Annual Report 2017

E S A E R C N I

SABAF®

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.

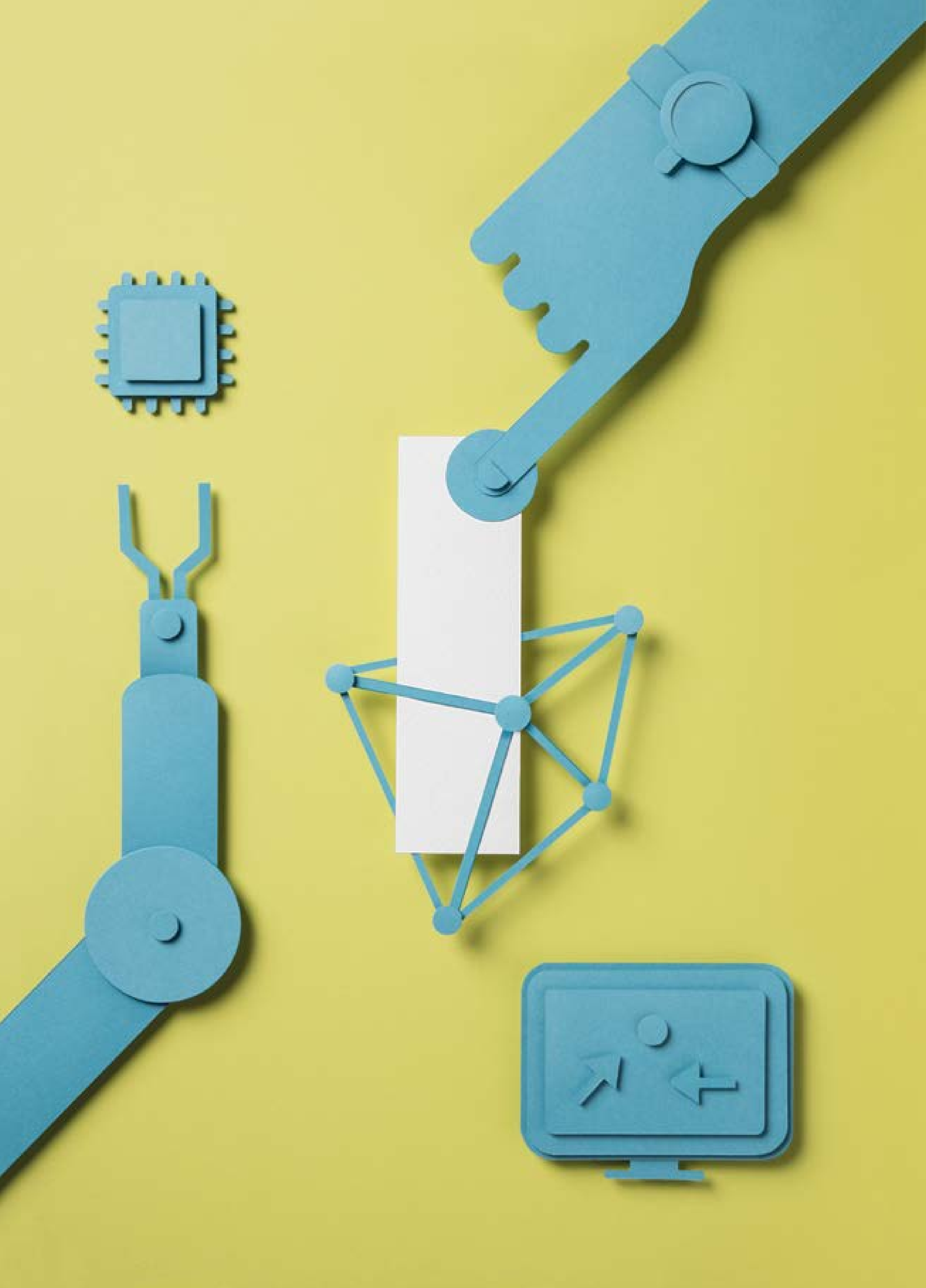
We have chosen eight words that, taken individually, represent areas where Sabaf constantly devotes great attention and effort to increase their value.

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

SABAF

Index



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.

SABAF®

Introduction to the Annual Report

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

Sabaf, one of the first companies at international level to take advantage of the trend of integrated reporting, intends to continue along this path, drawing inspiration from the International Framework on Sustainability Reporting of the International Integrated Reporting Council (IlRC), 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)	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)
	YEARS	%	% ♂	% ♀	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	TOTAL EMPLOYEES			ILLNESS RATE (hours of illness/total hours worked)
	%	N°	N°	% ♂	% ♀	%
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°
2017	14.68	0.13	2[1]
2016	9.21	0.04	(23)
2015	13.73	0.40	33

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

RELATIONAL CAPITAL

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

€/000

2,761
2,635
4,010

10,000

VALUE OF GOODS AND SERVICES OUTSOURCED: other processing

€/000

3,386
3,226
3,502

10,000

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

%

0.09
0.09
0.57

1

AVERAGE TURNOVER BY CUSTOMER

(total turnover/number of customers)

€/000

366
382
416

500

PERCENTAGE OF TURNOVER FROM NEW CUSTOMERS

(turnover from new customers/turnover)

%

0.76
1.01
1.24

2

PERCENTAGE OF TOP 10 CUSTOMERS

%

46
47
48

100

PERCENTAGE OF TOP 20 CUSTOMERS

%

65
67
68

100

CUSTOMER COMPLAINTS

N°

335
395
320

500

TURNOVER FROM CERTIFIED SUPPLIERS

(turnover from certified suppliers/purchases)

%

70.9
68.1
50.1

100

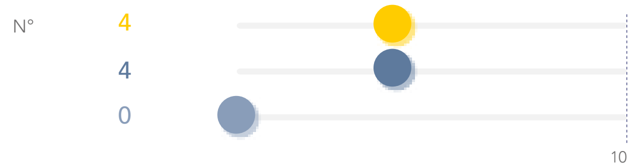
NUMBER OF ANALYSTS WHO FOLLOW THE SECURITY CONTINUOUSLY

N°

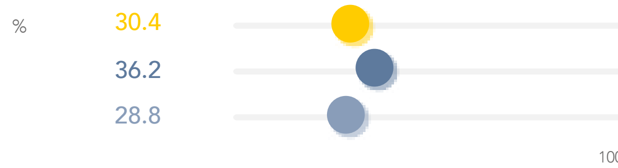
1
1
2

10

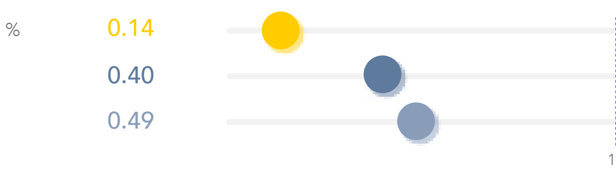
LAWSUITS FILED AGAINST GROUP COMPANIES



TURNOVER PERCENTAGE OF SUPPLIERS IN THE PROVINCE OF BRESCIA

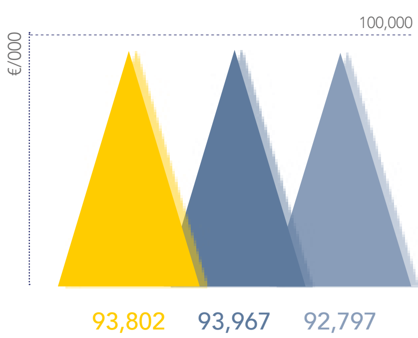


PERK/PROFIT

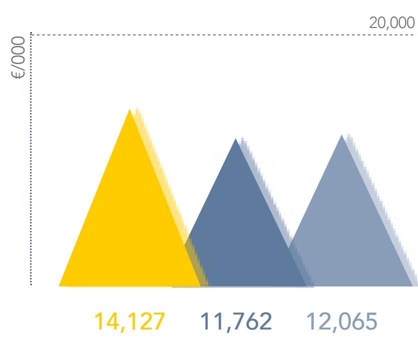


PRODUCTIVE CAPITAL

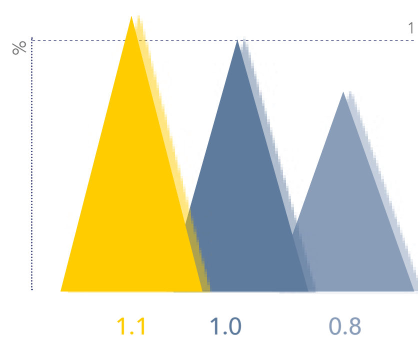
FIXED ASSETS



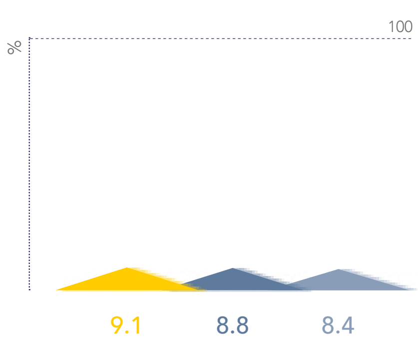
TOTAL NET INVESTMENTS



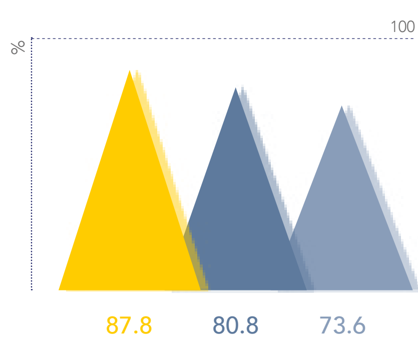
IT BUDGET (investments + current expenditure) /TURNOVER



