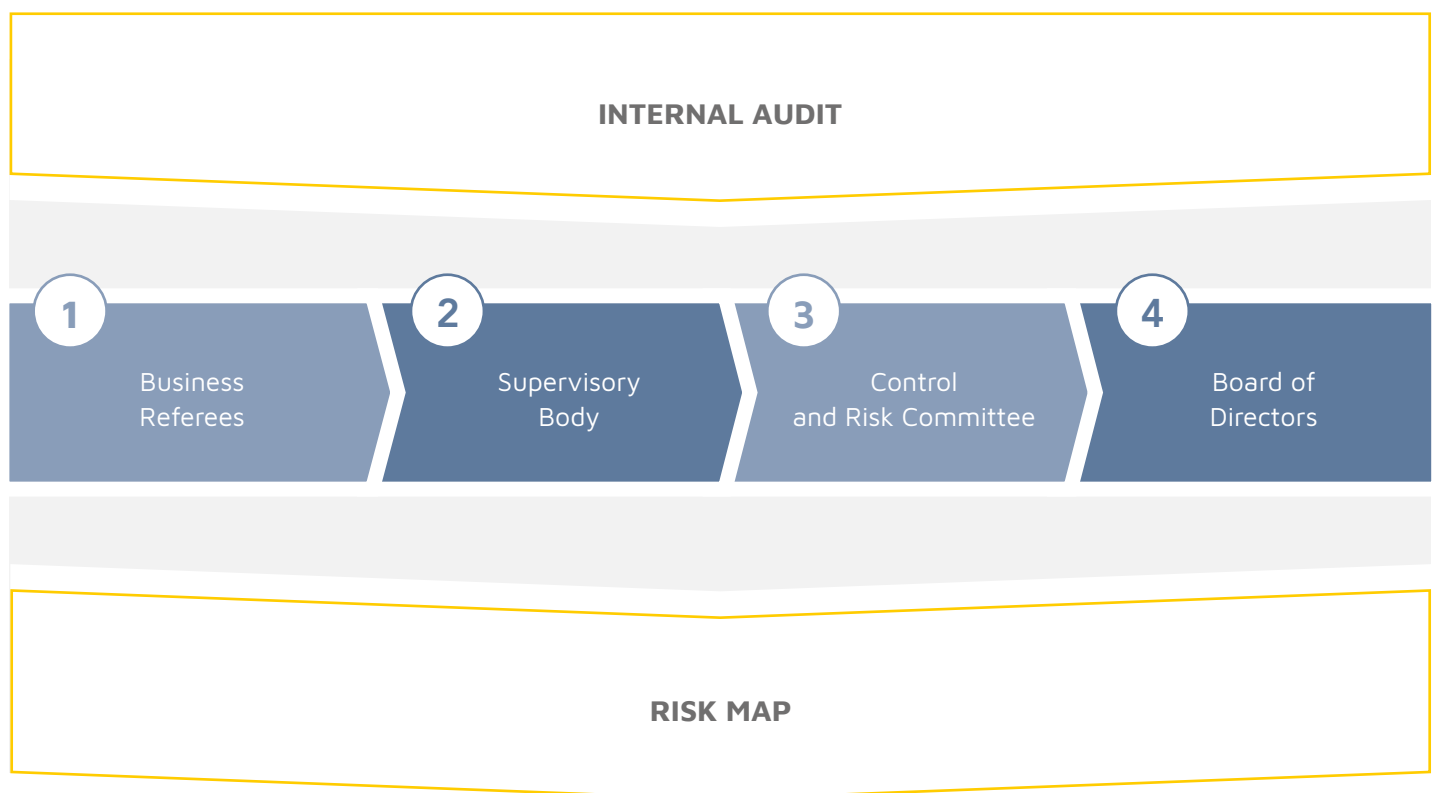
- *probability* of occurrence foreseeable over a three-year future time horizon;
- estimate of the average of the economic-financial impacts, HSE, reputational and operational damage, within the time frame being assessed;
- level of *risk management and control*.

For more information on the main risks identified by the Group, please refer to the Management Report.

In the last quarter of 2017, the Internal Audit Department began the periodic risk assessment process for the identification and assessment of Group risks, with the broad involvement of certain Parent Company department heads, also in their capacity as representatives for the Subsidiaries, each for their respective areas.

Along the assessment process, which also involves all the control bodies, the risks take shape and are positioned on the map.

Risk Assessment Process



Compliance

INTEGRATED COMPLIANCE

Internal control system



The risk management activity carried out by Sabaf also takes into account compliance requirements in order to achieve the company's objectives.

The internal control system is based on the following elements:

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

In particular, Sabaf prepares an integrated and risk-based Audit Plan, broken down according to specific control objectives (operational risks, compliance risks with Law 262/2005 and Legislative Decree 231/2001, security of company information systems, etc.).

The execution of the interventions is assigned, in outsourcing, to a single structure, the Internal Audit, in turn responsible for reporting the results of the activities carried out to the competent control bodies.



All this translates into an **integrated compliance culture and tools**

Integrated compliance and the Corporate Governance Manual

Following compliance with the Corporate Governance Code for listed companies and in order to internalise the good governance practices sponsored in this document in its processes, Sabaf adopted a Corporate Governance Manual ⁹ that regulates principles, rules and operating procedures.

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

The Manual includes some operating guidelines, also approved by the Board of Directors and updated from September 2016, prepared for the purpose of the correct carrying-out of the activities pertaining to Sabaf's management and control bodies.

OPERATING GUIDELINES

REGULATED SUBJECTS	Self-Assessment of the BoD
	Management, coordination and control of Group subsidiaries
	Means of compliance with disclosure obligations to Statutory Auditors, pursuant to Art. 150 of the TUF
	Assessment of the Group's internal control system
	Process of periodic identification and assessment of Group risks
	Management of significant operations in which directors have an interest
	Assignment of professional mandates to the Independent Auditors

Integrated compliance and Legislative Decree 231/2001

In 2006, Sabaf S.p.A. adopted the Organisation, Management and Control Model, as suggested by Legislative Decree 231/2001 ¹⁰, aimed at preventing the commission of specific types of offences by employees and/or collaborators in the interest or for the benefit of the Company.

In the following years, the Company, under the supervision of the Supervisory Body, promptly responded to the need to adapt the Model and the control structure to the regulatory changes that had occurred from time to time.

The Company entrusts the Supervisory Body with the task of assessing the adequacy of the Model itself, i.e. its real capacity to prevent offences, as well as to supervise the operation and correct observance of the adopted protocols.

In 2008, the subsidiary Faringosi Hinges s.r.l. also adopted Model 231 and appointed the SB, ensuring, in line with the parent company, its proper updating and effective operation.



ACTIVITIES CARRIED OUT IN 2017

- **Systematic** verifications on the **effectiveness and operations of the Model**, both through checks conducted by Internal Audit and through conversations with personnel involved in sensitive activities.
- **Investigation activities** regarding the occupational health and safety management processes.
- **Information and training** for employees concerning specific protocols regulated by the Model.
- **Launch of in-depth analyses in preparation for the 231 risk assessment review** with the aim of assessing the applicability of the new offences introduced in 2017.

⁹ The latest version of the document in accordance with the provisions of the Corporate Governance Code, approved by the Board of Directors on 29 September 2016, is available on the Company website, at www.sabaf.it under the Investors - Corporate Governance section.

¹⁰ The latest version of the document, approved by the Board of Directors on 29 September 2016, available on the Company website, at www.sabaf.it under the Investors - Corporate Governance section

Integrated compliance and Anti-corruption

The Sabaf Group, aware of the negative effects of corrupt practices in business management, is committed to preventing and combating the occurrence of offences in the carrying-out of its activities.

Risk analysis and assessment in case of violation of anti-corruption regulations is included in the annual **Risk Assessment** process (cf. «Adaptation to anti-corruption regulations»).



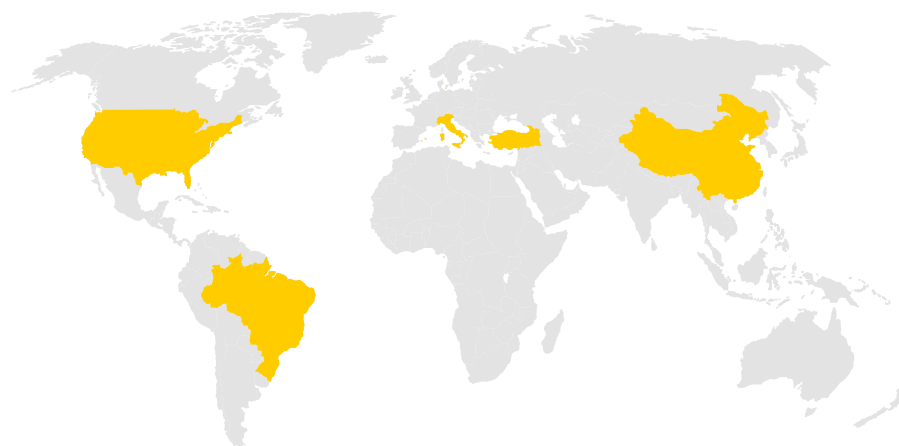
Sabaf is committed to preventing unlawful behaviour by disseminating the contents of its Charter of Values (i.e. distributed to all Group employees as well as to commercial agents who operate on behalf of the Group worldwide) and of the **Organisation, Management and Control Model pursuant to Legislative Decree 231/2001** (adopted by Sabaf S.p.A. and Faringosi Hinges s.r.l.).



The Group, as further confirmation of its commitment to fight against unlawful behaviour, intends to integrate, in a dedicated **system**, the **rules for preventing and combating corruption** already in force with the aim of strengthening the principles and behaviour that must be observed in running the business.



With reference to the **risks related to some countries where the Group operates** (e.g. Turkey, China and Brazil), which are considered particularly critical (ref. Corruption Perception Index of Transparency International), Sabaf is attentive to compliance with local anti-corruption regulations, **also through a strong commitment to the management**, coordination and control of the Parent Company, aimed at guaranteeing - among other aspects - the prevention and combating of corrupt offences.

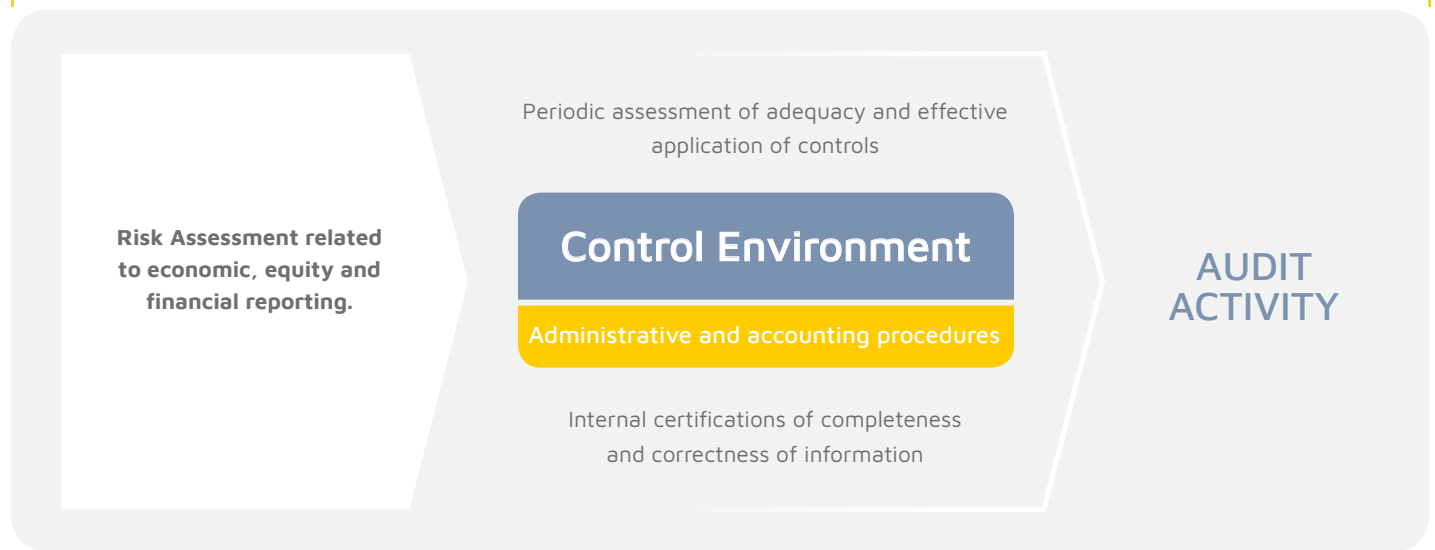


Integrated Compliance and Law 262/2005

Sabaf considers the Internal Control and Risk Management System for financial information an integral part of its risk management system. In this regard, Sabaf has integrated the activities relating to the management of the internal control system on financial reporting into its Audit and Compliance process since 2008.

The Group defined its own Accounting Control Model, approved for the first time by the Board of Directors on 12 February 2008, subsequently revised and updated.

ELEMENTS CHARACTERISING THE ACCOUNTING CONTROL MODEL



No updates to the Accounting Control Model were necessary in 2017.



Results

Driven by long-term sustainability,
we measure our results in economic,
social and environmental terms.

Sabaf and employees

Risks

The management of relations with the employees of the Sabaf Group cannot disregard the identification, assessment and management of potential risks. The relevant risk categories in this area are:

Strategic risks, which could affect the achievement of the Group's development objectives, such as the lack of adequate skills, the loss of key resources or the difficulty of replacing them.

Legal and compliance risks, related to contractual liabilities, compliance with the regulations applicable to the Group and the commitments set out in the Charter of Values, such as the correct application of labour contracts in force in the various countries in which the Group operates, health and safety regulations, compliance with the criteria of fairness and impartiality in the management of human resources.

Operational risks, which may lead to malfunctions in the carrying-out of current activities, such as high turnover or conflicting industrial relations.

In order to deal with these potential risks, the Group adopted certified systems for managing social responsibility (compliant with SA8000 standard) and managing occupational health and safety (compliant with OHSAS 18001 standard). The Sabaf Group also implements structured policies in the following areas:

- selection and recruitment of personnel;
- training;
- internal communication;
- remuneration and incentive systems;
- company welfare;
- industrial relations.

The combination of these systems and policies enables the Group to fully manage these risks. The following paragraphs outline, for each of these aspects, the characteristics of the "Sabaf model" and the performance achieved.