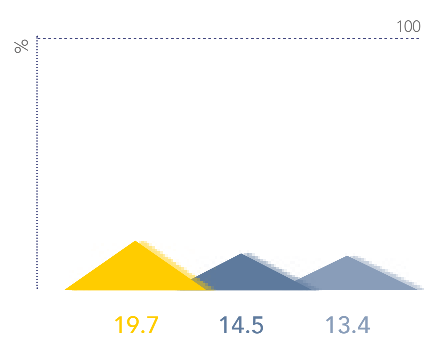
REAL INVESTMENT/TURNOVER



QUANTITIES SOLD OF LIGHT ALLOY VALVES ON TOTAL VALVES AND THERMOSTATS

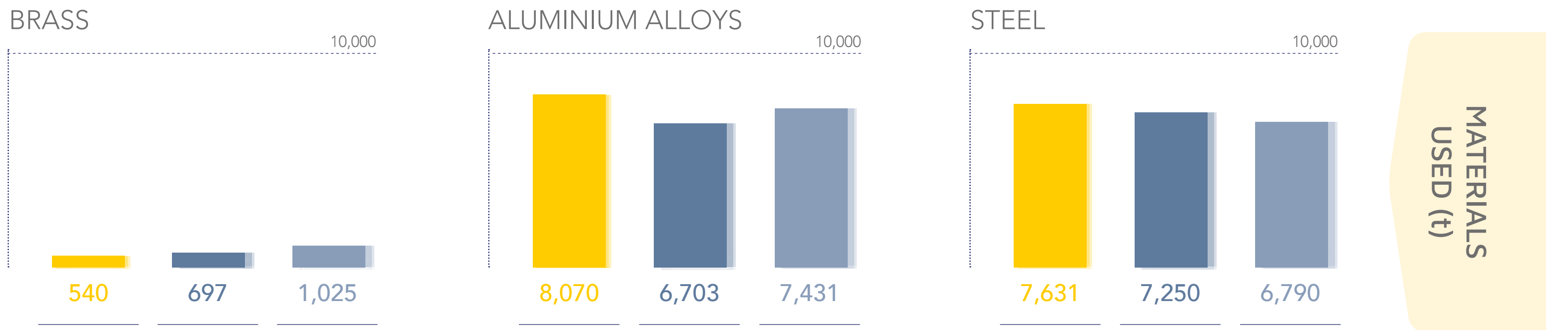


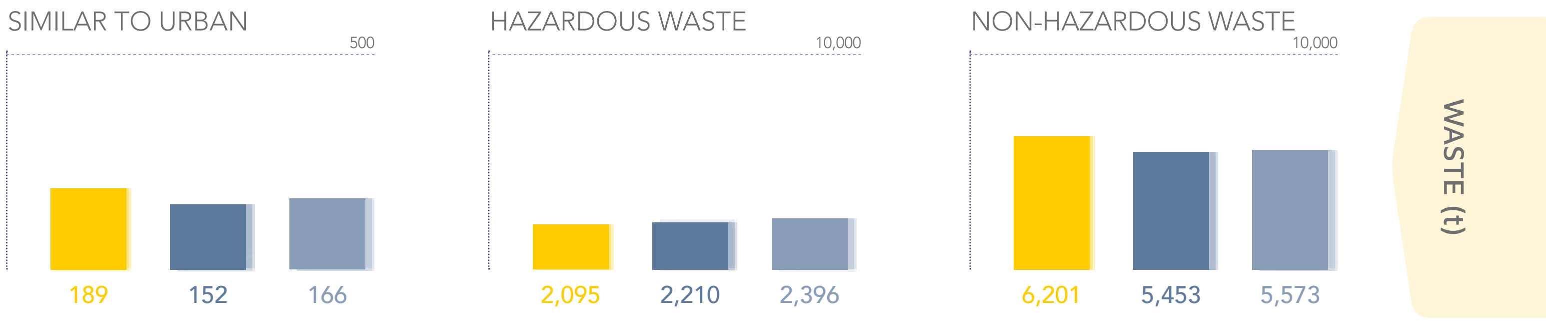
QUANTITIES SOLD OF HIGH ENERGY EFFICIENCY BURNERS ON TOTAL BURNERS

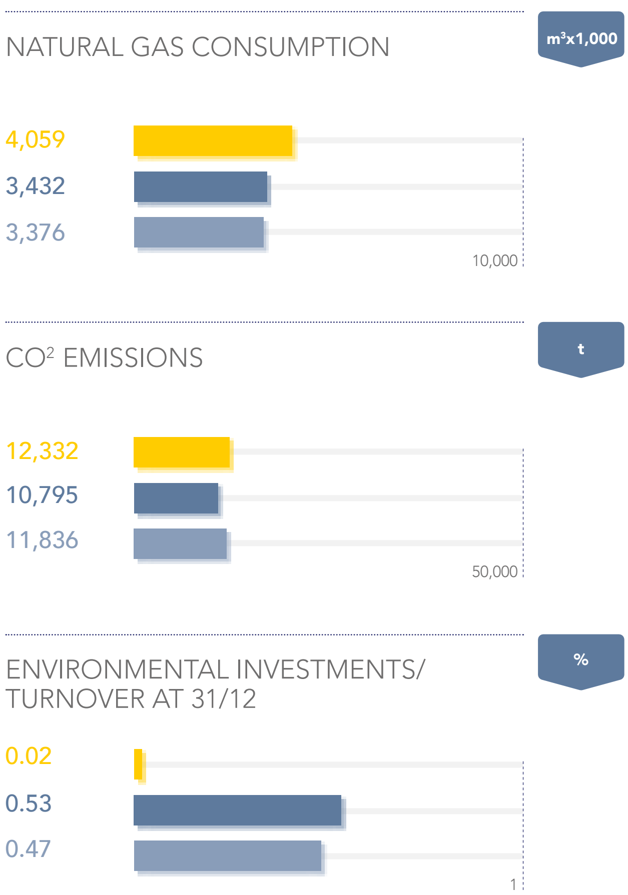


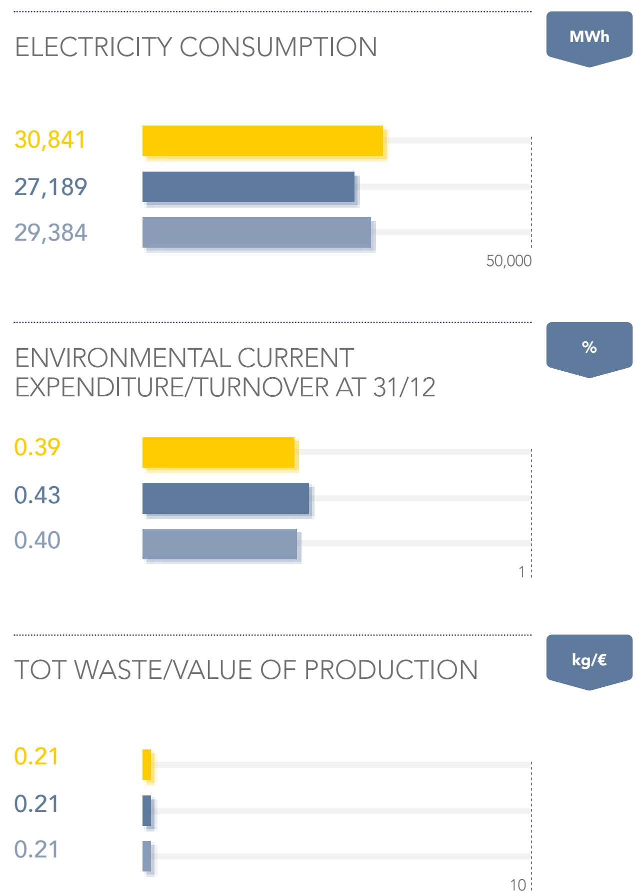
Key
2017 2016 2015

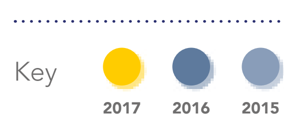
ENVIRONMENTAL CAPITAL











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
of which for environmental expenses	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).

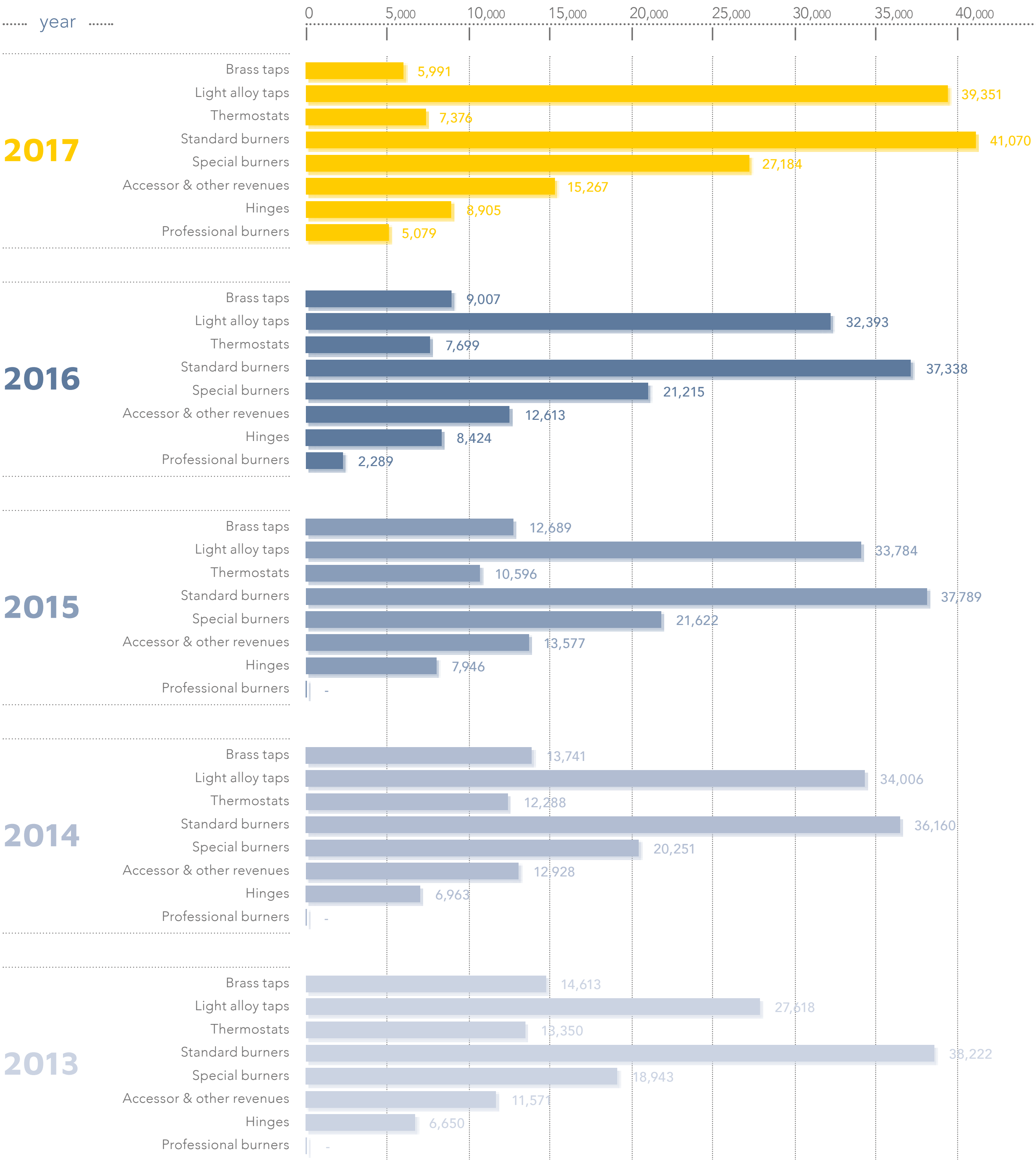
The product family with the highest growth rates is that of special burners, where innovation has been strongest in recent years.
Standard burners are the most popular products, also produced in Turkey and Brazil.

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

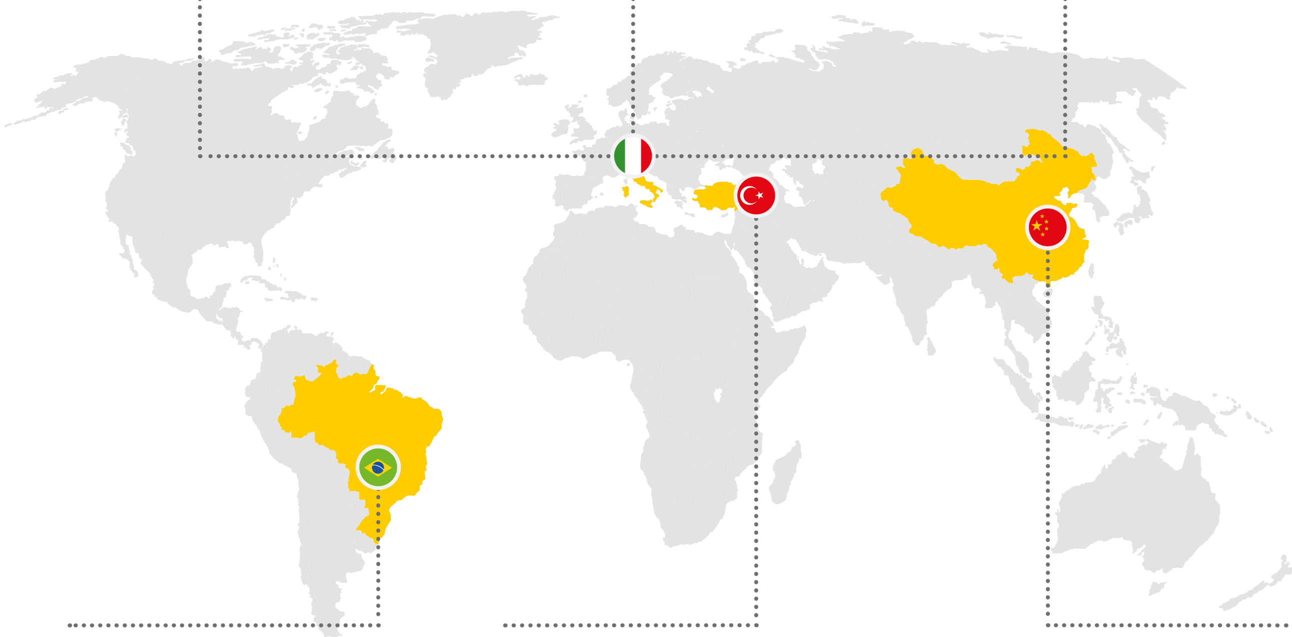
150,223 130,978 138,003 136,337 130,967

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

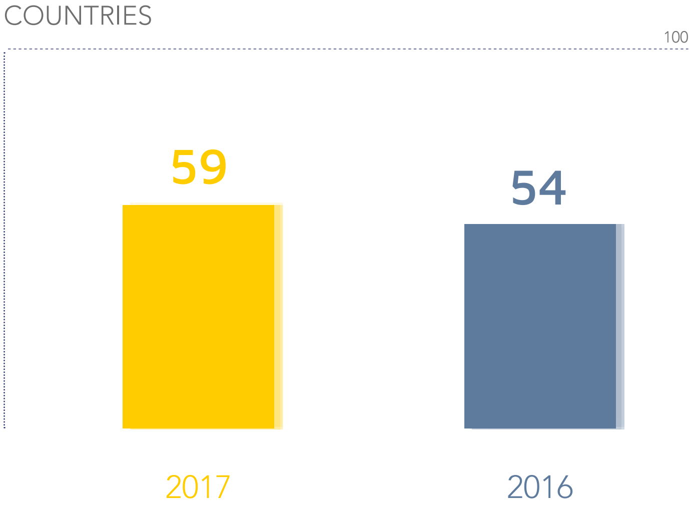
THE REFERENCE MARKETS

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.

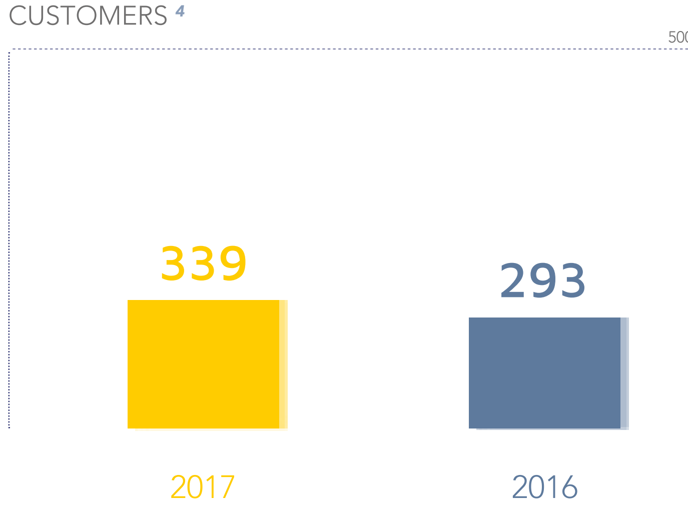
However, the level of saturation is often lower in other markets. The higher economic development rates and the more favourable demographic trend compared to Western Europe are creating great opportunities for groups such as Sabaf, which can both work with multinational manufacturers of household appliances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

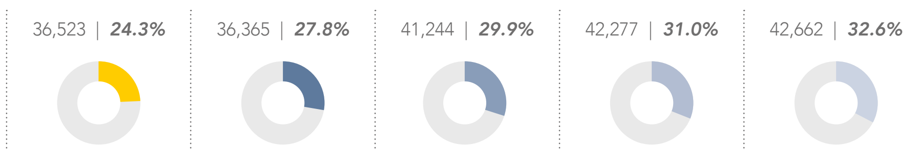
ANALYSIS OF THE SCENARIO

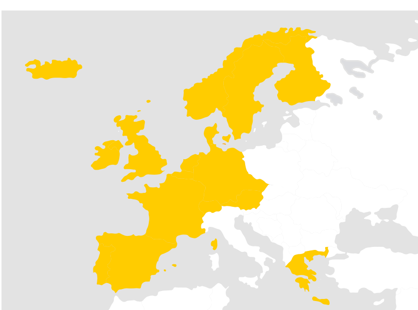
PERFORMANCE DATA [5]

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.

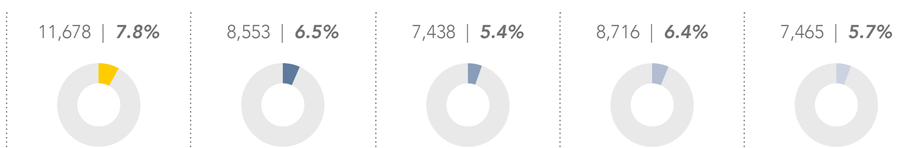
The importance of the Italian market for Sabaf is consequently lower than in the past. The majority (estimated at approximately 80%) of Sabaf's sales in Italy are destined for household appliances exported by our customers.





Western Europe

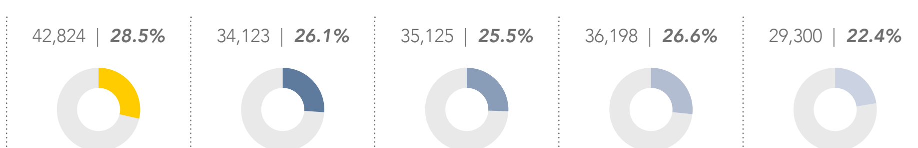
The same trend that characterised Italy was also seen in the other Western European countries: in Western Europe, up-market products remain high, where Sabaf is significantly increasing its share.



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.



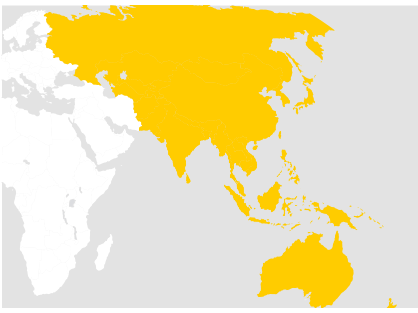
Key 2017 2016 2015 2014 2013

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

ANALYSIS OF THE SCENARIO

PERFORMANCE DATA [5]

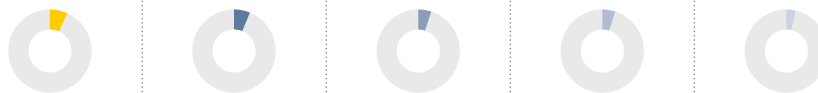
Asia and Oceania



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.

10,516 | ***7.0%***	8,088 | ***6.2%***	7,019 | ***5.0%***	6,907 | ***5.0%***	4,727 | ***3.6%***



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.

22,938 | ***15.3%***	20,847 | ***15.9%***	20,815 | ***15.1%***	18,324 | ***13.4%***	24,375 | ***18.6%***

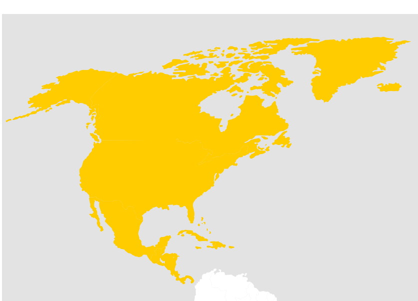
Middle East and Africa

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.

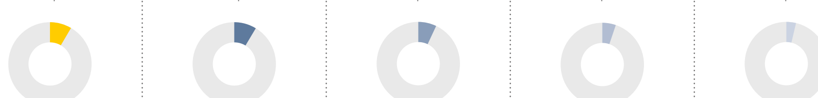
13,009 | ***8.6%***	11,698 | ***8.9%***	16,759 | ***12.1%***	16,871 | ***12.4%***	17,547 | ***13.4%***

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.

12,735 | ***8.5%***	11,304 | ***8.6%***	9,603 | ***7.0%***	7,044 | ***5.2%***	4,891 | ***3.7%***



Key 2017 2016 2015 2014 2013

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)

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 Guidelines. 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 centricity 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 centricity 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 • 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	• 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 • 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	• Charter of Values • Manual of the Social Responsibility Management System in compliance with SA8000 Standard
PERSONNEL	
BASIC PRINCIPLES • 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	• Charter of Values • Manual of the Social Responsibility Management System in compliance with SA8000 Standard
HEALTH AND SAFETY	
BASIC PRINCIPLES • 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	• 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 • 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	• Organisation, management and control Model pursuant to Legislative Decree 231/2001
SUPPLY CHAIN	
BASIC PRINCIPLES • Ensure absolute impartiality in the choice of suppliers • Establish long-term relationships based on fairness in negotiations, integrity and contractual fairness	• 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.

INPUT

ECONOMIC CAPITAL

- Net financial debt **€ 25,533,000**
- Shareholders' Equity **€ 115,055,000**
- Invested capital **€ 140,588,000**
- Market capitalisation at 31 December /Shareholders' Equity **2.00**

HUMAN CAPITAL

- **756** employees
- Advanced education: employees with a degree or diploma **57.3%**
- Training hours by employee **19.8**
- Investments in training on turnover **0.28%**

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**

BUSINESS APPROACH

Innovation, enhancement of internal resources and continuous learning

+

Quality, internal and external safety, eco-compatibility

Internationalisation

Sustainability

DISTINCTIVE FEATURES

Internal and verticalised production of:

components and products

+

machinery, tools and presses based on specific know-how

OUTPUT

ECONOMIC CAPITAL

- Sales revenue **+14.7%**
- EBITDA as a percentage of sales **20.6%**

HUMAN CAPITAL

- No. of new employees **101**
- Leaving turnover **12%**
- Strike hours on hours worked **0.10%**
- Injury frequency rate **14.7**
- Injury severity index **0.13**

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%**

INPUT

ENVIRONMENTAL CAPITAL

- Brass **540 t**
- Aluminium alloys **8,070 t**
- Steel **7,631 t**
- Electricity consumed **30,841 MWh**
- Natural gas consumed **4,059,000 m^3**
- Water used **112,801 m^3**

INTELLECTUAL CAPITAL

- Hours dedicated to the development of new products **1.4%**
- Hours dedicated to process engineering **2.5%**

PRODUCTS

Valves and thermostats

Burners

+

Hinges

Accessories

OUTPUT

ENVIRONMENTAL CAPITAL

- Waste to value of production **0.21 Kg/€**
- CO^2 emissions **12,332 t**

INTELLECTUAL CAPITAL

- No. of Patents **33**
- No. of codes provided to the first 10 customers **1,620**
- Impact of quality current expenditure on turnover **0.20%**

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:

1. **sharing values, mission and sustainability strategy;**
2. **training** and **communication**;
3. an **internal control system** capable of monitoring risks (including social, environmental and reputational risks) and verifying the implementation of commitments to stakeholders;
4. **key performance indicators (KPIs)**, which can monitor economic, social and environmental performance;
5. a clear and complete **reporting system**, able to effectively inform the different categories of stakeholders;
6. a **stakeholder engagement system**, to compare with the expectations of all stakeholders and to receive useful feedback for continuous improvement.

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
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

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

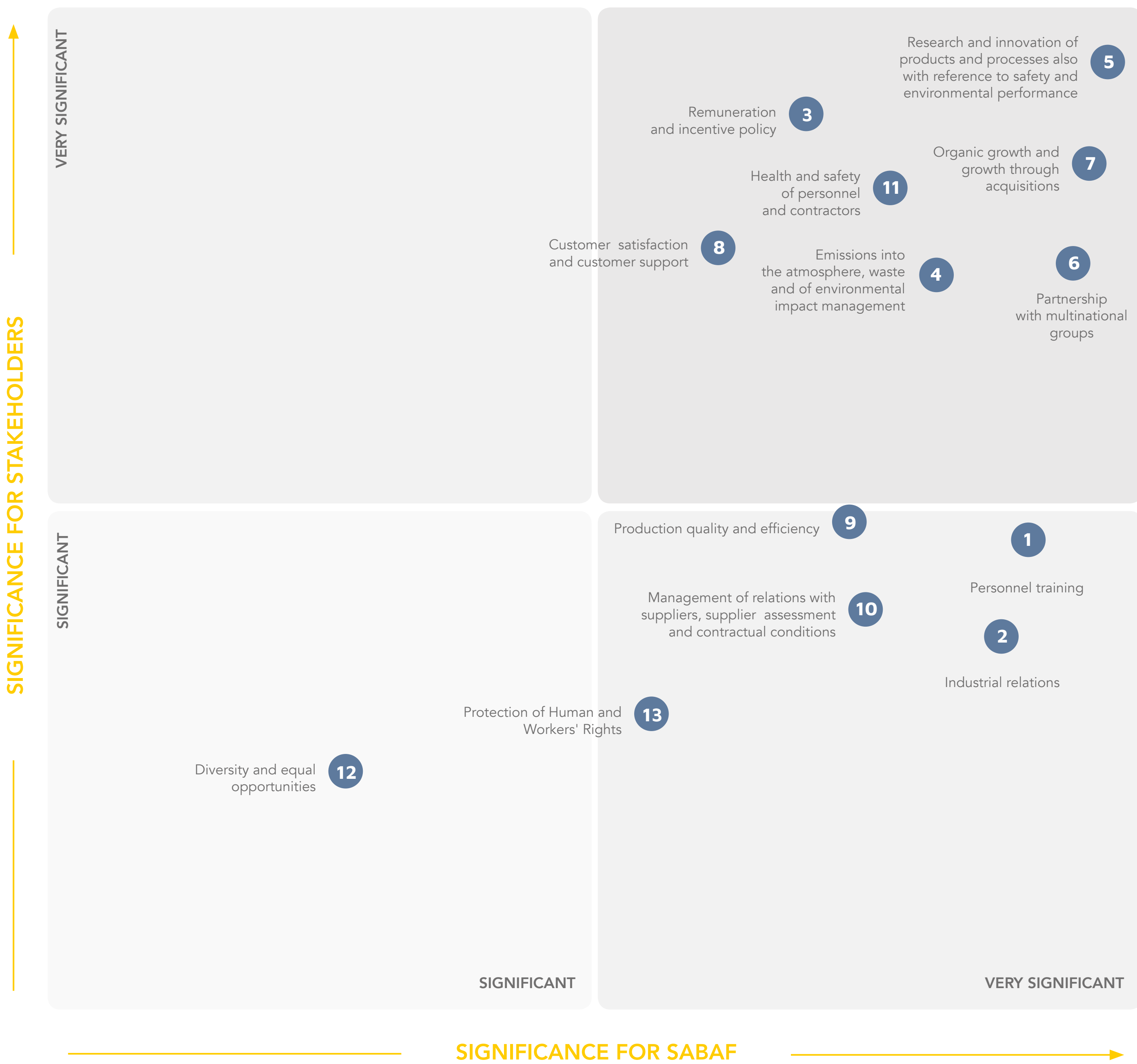
The GRI-G4 Guidelines require that the contents of the Non-Financial Statement be defined on the basis of a materiality analysis. In compliance with the requests of GRI-G4, Sabaf has started since 2014 a process of identifying the (relevant) material aspects to be reported, i.e. those aspects:

- **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.

SABAF®

Corporate Governance, Risk Management e Compliance

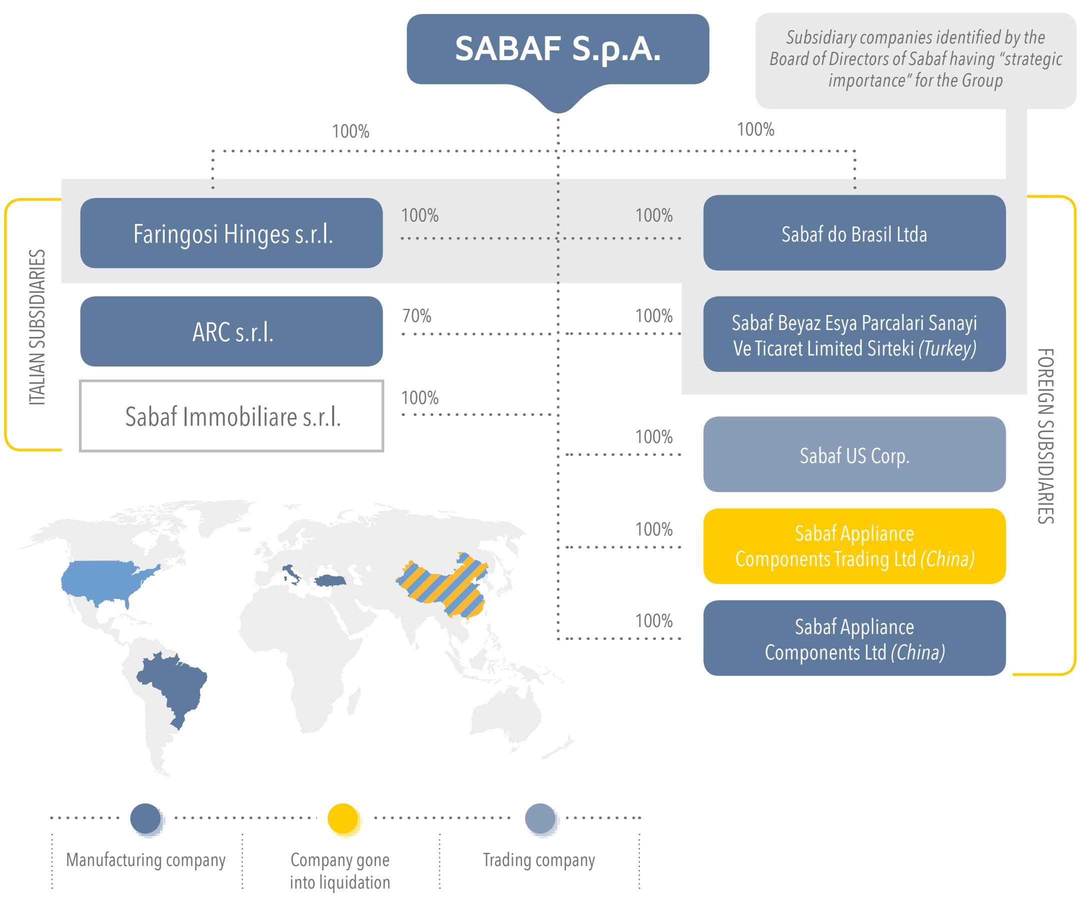
Corporate Governance

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:

a) 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).

b) The subsidiary Sabaf US carries out commercial supporting activities.

c) The subsidiary Sabaf Appliance Components Trading (China) was liquidated in 2015.

d) 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.

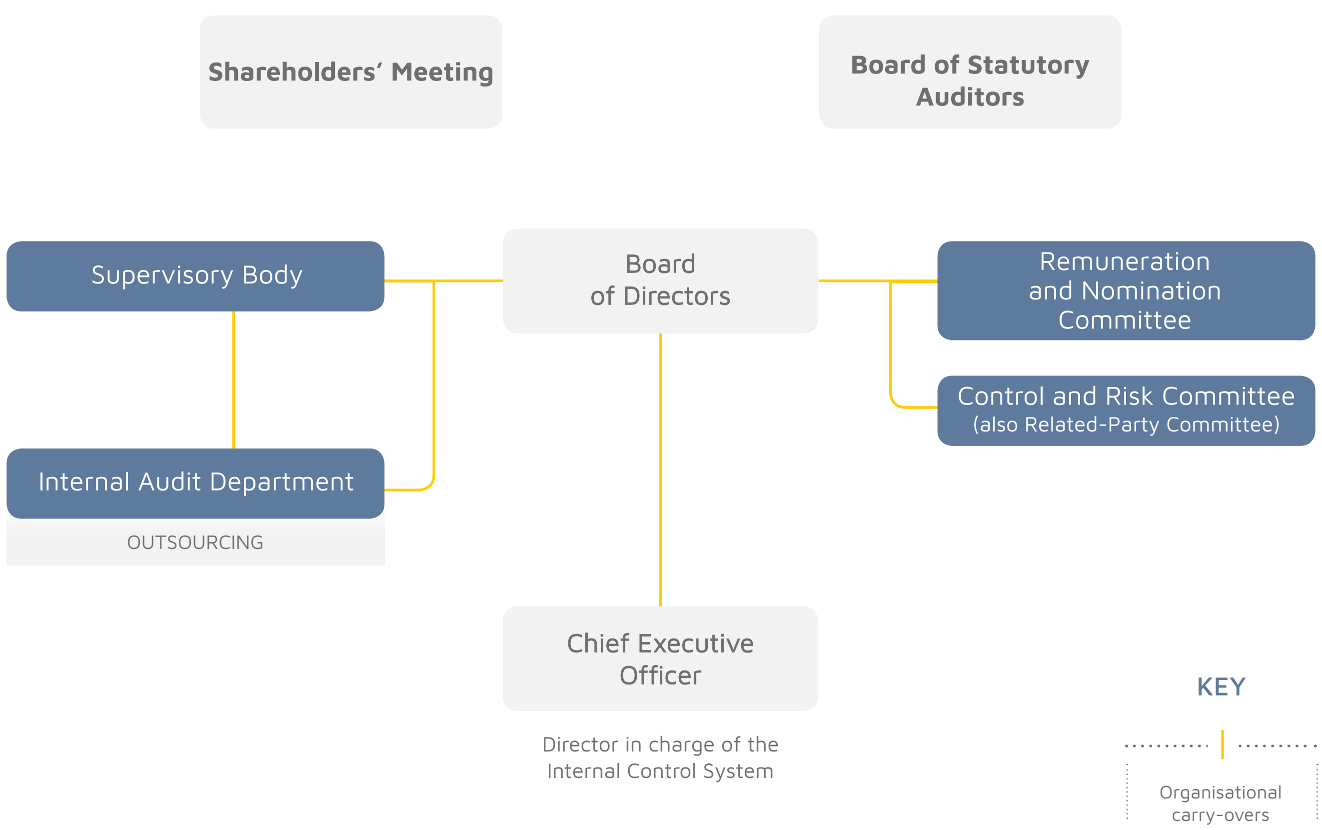
This model is supplemented, in accordance with the provisions of the Corporate Governance Code the Company complied with, by:

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

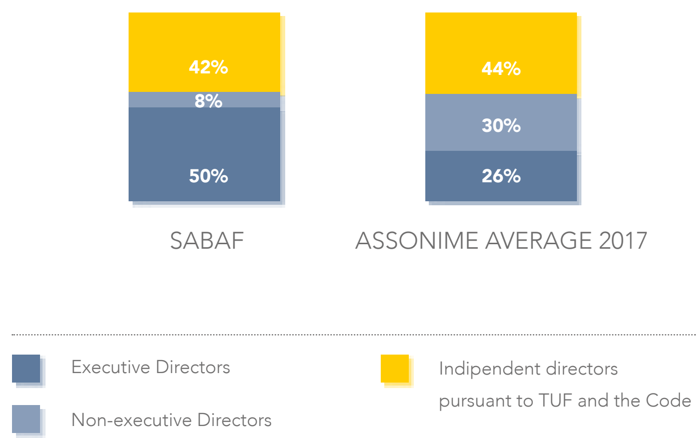


BOARD OF DIRECTORS

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	INDEPENDENT DIRECTORS PURSUANT TO TUF AND/OR CODE
	Director	Fausto Gardoni	
	Director	Renato Camodeca *Lead Independent Director*	
	Director	Nicla Picchi	
	Director	Anna Pendoli	
	Director	Alessandro Potestà	

Composition of the Board of Directors



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.