Personnel management policy

THE SOCIAL RESPONSIBILITY AND HEALTH AND SAFETY MANAGEMENT SYSTEM

Sabaf's commitment to social responsibility and the protection of workers' health and safety are strategic elements for Sabaf and the achievement of labour standards that guarantee respect for human rights, health and maximum safety is a constant challenge.

For this reason, Sabaf S.p.A. adopted and maintains a Social Responsibility Management System that, by integrating with the other management systems operating in the company (health, safety, environment and energy and quality), constitutes an effective means for constant risk reduction. This objective is achieved through the following instruments:

- maintaining full compliance with applicable laws, directives, local regulations and other signed requirements (SA8000, Global Compact, Code of Conduct of Ceced);
- the full implementation of the Charter of Values;
- the prior assessment of human rights, health and safety aspects;
- the development of a process based on people being given a sense of responsibility within shared rules of behaviour.

The Group is committed to pursuing the following objectives, which are also set out in the Charter of Values:

- promote respect for the fundamental human rights of workers in all countries where the Group operates, as identified in the principles established in the SA8000 standard, in the Global Compact and in the Code of Conduct of Ceced, relating to child labour, forced and compulsory labour, occupational health and safety, freedom of association and right to collective bargaining, discrimination, disciplinary procedures, working hours and remuneration criteria;

- carry out their activities by creating a group of motivated people who can operate in a work environment that encourages and rewards fairness and respect for others;
- produce profits without ever losing sight of the respect for the rights of its workers;
- identify and analyse potential hazards and risks in business processes, in order to make workplaces safer and more comfortable;
- avoid any form of discrimination and favouritism during the recruitment phase of personnel, whose selection must be made on the basis of the applicants' profiles meeting the company's requirements;
- value and respect diversity, avoiding any form of discrimination in career advancement on the grounds of gender, sexual orientation, age, nationality, state of health, political opinions, race and religious beliefs at all stages of the employment relationship;
- adopt criteria of merit and competence in employment relationships, based also on the achievement of collective and personal objectives;
- avoid all forms of harassment of workers;
- enhance the contribution of human capital in decision-making processes, encouraging continuous learning, professional growth and knowledge sharing;
- provide clear and transparent information on the tasks to be carried out and the position held, the performance of the Group and market developments;
- establish a responsible and constructive dialogue with trade unions, fostering a climate of mutual trust in compliance with the principles of fairness and transparency, respecting their roles.

The SA8000 Standard

Sabaf has been using a Social Responsibility Management System certified and compliant with the SA8000 standard since March 2009. During 2017, the company, in line with its shared values and company mission, continued its commitment in this area, adapting its Management System to the new international standard SA8000:2014. On 16 June 2017, IMQ certified the compliance of the System with the new Standard, certifying its consistency with a business model based on compliance with ethical requirements, the enhancement of people and social and environmental sustainability.

The process of implementing the Social Responsibility System has been characterised by many events.

During the System planning phase, the roles of the persons designated to carry out the activities envisaged by the SA8000:2014 standard were defined in the company organisation chart. The company management appointed its SA8000 representatives, with the task of ensuring compliance with the requirements of the Standard. The representation of workers in terms of social responsibility was taken on by the members of the trade union representatives who applied for this role. Together they have set up the Social Performance Team (SPT), an active working group for the planning and implementation of the System itself.

In order that the main stakeholders can actively participate in the implementation of the Social Responsibility System in collaboration with the company management, particular attention was paid to their involvement in the methods described below.

Sabaf workers through specific training sessions for department managers (more than 200 hours in 2017). Understanding the importance of adopting a Social Responsibility System is also facilitated by sharing information material on company electronic notice boards, on the HR PORTAL workers' portal, on the network and on the company website.

The trade unions: awareness and the convinced involvement of trade union workers' representatives are fundamental for the full implementation of the System.

Suppliers, sub-suppliers and sub-contractors, who are required to sign a commitment to comply with the requirements of the Standard, an integral part of contracts. Audits are also carried out on suppliers.

The customers, by committing themselves within the household appliance industry to support ethical and fair behaviour, also through compliance with the code of conduct of CECED.

The institutions, to which Sabaf confirms its commitment to carry out its activities in order to overcome mere compliance with the law.

The community: Sabaf complies with the Global Compact, the United Nations initiative for companies that commit to upholding and promoting the ten principles: human rights, labour, environmental protection and anti-corruption.

The adaptation of the Social Responsibility Management System to the new SA8000 Standard involved the definition, approval and sharing of a new Manual (Edition 02) - implemented with an Integrated Management perspective among the Company's Management Systems - which, in relation to each requirement, contains the company practices and relative Procedures.

To be eligible for SA8000 compliance, Sabaf must comply with local, national and other applicable laws, prevailing industry standards, other requirements it complies with, and the principles of many international instruments, including the Universal Declaration of Human Rights, ILO Conventions and United Nations Conventions.

No episodes of discrimination were observed and no transactions/activities with a high risk of recourse to child labour and forced or compulsory labour were identified in 2017.

The people of the Sabaf Group

The Sabaf Group had 756 employees at 31 December 2017 compared to 736 at the end of 2016 (+2.72%).

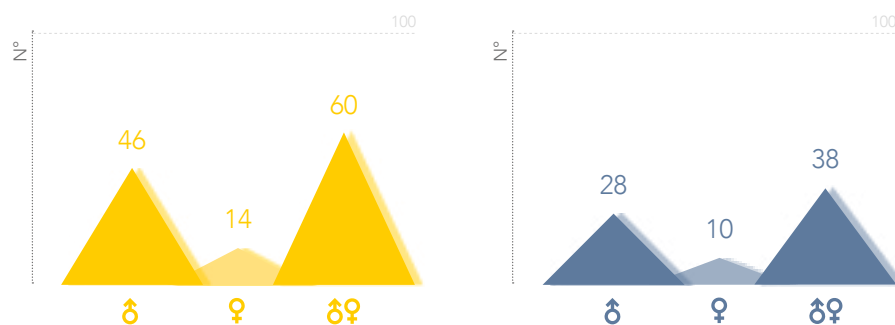
	31.12.2017			31.12.2016			31.12.2015		
	♂	♀	♂♀	♂	♀	♂♀	♂	♀	♂♀
Sabaf S.p.A. (Ospitaletto, Brescia - Italy)	337	177	514	353	180	533	367	185	552
Faringosi-Hinges S.r.l. (Bareggio, Milan - Italy)	22	21	43	21	21	42	20	23	43
A.R.C. s.r.l. ¹¹ (Campodarsego, Padua - Italy)	14	4	18	-	-	-	-	-	-
Sabaf do Brasil (Jundiaí - São Paulo - Brazil)	61	16	77	49	17	66	45	14	59
Sabaf Turchia (Manisa - Turkey)	56	40	96	52	34	86	57	38	95
Sabaf Appliance Components (Kunshan) Co., Ltd.	6	2	8	7	2	9	6	4	10
TOTAL	496	260	756	482	254	736	495	264	759

As regards the types of contract adopted, there are 722 employees with permanent contracts (95.5%) and 34 with fixed-term contracts and in cross training or apprenticeship (4.5%).

	31/12/2017			31/12/2016		
	♂	♀	♂♀	♂	♀	♂♀
Permanent	473	249	722	464	251	715
Cross training or apprenticeship	1	0	1	3	0	3
Fixed term	22	11	33	15	3	18
TOTAL	496	260	756	482	254	736

Temporary personnel (with temporary work contract or similar)

ANNUAL AVERAGE



In 2017, 4 former temporary workers were hired by the companies of the Sabaf Group (4 in 2016).

In 2017, Sabaf hosted 5 young people in internships (6 in 2016), including 4 students attending secondary school.

Sabaf offers some students from schools in the province of Brescia first-hand direct contact with the world of work: in this way, they can see the technical knowledge acquired in the classroom applied "on the job".

Breakdown of personnel by age

	31.12.2017	31.12.2016
< 30 years old	16.0%	16.8%
31 – 40 years old	40.6%	42.4%
41 – 50 years old	30.7%	29.8%
over 50 years old	12.7%	11.0%
TOTAL	100%	100%

The low average age of Group employees (39 years old) confirms the strategy of hiring young workers, giving priority to training and internal growth rather than acquiring skills from outside, also in consideration of the specific nature of Sabaf's industrial model.

The minimum age for Group personnel is 26 years old for Italy, 21 years old for Turkey, 18 years old for Brazil and 29 old years for China.

Breakdown of the personnel by length of service

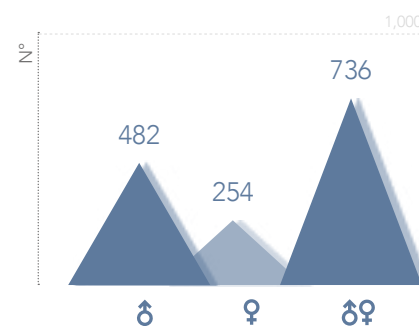
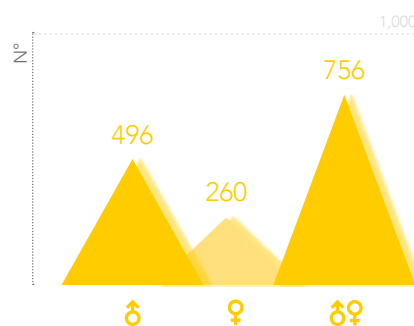
	31.12.2017	31.12.2016
< 5 years	24.5%	22.0%
6 – 10 years	18.9%	26.6%
11 – 20 years	45.1%	41.3%
over 20 years	11.5%	10.1%
TOTAL	100%	100%

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

Breakdown by department

AREA	2017			2016		
	♂	♀	♂♀	♂	♀	♂♀
Production	301	172	473	289	170	459
Quality	42	32	74	43	31	74
Research and development	66	2	68	66	2	68
Logistics	26	0	26	25	1	26
Administration	10	25	35	9	23	32
Sales	8	12	20	10	13	23
Services	17	11	28	17	8	25
Purchases	8	4	12	6	4	10
Other	18	2	20	17	2	19
TOTAL	496	260	756	482	254	736

TOTAL



Recruitment policy

In order to attract the best resources, the recruitment policy aims to ensure equal opportunities for all candidates, avoiding any kind of discrimination. The selection procedure requires, inter alia:

- the selection process to be carried out in at least two stages with two different contacts;
- that at least two applicants be assessed for each position.

The assessment of the applicants is based on their skills, training, previous experience, expectations and potential, tailoring them to the specific needs of the company. All new employees of the Group are given the Charter of Values. Sabaf S.p.A. also delivers a copy of the SA8000:2014 standard, for which the company is certified.

Breakdown by qualification

QUALIFICATION	2017				2016			
	♂	♀	♂♀		♂	♀	♂♀	
Degree	64	29	93	12.3%	67	24	91	12.4%
High school leaving diploma	248	92	340	45.0%	232	98	330	44.8%
Middle school leaving certificate	180	134	314	41.5%	181	130	311	42.3%
Elementary school leaving certificate	4	5	9	1.2%	2	2	4	0.5%
TOTAL	496	260	756	100%	482	254	736	100%

Change in personnel in 2017

SABAF S.p.A.

	31.12.16	NEW EMPL.		LEAVING EMPL.		PROM.	31.12.17
		♂	♀	♂	♀		
Managers	9	1	0	0	0	0	10
White collars and Middle Managers	108	4	1	4	1	2	110
Blue collars and equivalent	416	2	0	19	3	(2)	394
TOTAL	533	7	1	23	4	0	514

FARINGOSI HINGES s.r.l.

	31.12.16	NEW EMPL.		LEAVING EMPL.		PROM.	31.12.17
		♂	♀	♂	♀		
Managers	1	0	0	0	0	0	1
White collars and Middle Managers	13	1	0	1	0	0	13
Blue collars and equivalent	28	1	0	0	0	0	29
TOTAL	42	2	0	1	0	0	43

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

	31.12.16	NEW EMPL.		LEAVING EMPL.		PROM.	31.12.17
		♂	♀	♂	♀		
Managers	0	0	0	0	0	0	0
White collars and Middle Managers	3	1	0	0	0	0	4
Blue collars and equivalent	15	1	0	2	0	0	14
TOTAL	18	2	0	2	0	0	18

SABAF DO BRASIL

	31.12.16	NEW EMPL.		LEAVING EMPL.		PROM.	31.12.17
		♂	♀	♂	♀		
Managers	0	0	0	0	0	0	0
White collars and Middle Managers	10	0	1	1	0	0	10
Blue collars and equivalent	56	25	3	13	4	0	67
TOTAL	66	25	4	14	4	0	77

SABAF TURKEY

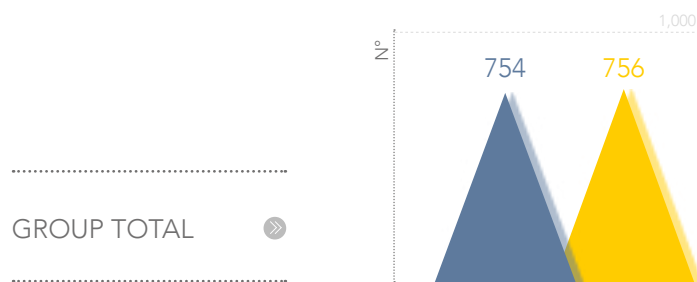
	31.12.16	NEW EMPL.		LEAVING EMPL.		PROM.	31.12.17
		♂	♀	♂	♀		
Managers	3	0	0	0	0	0	3
White collars and Middle Managers	12	1	4	2	0	0	15
Blue collars and equivalent	71	33	22	28	20	0	78
TOTAL	86	34	26	30	20	0	96

SABAF CHINA

	31.12.16	NEW EMPL.		LEAVING EMPL.		PROM.	31.12.17
		♂	♀	♂	♀		
Managers	1	0	0	0	0	0	1
White collars and Middle Managers	6	0	0	0	0	0	6
Blue collars and equivalent	2	0	0	1	0	0	1
TOTAL	9	0	0	1	0	0	8

Group total

	31.12.16 ¹²	NEW EMPL.		LEAVING EMPL.		PROM.	31.12.17
		♂	♀	♂	♀		
Managers	14	1	0	0	0	0	15
White collars and Middle Managers	152	7	6	8	1	2	158
Blue collars and equivalent	588	62	25	63	27	(2)	583
TOTAL	754	70	31	71	28	0	756