7 The *Curriculum Vitae* of the individual members are available on the Company's website.

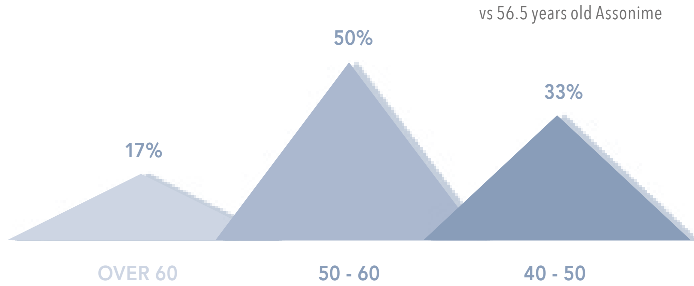
Observations

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

Overall average age:
Sabaf 56 years old
vs 56.5 years old Assonime

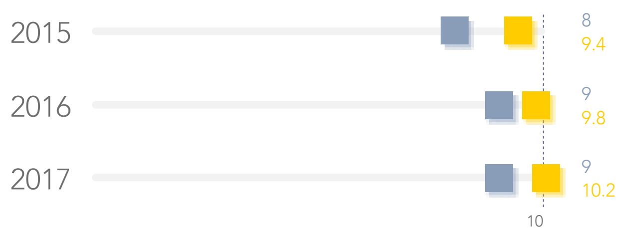


The comparison was carried out using the data provided by the 2017 Italia Board Index Observatory, published by Spencer Stuart, which analyses the characteristics and operation of the Boards of Directors of the top 100 listed Italian (industrial and financial) companies in order of capitalisation as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

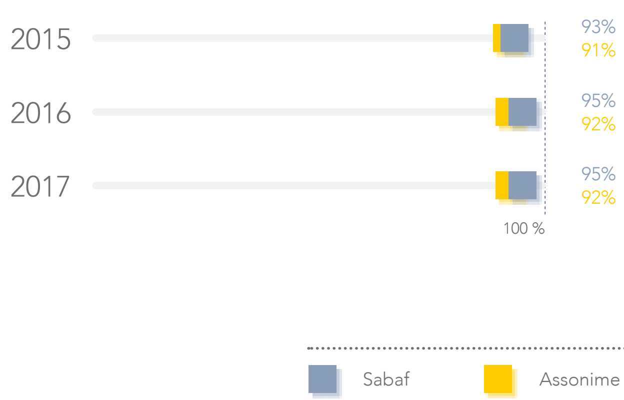
During the financial year, the Board of Directors carried out its assessment of the size, membership (including professional competences, managerial skills and seniority) and operation of the Board of Directors and its Committees, opting for the self-assessment of individual directors, coordinated by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



(*) 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

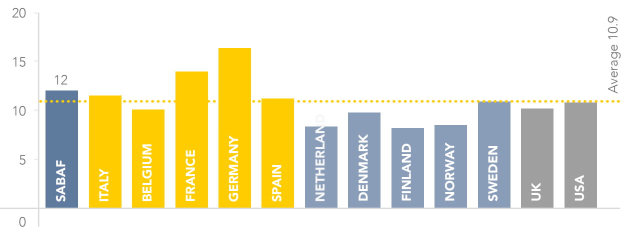
Degree in Law, Partner of Studio Picchi & Associati where she works as a lawyer. In Sabaf since 2006, she is also Chairman of SB 231 of Sabaf S.p.A. and of the subsidiary Faringosi-Hinges. She has been chairman of the Control and Risk Committee since 2015.

Alessandro Potestà

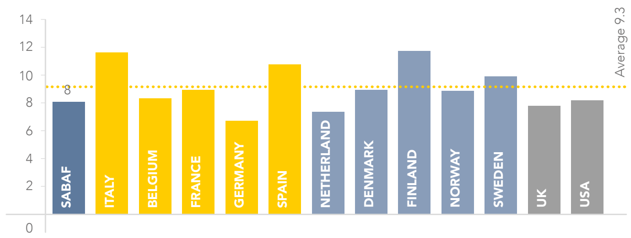
Director

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.

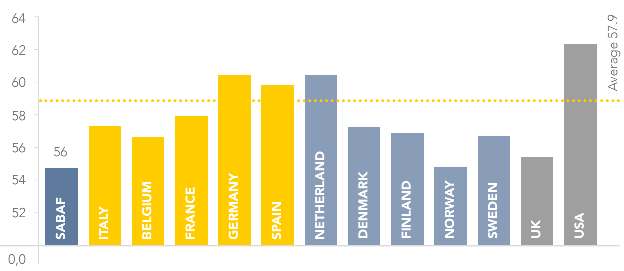
Average size of the BoD



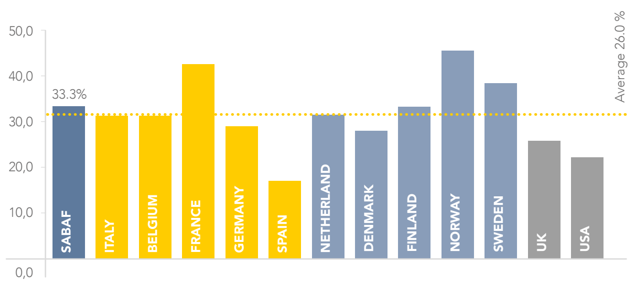
Average number of meetings of the BoD



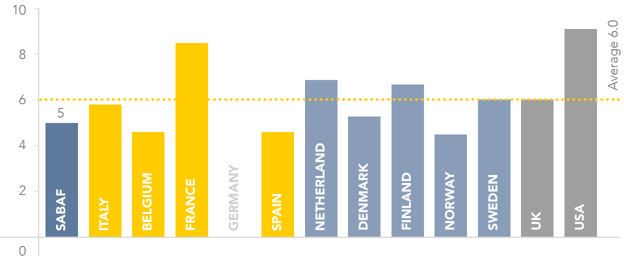
Average Age of Directors



% of Women in the BoD



Average number of Independent Directors



Sabaf
South Europe
North Europe
Anglo-Saxon countries

Source: Spencer Stuart - Italia Board Index 2017

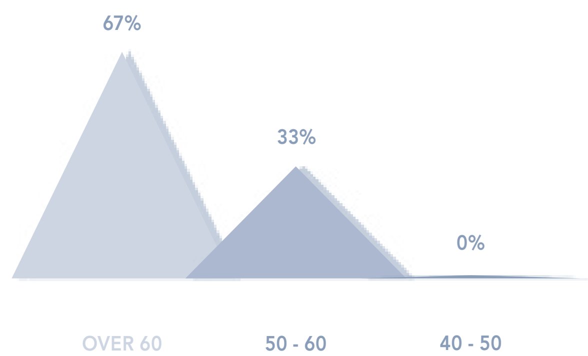
BOARD OF STATUTORY AUDITORS

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

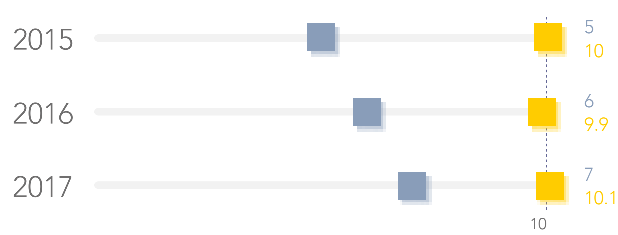


Observations

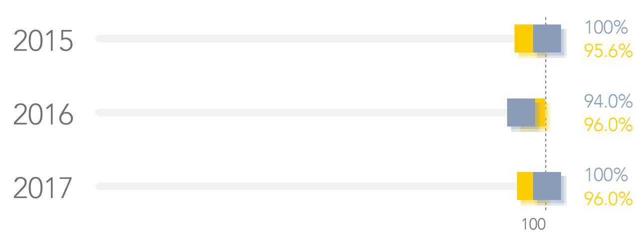
The Board of Statutory Auditors of Sabaf met on average 6 times in the last three years (7 meetings in 2017), a number of times lower than the average number of meetings of the Assonime sample (10 meetings on average).
The average attendance of members at meetings was 98% in the period 2015 to 2017 (100% 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

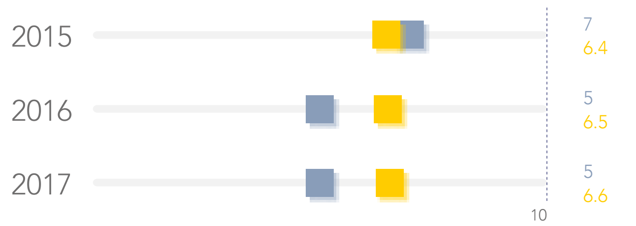
8 The *Curriculum Vitae* of each statutory auditor is available on the Company's website.
(*) Assonime panel including financial companies

CONTROL AND RISK COMMITTEE

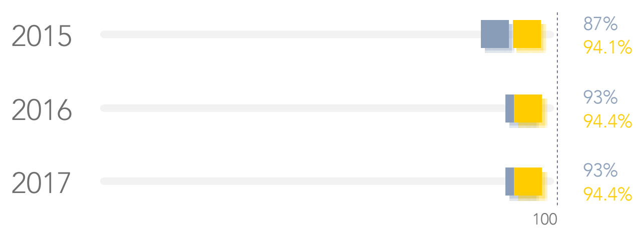
The Control and Risk Committee currently in office, set up within the Board, is composed of 3 members, in line with the vast majority of cases in the Assonime sample (3 members, 78% in cases). In line with the choice made by about 57% of the Assonime panel, the CRC of Sabaf is made up exclusively of 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

Number of meetings (2015-2017)



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



Observations

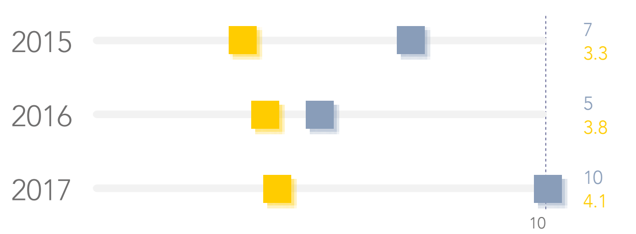
In 2017, the Committee met on 5 occasions (Assonime average: 6.6 meetings). In the last three years, the number of meetings and the attendance of the directors to the committees are on average in line with the Assonime sample.

REMUNERATION AND NOMINATION COMMITTEE

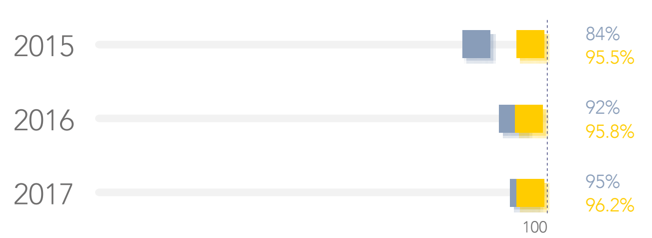
The Remuneration and Nomination Committee, set up within the Board, comprises four non-executive members, the majority of them independent (in line with the choice made by 44% of the Assonime panel), with the knowledge and experience in accounting, finance and remuneration policies that is deemed adequate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

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

Number of meetings (2015-2017) (*)



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



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.

Sabaf   Assonime Average

(*) Assonime panel including financial companies
(**) Assonime panel referred only to the Remuneration Committee

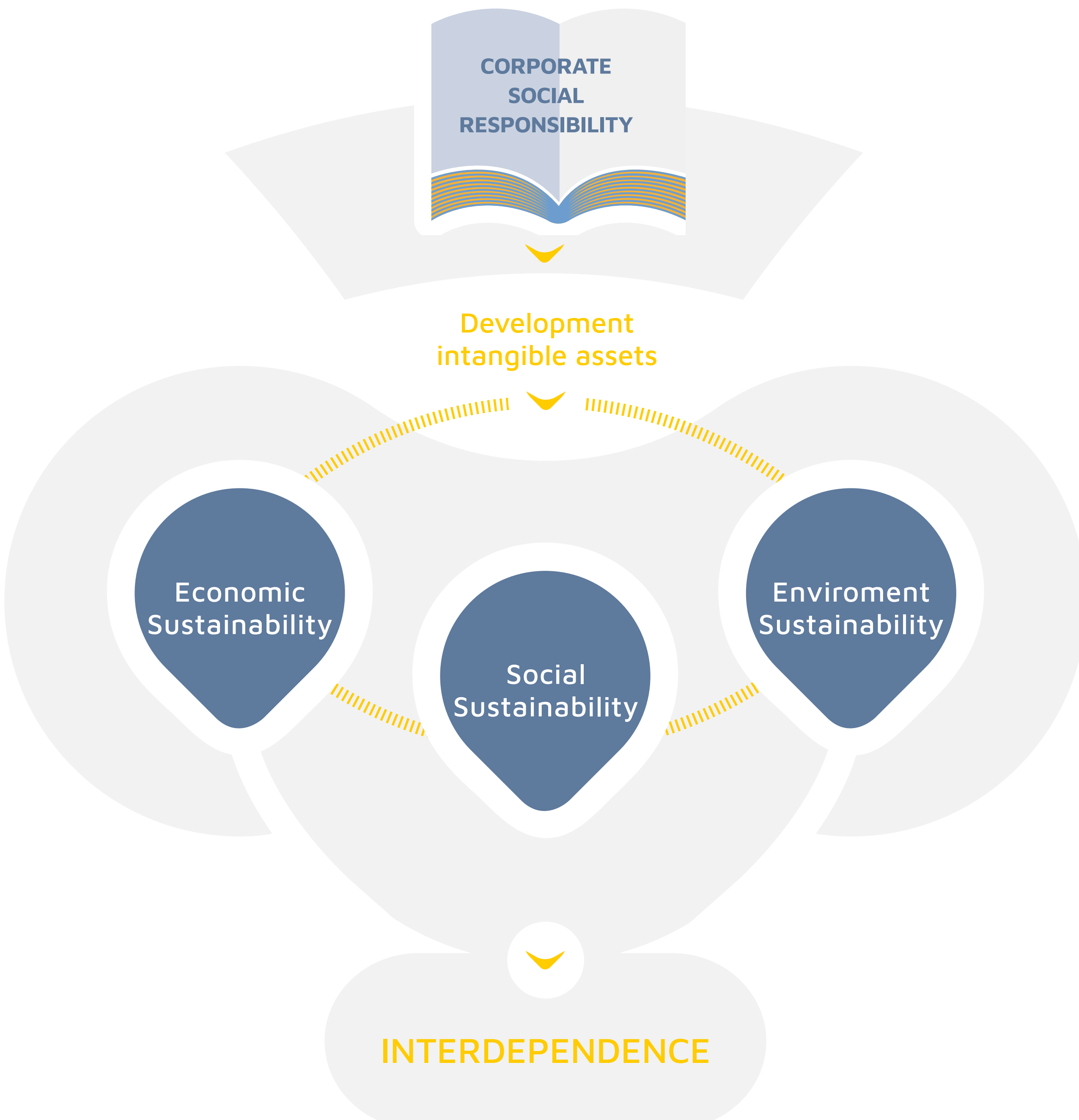
GOVERNANCE OF SUSTAINABILITY

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.

OFFICE	COMPONENTS
Chairman	Nicla Picchi
Member	Emma Marcandalli

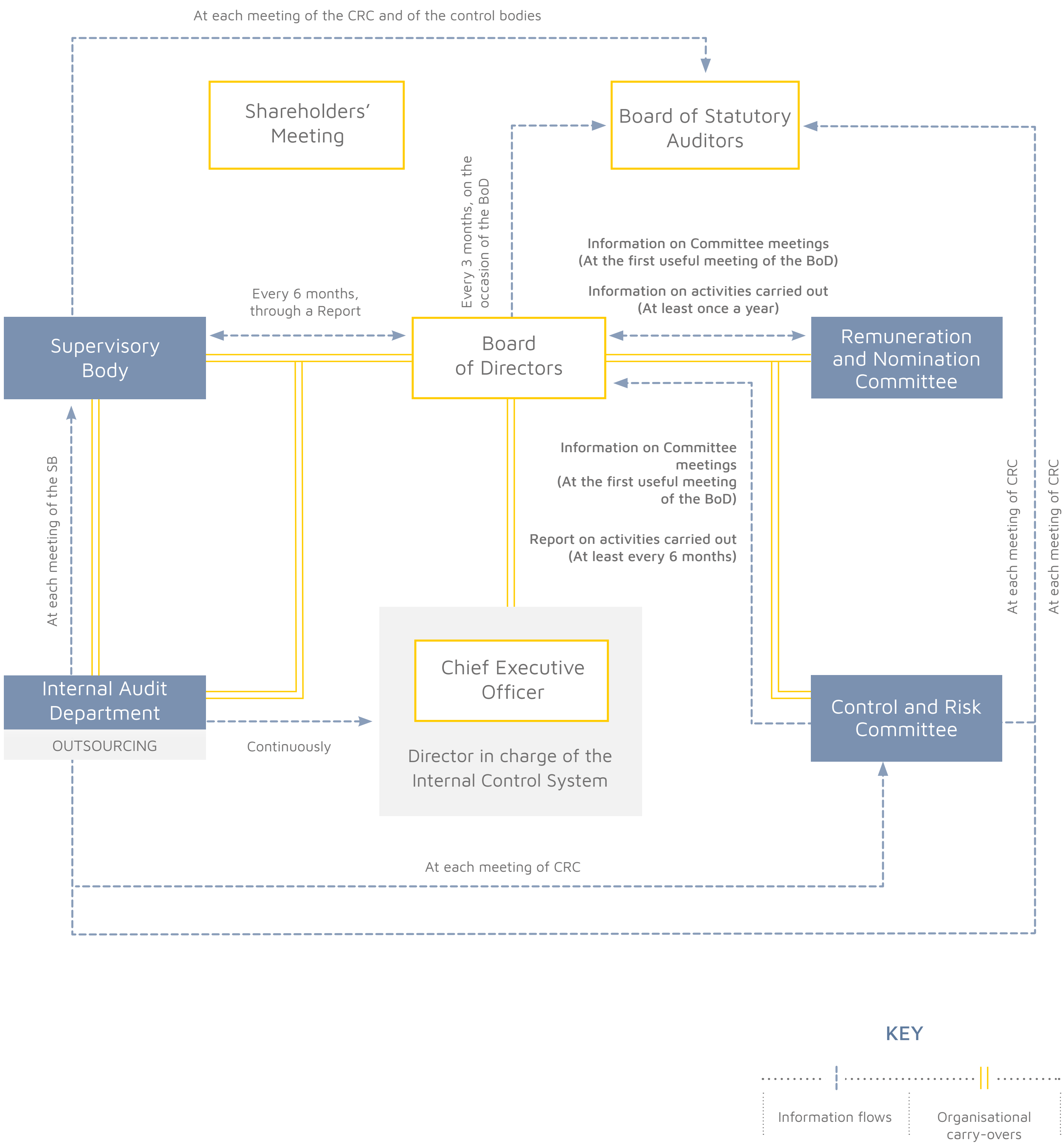
Also a member of the Board of Directors, as **independent director**

Also **Head of Internal Audit**. Representative of the Company that manages Internal Audit activities on an outsourcing basis.

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.

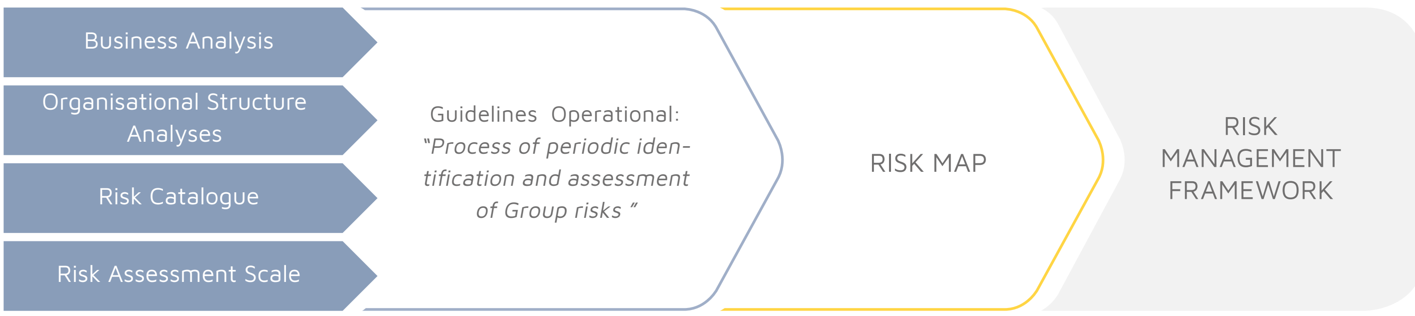
Information flows within the governance structure



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:

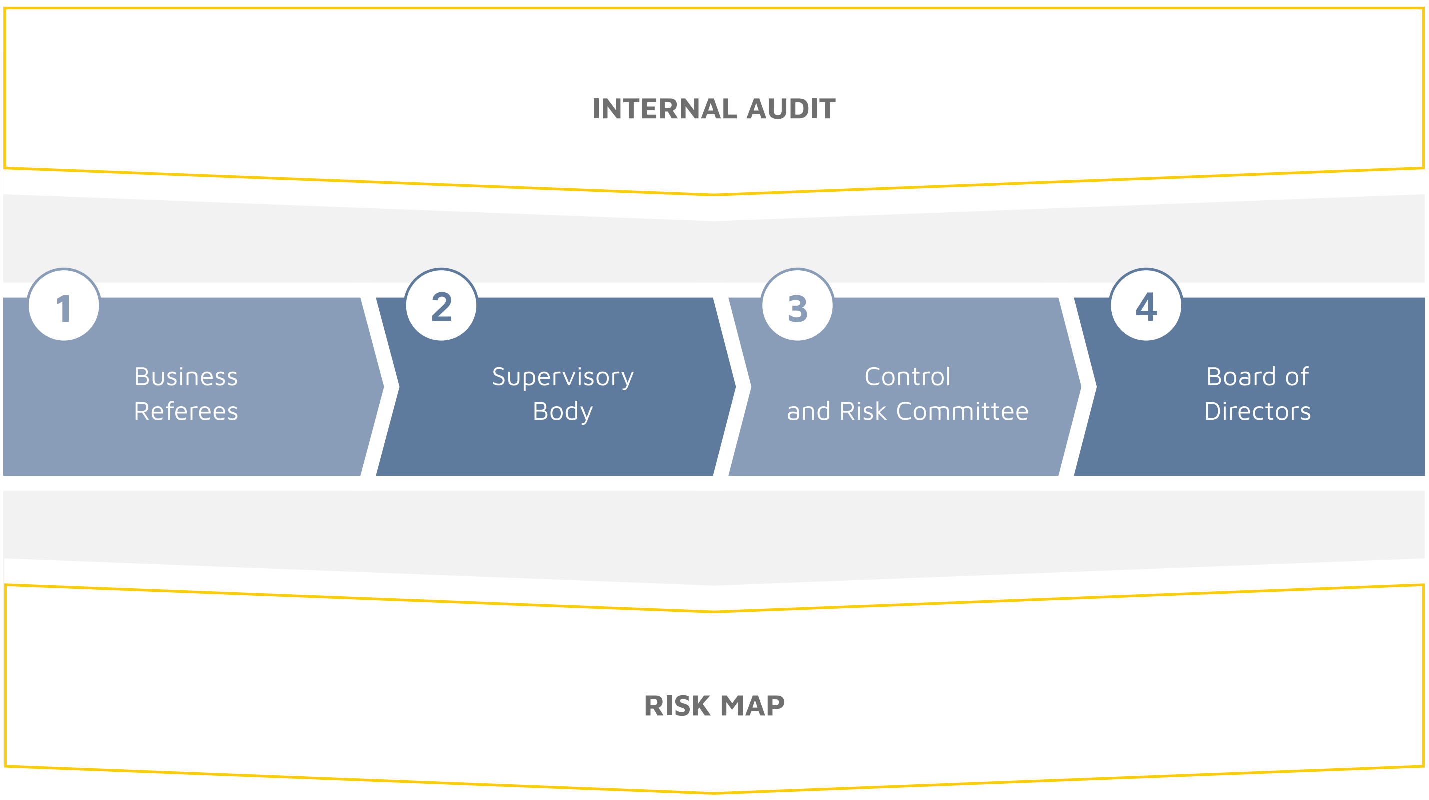
- *probability* of occurrence foreseeable over a three-year future time horizon;
- estimate of the average of the economic-financial impacts, HSE, reputational and operational damage, within the time frame being assessed;
- level of *risk management and control*.

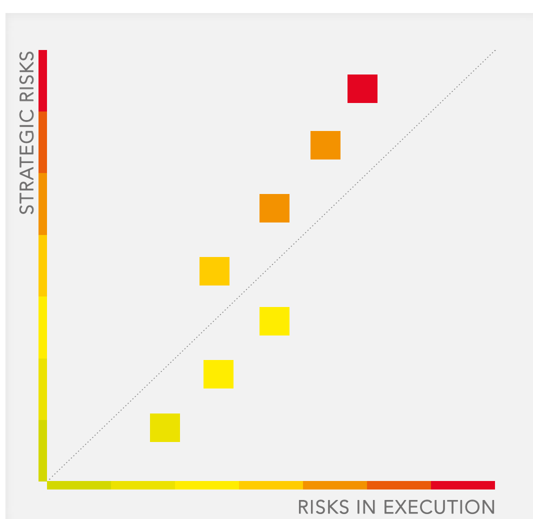
For more information on the main risks identified by the Group, please refer to the Management Report.

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.

SUPERVISORY BODY

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

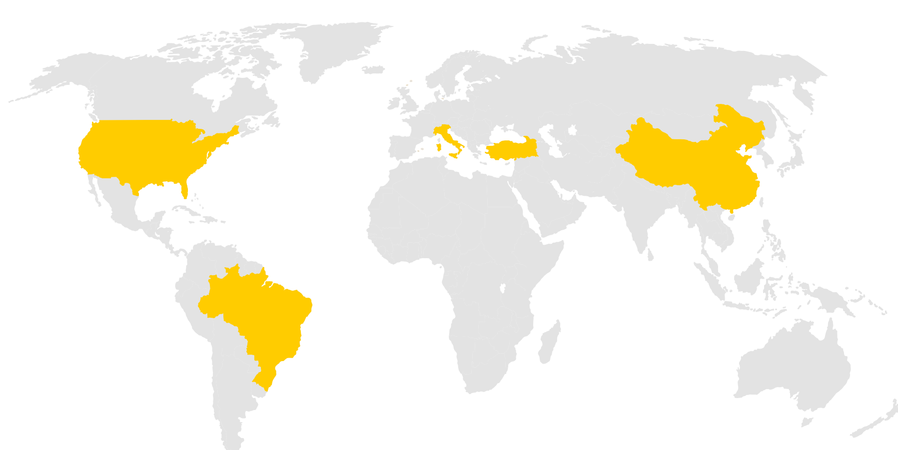
The Sabaf Group, aware of the negative effects of corrupt practices in business management, is committed to preventing and combating the occurrence of offences in the carrying-out of its activities.

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.