New employees, by age group and gender

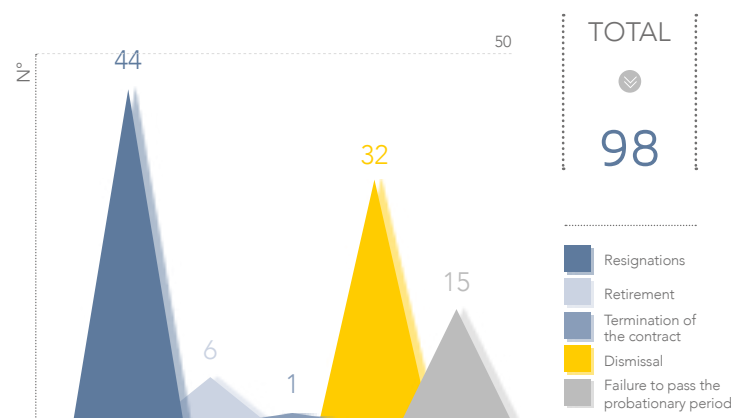
DESCRIPTION	2017			2016		
	♂	♀	♂♀	♂	♀	♂♀
up to 20 years old	5	2	7	0	1	1
from 21 to 30 years old	32	13	45	32	10	42
from 31 to 40 years old	24	13	37	19	4	23
from 41 to 50 years old	7	2	9	12	2	14
over 50 years old	2	1	3	0	0	0
TOTAL	70	31	101	63	17	80

Resigned during the year, by age group and gender

DESCRIPTION	2017			2016		
	♂	♀	♂♀	♂	♀	♂♀
up to 20 years old	2	2	4	1	0	1
from 21 to 30 years old	23	7	30	35	11	46
from 31 to 40 years old	24	17	41	21	7	28
from 41 to 50 years old	12	1	13	15	5	20
over 50 years old	9	2	11	5	3	8
TOTAL	70	29	99	77	26	103

Reasons for terminating employment in 2017

DESCRIPTION	WHITE COLLARS AND MIDDLE MANAGERS	BLUE COLLARS	TOTAL
Resignations	8	36	44
Retirement	1	5	6
Termination of the contract	0	1	1
Dismissal	0	32	32
Failure to pass the probationary period	1	14	15
TOTAL	10	88	98



12 Including A.R.C. employees.

Turnover rate by Geographical area, age group and gender

Italy (Sabaf, Faringosi e A.R.C.)

DESCRIPTION	2017			2016		
	♂	♀	♂♀	♂	♀	♂♀
< 30 years old	0.54%	0.00%	0.35%	0.53%	0.00%	0.35%
from 31 to 40 years old	2.68%	0.99%	2.09%	0.80%	0.50%	0.70%
from 41 to 50 years old	1.61%	0.00%	1.04%	2.41%	1.00%	1.91%
over 50 years old	1.07%	0.00%	0.70%	1.07%	0.00%	0.70%
TOTAL	5.90%	0.99%	4.18%	4.81%	1.50%	3.66%

Brazil

DESCRIPTION	2017			2016		
	♂	♀	♂♀	♂	♀	♂♀
< 30 years old	9.84%	18.75%	11.69%	22.45%	11.76%	19.70%
from 31 to 40 years old	6.56%	12.50%	7.79%	6.12%	5.88%	6.06%
from 41 to 50 years old	3.28%	0.00%	2.60%	4.08%	5.88%	4.55%
over 50 years old	1.64%	0.00%	1.30%	0.00%	0.00%	0.00%
TOTAL	21.32%	31.25%	23.38%	32.65%	23.52%	30.31%

Turkey

DESCRIPTION	2017			2016		
	♂	♀	♂♀	♂	♀	♂♀
< 30 years old	30.36%	15.00%	23.96%	42.31%	20.59%	33.72%
from 31 to 40 years old	17.86%	32.50%	23.96%	25.00%	14.71%	20.93%
from 41 to 50 years old	5.36%	2.50%	4.17%	5.77%	2.94%	4.65%
over 50 years old	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
TOTAL	53.58%	50.00%	52.09%	73.08%	38.24%	59.30%

China

DESCRIPTION	2017			2016		
	♂	♀	♂♀	♂	♀	♂♀
< 30 years old	0.00%	0.00%	0.00%	0.00%	100%	22.22%
from 31 to 40 years old	0.00%	0.00%	0.00%	28.57%	0.00%	22.22%
from 41 to 50 years old	16.67%	0.00%	12.50%	0.00%	0.00%	0.00%
over 50 years old	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
TOTAL	16.67%	0.00%	12.50%	28.57%	100%	44.44%

Group

DESCRIPTION	2017			2016		
	♂	♀	♂♀	♂	♀	♂♀
< 30 years old	5.04%	3.46%	4.50%	7.26%	4.23%	6.25%
from 31 to 40 years old	4.84%	6.54%	5.42%	4.36%	2.69%	3.80%
from 41 to 50 years old	2.42%	0.38%	1.72%	2.90%	1.54%	2.45%
over 50 years old	1.01%	0.00%	0.66%	0.83%	0.00%	0.54%
TOTAL	13.31%	10.38%	12.30%	15.35%	8.46%	13.04%

In 2017, turnover was in line with 2016.

At Sabaf Turkey, the Group is experiencing the greatest difficulties in personnel retention, partly because it operates in an area, Manisa, which is experiencing strong industrial development and where new employment opportunities are constantly being offered. The policies implemented, which include both monetary incentives and greater benefits, have nevertheless led to a higher level of loyalty development in Turkey.

Personnel training

Within the Sabaf Group, the professional growth of employees is supported by continuous training.

The Human Resources Department, having consulted the relevant heads and gathered the training requirements, prepares an annual training plan on the basis of which the specific courses to be carried out are planned.

	2017			2016		
	♂	♀	♂♀	♂	♀	♂♀
Training for new employees, apprentices, training contracts	5,173	1,538	6,711	3,187	1,222	4,409
Information systems	309	26	335	83	123	206
Technical Training	467	69	536	321	29	350
Quality, safety, environment and social responsibility	2,905	540	3,445	3,112	983	4,094
Administration and organisation	1,246	389	1,635	510	379	888
Foreign languages	328	152	480	966	283	1,249
Lean Philosophy/ Production/Office	1,522	364	1,886	81	29	110
Other	-	-	-	-	-	-
TOTAL HOURS OF TRAINING RECEIVED	11,950	3,078	15,028	8,260	3,046	11,306
Hours of training provided by internal trainers	4,501	1,282	5,783	4,709	1,317	6,026
TOTAL	16,451	4,360	20,811	12,969	4,363	17,332

The hours provided by internal trainers also include training given to employees with temporary work contract (equal to 4,067 hours in 2017).

Hours of training per capita received by category

	2017			2016		
	♂	♀	♂♀	♂	♀	♂♀
Blue collars	20.5	8.8	16.5	15.1	9.0	12.9
White collars and Middle Managers	36.1	22.2	31.1	26.1	23.4	25.2
Managers	28.7	50	30.1	34.7	70.5	37.3
TOTAL	23.9	11.9	19.8	17.8	12.1	15.9

In 2017, the total cost incurred for training activities of Group personnel was approximately € 428,000 (approximately € 296,000 in 2016). In addition, there are training costs for temporary personnel, which in 2017 were around € 75,000 (around € 62,000 in 2016).

Internal Communication

With the aim of developing a dialogue and continuous involvement between the company and its collaborators, Sabaf organises meetings and sharing sessions in which the results of projects to improve quality, efficiency and productivity are presented, as well as current initiatives in the "industry 4.0" sector.

In 2017, 3 meetings were organised with a total of 266 employees.

The Personnel Department institutionalised two weekly time bands in which it guarantees the availability of meeting employees for assistance and advice also independent of the issues closely related to the relationship between employee and employer, such as information on tax and social security regulations. In 2017, the Personnel Department of Sabaf S.p.A. dedicated 785 appointments to employees for problems relating to their employer-employee relationship or personal matters. In addition, it is possible to communicate with the Department via a dedicated e-mail address.

Sabaf S.p.A. and Faringosi Hinges s.r.l. have an HR PORTAL software, through which each worker, with personalised access, can consult the documents and information published by the company (payrolls, tax and social security data, etc.). Collective communications and agreements in favour of employees are also available.

In November 2017, a free wireless network for Internet surfing was made available to employees at the local canteen of the Ospitaletto registered office, which can be used with mobile devices (smartphone, tablet and pc).

In December 2017, the project to dematerialise the notice boards in the production departments and in the canteen was completed at Sabaf S.p.A. In each shed, a totem containing two screens was installed: the first one displays company communications and agreements; the second one is the turnkey of the single department with the names of first aid and fire-fighting personnel distributed by shift. In the canteen, only one monitor was installed for the first type of communication.

Since 2018, departmental meetings have been systematically organised with the aim of improving communication and involving personnel. In these meetings, suggestions and reports of operators, shift managers and heads are put on record and examined by the managers of the areas concerned.

Diversity and equal opportunities

Sabaf is constantly committed to ensuring equal opportunities for women employees, who currently represent 34.4% of the workforce (34.5% in 2016).

The Group, in accordance with the organisational and production requirements, is attentive to the family requirements of its employees. To date, most of the demands for reduced working time made by workers have been met.

In 2017, Group companies granted a total of 44 part-time contracts (5 female employees, 38 female workers and 1 male worker), equal to 5.8% of the total (34 contracts in 2016). 29 disabled people, 15 of whom are part-time, work in the Group's Italian companies. There are 5 agreements with a business co-operative for the placement of personnel belonging to protected categories.

Percentage distribution of employment by gender

	2017		2016	
	NUMBER	%	NUMBER	%
♂ Men	496	65.6	482	65.5
♀ Women	260	34.4	254	34.5
TOTAL	756	100	736	100

Breakdown by category and gender

	2017			2016		
	♂	♀	♂♀	♂	♀	♂♀
Managers	2%	0%	2%	2%	0%	2%
White collars and Middle Managers	14%	8%	21%	14%	7%	21%
Blue-collars and equivalent	50%	27%	77%	50%	27%	77%
TOTAL	66%	34%	100%	65%	35%	100%

The managers of all Group offices come from a geographical area close to the registered offices in which they operate, with the exception of the production manager at the premises of Sabaf China, who has been living in China for many years.

Non-EU workers ¹³

	2017	2016	BENCHMARK ¹⁴
Non-EU workers	24	32	
Percentage over total workers	4.10%	5.30%	3.10%

At 31 December 2017, the Group's Italian companies included employees of 13 different nationalities.

¹³ The figure refers exclusively to the Italian companies of the Group.

¹⁴ FEDERMECCANICA, *L'industria metalmeccanica in cifre (June 2017) – Lavoratori extracomunitari (2014)* - <http://www.federmeccanica.it>

Working hours and hours of absence

The normal weekly working time is 40 hours for the Italian companies and for Sabaf China and 44 hours for Sabaf do Brasil, spread over 5 working days, from Monday to Friday. For Sabaf Turkey, the duration is 45 hours per week, spread over 6 working days.

Overtime	2017		2016		BENCHMARK ¹⁵	
	White Collars	Blue Collars	White Collars	Blue Collars	White Collars	Blue Collars
Average number of employees who have worked overtime per month	137	390	107	358	-	-
Number of overtime hours	12,946	31,622	9,714	21,554	-	-
Number of hours per capita per year ¹⁶	82	54	65	38	54	67

Total hours of absence	2017			2016			BENCHMARK ¹⁷
	♂	♀	♂♀	♂	♀	♂♀	
Total hours of absence per year	29,274	42,621	71,895	39,650	46,661	86,311	-
Percentage of hours of absence over hours workable	2.8%	8.4%	4.6%	3.9%	9.2%	5.7%	-
Average hours of absence per capita	57.8	163.4	93.7	81.0	181.5	115.6	96.6

Hours of sick leave	2017			2016			BENCHMARK ¹⁸
	♂	♀	♂♀	♂	♀	♂♀	
Total annual hours of illness	19,019	19,679	38,697	31,603	18,099	49,702	-
Percentage of hours of illness over hours workable	1.8%	3.9%	2.5%	3.1%	3.6%	3.3%	-
Hours of sick leave per capita	37.6	75.4	50.5	64.6	70.4	66.6	52.3

Hours of maternity/ paternity leave	2017			2016			BENCHMARK ¹⁸
	♂	♀	♂♀	♂	♀	♂♀	
Total annual hours of maternity/ paternity leave	7,941.5	22,345.6	30,287.1	4,224.5	26,566.5	30,791.0	-
Percentage of maternity hours over hours workable	0.8%	4.4%	2.0%	0.4%	5.2%	2.0%	-
Hours of maternity leave per capita	15.7	85.7	39.5	8.6	103.3	41.3	14.9

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

Parental leaves ¹⁹

TYPE OF LEAVE (SABAF S.P.A)	2017			2016			% of workers in the workforce after 12 months
	♂	♀	♂♀	♂	♀	♂♀	
Compulsory maternity leave	0	12	12	0	14	14	100%
Early Maternity leave	0	9	9	0	14	14	100%
Voluntary maternity/paternity leave	11	21	32	6	20	26	73%
Breastfeeding	1	10	11	0	4	4	100%
Care for disabled family members (Law 104)	21	9	30	20	12	32	88%

OTHER LEAVES

Blood donation	9	1	10	7	0	7	71%
Leave of absence	6	4	10	4	2	6	100%
Extraordinary Leave	3	0	3	1	0	1	0%

TYPE OF LEAVE (OTHER COMPANIES OF THE GROUP)	2017		
	♂	♀	♂♀
Compulsory maternity leave	0	3	3
Early Maternity leave	0	0	0
Voluntary maternity/paternity leave	1	1	2
Breastfeeding	0	1	1
Care for disabled family members (Law 104)	0	1	1

OTHER LEAVES

Blood donation	3	1	4
Leave of absence	0	0	0
Extraordinary Leave	3	2	5

¹⁹ The comparison with 2016 is only possible for Sabaf S.p.A. as the data collection process was extended to other Group companies in 2017.