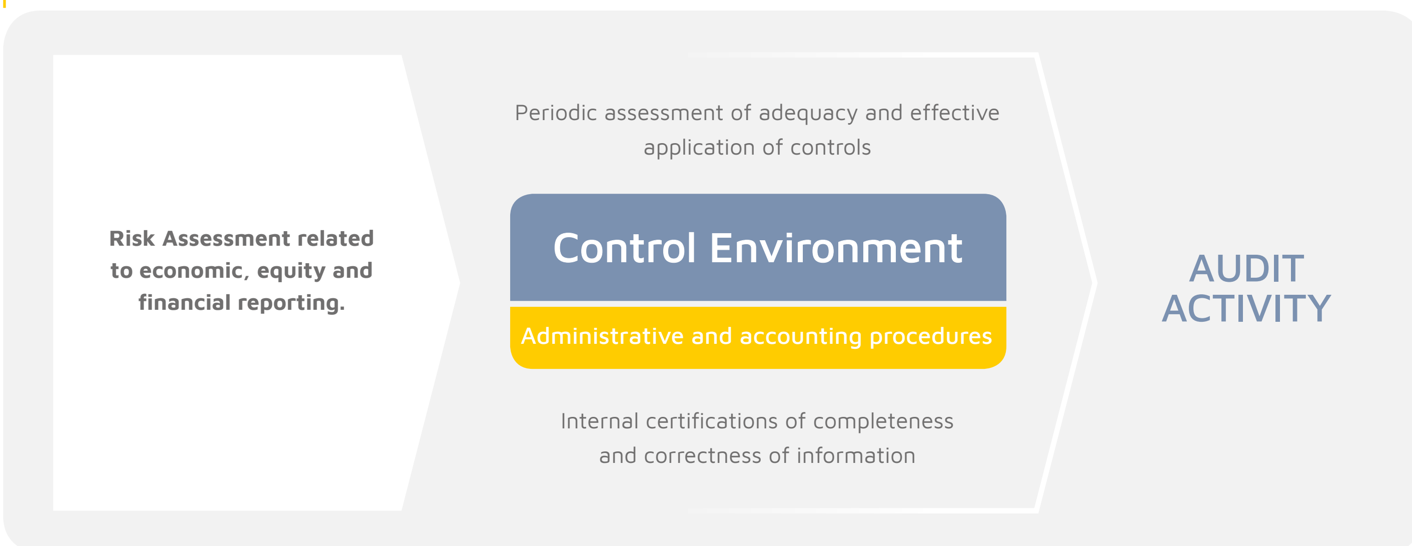


Integrated Compliance and Law 262/2005

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.


R

Results

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

SABAF®

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**

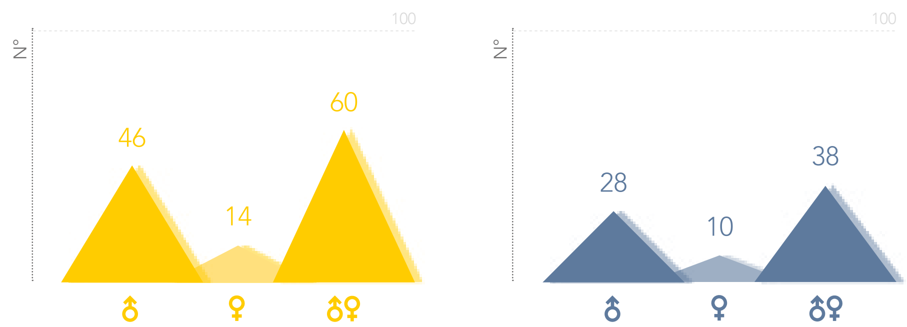
11 Figures consolidated starting from 2017.

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

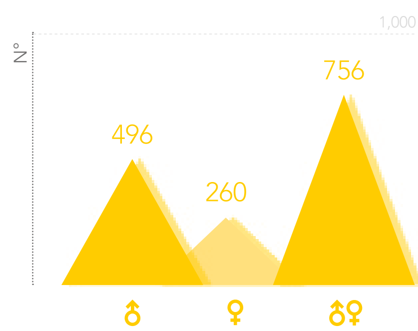
	31.12.2017	31.12.2016
< 5 years	24.5%	22.0%
6 – 10 years	18.9%	26.6%
11 – 20 years	45.1%	41.3%
over 20 years	11.5%	10.1%
TOTAL	**100%**	**100%**

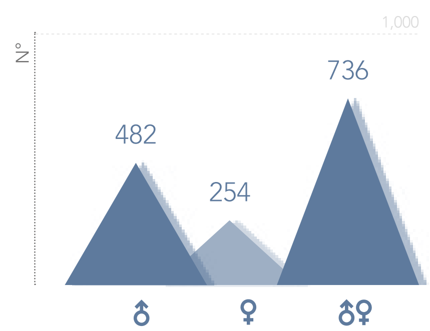
Sabaf is aware of the fundamental importance of having a stable and qualified workforce that is a key factor in maintaining its competitive advantage.

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. ♂	NEW EMPL. ♀	LEAVING 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. ♂	NEW EMPL. ♀	LEAVING 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. ♂	NEW EMPL. ♀	LEAVING 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. ♂	NEW EMPL. ♀	LEAVING 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. ♂	NEW EMPL. ♀	LEAVING 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**

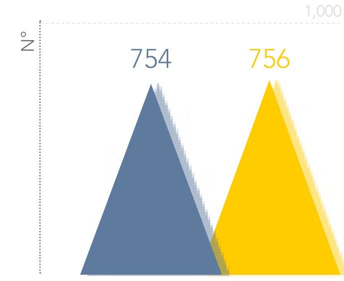
SABAF CHINA

	31.12.16	NEW EMPL. ♂	NEW EMPL. ♀	LEAVING 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. ♂	NEW EMPL. ♀	LEAVING 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**

GROUP TOTAL



New employees, by age group and gender

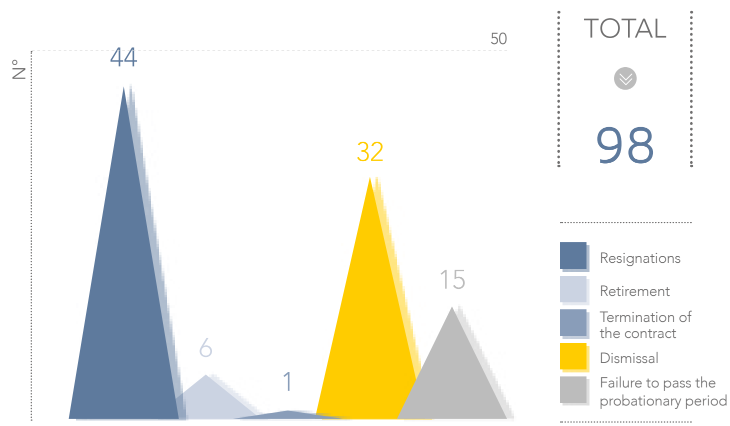
DESCRIPTION	2017 ♂	2017 ♀	2017 ♂♀	2016 ♂	2016 ♀	2016 ♂♀
up to 20 years old	5	2	**7**	0	1	**1**
from 21 to 30 years old	32	13	**45**	32	10	**42**
from 31 to 40 years old	24	13	**37**	19	4	**23**
from 41 to 50 years old	7	2	**9**	12	2	**14**
over 50 years old	2	1	**3**	0	0	**0**
TOTAL	**70**	**31**	**101**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

Resigned during the year, by age group and gender

DESCRIPTION	2017 ♂	2017 ♀	2017 ♂♀	2016 ♂	2016 ♀	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.

15 FEDERMECCANICA, *L'industria metalmeccanica in cifre (June 2017) – Ore pro-capite di lavoro straordinario (2015)*, http://www.federmeccanica.it.
16 In relation to the average number of employees.
17 Processing by FEDERMECCANICA, *L'industria metalmeccanica in cifre (June 2017)– Ore pro-capite di assenza dal lavoro (2015)*, http://www.federmeccanica.it.
18 FEDERMECCANICA, *L'industria metalmeccanica in cifre (June 2017) – Ore pro-capite di assenza dal lavoro (2015)*, http://www.federmeccanica.it.

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	8 meetings with a dietician were organised on the correct nutrition of the adult and the child and on sports diets. 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. 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.
✔	FIGHT AGAINST SMOKING	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.
✔	SAFE AND SUSTAINABLE MOBILITY	The signposting in the departments and parking areas was renewed. The presence of at least 20% of the fleet of environmentally friendly vehicles is guaranteed. 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.
✔	WELL-BEING AND RECONCILING LIFE AND WORK	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. 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.

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.

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

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

25 The factors used to calculate consumption were published by the Department for Business, Energy & Industrial Strategy (BEIS) in 2015. The 2016 figures have also been recalculated according to these factors. The consumption of diesel oil refers to the company A.R.C s.r.l., that was not included in the reporting boundary in 2016.

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

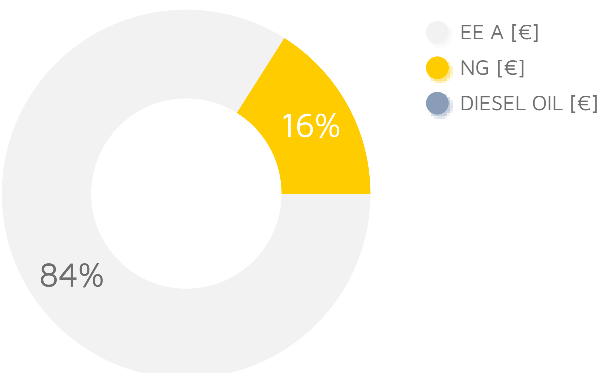
The main sources used are:

- 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.

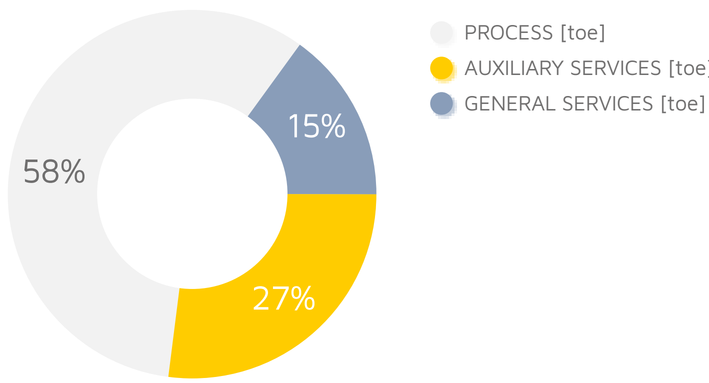
Energy demand analysis by purpose

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



2018 OBJECTIVES

1. Continuation of leak detection and repair and optimisation of process management of compressed air production
2. Assessment of energy revamping of company wastewater treatment plants.

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

Trimmings 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.

26 2016 figures do not include Sabaf China.

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:

a. increasing customer satisfaction by understanding and meeting their present and future requirements;
b. continuous improvement of processes and products, also aimed at protecting the environment and the safety of employees;
c. involvement of partners and suppliers in the continuous improvement process, favouring the "comakership" logic;
d. valuation of human resources;
e. 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.

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 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.

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

	2017		2016	
€/000	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

	2017		2016	
€/000	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.

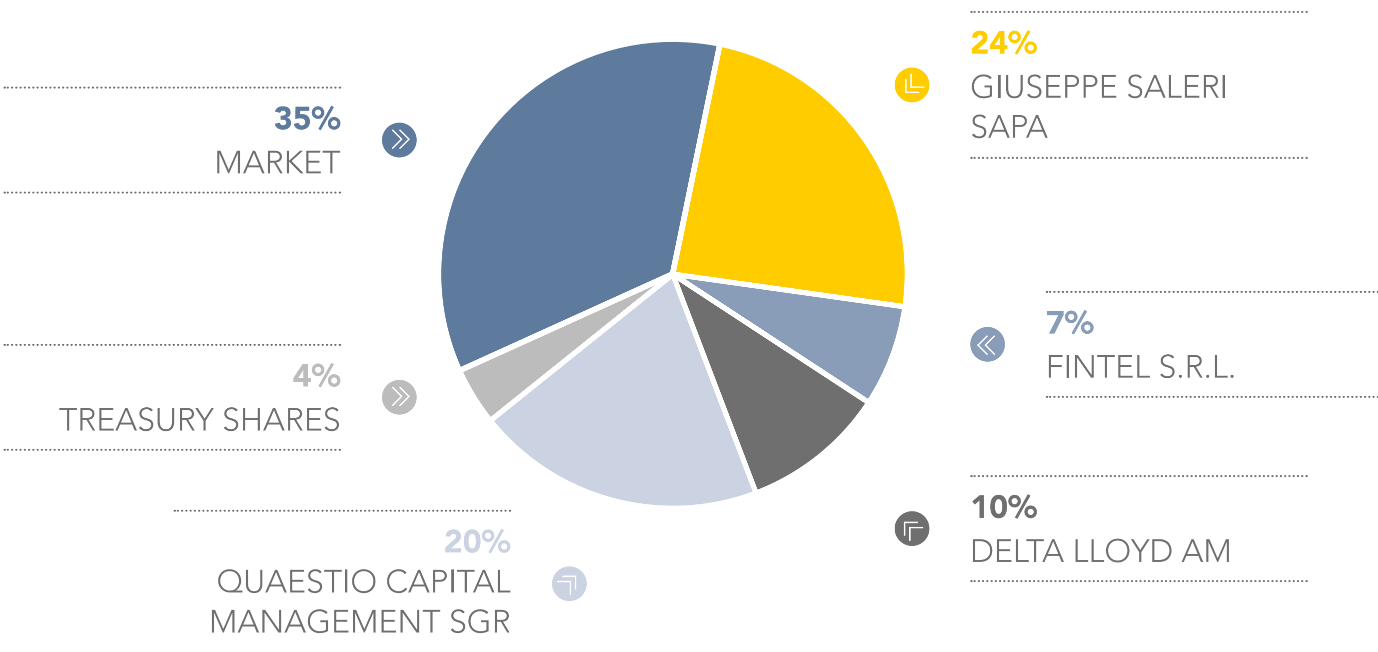
Sabaf and shareholders

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.

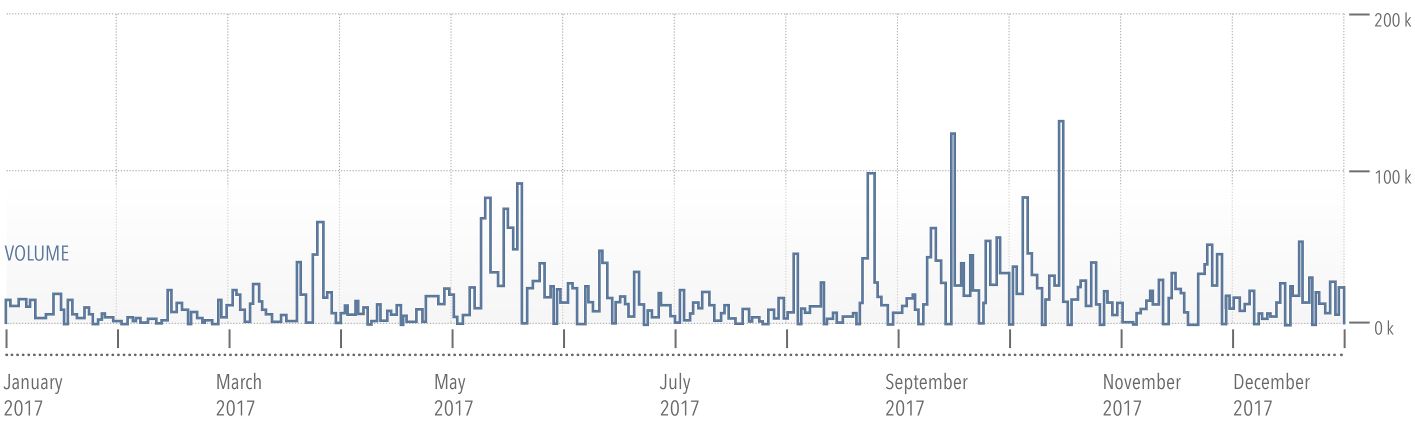


Investor relations and financial analysts

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 Ospitaletto, 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]

	2016			2015		
€/000	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.

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

KPMG S.p.A.
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(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 Aosta Bari Bergamo Bologna Bolzano Brescia Catania Como Firenze Genova Lecce Milano Napoli Novara Padova Palermo Parma Perugia Pescara Roma Torino Treviso Trieste Varese Verona

Società per azioni
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KPMG

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

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

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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, page94.
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	Empoloyees 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.	

Energy

Energy intended as the warmth of the people at Sabaf - a word with a dual meaning, almost an exhortation to tackle the daily challenges of the market. Because at Sabaf, *"we burn for technology and safety"*.

SABAF®

Report on Operations

BUSINESS AND FINANCIAL SITUATION OF THE GROUP [1]

(€/000)	2017	%	2016	%	2017-2016 CHANGE	% CHANGE
Sales revenue	150,223	100%	130,978	100%	19,245	+14.7%
EBITDA	30,955	20.6%	25,365	19.4%	5,590	+22.0%
EBIT	18,117	12.1%	12,501	9.5%	5,616	+44.9%
Pre-tax profit	17,804	11.9%	12,417	9.5%	5,387	+43.4%
Profit attributable to the Group	14,835	9.9%	8,994	6.9%	5,841	+64.9%
Basic earnings per share (€)	1.323	-	0.791	-	0.531	+67.0%
Diluted earnings per share (€)	1.323	-	0.791	-	0.531	+67.0%

In 2017, the Sabaf Group reported sales revenue of € 150.2 million, an increase of 14.7% versus the figure of € 131 million 2016; taking into consideration the same scope of consolidation, sales increased by 12.9%. In 2017, the increase in sales was accompanied by a more than proportional improvement in profitability: 2017 EBITDA amounted to € 31 million, equivalent to 20.6% of sales, compared to € 25.4 million (19.4% of sales) in 2016, EBIT reached € 18.1 million, equivalent to 12.1% of sales, compared to € 12.5 million (9.5%) in 2016. Net profit of 2017, equal to € 14.8 million (9.9% of sales), is 64.9% higher than the € 9 million of 2016.

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

(€/000)	2017	%	2016	%	% CHANGE
Brass valves	5,991	*4.0%*	9,007	*6.9%*	-33.5%
Light alloy valves	39,351	*26.2%*	32,393	*24.7%*	+21.5%
Thermostats	7,376	*4.9%*	7,699	*5.9%*	-4.2%
Standard burners	41,070	*27.3%*	37,338	*28.5%*	+10.0%
Special burners	27,184	*18.1%*	21,215	*16.2%*	+28.1%
Accessories and other revenues	15,267	*10.2%*	12,613	*9.6%*	+21.0%
TOTAL GAS PARTS	**136,239**	*90.7%*	**120,265**	*91.8%*	**+13.3%**
Professional burners	5,079	*3.4%*	2,289	*1.8%*	+121.9%
Hinges	8,905	*5.9%*	8,424	*6.4%*	+5.7%
TOTAL	**150,223**	*100%*	**130,978**	*100%*	**+14.7%**

An analysis of sales by product category shows the strong growth of special burners, the family where product innovation has been strongest in recent years. The trend in sales of light alloy valves, which have now almost completely replaced brass valves, was also very positive. All other product lines also recorded good growth rates, with the exception of thermostats.

The geographical breakdown of revenues is shown below:

(€/000)	2017	%	2016	%	% CHANGE
Italy	36,523	*24.3%*	36,365	*27.8%*	+0.4%
Western Europe	11,678	*7.8%*	8,553	*6.5%*	+36.5%
Eastern Europe	42,824	*28.5%*	34,123	*26.1%*	+25.5%
Middle East and Africa	13,009	*8.6%*	11,698	*8.9%*	+11.2%
Asia and Oceania	10,516	*7.0%*	8,088	*6.2%*	+30.0%
South America	22,938	*15.3%*	20,847	*15.9%*	+10.0%
North America and Mexico	12,735	*8.5%*	11,304	*8.6%*	+12.7%
TOTAL	**150,223**	*100%*	**130,978**	*100%*	**+14.7%**

1 2016 figures, shown for comparative purposes in this section, were recalculated pursuant to IFRS 3, in order to retrospectively take into account the effects resulting from the fair value measurement of A.R.C's assets and liabilities, at the acquisition date previously considered provisional.

In 2017, all markets recorded double-digit growth rates; Italy, where sales remained stable after years of decline due to the sharp reduction in the production of domestic appliances, is an exception. Very positive sales growth rates have been recorded in other European markets, where Sabaf is consolidating its leadership. The Middle East market showed a strong recovery compared to 2016; Asia, North and South America confirmed a positive underlying trend.

Average sales prices in 2017 were 0.8% lower compared to 2016.

The effective average purchase prices of the main raw materials (brass, aluminium alloys and steel) were on average higher than in 2016, with a negative impact of 0.9% of sales. Consumption (purchases plus change in inventories) as a percentage of sales was 38.2% in 2017, compared with 36.7% in 2016.

The impact of labour cost on sales decreased from 24.5% to 23.5%, by benefiting from greater automation of production and a lower impact of overhead costs.

Operating cash flow (net profit plus depreciation and amortisation) stood at € 27.7 million, equivalent to 18.5% of sales (€ 22 million and 16.8%, respectively in 2016).

The ratio of net financial expenses to sales remained unchanged at 0.5%.

The tax rate for 2017 was 16.2% (26.9% in 2016) and gained tax benefits of approximately € 2.3 million (mainly related to the patent box and investments made in Turkey), as described in detail in Note 31 to the consolidated financial statements.

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

(€/000)	31.12.2017	31.12.2016
Non-current assets	*93,802*	*93,967*
Short-term assets [2]	79,314	72,908
Short-term liabilities [3]	(28,561)	(26,824)
Working capital [4]	*50,753*	*46,084*
Short-term financial assets	*67*	*0*
Provisions for risks and charges, Post-employment benefits, deferred taxes	*4,034*	*(4,284)*
NET INVESTED CAPITAL	**140,588**	**135,767**
Short-term net financial position	(5,830)	(2,804)
Medium/long-term net financial position	(19,703)	(20,654)
NET FINANCIAL DEBT	**(25,533)**	**(23,458)**
SHAREHOLDERS' EQUITY	**115,055**	**112,309**

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

(€/000)	2017	2016
Opening liquidity	***12,143***	***3,991***
Operating cash flow	22,779	25,931
Cash flow from investments	(13,944)	(11,762)
Free cash flow	***8,835***	***14,169***
Cash flow from financing activities	(6,516)	(2,894)
A.R.C. acquisition	-	(2,614)
Foreign exchange differences due to translation	(2,929)	(509)
CASH FLOW FOR THE PERIOD	**(610)**	**8,152**
Closing liquidity	***11,533***	***12,143***

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

At 31 December 2017, working capital stood at € 50.8 million compared with € 46.1 million at the end of the 2016: its impact on sales was 33.8% (35.2% in 2016).

Also to take advantage of the low level of interest rates, as from 2016, the Group reformulated the average duration of its loans, entering into unsecured loan agreements repayable in 5 years and reducing the short-term bank exposure.

In 2017, the Sabaf Group made net investments of € 13.9 million. The main investments in the financial year were aimed at automation of the assembly lines for light alloy valves and at the interconnection of production plants with management systems (Industry 4.0). The building in Campodarsego (PD) was acquired, where A.R.C., formerly rented, operates. In Brazil, the factory was expanded, against increased production volumes; while in Turkey all the die-casting machines were robotised. Other investments were made in the production of presses for new burners. Investments in maintenance and replacement, so that production equipment is kept constantly up to date and efficient, are systematic.

Free cash flow (operating cash flow less investments) amounted to € 8.8 million, compared with € 14.2 million in 2016, following a different trend in working capital (in particular, following the increase in sales, trade receivables increased at 31 December 2017).

During the financial year, the Group paid out dividends of € 5.4 million and purchased treasury shares for € 2.1 million; the net financial debt was € 25.5 million, versus € 23.5 million in 31 December 2016.

Shareholders' equity totalled € 115 million at 31 December 2017; the ratio between the net financial debt and the shareholders' equity was 0.22 versus 0.21 in 2016.

2 Sum of Inventories, Trade receivables, Tax receivables and Other current receivables
3 Sum of Trade payables, Tax payables and Other liabilities
4 Difference between short-term assets and short-term liabilities

Economic and financial indicators

	2017	2016
ROCE (return on capital employed)	12.9%	9.2%
Dividends per share (€)	0.55 [5]	0.48
Net debt/EBITDA	0.82	0.92
Net debt/equity ratio	22%	21%
Market capitalisation (31/12)/ equity ratio	2.00	1.07
Change in sales	+14.7%	-5.1%

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

RISK FACTORS

The results of the risk identification and assessment process carried out in 2017 showed that the Sabaf Group is exposed to certain risk factors, which can be traced back to the macro-categories described below.

Risks of external environment

Risks deriving from the external context in which Sabaf operates, which could have a negative impact on the economic and financial sustainability of the business in the medium/long-term. The most significant risks in this category are related to general economic conditions, trend in demand and product competition, in addition to the risks related to Sabaf's presence in Turkey and, more generally, to instability of the emerging countries in which the Group operates.

Strategic risks

Strategic risks that could negatively impact Sabaf's short to medium term performance, including, for example: the loss of business opportunities in the Chinese market, risks related to the growth through acquisitions strategy and the protection of product exclusivity.

Legal and compliance risks

Risks related to Sabaf's contractual liabilities and compliance with the laws and regulations applicable to the Group, including: Legislative Decree 231/2001, Law 262/2005, HSE regulations, regulations applicable to listed companies, tax regulations, labour regulations.

Operational risks

Risks of suffering losses due to inadequate or malfunctioning processes, human resources and information systems. This category includes financial risks (e.g. losses deriving from the volatility of the price of raw materials used by the Group in its production processes, from fluctuations in exchange rates or from the management of trade receivables), risks related to production processes (e.g. product liability), organisational risks (e.g. loss of key staff and expertise and the difficulty of replacing them, resistance to change by the organisation), risks related to purchases (e.g. relations with suppliers and contractors) and Information Technology risks.

The main risks are described in detail below as well as the relevant risk management actions that are currently being implemented.

Performance of the sector

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

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

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

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

Instability of Emerging countries in which the Group operates

Turkey represents the main production hub of household appliances at the European level; over the years, local industry attracted heavy foreign investments and favoured the growth of important manufacturers. In this context, the Sabaf created a production plant in Turkey in 2012 that realises today the 10% of total Group production. The Turkish market represents more than 25% of the Group's total sales. The social and political tensions in Turkey over the last few years had no effect on the activities of the Sabaf Group, which continued normally. In consideration of the strategic importance of this Country, the management assessed the risks that could arise from the impossibility to operate in Turkey. We highlight that all the products made in Turkey today can be manufactured also in Italy, albeit at higher costs, to ensure in this way the continuity of supplies to customers.

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

5 Proposed dividend

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

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

Product competition

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

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

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

Loss of business opportunities in the Chinese market

With a production of over 20 million hobs per year, China is one of the world's most important markets. After many years of commercial presence only, in 2015 Sabaf started the on-site production of a special burner for the Chinese market.
However, there is a risk that Sabaf's investments in the opening of its Chinese headquarters and the start of production will not generate - at least in the short/medium term - an adequate economic return.

To support the development of the Group's Chinese subsidiary and to ensure the economic return on the investments made, Sabaf is carrying out the following actions:

- developing a strategic/operational plan suitable for using growth opportunities offered by the local market;
- continuing to develop product lines in accordance with the needs of the Chinese market and in compliance with local regulations;
- adopting and maintaining a quality-price mix in line with the expectations of potential local customers.

Growth through acquisitions

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

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

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

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

Protection of product exclusivity

Sabaf's business model based the protection of product exclusivity mainly on design capacity and the internal production of special machines used in manufacturing processes, thanks to its unique know-how that competitors would find difficult to replicate.
There is a risk that some Group products, although patented, will be copied by competitors. Exposure to this risk increased as a result of the opening up of trade in countries where it is difficult to enforce industrial patent rights.

Sabaf developed and maintained a structured model to manage innovation and protect intellectual property. Moreover, the Group periodically monitors the patent strategies adopted/to be adopted based on the assessments of cost/opportunity.

Financial risks

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

- **Commodity price volatility:** Sabaf uses metals and alloys in its production processes, the prices of which are generally negotiated semi-annually or annually; as a result, Group companies may not be able to immediately pass on to customers changes in the prices of commodities that occur during the year, with an impact on profitability.
- **Exchange rate fluctuation:** the Group carries out transactions primarily in euro; however, transactions also take place in other currencies, such as the U.S. dollar, the Brazilian real, the Turkish lira and the Chinese renminbi. In particular, since sales in US dollars represents about the 14% of consolidated sales, the possible depreciation against the euro and the real could lead to a loss in competitiveness on the markets in which sales are made in that currency (mainly South and North America).
- **Trade receivable:** the high concentration of sales on a small number of customers generates a concentration of the respective trade receivables, with a resulting increase in the negative impact on economic and financial results in the event of insolvency of any one of them. In particular, given the structural difficulties of the household appliance sector in mature markets, it is possible that situations of financial difficulty and insolvency among customers could arise.

For more information on financial risks, see Note 35 of the consolidated financial statements as regards disclosure for the purposes of IFRS 7.

RESEARCH AND DEVELOPMENT

The most important research and development projects conducted in 2017 were as follows:

Burners

- three models of customised burners are being developed for North America;
- a small triple ring burner was developed for South America;
- a custom burner was developed for a major Brazilian customer;
- innovative technical solutions that make it easier for users to clean burners are being tested;

Valves

- a safety valve was developed for regulating the oven;
- a project is underway to create a multiposition valve;

Hinges

- the development of the motorisation of hinges inside the oven doors and related electronic control of door opening and closing was completed;
- a dishwasher hinge was developed, equipped with a sliding system for sliding the panel;
- a damping unit fitted in the oven was developed for application on microwave ovens;
- a hinge and a high performance roller holder were developed for applications on professional systems.

In addition to the integrations between production plants and management systems (industry 4.0) mentioned above, studies were launched for the electronic labelling of packages and for the automation of internal logistics. The improvement in production processes continued throughout the Group, accompanied by the development and internal production of machinery, tools and presses.

Development costs to the tune of € 496,000 were capitalised, as all the conditions set by international accounting standards were met; in other cases, they were charged to the income statement.