Remuneration, incentive and enhancement systems

The employees of Sabaf S.p.A. are classified according to the provisions of the National Collective Labour Contract for the metal and engineering industry, supplemented by second-level negotiations, which include:

- ●
- productivity or personal bonuses per level,
- ●
- a production bonus per level,
- ●
- a fixed performance bonus (part of which includes part of the previous variable bonus) for all levels,
- ●
- a variable performance bonus that is the same for all levels.
- ●

Further information is provided in the notes to the consolidated financial statements.

In addition to economic incentives, the incentive system includes company agreements for access to goods or services on favourable terms for all employees, regardless of the type of contract.

The Group believes that a fundamental element of the incentive system is represented by the training opportunities provided to employees, including the possibility to participate free of charge in numerous activities organised at the premises or off-premises.

An incentive system related to collective and individual objectives (MBO) is in place, involving the Chief Executive Officer, executives with strategic responsibilities and other managers, identified by the Chief Executive Officer among the managers who report directly to him/her or among the managers who report to the above managers. In 2017, this incentive system involved 38 employees of the Group (35 men and 3 women). The maximum incidence of the variable component is 25% of the fixed annual gross salary. Further details on the MBO mechanisms are described in the Remuneration Report.

The "Premio Produciamo Qualità (PPQ)" (literally, "We produce quality prize")

With the aim of rewarding the contribution of personnel to the achievement of company objectives, in 2016 Sabaf S.p.A. introduced, on an experimental basis, an incentive system related to quality objectives (reduction of waste and rework), production efficiency and precision in carrying out projects.

In 2017, improvement targets in these areas were set for 87 people involved in relevant business processes that are not included in the MBO system.

	WHITE COLLARS	BLUE COLLARS	TOTAL
♂ Men	36	47	83
♀ Women	4	0	4
TOTAL	40	47	87

The initiative was very well received by the employees: in addition to being a tool for steering towards challenging objectives (302 objectives were assigned, achieved or exceeded in 66% of cases), the PPQ stimulated teamwork and favoured the sharing of short- and medium-long term development plans at all company levels.

Moreover, the variable performance bonus (PRV), provided for in the company's supplementary contract for all employees and also based on quality and productivity indices, benefited from it: a variable performance bonus of € 1,232 was recognised for 2017, 4.05% higher than in 2016.

The success of the project suggested its re-proposal also for 2018, involving a greater number of collaborators (over 100).

The forms of social security in force for all Group employees are those envisaged by the regulations in force in the various Countries in which the Group operates.

Ratio of minimum monthly salary laid down by collective labour agreements to minimum salary paid by Group companies ²⁰

2016	MINIMUM SALARY UNDER COLLECTIVE LABOUR AGREEMENT		MINIMUM SALARY PAID		MINIMUM % INCREASE	
	♂	♀	♂	♀	♂	♀
VALUES IN EURO						
Sabaf S.p.A.	1,589	1,589	1,812	2,167	14%	36%
Faringosi Hinges	1,589	1,589	1,769	1,769	11%	11%
Turkey	317	317	356	356	12%	12%
Brazil	355	355	400	400	13%	13%
China	249	249	362	362	46%	46%

2017	MINIMUM SALARY UNDER COLLECTIVE LABOUR AGREEMENT		MINIMUM SALARY PAID		MINIMUM % INCREASE	
	♂	♀	♂	♀	♂	♀
VALUES IN EURO						
Sabaf S.p.A.	1,590	1,590	1,814	2,172	14%	37%
Faringosi Hinges	1,590	1,590	1,771	1,771	11%	11%
A.R.C. s.r.l.	1,434	1,434	1,462	1,434	2%	0%
Turkey	308	308	352	352	14%	14%
Brazil	358	358	414	414	15%	15%
China	265	265	356	356	34%	34%

Ratio of maximum to average salaries of Group companies

	2017	2016
Italy	9.6	4.7
Turkey	11.5	11.5
Brazil	6	8.9
China	7.5	8

Ratio of average salary of female personnel to average salary of male personnel

	2017	2016
White-collars, middle managers and managers	67%	64%
Blue Collars	74%	86%

²⁰ Values converted into euro at the annual average exchange rate.

Occupational health and safety and working environment

RISK MANAGEMENT

Within the Integrated Management System of Health and Safety, Environment and Energy, aspects relating to health and safety at work are also addressed using a risk-based approach.

The Sabaf Group formally defines the responsibilities, criteria and operating procedures for identifying and planning prevention measures to eliminate and/or mitigate risks, as part of a system that allows the level of safety and hygiene to be optimised and constantly improved through preventive actions.

Prevention and reduction of risk levels are based on the following factors:

- **Effective training:** all training courses related to health and safety are planned and managed by internal personnel and/or external trainers, with a propensity to teach and with strong experience in the reference sector (first aid, fire-fighting, work at height, etc.).
- **Cutting-edge plants:** continuous investment in increasingly modern and technologically advanced machinery reduced the levels of risk related to ergonomics and manual handling of loads and improved the systems to protect against physical risks.
- **Organisation:** the strong involvement and constant training of department heads and their awareness of obligations and responsibilities led to a clear improvement in all aspects of Health and Safety.

In the Group companies based in Italy (Sabaf S.p.A., Faringosi Hinges, A.R.C.), the risk assessment is carried out by the Employer through the collaboration of the Occupational Health and Safety Officer and the Company Physician, with the participation of all responsible parties (managers and representatives). The risk assessment process, coordinated by the Safety Office, operates with the help of dedicated software. The involvement of workers is envisaged, both through periodic meetings with safety representatives and through the obligation to report possible additional risks.

In October 2017, the certification process of the safety management system of Sabaf S.p.A. according to OHSAS 18001:2007 was completed. Following the checks carried out by CSQ (IMQ Certification Body), Sabaf obtained the certificate of compliance with standards.

The management system for the health and safety of workers of Faringosi Hinges has been certified according to OHSAS 18001 since February 2012. The system was re-certified by the TUV NORD in February 2015. The last supervisory audit, carried out in March 2017, certified the compliance of the system with the reference standards; in fact, no non-conformity has emerged, but only suggestions for improvement.

During 2017, the Health and Safety operating procedures already in place at Sabaf S.p.A. were implemented in A.R.C. A new assessment of the business risk was carried out and the software for managing security aspects was introduced.

With regard to production sites abroad, the Group intends to manage health and safety issues in an increasingly coordinated manner, ensuring a uniform approach to risk assessment and a uniform body of procedures. The Parent Company also monitors the activities of foreign factories, checking full compliance with local laws.

Number and duration of injuries

	2017			2016			BENCHMARK ²¹
	♂	♀	♂♀	♂	♀	♂♀	
Injuries at work - Group	12	6	18	8	3	11	-
Italy	6	3	9	1	2	3	
Brazil	0	0	0	1	0	1	
China	0	0	0	0	0	0	
Turkey	6	3	9	6	1	7	
Injuries while travelling to/from work - Group	3	0	3	1	0	1	
Italy	3	0	3	1	0	1	
Brazil	0	0	0	0	0	0	
China	0	0	0	0	0	0	
Turkey	0	0	0	0	0	0	
Total hours of absence due to injuries - Group	1,720.3	168.5	1,888.8	329.5	39.5	369.0	
Italy	1,348.5	108.5	1,457.0	32.0	39.5	71.5	
Brazil	0	0	0	110	0	110	
China	0	0	0	0	0	0	
Turkey	371.8	60.0	431.8	187.5	0	187.5	
Hours of absence from work due to injury per capita ²²	3.42	0.66	2.48	0.67	0.15	0.49	5.2

²¹ FEDERMECCANICA, *L'industria metalmeccanica in cifre (June 2017) - Ore pro-capite di assenza dal lavoro (2015)*, <http://www.federmeccanica.it>

²² The calculation is based on the average annual personnel.

Injury frequency rate

Number of injuries (excluding injuries while travelling to/from work) x 1,000,000/ hours worked

	2017			2016		
	♂	♀	♂♀	♂	♀	♂♀
Group	14.33	15.44	14.68	10.01	7.58	9.21
Italy	9.46	10.93	9.91	1.70	7.68	3.54
Brazil	0	0	0	13.30	0	8.09
China	0	0	0	0	0	0
Turkey	52.01	44.16	49.10	48.81	12.27	34.25

Injury severity index

Days' absence (excluding injuries while travelling to/from work) x 1,000/ hours worked

	2017			2016		
	♂	♀	♂♀	♂	♀	♂♀
Group	0.16	0.06	0.13	0.05	0.01	0.04
Italy	0.14	0.06	0.12	0	0.02	0.01
Brazil	0	0	0	0.20	0	0.12
China	0	0	0	0	0	0
Turkey	0.42	0.12	0.31	0.20	0	0.12

In 2017, there were no particularly serious injuries to Group employees. Training and awareness raising activities on the use of personal protective equipment continued at all Group factories.

In compliance with the laws in force, Group companies prepared and implemented health supervisory plans for employees, with health inspections aimed at the specific risks of the work activities carried out. In particular, 3,108 health inspections were carried out in 2017 (2,664 in 2016).

Current expenditure for labour protection

AMOUNTS IN €000	2017	2016
Plant, equipment and materials	42	74
Personal protective equipment	119	89
External training	16	25
Advisory services	99	85
Working environment analysis	17	9
Health inspections (including pre-recruitment checks)	40	40
Software and database	3	5
TOTAL	336	327

Investments in labour protection

AMOUNTS IN €000	2017	2016
Plant, equipment and materials	34	81
TOTAL	34	81

The commitment to improve risk levels related to manual handling of loads and repetitive movements thanks to an increasingly greater automation of operations is of particular importance. Special equipment for transport and storage was also studied, light detectors were installed on forklifts and the internal road network of the factories was improved (with new road signs and road markings).

At Sabaf S.p.A., a study is currently being carried out to assess seismic risk, which will make it possible to identify the safest areas of the Company and consequently indicate the pathways to be followed during evacuation operations.

Among the organisational aspects, the implementation of a web platform for the management of contract work is worthy of note.



Sabaf, a health-promoting workplace

At the beginning of 2016, Sabaf S.p.A. joined the WHP (Workplace Health Promotion) programme, committing itself to implementing **good practices** in the field of **workplace health promotion**. Sabaf is committed not only to implementing all measures to prevent accidents and occupational diseases but also to offering its workers opportunities to improve their health, reducing general risk factors and in particular those most involved in the genesis of chronic diseases.

Workplace health promotion is the result of the combined efforts of employers, workers and the company. The following factors contribute to this promotion:

- Improving work organisation and the working environment
- Encouraging personnel to participate in healthy activities
- Promoting healthy choices
- Encouraging personal growth

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

The WHP Programme envisages the development of activities (good practices) in **6 thematic areas** and requires the progressive implementation, year after year, of a minimum number of good practices in the various thematic areas.



The improvement measures taken in 2017 are shown below.

✓	FOOD	<p>8 meetings with a dietician were organised on the correct nutrition of the adult and the child and on sports diets.</p> <p>Many informative interventions were carried out thanks to an expansion of the poster system concerning the food pyramid, the menus and the tables with the colours of food for a correct matching of dishes; moreover, the "Profilo Salute" (Health Profile) magazine is distributed free of charge.</p> <p>The menu was studied and suggested by a nutritionist: at each meal you can choose between at least 3 first courses, 3 second courses, 3 side dishes with fresh and cooked vegetables; yogurt and fruit are always available as alternatives. The wide range of food currently includes wholemeal pasta and bread every day.</p>
✓	FIGHT AGAINST SMOKING	<p>As from 2017, the company physician carries out actions of minimal anti-tobacco advice during health supervisory checks. It is a speech lasting a few minutes, which deals with the issue of smoking and the benefits of quitting smoking and ends with the distribution of information material. Data collected by the company physician is reported to monitor the effectiveness of the speech. According to the surveys carried out, smokers in Sabaf are less than 20% of the total.</p>
✓	SAFE AND SUSTAINABLE MOBILITY	<p>The signposting in the departments and parking areas was renewed.</p> <p>The presence of at least 20% of the fleet of environmentally friendly vehicles is guaranteed.</p> <p>All vehicles are checked by completing a checklist at least quarterly and a scheduled maintenance of company vehicles is carried out more frequently than the mandatory servicing in authorised workshops inside or outside the company.</p>
✓	WELL-BEING AND RECONCILING LIFE AND WORK	<p>Sabaf has joined the initiative "Family policies: reconciling living and working time" for the second year. This initiative envisages the assignment of incentives to employees through the payment of company vouchers to partially cover the following expenses: attendance fees for public and private social and educational services for early childhood (micro nursery, nursery, family daycare, early childhood centres, baby sitting, baby parking, recreation centre); fees for social and educational services for children up to 14 years of age (services provided as part of summer activities, services provided as part of pre and post-school activities, daytime aggregation and educational recreation centres, fees for nursery schools, sports, musical and cultural activities); expenses incurred for the care of elderly family members in a situation of non-self-sufficiency and severely disabled persons.</p> <p>In 2017, 37 part-time jobs were renewed; personnel returning from maternity leave have been granted benefits in the carrying out of their working hours.</p>



Use of dangerous substances

Only materials that fully comply with the requirements of Directive 2002/95/EC (RoHS Directive) which tends to limit the use of hazardous substances such as lead, mercury, cadmium and hexavalent chromium are used for production.

Industrial relations

In January 2018, the second level company agreement of Sabaf S.p.A. was renewed. The key points of this agreement are set below:

- the sharing between the company and trade unions and Unitary Union Representative Body of priorities on which to channel resources and energy in the coming years (producing quality, creating and maintaining efficiency, becoming more flexible);
- sharing objectives also through the responsible involvement of personnel;
- maintaining fair and transparent industrial relations while respecting individual roles;
- the establishment of working groups with the aim of improving the involvement of personnel at all levels;
- the continuation of the payment of a variable part of remuneration, the payment of which is related to measurable and verifiable quality and efficiency indicators; data on which dissemination and transparency will be maintained;
- the possibility of converting all or part of the variable performance bonus (PDRV) into welfare.

The company agreement was reached after several months of negotiations, but without conflict and is valid until June 2021.

There are three internal trade union representatives in Sabaf S.p.A.: FIOM, FIM and UILM. In Group companies, 136 employees, or 18% of the total, were registered at December 2017 (145 employees, or 19.7%, were registered in 2016).

Relations between the Management and the Unitary Union Representative Body are based on transparency and mutual fairness. During the year, Sabaf S.p.A. held 9 meetings between Management and the Unitary Union Representative Body. The main topics addressed are set below:

- renewal of the second level company agreement;
- use of the temporary unemployment fund;
- communications concerning compliance with the new edition of the SA8000 standard;
- periodic agreements for periods of collective closure.

Hours of participation in trade union activities during 2017 amounted to 0.29% of the hours workable.

Participation in trade union activities

	2017	2016	BENCHMARK ²³
MEETING			
No. of hours	1,806	2,891	
Percentage over hours workable	0.12	0.19	
No. of hours per capita	2.70	3.90	
LEAVE FOR TRADE UNION DUTIES			
No. of hours	1,689	2,046	
Percentage over hours workable	0.11	0.14	
No. of hours per capita	2.50	2.70	
STRIKE			
No. of hours	1,006	5,452	
Percentage over hours workable	0.10	0.36	
No. of hours per capita	1.50	7.30	
TOTAL			
No. of hours	4,501	10,389	
Percentage over hours workable	0.29	0.69	
No. of hours per capita	6.71	13.92	3.80

In 2017, a total of 6 hours of strike were called out in Sabaf S.p.A. in connection with national problems. No strikes were called out in Faringosi Hinges, A.R.C., Sabaf do Brasil, Sabaf Turkey and Sabaf China.

USE OF THE TEMPORARY UNEMPLOYMENT FUND/SOLIDARITY CONTRACT ²⁴

	2017	2016
Number of hours of temporary unemployment fund/solidarity	10,302	35,583
Average number of hours per capita per year	17.6	60.8

During the financial year, Italian Group companies occasionally used social shock absorbers during periods characterised by low production requirements. In December 2016, the activation of the Solidarity Contract for the whole of 2017 was

agreed with the Unitary Union Representative Body. Following the good performance of production levels in 2017, the use of this instrument was minimal and ended early in May rather than December.

Disputes and disciplinary measures

In 2017, 104 violations were alleged against Group employees, leading to the following disciplinary measures:

- 18 oral warnings;
- 4 warnings to use the personal protective equipment;
- 44 written warnings;
- 19 fines;
- 11 suspensions;
- 8 dismissals.

The main reasons for disciplinary measures are absence without leave, lack of diligence in the tasks assigned, incorrect production, non-compliance with company regulations, safety procedures, working hours and rules concerning sick leave.

At 31 December 2017, there was a dispute with an employer and some disputes with former employees, mainly relating to the contestation of dismissal measures.

²⁴ The figure refers exclusively to the Italian companies of the Group.

Sabaf and environment

Risks

Environmental issues are also managed through a risk-based approach, in line with the UNI EN ISO 14001:2015 standard.

- **Risks of external context** (environmental sustainability), concerning the protection of the environment and the territory, through the reduction of environmental impacts and the containment of the use of natural and energy resources. These impacts are considered from the product design stage, through the different stages of its implementation and from a perspective that considers the whole life cycle of the product.
- **Strategic risks**, including collaboration with strategic service providers with potential environmental risk (waste collection, cleaning services, maintenances).
- **Legal and compliance risks**, related to compliance with law requirements (authorisations and compliance obligations) and requests of local institutions.

Health and safety, environmental and energy policy

PROGRAMME AND OBJECTIVES

Sabaf adopted and maintains an Integrated Management System of Health and Safety, Environment and Energy (EHS&En) that, by integrating with the other Management Systems operating within the company, is an effective means of pursuing a constant reduction in risks, environmental impacts and energy consumption through the following instruments:

- the prior assessment of EHS&En aspects in all company processes, with particular focus on design, production processes and purchases;
- maintaining full compliance with current law requirements, proactively using them as elements of continuous process monitoring;
- a training and information system involving all employees and collaborators.

Sabaf is committed to the following objectives:

- the prevention of pollution and rationalisation of the use of energy through the continuous improvement of its processes and products;
- the efficiency in the use of natural and energy resources during production, with a special reference to water and energy consumption;

- the reduction of the quantity of waste produced and the improvement of its quality in terms of hazardousness and recoverability.

Since 2003, the Environmental Management System of the Ospitaletto production site (which covers approximately 75% of the Group's total production) has been certified in compliance with ISO 14001. CSQ carried out the monitoring inspection in July 2017, confirming the adequacy of the system and issuing the certificate of compliance for the transition to the new ISO 14001:2015 Standard.

In 2015, the Energy Management System implemented at the premises of Ospitaletto was certified in compliance with the ISO 50001 standard. In November 2017, CSQ carried out a monitoring inspection, which was successful.

In 2008, Sabaf S.p.A. obtained the Integrated Environmental Authorisation (IPPC) from the Lombardy Region pursuant to Legislative Decree 59 of 18 February 2005.

Dialogue with environmental associations and institutions

The Group has long promoted the dissemination of information about the lower environmental impact of using gas in cooking instead of electricity: in fact, the use of combustible gas for heat production allows higher efficiency than those obtainable with electric cooking appliances.

Moreover, cooking is increasingly characterised, all over the world, by the demand for high power and many cooking points to prepare meals quickly. Electrically powered hobs cause peak energy consumption to increase, typically around meal times, further increasing the demand for electricity.

Process innovation and environmental sustainability

METAL WASHING

In the production process of valves, it is essential to wash metals in several stages. Since 2013, Sabaf has been using a washing system based on a modified alcohol, a solvent that is redistillable (and therefore recyclable) due to its properties. The environmental impact and operating costs of this solvent have been substantially eliminated, as well as the emission level and production of special waste.

WATER RESOURCE MANAGEMENT

In the environmental field, water saving was a priority in the 2016 objectives. In addition to this objective, the 2017 activity also focused on water quality. The water used in the washing and electroerosion phases must meet very restrictive parameters; the investment in equipment for water osmosis has allowed its optimal use, with a benefit in terms of less maintenance and lower energy consumption.

MARKING OF PRODUCTS

The regulations in force require that products be marked with a number of distinctive features. Traditionally, printing has always been done with an inkjet system: the system allows printing only three lines, for a preset number of characters per line, with an annual operating cost of about € 60,000 for inks, solvents and maintenance. Sabaf decided to opt for a fibre optic laser writing system that allows all the necessary characters to be printed on the products without any restrictions. In recent years, with an investment of about € 250,000, all inkjet systems have been replaced with laser fibre optic writing systems, thus eliminating operating costs.

Product innovation and environmental sustainability

LIGHT ALLOY VALVES

The production of aluminium alloy valves has several advantages compared to the production of brass valves: elimination of the hot moulding phase of brass, lower lead content in the product, lower weight and consequent reduction in consumption for packaging and transport. In 2017, the process of replacing brass valves with light alloy valves continued, representing more than 85% of the valves produced.

HIGH EFFICIENCY BURNERS

For many years, Sabaf has been at the forefront of the market with burners that are characterised by yields significantly higher than standard. Following the launch of the III, AE and AEO Series, in 2012, Sabaf introduced a new family of high efficiency burners, the HE burners, capable of achieving an efficiency of up to 68%. HE burners are also characterised by almost total interchangeability with Series II burners. Recently, the range of DCC special burners was completed: they are characterised by an energy efficiency of over 60%, the highest available on the market today for multiple flame ring burners. Moreover, DCC burners with a brass flame-spreader ring and efficiency of more than 65% were produced specifically for the Chinese market, the top of what is currently available on that market.

High efficiency burners represent almost 20% of the total burners produced.

Environmental impact

MATERIALS USED AND RECYCLABILITY OF PRODUCTS

Sabaf's main product lines - valves, thermostats and burners for gas cooking appliances for domestic use - are characterised by high energy efficiency and optimal use of natural resources.

Sabaf products can be easily recycled because they are made almost entirely of brass, aluminium alloys, copper and steel. Sabaf also has separate waste collection of paper/cardboard, glass, cans and plastic. In 2017, separate waste collection enabled the recycling of 125,450 kg of paper/cardboard and plastic packaging.

MATERIALS USED	2017 CONSUMPTION (t)	2016 CONSUMPTION (t)
Brass	540	697
Aluminium alloys	8,070	6,703
Zamak	91	82
Steel	7,631	7,250
Cast Iron	39	-

100% of brass and about 65% of aluminium alloys used are produced by scrap recycling; 35% of aluminium alloys and 100% of steel are produced from ore.

The ever lower consumption of brass is linked to the gradual replacement of brass valves with aluminium alloy valves. Sabaf products fully comply with the requirements of Directive 2002/95/EC (**RoHS Directive**) that aims to limit the use of hazardous substances such as lead in the production of electrical and electronic equipment, a category that includes all household appliances including gas cooking appliances (which are equipped with electronic ignition). Moreover, Sabaf products fully comply with the requirements of **Directive 2000/53/EC (End of Life Vehicles)**, i.e. the heavy metal content (lead, mercury, cadmium, hexavalent chromium) is below the limits imposed by the Directive. With regard to the **REACH Regulation** (Regulation no. 1907/2006 of 18/12/2006), Sabaf S.p.A. is a *downstream user of substances and preparations*. The products supplied by Sabaf are classified as articles that do not give rise to the intentional emission of substances during normal use, therefore there is no registration of the substances contained in them. Sabaf contacted its suppliers to ensure that they fully comply with REACH Regulation and to obtain confirmation that they meet their obligations to pre-register and register the substances or preparations they use. Moreover, Sabaf constantly monitors the legislative changes relating to REACH Regulation, in order to identify and manage any new requirements in this area.

ENERGY SOURCES ²⁵

ELECTRICITY	2017 CONSUMPTION (MWh)	2016 CONSUMPTION (MWh)
TOTAL	30,841	27,189

NATURAL GAS	2017 CONSUMPTION (m ³ X 1000)	2016 CONSUMPTION (m ³ X 1000)
TOTAL	4,059	3,432

DIESEL OIL	2017 CONSUMPTION (l X 1.000)	2016 CONSUMPTION (l X 1.000)
TOTAL	5.5	-

TOTAL CONSUMPTION	2017 CONSUMPTION GJ	2016 CONSUMPTION GJ
TOTAL	272,329	234,094

Sabaf S.p.A., Sabaf do Brasil and Sabaf Turkey use natural gas as an energy source for the casting of aluminium and for the firing of enamelled lids. The production of Faringosi Hinges and A.R.C. does not use natural gas as an energy source.

INDICATOR: ENERGY INTENSITY

ENERGY INTENSITY	2017 CONSUMPTION	2016 CONSUMPTION
KWh on turnover	0.489	0.483

ENERGY DIAGNOSIS OF THE ENERGY MANAGEMENT SYSTEM

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

Main energy sources used

The main sources used are:

- electricity, for all the equipment with electric power supply present, whether functional or not to the production process, which covers 84% of the total energy requirement;
- natural gas, related to the operation of both production plants (foundry furnaces, washing burners, enamel kilns) and service plants (heating), which covers 16% of total energy requirements.

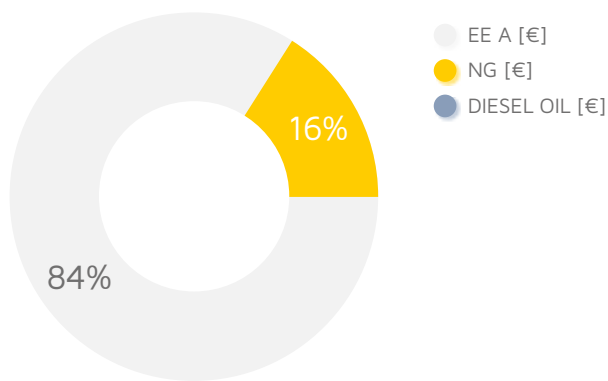
Energy demand analysis by purpose

The production processes that absorb the highest energy consumption are foundry (28% of the total), compressed air production (22% of the total) and enamelling (7% of the total).

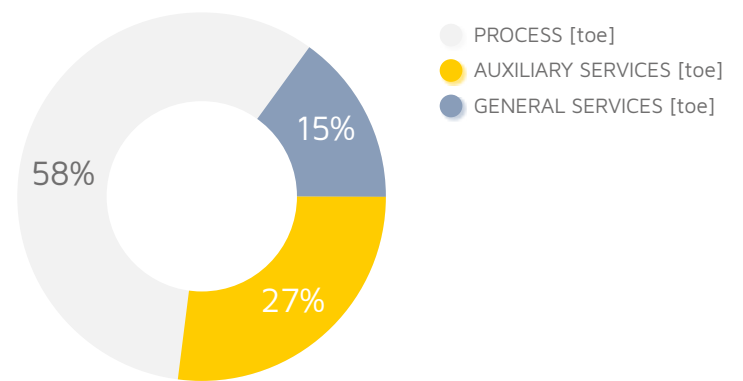
The energy requirement of auxiliary services is mainly attributable to the management of the wastewater from the foundry and the enamelling (8% of the total).

The energy requirement of general services is largely attributable to heating and lighting.

Incoming energy mix [€]



Energy requirement



WATER

WATER	2017 CONSUMPTION (m ³)	2016 CONSUMPTION (m ³)
From waterworks	81,472	46,879
From well	31,329	46,640
TOTAL	112,801	93,519

All the water used in the production processes by Group companies is destined for disposal or internal recycling for reuse in company processes: as a consequence, there is no industrial waste water. The water used in the die-casting and enamelling processes in Italy, recovered through a rainwater collection system or taken from the well, at the end of the production processes, is treated in concentration plants that have significantly reduced the quantities of water required and waste produced. Among the environmental improvement objectives set for 2018, the commitment to optimise water-using processes and improve water management related to the cooling of the company's die-casting circuit continues.

WASTE

Trimings and waste from the production process are identified and collected separately for recycling or disposal. The risers deriving from aluminium die-casting are intended for direct reuse. The waste for disposal and recycling is summarised below:

WASTE (t) ²⁶	2017	% INCIDENCE	2016	% INCIDENCE
Similar to urban	189	2.2	152	2.0
Non-hazardous (disposal)	1,810	21.3	1,474	18.9
Non-hazardous (recycling)	4,391	51.8	3,980	50.9
Tot. non hazardous	6,201	73.1	5,453	69.8
Hazardous (disposal)	952	11.2	1,188	15.2
Hazardous (recycling)	1,143	13.5	1,021	13.1
Tot. hazardous	2,095	24.7	2,209	28.3
TOTAL	8,485	100	7,815	100
Value of production	39,602		36,614	
Tot waste/val. of product.	0.21		0.21	
Tot. Hazard. waste/val of product.	0.05		0.06	

During 2017, the incidence of waste on the value of production remained in line with 2016. The company's commitment focused on reducing the production of hazardous special waste, investing in the search for raw materials and substances, at the input stage, already not hazardous originally.

No significant spills occurred in 2017.

EMISSIONS INTO THE ATMOSPHERE ²⁷

A large part of atmospheric emissions of the Sabaf Group derives from activities defined as "negligible pollution".

- Three production processes are carried out at Sabaf S.p.A:
 1. the production of the components that make up the burners (nozzle holder sumps and flame spreaders) involves the casting and subsequent die-casting of the aluminium alloy, sandblasting of the pieces, a series of mechanical processes with removal of material, washing of some components, assembly and testing. This production process results in the emission of negligible amounts of oily mists, as well as dust and carbon dioxide;
 2. the production of burner covers, where steel is used as raw material, which is submitted to blanking and minting. The semi-finished covers are then used for washing, sandblasting, application and firing of enamel, a process that generates the emission of dust;
 3. the production of valves and thermostats, in which mainly brass bars and moulded bodies (in aluminium alloy for new generation valves) and, to a much lesser extent, steel bars are used as raw materials. The production cycle is divided into the following phases: mechanical machining with removal of material of bars and moulded parts, washing of semi-finished products and components obtained in this way, finishing of the coupling surface of bodies and masks with a diamond tool, assembly and final inspection of the finished product. This process generates negligible oily mists.
- In Faringosi Hinges, steel is used as the main raw material for the production of hinges, and is subjected to a series of mechanical processing and assembly that do not involve any significant emissions.
- In A.R.C., where professional burners are produced through mechanical processing and assembly, no significant emissions are recorded.
- The entire burner production process is carried out at Sabaf do Brasil. An analysis of the internal process shows that there are no significant emissions.
- The entire flame spreading process and the enamelling of burner covers is carried out at Sabaf Turkey. An analysis of the internal process shows that there are no significant emissions.
- Sabaf China carries out mechanical processing and burner assembly operations. Emissions are completely negligible.

The efficiency level of the purification systems is ensured through their regular maintenance and the regular monitoring of all emissions. Monitoring in 2017 showed that all emissions complied with the limits imposed by the law.

CO ₂ EMISSIONS (T)	2017	2016
Scope 1 (direct emissions)	762.90	633.08
Scope 2 (indirect emissions)	11,569.54	10,161.72
TOTAL EMISSIONS (SCOPE 1+2)	12,332.44	10,794.80

The use of natural gas to power melting furnaces results in the emission of NOX and SOX into the atmosphere, however these emissions are not significant. Using a relatively clean fuel such as natural gas allows Sabaf to contribute negligibly to greenhouse gas emissions. There are no emissions of CH₄, N₂O, HFCs, SF₆, greenhouse gases. Sabaf does not currently contain any substances that damage the atmospheric ozone layer, with the exception of the refrigerant used in some air conditioners (R22), which is managed in compliance with the reference standards.

Environmental investments

ENVIRONMENTAL CURRENT EXPENDITURE

AMOUNTS IN €000	2017	2016
Waste disposal	511	453
Advisory services	27	78
Analysis of emissions	18	14
Training	2	2
Plant, equipment and materials	22	12
TOTAL	580	559

ENVIRONMENTAL INVESTMENTS

AMOUNTS IN €000	2017	2016
Plant, equipment and materials	33	690
TOTAL	33	690

The important investment cycle for the replacement of washing systems was completed in 2016; in 2017, investments were made in:

- extraordinary maintenance of atmospheric emission plants in the foundry department;
- improvement of waste collection areas within departments, to facilitate a more immediate and correct separation of the various types of waste.

Disputes

There is no environmental dispute in progress.

²⁷ The factors used to calculate emissions were published by the Department for Business, Energy & Industrial Strategy (BEIS) in 2015. The 2016 figures have also been recalculated according to these factors.

Sabaf, the management of product quality and customer relations

Risks

The new UNI EN ISO 9001:2015 standard with Sabaf complies, introduces the concept of a "risk-based approach", which is fundamental for planning the quality management system.

- **Strategic risks**, including intellectual property protection (there is a risk that some Group products, even if under patent protection, may be copied by competitors) and collaboration with critical suppliers.
- **Legal and compliance risks**, relating to non-compliance with product regulations: Sabaf operates in international markets that adopt different laws and regulations. The product must therefore comply with the mandatory and voluntary requirements and the organisation must be able to show this consistency to the certification bodies responsible for control.

Quality management policy

The Quality Management System is integrated with the Environmental and Occupational Safety Management Systems and has the aim of enabling the achievement of the following objectives:

- increasing customer satisfaction by understanding and meeting their present and future requirements;
- continuous improvement of processes and products, also aimed at protecting the environment and the safety of employees;
- involvement of partners and suppliers in the continuous improvement process, favouring the "comakership" logic;
- valuation of human resources;
- improvement of business performance and of the quality management system based on risk based thinking.

In order to contribute consistently to the pursuit of these objectives, the Sabaf Group undertakes a series of commitments explicitly stated in the Charter of Values:

- to act with transparency, correctness and contractual fairness;
- to communicate product information in a clear and transparent manner;
- to adopt a professional and helpful behaviour towards customers;
- not to give gifts to customers that exceed normal courtesy practices and that may tend to influence their objective assessment of the product;
- to guarantee high quality standards of the offered products;
- to ensure constant attention in technological research in order to offer innovative products;
- to collaborate with customer companies to ensure that the end user is fully confident in using the products;
- to promote social responsibility actions throughout the production chain;
- to listen to customers' requirements through constant monitoring of customer satisfaction and complaints, if any;
- to inform customers of potential risks related to the use of products, as well as the related environmental impact.

Group companies that have obtained quality certification according to the ISO 9001:2008 standard:

YEAR OF FIRST CERTIFICATION	YEAR OF FIRST CERTIFICATION
1993	2008
Sabaf S.p.A	Sabaf do Brasil
2001	2015
Faringosi Hinges	Sabaf Turkey

During 2017, the Quality Management System was constantly monitored and maintained to ensure the correct implementation and compliance with the requirements of the ISO 9001 standard. A total of 54 internal inspections were carried out, of which 26 at certified Italian factories, 14 at Sabaf do Brasil and 14 at Sabaf Turkey. The results of these checks did not reveal any critical aspects of the system, which therefore fully complies with the standard.

With regard to third party inspections of the Quality Management System, in 2017 CSQ (IMQ Certification Body) carried out the annual inspection at the premises of Ospitaletto and at the factory of Sabaf do Brasil, confirming the adequacy of the System and the maintenance of ISO 9001:2008 certification. Whereas the factory in Turkey was subjected to monitoring inspection in May 2016 characterised by confirmation and the next check by the certification body is scheduled for 2018.

It is emphasised that, during 2017, the Company carried out some preliminary activities to adapt the Quality Management System to the new version of the ISO 9001:2015 Standard. In 2018, the System will be fully adapted to the new standard.

In October 2017, the TUV NORD certification body carried out annual checks on the compliance of the Quality Management System of Faringosi Hinges, in accordance with UNI EN ISO 9001:2008. The intervention ended successfully.

Like Sabaf, Faringosi Hinges started the preparatory activities to adapt the Quality Management System to the new version of the ISO 9001 Standard. The adaptation is expected by September 2018.

Customer satisfaction

The customer satisfaction survey, carried out every two years, is part of the stakeholder engagement activities that Sabaf undertakes in order to constantly improve the quality of the services offered and to respond to customer expectations.

The following is a summary of the last analysis, carried out in February 2017.

Product quality/reliability	4.45
Compliance with delivery deadlines and quantities ordered	4.03
Quality/price ratio	3.70
Ability and readiness to resolve complaints	4.08
Technical support	4.43
Commercial service	4.49
Degree of product innovation	4.19

Assessment	Excellent	Good	Fair	Low	Poor
Mark	5	4	3	2	1

The results of the survey, which was carried out by sending questionnaires to Group customers, confirm that the Group's opinion is largely positive. The quality of its products and its timeliness, professionalism and competence in technical and commercial assistance are among its strong points.

Disputes

Sabaf has some initiatives in place to warn some manufacturers, both of counterfeit components and of cookers and hobs, who promote or sell appliances with components in violation of our patents and trademarks.

Quality current expenditure

AMOUNTS IN €000	2017	2016
Product certification	106	129
Certification and quality management system	7	26
Measuring equipment and instruments (purchase)	102	103
Measuring equipment and instruments (calibration)	34	30
Technical standards, software and magazines	3	5
Training	3	0
Tests in external laboratories	39	16
TOTAL	294	309

Investments in quality

AMOUNTS IN €000	2017	2016
Measuring equipment and instruments (purchase)	182	131
TOTAL	182	131

Customer complaint handling

Sabaf systematically handles all complaints from customers. A specific process is in place and envisages:

- analysis of the alleged defect to assess its validity;
- identification of the causes of the defect;
- corrective actions necessary to prevent or limit the recurrence of the problem;
- customer feedback through 8D reports (quality management tool that enables a cross-functional team to determine the causes of problems and provide effective solutions).

The following table shows the trends in terms of the number of customer complaints in the Group.

	2017	2016
NUMBER OF WELL-FOUNDED CUSTOMER COMPLAINTS	335	395

The causes of complaints vary from product to product and can be summarised mainly in:

- aesthetic defects for the family of covers and burner flame spreaders;
- size and/or operating anomalies for the family of valves and thermostats;
- die-casting defects for sumps and burner flame spreaders.

Sabaf and supply chain management

Risks

The supply chain presents different types of risks, which must be assessed and monitored in order to limit the possibility of damage to the company.

- **Risks of external context.** Considering that a significant (although not predominant) portion of purchases takes place on international markets, the Group monitors and manages the risk of instability in supplier Countries.
- **Strategic risks** related to a socially responsible approach along the supply chain

(quality of supply, respect for the environment, energy consumption and respect for human rights and protection of workers). The definition of the criticality level, especially environmental and social, derives from a risk assessment that takes into account the type of process, product or service provided and the geographical location of the supplier.

- **Operational risks:** including continuity of supplies, assessed by paying attention to the financial sustainability of the suppliers.

Supply chain management policy

THE SA8000 STANDARD AND SUPPLIERS

In 2005, Sabaf S.p.A. obtained the certification of compliance with the requirements of the SA8000 (Social Accountability 8000) Standard and, therefore, the Company requires its suppliers to comply, in all their activities, with the principles of the Standard, as a minimum criterion for establishing a lasting relationship based on the principles of social responsibility. Supply contracts include an ethical clause inspired by the SA8000 standard, which commits suppliers to ensure respect for human and social rights and in particular: avoid the employment of persons below the age established by the standard, provide workers with a safe workplace, protect trade union freedom, comply with the law on working hours, ensure workers that the minimum salary required by law will be complied with.

In 2017, Sabaf complied with the updating of the SA8000:2014 standard and asked all suppliers, bound by contract, to act in the same way and comply with the latest version of the principles. During the year, Sabaf S.p.A. carried out a risk analysis of the supply chain in line with the requirements of SA8000 in order to prepare an action plan and monitor the suppliers considered critical for the purposes of the Standard. The analysis was carried out taking into account the geographical location, the sector to which it belongs, the type of business and the importance of turnover with regard to Sabaf. A questionnaire was sent out to verify understanding of the standard and assess the social responsibility aspects of each supplier. The replies received did not show any non-compliance. More than 20 audits have been planned for 2018.

Failure to comply with or to accept the principles of the SA8000 standard may lead to the termination of supply contracts.

If the law in force already requires Sabaf to meet the minimum requirements, the risk is considered to be lower, otherwise periodic audits are carried out. In 2017, 18 audits were carried out on suppliers (13 in 2016), relating to quality, environmental and social responsibility management, and no critical non-compliances were identified. In connection with non-critical non-compliances, the suppliers were asked to take appropriate action.

RELATIONS WITH SUPPLIERS AND CONTRACTUAL CONDITION

Relations with suppliers are based on long-term collaboration and on fairness in negotiations, integrity and contractual fairness and the sharing of growth strategies. To encourage the sharing with suppliers of the values that underpin its business model, Sabaf has distributed the Charter of Values in a widespread manner.

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

Sabaf requires its suppliers to be able to renew themselves technologically, so that the best quality/price ratios can always be proposed, and favours suppliers who have obtained or are obtaining Quality and Environmental System certifications.

In 2017, the turnover of suppliers of the Sabaf Group with a Certified Quality System was equal to 70.9% of the total (68.1% in 2016)

Purchase analysis

As shown in the table below, the Sabaf Group aims to encourage development in the area in which it operates and, therefore, in selecting suppliers, favours local companies.

€/000	TOTAL 2017 PURCHASES	% DOMESTIC PURCHASES
Sabaf S.p.A.	77,643	76.2
Faringosi Hinges	6,232	98.5
A.R.C.	5,073	90.1
Sabaf Turkey	8,537	83.2
Sabaf do Brasil	6,663	95.9
Sabaf China	457	93.7

Territorial distribution of suppliers

€/000	2017		2016	
	TOTAL PURCHASES	%	TOTAL PURCHASES	%
Province of Brescia	31,833	30.4	30,814	36.2
Italy	38,959	37.2	28,061	32.9
UE	11,539	11.0	10,246	12.0
Brazil	6,388	6.1	5,208	6.1
Turkey	7,193	6.9	5,578	6.5
Other	8,692	8.3	5,260	6.2
TOTAL	104,604	100	85,167	100

As regards Sabaf S.p.A. in particular, 39% of total purchases are made in the province of Brescia. Most of the purchases outside the European Union come from suppliers located in China. Chinese suppliers signed the clause for compliance with the principles of the SA8000 standard.

For all Group companies, the main machinery used (die-casting machines, processing and assembly transfer) is supplied by Italy to ensure homogeneous production processes in terms of quality and safety.

Breakdown of purchases by type

€/000	2017		2016	
	TOTAL PURCHASES	%	TOTAL PURCHASES	%
Raw Materials	27,302	26.1	18,952	22.3
Components	32,492	31.1	28,394	33.3
Capital equipment	13,604	13.0	11,465	13.5
Services and other purchases	31,205	29.8	26,356	30.9
TOTAL	104,603	100	85,167	100

Very short payment terms are agreed for artisan and less structured suppliers (mainly 30 days).

Disputes

There are no disputes with suppliers.

Sabaf, Public Administration and Community

Relations with the Public Administration

In line with the reference policy lines, the relations of Sabaf with the Public Administration and the Tax Authorities are based on the utmost transparency and fairness. At local level, Sabaf has tried to establish an open dialogue with the various authorities to achieve a shared industrial development.

Charitable initiatives and perks

The amount of perks in 2017 was over € 21,000 (€ 36,000 in 2016), mainly aimed at supporting social and humanitarian initiatives at local level.

Long distance adoption

Sabaf supports the Associazione Volontari per il Servizio Internazionale (AVSI), a non-governmental, non-profit organisation engaged in international development aid projects. The donations are intended to support twenty children living in different Countries of the world at a long distance.

Relations with universities and the student world

Sabaf systematically organises company visits with groups of students and bears witness of best practices on social responsibility at important conferences in different cities in Italy.

Relations with industrial associations

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

Sabaf S.p.A. has been a member of Associazione Industriale Bresciana (AIB) since 2014, which is a member of the Confindustria system.

Disputes

There are no significant disputes with Public Bodies or other representatives of the community.

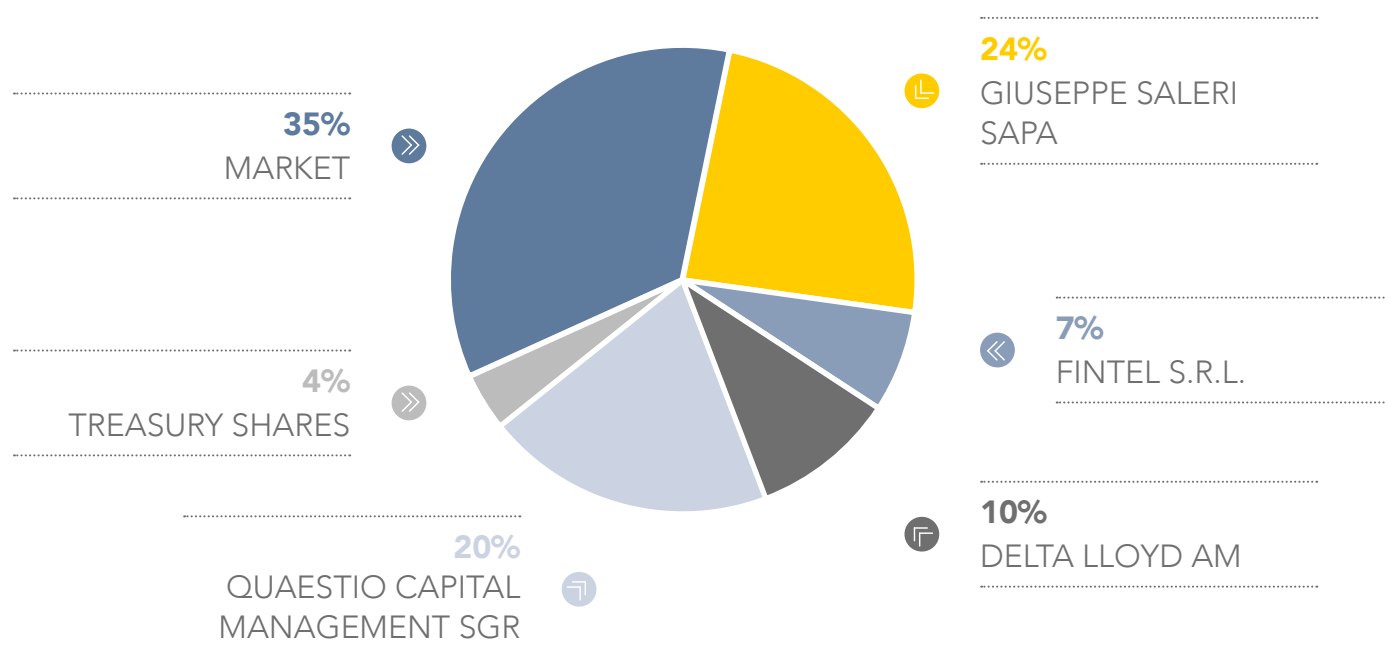
Sabaf and shareholders

The composition of the share capital

The shareholders entered in the shareholders' register at 27 February 2018 were 2,149, of whom:

- 1,857 own up to 1,000 shares
- 224 own 1,001 to 5,000 shares
- 28 own 5,001 to 10,000 shares
- 40 own over 10,000 shares

49.86% of the share capital is held by shareholders resident abroad.



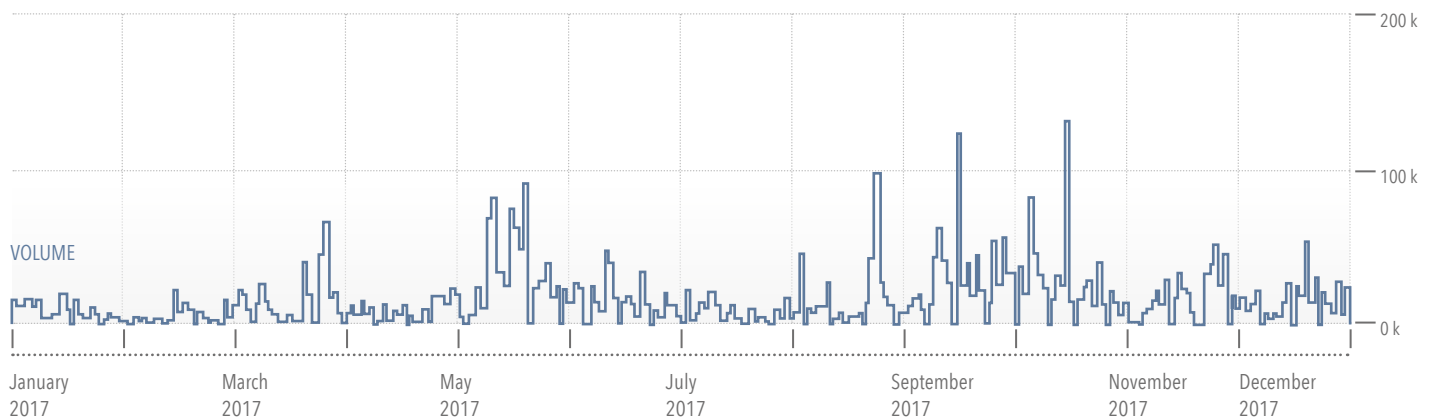
Investor relations and financial analysts

Since its listing on the Stock Exchange (1998), the Company has attributed strategic importance to financial communication. Sabaf's financial communication policy is based on the principles of fairness, transparency and continuity, in the belief that this approach allows investors to correctly evaluate the Company. In this perspective, Sabaf guarantees maximum willingness to engage in dialogue with financial analysts

and institutional investors. In 2017, the Company met with institutional investors as part of roadshows organised in Milan, Frankfurt and London. Some investors also held meetings with the management at the company headquarters in Ospiateletto, taking the opportunity to visit the production facilities.

Remuneration of shareholders and share performance

In 2017, the Sabaf share recorded the highest official price on 23 November (€ 23.304) and lowest on 4 January (€ 10.216). The average volume traded was 20,086 shares per day, equal to an average value of € 346,647 (€ 50,750 in 2016). The significant appreciation of the share and the strong increase in trading volumes is an indication of the renewed interest of the stock market in the Company.



The dividend policy adopted by Sabaf aims to guarantee a valid remuneration of shareholders also through the annual dividend.

Socially responsible investments

Sabaf shares have frequently been analysed by analysts and managers of SRI funds, who have also invested in Sabaf on several occasions.

Disputes

There is no dispute with shareholders.

Sabaf and lenders

Relations with credit institutions

The Group operates with a low debt ratio (net financial debt / shareholders' equity at 31 December 2017 of 0.22; net financial debt / EBITDA of 0.82) and has unused short-term lines of credit.

At 31 December 2017, the net financial debt was € 25.5 million, compared with € 23.5 million on 31 December 2016.

Relations with banks have always been based on maximum transparency. Relations with institutions that are able to support the Group in all its financial needs and to propose solutions in a timely manner to meet specific needs are privileged.

Disputes

There is no dispute with the lenders.

Sabaf and competitors

Trends in the cooking appliance manufacturer sector

For years, there has been a clear trend in the sector to outsource the design and production of components to highly specialised suppliers who, like Sabaf, are active in the main world markets and are able to provide a range of products that meets the specific requirements of different markets. Furthermore, the trend towards the internationalisation of production is accentuated, with production increasingly relocated to countries with low labour costs and lower saturation levels. The entry of new

players on the international scene has also led to a situation of oversupply, which generates strong competitive tensions and is evolving into a greater concentration of the sector. This trend is less evident for cooking appliances than for other household appliances: in the cooking sector, in fact, design and aesthetics on the one hand and the lower intensity of investments on the other allow the success of even small and highly innovative producers.

Main Italian and international competitors

In Italy and Europe, Sabaf estimates to have a market share of more than 40% in each product segment and is the only company to supply the full range of gas cooking components, while its competitors only produce part of the product range.

The main competitors of the Sabaf 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 is the leading producer of valves and thermostats in Europe.

Burner Systems International (BSI) is the leading producer of gas components for the North American market.

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

Main Italian and international competitors

	VALVES	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	

2015 and 2016 economic data of the main Italian competitors ²⁸

€/000	2016			2015		
	SALES	EBIT	NET RESULT	SALES	EBIT	NET RESULT
CMI	20,516	738	898	20,922	1,163	646
DEFENDI ITALY	54,959	2,316	1,799	53,608	1,006	1,087
NUOVA STAR	30,007	174	118	27,966	252	79
GRUPPO SOMIPRESS	36,972	2,323	1,214	40,946	3,417	2,046
SABAF GROUP	130,978	12,530	9,009	138,003	14,091	8,998

No further information is available on competitors due to the difficulty of finding the data.

Disputes

There is a dispute pending against a competitor following an alleged violation of one of our patents.



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

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

Independent auditors' report on the consolidated non-financial statement pursuant to article 3.10 of Legislative decree no. 254 of 30 December 2016 and article 5 of Consob Regulation no. 20267

*To the board of directors of
Sabaf S.p.A.*

Pursuant to article 3.10 of Legislative decree no. 254 of 30 December 2016 (the "decree") and article 5 of Consob (the Italian Commission for listed companies and the stock exchange) Regulation no. 20267, we have been engaged to perform a limited assurance engagement on the 2017 consolidated non-financial statement of the Sabaf Group (the "Group") prepared in accordance with article 4 of the decree and approved by the board of directors on 26 March 2018 (the "NFS").

Responsibilities of the directors and board of statutory auditors ("Collegio Sindacale") of Sabaf S.p.A. for the NFS

The directors of Sabaf S.p.A. (the "Company") are responsible for the preparation of a NFS in accordance with articles 3 and 4 of the decree and the "G4 Sustainability Reporting Guidelines" issued in 2013 by GRI - Global Reporting Initiative (the "GRI G4 Guidelines").

The directors are also responsible, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of a NFS that is free from material misstatement, whether due to fraud or error.

Moreover, the directors are responsible for the identification of the content of the NFS, considering the aspects indicated in article 3.1 of the decree and the Group's business and characteristics, to the extent necessary to enable an understanding of the Group's business, performance, results and the impacts it generates.

The directors' responsibility also includes the design of an internal model for the management and organisation of the Group's activities, as well as, with reference to the aspects identified and disclosed in the NFS, the Group's policies for the identification and management of the risks generated or borne.

The Collegio Sindacale is responsible for overseeing, within the terms established by the Italian law, compliance with the decree's provisions.

KPMG S.p.A. è una società per azioni di diritto italiano e fa parte del network KPMG di entità indipendenti affiliate a KPMG International Cooperative ("KPMG International"), entità di diritto svizzero.

Ancona Arezzo Bari Bergamo
Bologna Buzzone Brescia
Catania Como Firenze Genova
Lecce Milano Napoli Novara
Padova Palermo Parma Perugia
Pescara Roma Torino Trento
Trieste Verona Venezia

Bilancio per azioni
Capitale sociale
Euro 10.150.000,00 i.v.
Registro Imprese Milano e
Codice Fiscale 11.00709630150
P.E.A. Milano N. 112927
Partita IVA 00709630150
IAT number IT20729930150
Sede legale: Via Villoresi, 28
20124 Milano MI ITALIA



Sabaf Group

*Independent auditors' report on the consolidated non-financial statement
31 December 2017*

Auditors' independence and quality control

We are independent in compliance with the independence and all other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. KPMG S.p.A. applies International Standard on Quality Control 1 (ISQC (Italia) 1) and, accordingly, maintains a system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditors' responsibility

Our responsibility is to express a conclusion, based on the procedures performed, about the compliance of the NFS with the requirements of the decree and the GRI G4 Guidelines. 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 NFS is free from material misstatement. A limited assurance engagement is less in scope than a reasonable assurance engagement carried out in accordance with ISAE 3000 revised, and consequently does not enable us to obtain assurance that we would become aware of all significant matters and events that might be identified in a reasonable assurance engagement.

The procedures we performed on the NFS are based on our professional judgement and include inquiries, primarily of the Company's personnel responsible for the preparation of the information presented in the NFS, documental analyses, recalculations and other evidence gathering procedures, as appropriate.

Specifically, we carried out the following procedures:

1. Analysing the material aspects based on the Group's business and characteristics disclosed in the NFS, in order to assess the reasonableness of the identification process adopted on the basis of the provisions of article 3 of the decree and taking into account the reporting standards applied.
2. Analysing and assessing the identification criteria for the reporting scope, in order to check their compliance with the decree.
3. Comparing the financial disclosures presented in the NFS with those included in the Group's consolidated financial statements at 31 December 2017, on which other auditors issued their report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537/14, on 12 April 2018.



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4. Gaining an understanding of the following:

- the Group's business management and organisational model, with reference to the management of the aspects set out in article 3 of the decree;
- the entity's policies in connection with the aspects set out in article 3 of the decree, the achieved results and the related key performance indicators;
- the main risks generated or borne in connection with the aspects set out in article 3 of the decree.

Moreover, we checked the above against the disclosures presented in the NFS and carried out the procedures described in point 5.a).

5. Understanding the processes underlying the generation, recording and management of the significant qualitative and quantitative information disclosed in the NFS.

Specifically, we held interviews and discussions with the Company's management personnel and personnel of Faringosi-Hinges S.r.l.. We also performed selected procedures on documentation to gather information on the processes and procedures used to gather, combine, process and transmit non-financial data and information to the office that prepares the NFS.

Furthermore, with respect to significant information, considering the Group's business and characteristics:

- at Company and subsidiaries level:
 - a) we held interviews and obtained supporting documentation to check the qualitative information presented in the NFS and, specifically, the business model, the policies applied and main risks for consistency with available evidence;
 - b) we carried out analytical and selected procedures to check, on a sample basis, the correct aggregation of data in the quantitative information;
- we visited Sabaf S.p.A. and Faringosi-Hinges S.r.l., which we have selected on the basis of their business, contribution to the key performance indicators at consolidated level and location, to meet their management and obtain documentary evidence supporting the correct application of the procedures and methods used to calculate the indicators.

Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the 2017 consolidated non-financial statement of the Sabaf Group has not been prepared, in all material respects, in accordance with the requirements of articles 3 and 4 of the decree and the GRI G4 Guidelines.



Sabaf Group
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Other matters

The Company prepared the Group's 2016 social report and has presented the data included therein for comparative purposes in its NFS. We reviewed that sustainability report in compliance with ISAE 3000 revised, not pursuant to any legal requirements, and expressed an unqualified conclusion thereon on 6 April 2017.

Brescia, 13 April 2018

KPMG S.p.A.

(signed on the original)

Monica Mazzotti
Director of Audit

GRI Content Index

GENERAL STANDARD DISCLOSURE	Indicator description	PAGE (or direct reference)
STRATEGY AND ANALYSIS		
G4-1	Statement from the CEO and Board President	Introduction to Annual Report, page 12.
G4-2	Key impacts, risks and opportunities	Risk Management, pages 56-57; Sabaf and employees - Risks, page 64; Occupational health and safety and working environment - Risk management, page 78; Sabaf and environment - Risks, page 86; Sabaf, the management of product quality and customer relations - Risks, page 92; Sabaf and supply chain management - Risks, page 94.
ORGANIZATIONAL PROFILE		
G4-3	Name of the organization	Cover page
G4-4	Primary brands, products and services	Introduction to Annual Report, pages 20-23.
G4-5	Location of the headquarter	Via dei Carpini, 1 25035 Ospitaletto (Brescia)
G4-6	Countries where the organization operates	Introduction to Annual Report, pages 22-25.
G4-7	Nature of ownership and legal form	Corporate Governance, pages 44-45; Sabaf and shareholders, pag 98.
G4-8	Markets served	Introduction to Annual Report, pages 22-25.
G4-9	Scale of the organization	Introduction to Annual Report, pages 13-25.
G4-10	Total number of employees by employment contract and gender, region and employment type	Sabaf and employees, pages 65-66; Diversity and equal opportunities, pages 72-73.
G4-11	Percentage of total employees covered by collective bargaining agreements	Remuneration, incentive and enhancement systems, page 76; Industrial relations, pages 84-85.
G4-12	Description of the organization's supply chain	Sabaf and supply chain management, pages 94-96.
G4-13	Significant changes	Methodological note, page 29.
G4-14	Precautionary approach or principle application modes	Governance of Social Responsibility and Stakeholder Engagement, page 35; Risk Management, pages 56-57.
G4-15	Endorsement of externally developed economic, environmental and social charters and principles	Governance of Social Responsibility and Stakeholder Engagement, pages 37-38; Strategic approach and creation of value, page 30.
G4-16	Memberships in industry associations	Sabaf, Public Administration and Community, page 97.
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES		
G4-17	List of entities included in the organization's consolidated financial statements and those not included in the sustainability report	Introduction to Annual Report, pages 22; Methodological note, page 29.
G4-18	Process for defining the report content	Methodological note, page 29.
G4-19	Material Aspects identified	Materiality analysis, pages 39-41.
G4-20	For each material Aspect, report the Aspect Boundary within the organization	Materiality analysis, pages 40-41.
G4-21	For each material Aspect, report the Aspect Boundary outside the organization	Materiality analysis, pages 40-41.
G4-22	Effect of any restatements of information provided in previous reports, and the reasons for such restatements	Methodological note, page 29.
G4-23	Significant changes from previous reporting periods	Methodological note, page 29.

GENERAL STANDARD DISCLOSURE	Indicator description	PAGE (or direct reference)
STAKEHOLDER ENGAGEMENT		
G4-24	List of stakeholder groups engaged by the organization	Stakeholder Engagement, page 36.
G4-25	Basis for identification and selection of stakeholders with whom to engage	Stakeholder Engagement, page 36.
G4-26	Approach to stakeholder engagement	Stakeholder Engagement, page 36.
G4-27	Key topics and concerns that have been raised through stakeholder engagement and the related responses	Stakeholder Engagement, page 36; Customer Satisfaction, page 93.
REPORT PROFILE		
G4-28	Reporting period	Methodological note, page 29.
G4-29	Date of most recent previous report	This is the first consolidated non-financial statement.
G4-30	Reporting cycle	Methodological note, page 29.
G4-31	Contact point for questions regarding the report or its contents	Tel.: +39 030 - 6843001, Fax: +39 030 - 6848249 E-mail: info@sabaf.it
G4-32	GRI content index and the 'in accordance' option the organization has chosen	Methodological note, page 29.
G4-33	External Assurance	External assurance, pages 102-105.
GOVERNANCE		
G4-34	Governance structure of the organization, including committees of the highest governance body	Corporate Governance, pages 44-45.
G4-38	Composition of the highest governance body	The Governance Structure, pages 45-50.
ETHICS AND INTEGRITY		
G4-56	Organization's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics	Strategic approach and creation of value, pages 30-31.

GENERAL STANDARD DISCLOSURE	Indicator description	PAGE (or direct reference)	Omission
CATEGORY: ECONOMIC			
Material aspect: Economic Performance			
G4-DMA	Management approach	Strategic approach and creation of value, page 30.	
G4-EC1	Direct economic value created and distributed	Introduction to Annual Report, page 19; (Values in thousands of Euro) Economic value generated: 155,408; Revenue: 150,223; Economic value distributed: 133,063; Remuneration of suppliers: 88,636; Remuneration of employees: 35,328; Remuneration of lenders: 804; Remuneration of shareholders: 5,386; Remuneration of the Public Administration: 2,888; External perks: 21; Economic value retained: 22,345.	

GENERAL STANDARD DISCLOSURE	Indicator Description	PAGE (or direct reference)	Omission
CATEGORY: ECONOMIC			
Material aspect: Market Presence			
G4-DMA	Management approach	Remuneration, incentive and enhancement systems, pages 76-77.	
G4-EC5	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation	Remuneration, incentive and enhancement systems, page 77.	
Material aspect: Procurement Practices			
G4-DMA	Management approach	Sabaf and supply chain management, pages 94-96.	
G4-EC9	Proportion of spending on local suppliers at significant locations of operations	Sabaf and supply chain management, page 95.	
CATEGORY: ENVIRONMENTAL			
Material aspect: Materials			
G4-DMA	Management approach	Sabaf and environment, pages 86-88.	
G4-EN1	Materials used	Materials used and recyclability of products, page 88.	
G4-EN2	Recycled input materials	Materials used and recyclability of products, page 88.	
Material aspect: Energy			
G4-DMA	Management approach	Sabaf and environment, pages 86-89	
G4-EN3	Energy consumption within the organization	Energy sources, page 88.	
G4-EN5	Energy intensity	Energy Intensity, page 88.	
Material aspect: Water			
G4-DMA	Management approach	Sabaf and environment, pages 86, 90.	
G4-EN8	Total water withdrawal by source	Water, page 90.	
G4-EN9	Water sources significantly affected by withdrawal of water	Water, page 90.	
G4-EN10	Percentage and total volume of water recycled and reused	Water, page 90.	
Material aspect: Emissions			
G4-DMA	Management approach	Sabaf and environment, pages 86-89, 91.	
G4-EN15	Direct greenhouse gas emissions (Scope 1)	Emissions into the atmosphere, page 91.	
G4-EN16	Indirect greenhouse gas emissions (Scope 2)	Emissions into the atmosphere, page 91.	
G4-EN20	Emissions of ozone-depleting substances	Emissions into the atmosphere, page 91.	
G4-EN21	NOx, SOx and other significant air emissions	Emissions into the atmosphere, page 91.	
Material aspect: Effluents and Waste			
G4-DMA	Management approach	Sabaf and environment, page 86, 90.	
G4-EN22	Water discharge	Water, page 90	
G4-EN23	Weight of waste and disposal method	Waste, page 90.	
G4-EN24	Total number and volume of significant spills	Waste, page 90.	

GENERAL STANDARD DISCLOSURE	Indicator Description	PAGE (or direct reference)	Omission
CATEGORY: ENVIRONMENTAL			
Material aspect: Products and Services			
G4-DMA	Management approach	Sabaf and environment, pages 86-89.	
G4-EN27	Initiatives aimed at mitigation of environmental impacts of products and services	Process innovation and environmental sustainability, page 87; Product innovation and environmental sustainability, page 87.	
Material aspect: Overall			
G4-DMA	Management approach	Sabaf and environment, pages 86, 91.	
G4-EN31	Environmental protection expenditures and investments	Environmental investments, page 91.	
CATEGORY: SOCIAL			
SUB-CATEGORY: LABOR PRACTICES AND DECENT WORK			
Material aspect: Employment			
G4-DMA	Management approach	Sabaf and employees, pages 64-65, page 67, page 72, page 76, pages 81-82, page 84.	
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	Recruitment policy, pages 67-70.	
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Remuneration, incentive and enhancement systems, page 76.	The benefits provided by the Sabaf Group does not differ according to the employment contract or type (full-time vs. part-time and temporary vs. permanent)
G4-LA3	Return to work and retention rates after parental leave	Working hours and hours of absence, page 75.	
Material aspect: Occupational Health and Safety			
G4-DMA	Management approach	Occupational health and safety and working environment, pages 78-80.	
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities	Occupational health and safety and working environment, pages 79-80.	
Material aspect: Training and Education			
G4-DMA	Management approach	Sabaf and employees, pages 64-65, 71.	
G4-LA9	Employees training	Personnel training, page 71.	
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender	Remuneration, incentive and enhancement systems, page 76.	The information provided refers only to Sabaf S.p.A.
Material aspect: Diversity and Equal Opportunity			
G4-DMA	Management approach	Sabaf and employees, pages 64-65, page 72.	
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	Corporate Governance, pages 46-52; Diversity and equal opportunities, page 72-73.	

GENERAL STANDARD DISCLOSURE	Indicator Description	PAGE (or direct reference)	Omission
CATEGORY: SOCIAL			
SUB-CATEGORY: LABOR PRACTICES AND DECENT WORK			
Material aspect: Equal Remuneration for Women and Men			
G4-DMA	Management approach	Sabaf and employees, pages 64-65, 76.	
G4-LA13	Ratio of basic salary and remuneration of women to men by employee category	Remuneration, incentive and enhancement systems, page 77.	
Material aspect: Supplier Assessment for Labor Practices			
G4-DMA	Management approach	Supply chain management policy, pages 94-96.	
G4-LA15	Significant actual and potential negative impacts for labor practices in the supply chain and actions taken	The SA8000 standard and suppliers, page 94.	During 2017, Sabaf S.p.A. carried out a risk analysis of the supply chain in line with the requirements of SA8000 in order to prepare an action plan and monitor the suppliers considered critical for the purposes of the Standard. The analysis was carried out taking into account the geographical location, the sector to which it belongs, the type of business and the importance of turnover with regard to Sabaf. A questionnaire was sent out to verify understanding of the standard and assess the social responsibility aspects of each supplier. The replies received did not show any non-compliance. More than 20 audits have been planned for 2018. The Group reserves the right to give full disclosure of the results within the next two years.
SUB-CATEGORY: HUMAN RIGHTS			
Material aspect: Non-discrimination			
G4-DMA	Management approach	Personnel management policy, pages 64-65.	
G4-HR3	Number of incidents of discrimination and corrective actions taken	No significant episodes of discrimination were observed in 2017.	
Material aspect: Freedom of Association and Collective Bargaining			
G4-DMA	Management approach	Industrial relations, pages 84-85.	
G4-HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be at significant risk	Industrial relations, page 84.	
Material aspect: Child Labor			
G4-DMA	Management approach	Personnel management policy, pages 64-65. Supply chain management policy, page 94.	
G4-HR5	Operations and suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor	Personnel management policy, pages 64-65. The SA8000 standard and suppliers, page 94.	

GENERAL STANDARD DISCLOSURE	Indicator Description	PAGE (or direct reference)	Omission
CATEGORY: SOCIAL			
SUB-CATEGORY: HUMAN RIGHTS			
Material aspect: Forced or Compulsory Labor			
G4-DMA	Management approach	Personnel management policy, pages 64-65. Supply chain management policy, page 94.	
G4-HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor	Personnel management policy, pages 64-65. The SA8000 standard and suppliers, page 94.	
Material aspect: Supplier Human Rights Assessment			
G4-DMA	Management approach	Supply chain management policy, page 94.	
G4-HR11	Significant actual and potential negative human rights impacts in the supply chain and actions taken	Supply chain management policy, page 94.	During 2017, Sabaf S.p.A. carried out a risk analysis of the supply chain in line with the requirements of SA8000 in order to prepare an action plan and monitor the suppliers considered critical for the purposes of the Standard. The analysis was carried out taking into account the geographical location, the sector to which it belongs, the type of business and the importance of turnover with regard to Sabaf. A questionnaire was sent out to verify understanding of the standard and assess the social responsibility aspects of each supplier. The replies received did not show any non-compliance. More than 20 audits have been planned for 2018. The Group reserves the right to give full disclosure of the results within the next two years.
SUB-CATEGORY: PRODUCT RESPONSIBILITY			
Material aspect: Customer Health and Safety			
G4-DMA	Management approach	Quality management policy, pages 92-93.	
G4-PR1	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement	Quality management policy, page 92.	
Material aspect: Product and Service Labeling			
G4-DMA	Management approach	Quality management policy, pages 92-93.	
G4-PR5	Results of surveys measuring customer satisfaction	Customer satisfaction, page 93.	