NON-FINANCIAL STATEMENT

Starting from 2017, the Sabaf Group publishes the consolidated non-financial statement required by Legislative Decree no. 54/2016 in a report separate from this Management Report. The consolidated non-financial statement provides all the information needed to ensure understanding of the Group's activities, performance, results and impact, with particular reference to environmental, social and personnel issues, respect for human rights and the fight against active and passive corruption, which are relevant considering the Group's activities and characteristics.
The consolidated non-financial statement is included in the same file in which the management report, the consolidated financial statements, the separate financial statements of the parent company Sabaf S.p.A. and the remuneration report are published.
It should be noted that since 2005, the Sabaf Group has drawn up an Annual Report on its economic, social and environmental sustainability performance.

PERSONNEL

In 2017, the Sabaf Group suffered no on-the-job deaths or serious accidents that led to serious or very serious injuries to staff for which the Group was definitively held responsible, nor was it held responsible for occupational illnesses of employees or former employees, or causes of mobbing.
For all other information, please refer to the Non-Financial Statement.

ENVIRONMENT

In 2017 there was no:

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

For all other information, please refer to the Non-Financial Statement.

CORPORATE GOVERNANCE

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

INTERNAL CONTROL SYSTEM ON FINANCIAL REPORTING

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

MODEL 231

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

PERSONAL DATA PROTECTION

With reference to Legislative Decree 196 of 30 June 2003, in 2017 the Group continued its work to ensure compliance with current regulations. Compliance with the GDPR Regulation is in progress and will enter into force in May 2018.

DERIVATIVE FINANCIAL INSTRUMENTS

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

ATYPICAL OR UNUSUAL TRANSACTIONS

Sabaf Group companies did not execute any unusual or atypical transactions in 2017.

SECONDARY OFFICES

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

MANAGEMENT AND COORDINATION

Sabaf S.p.A. is not subject to management and coordination by other companies.
Sabaf S.p.A. exercises management and coordination activities over its Italian subsidiaries, Faringosi Hinges s.r.l., Sabaf Immobiliare s.r.l. and A.R.C. s.r.l.

INTRA-GROUP TRANSACTION AND RELATED-PARTY TRANSACTIONS

The relationships between the Group companies, including those with the parent company, are regulated under market conditions, as well as the relationships with related parties, defined in accordance with the accounting standard IAS 24. The details of the intra-group transactions and other related-party transactions are given in Note 36 of the consolidated financial statements and in Note 37 of the separate financial statements of Sabaf S.p.A.

SIGNIFICANT EVENTS AFTER YEAR-END AND BUSINESS OUTLOOK

The start of 2018 shows a moderate increase in sales compared to the same period of 2017. After a year characterised by a growth rate that is clearly higher than the average trend of recent years and despite the still challenging competitive scenario, the Group estimates that revenues for the entire financial year 2018 will increase ranging from 3% to 5% compared to 2017. The Group also believes that the adjustment of sales prices and further improvements in operating efficiency will enable it to balance the negative impacts associated with the weakening of the dollar and the rise in commodity prices, and therefore estimates operating profitability (EBITDA%) to be in line with 2017.

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

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

(€/000)	2017	2016	CHANGE	% CHANGE
Sales revenue	115,687	101,523	14,164	+14.0%
EBITDA	17,477	13,525	3,952	+29.2%
EBIT	8,050	4,070	3,980	+97.8%
Pre-tax profit (EBT)	9,072	3,593	5,479	+152.5%
Net Profit	8,001	2,460	5,541	+225.2%

The reclassification of the statement of financial position based on financial criteria is illustrated below:

(€/000)	31.12.2017	31.12.2016
Non-current assets [6]	*89,361*	*89,258*
Non-current financial assets	*1,848*	*2,137*
Short-term assets [7]	58,875	54,475
Short-term liabilities [8]	(23,643)	(22,441)
Working capital [9]	*35,232*	*32,034*
Provisions for risks and charges, Post-employment benefits, deferred taxes	*(2,637)*	*(2,888)*
NET INVESTED CAPITAL	**123,804**	**120,541**
Short-term net financial position	(15,239)	(11,496)
Medium/long-term net financial position	(16,478)	(17,521)
NET FINANCIAL POSITION	**(31,717)**	**(29,017)**
SHAREHOLDERS' EQUITY	**92,087**	**91,524**

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

(€/000)	2017	2016
Opening liquidity	***1,797***	***1,090***
Operating cash flow	12,554	15,205
Cash flow from investments	(9,319)	(12,591)
Free cash flow	***3,235***	***2,614***
Cash flow from financing activities	(2,335)	(1,907)
CASH FLOW FOR THE PERIOD	**900**	**707**
Closing liquidity	***2,697***	***1,797***

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

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

The 2017 financial year ended with an increase in sales of 14% compared with 2016. The product family of valves and thermostats was weaker, while sales of burners recorded a very positive trend. In particular, note the strong growth of special burners, the family where product innovation has been strongest in recent years. The increase in sales had a positive impact on gross operating profitability: EBITDA was € 17.5 million, or 15.1% of sales (€ 13.5 million in 2016, or 13.3%).

EBIT of 2017 was € 8.1 million, or 7% of sales (€ 4.1 million in 2016, or 4%).

The impact of the labour costs on sales decreased from 26% to 24.8%.
Net finance expense as a percentage of sales was minimal, at 0.4% (substantially unchanged), given the low level of financial debt and the low interest rates.

In 2017, unlike in the previous year, the Company received dividends of € 1.5 million from the subsidiary Sabaf Immobiliare and recognised the tax benefit related to the Patent Box for the three-year period 2015 to 2017, totalling € 1.3 million, as described in detail in Note 33 to the separate financial statements. The actual tax burden related to 2017 was 11.8% (31.5% in 2016).

Net profit was € 8 million, or 6.9% of sales (€ 2.5 million in 2016, or 2.4%).

Operating cash flow (net profit plus depreciation and amortisation) decreased from €11.5 million to €16.8 million, with an impact on sales of 14.6% (compared to 11.3% in 2016).

In 2017, Sabaf S.p.A. invested over € 8 million in plant and equipment. The main investments in the financial year were aimed at the further automation of production of light alloy valves and interconnection of production plants with management systems (Industry 4.0). Other investments were made in the production of presses for new burners, while investments were made systematically to maintain a constantly updated and fully efficient machinery fleet.

At 31 December 2017, working capital stood at € 35 million compared with € 32 million in the previous year: its percentage impact on sales stood at 30.5% from 31.6% at the end of 2016.

Self-financing generated by operating cash flow was € 12.6 million, compared with € 15.2 million in 2016.

The net financial debt was € 31.7 million, compared with € 29 million in 31 December 2016.

At the end of the year, the shareholders' equity amounted to € 92.1 million, compared with € 91.5 million in 2016. The net financial debt/shareholders' equity ratio was 34%, 32% at the end of 2016.

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

Pursuant to the CONSOB memorandum of 28 July 2006, a reconciliation statement of the result of the 2017 financial year and Group shareholders' equity at 31 December 2017 with the same values of the parent company Sabaf S.p.A. is given below:

	31.12.2017		31.12.2016 (*)	
DESCRIPTION	Profit for the year	Shareholders' equity	Profit for the year	Shareholders' equity
Profit and shareholders' equity of parent company Sabaf S.p.A.	**8,001**	**92,087**	**2,460**	**91,524**
Equity and consolidated company results	7,971	67,929	6,175	66,276
Elimination of the carrying value of consolidated equity investments	682	(48,596)	521	(49,900)
Goodwill	0	6,215	0	6,215
Put option on A.R.C. minorities	(241)	(1,763)	0	(1,522)
IFRS 3 effect on A.R.C. acquisition	0	0	(21)	275
Intercompany eliminations	(1,497)	(817)	(60)	(491)
Minority interests	(81)	(1,460)	(81)	(1,379)
PROFIT AND SHAREHOLDERS' EQUITY ATTRIBUTABLE TO THE GROUP	**14,835**	**113,595**	**8,994**	**110,998**

USE OF THE LONGER TIME LIMIT FOR CALLING THE SHAREHOLDERS' MEETING

Pursuant to the second paragraph of Article 2364 of the Italian Civil Code, in consideration of the need to consolidate the financial statements of Group companies and to prepare all supporting documentation, the directors intend to use the longer time limits granted to companies required to prepare the consolidated financial statements for calling the ordinary shareholders' meeting to approve the 2017 financial statements. The shareholders' meeting must also resolve on the election of the members of the administration and control bodies and must therefore be convened at least 40 days in advance pursuant to Article 125-*bis* of the TUF. The Shareholders' Meeting is convened on a single date for 8 May 2018.

Proposal for approval of the separate financial statements and proposed dividend

As we thank our employees, the Board of Statutory Auditors, the Independent Auditor and the supervisory authorities for their invaluable cooperation, we would kindly ask the shareholders to approve the financial statements ended 31 December 2017 with the proposal to allocate the profit for the year of € 8,001,327 as follows:

- a dividend of € 0.55 per share to be paid to shareholders as from 30 May 2018 (ex-date 28 May 2018 and record date 29 May 2018). With regard to treasury shares, we invite you to allocate an amount corresponding to the dividend on the shares held in portfolio on the ex-date to the Extraordinary Reserve;
- the remainder is allocated to the Extraordinary Reserve.

Ospitaletto, 26 March 2018
The Board of Directors

(*) Figures recalculated pursuant to IFRS 3, in order to retrospectively take into account the effects resulting from the fair value measurement of A.R.C's assets and liabilities, at the acquisition date previously considered provisional.

Accountability

We seek to establish an open communication channel with our stakeholders, clearly stating the rationale behind all corporate decisions and respecting their legitimate expectations.

SABAF®

Consolidated Financial Statements at 31 December 2017

Group structure and corporate bodies

Group structure

Parent company

SABAF S.p.A.

Subsidiaries and equity interest owned by the Group

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

Associate companies and equity interest owned by the Group

Handan ARC Burners Co. Ltd.	35%

Board of Directors

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

Board of Statutory Auditors

Chairman	Antonio Passantino
Statutory Auditor	Luisa Anselmi
Statutory Auditor	Enrico Broli

Independent Auditor

Deloitte & Touche S.p.A.

* Independent directors

Consolidated statement of financial position

(€/000)	NOTES	31.12.2017	31.12.2016 *
ASSETS			
Non-current assets			
Property, plant and equipment	1	73,069	73,445
Investment property	2	5,697	6,270
Intangible assets	3	9,283	9,077
Equity investments	4	281	306
Non-current financial assets	10	180	0
Non-current receivables	5	196	262
Deferred tax assets	21	5,096	4,781
TOTAL NON-CURRENT ASSETS		93,802	94,141
Current assets			
Inventories	6	32,929	31,484
Trade receivables	7	42,263	36,842
Tax receivables	8	3,065	3,163
Other current receivables	9	1,057	1,419
Current financial assets	10	67	0
Cash and cash equivalents	11	11,533	12,143
TOTAL CURRENT ASSETS		90,914	85,051
Assets held for sale		0	0
TOTAL ASSETS		184,716	179,192

SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	12	11,533	11,533
Retained earnings, other reserves		87,227	90,471
Profit for the year		14,835	8,994
Total equity interest of the Parent Company		*113,595*	*110,998*
Minority interests		*1,460*	*1,379*
TOTAL SHAREHOLDERS' EQUITY		115,055	112,377
Non-current liabilities			
Loans	14	17,760	18,892
Other financial liabilities	15	1,943	1,762
Post-employment benefit and retirement reserves	16	2,845	3,086
Provisions for risks and charges	17	385	434
Deferred tax liabilities	21	804	870
TOTAL NON-CURRENT LIABILITIES		23,737	25,044
Current liabilities			
Loans	14	17,288	14,612
Other financial liabilities	15	75	335
Trade payables	18	19,975	18,977
Tax payables	19	1,095	1,190
Other payables	20	7,491	6,657
TOTAL CURRENT LIABILITIES		45,924	41,771
Liabilities held for sale		0	0
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		184,716	179,192

* Figures recalculated pursuant to IFRS 3, in order to retrospectively take into account the effects resulting from the fair value measurement of A.R.C's assets and liabilities, at the acquisition date previously considered provisional.

Consolidated income statement

(€/000)	NOTE	2017	2016 *
INCOME STATEMENT COMPONENTS			
Operating revenue and income			
Revenue	23	150,223	130,978
Other income	24	3,361	2,819
TOTAL OPERATING REVENUE AND INCOME		**153,584**	**133,797**
Operating costs			
Materials	25	(59,794)	(47,346)
Change in inventories		2,380	(754)
Services	26	(30,227)	(27,983)
Payroll costs	27	(35,328)	(32,112)
Other operating costs	28	(1,134)	(1,078)
Costs for capitalised in-house work		1,474	841
TOTAL OPERATING COSTS		**(122,629)**	**(108,432)**
OPERATING PROFIT BEFORE DEPRECIATION AND AMORTISATION, CAPITAL GAINS/LOSSES, AND WRITE-DOWNS/WRITE-BACKS OF NON-CURRENT ASSETS		**30,955**	**25,365**
Depreciations and amortisation	1, 2, 3	(12,826)	(12,882)
Capital gains on disposals of non-current assets		(12)	18
EBIT		**18,117**	**12,501**
Financial income		214	101
Financial expenses	29	(804)	(620)
Exchange rate gains and losses	30	274	435
Profits and losses from equity investments		3	0
PROFIT BEFORE TAXES		**17,804**	**12,417**
Income tax	31	(2,888)	(3,342)
PROFIT FOR THE YEAR		**14,916**	**9,075**
of which: minority interests		**81**	**81**
PROFIT ATTRIBUTABLE TO THE GROUP		**14,835**	**8,994**
EARNINGS PER SHARE (EPS)	32		
Base		**1.323 euro**	**0.791 euro**
Diluted		**1.323 euro**	**0.791 euro**

* Figures recalculated pursuant to IFRS 3, in order to retrospectively take into account the effects resulting from the fair value measurement of A.R.C's assets and liabilities, at the acquisition date previously considered provisional.

Consolidated statement of comprehensive income

(€/000)	2017	2016 [3]
PROFIT FOR THE YEAR	**14,916**	**9,075**
Total profits/losses that will not be subsequently reclassified under profit (loss) for the year		
Actuarial post-employment benefit reserve evaluation	82	(41)
Tax effect	(20)	10
	62	**(31)**
Total profits/losses that will be subsequently reclassified under profit (loss) for the year		
Forex differences due to translation of financial statements in foreign currencies	**(4,806)**	**(340)**
TOTAL OTHER PROFITS/(LOSSES) NET OF TAXES FOR THE YEAR	**(4,744)**	**(371)**
TOTAL PROFIT	**10,172**	**8,704**

Statement of changes in consolidated shareholders' equity

(€/000)	Share capital	Share premium reserve	Legal reserve	Treasury shares	Translation reserve	Post-employment benefit discounting reserve	Other reserves	Profit for the year	Total Group shareholders' equity	Minority interests	Total shareholders' equity
BALANCE AT 31 DEC 2015	**11,533**	**10,002**	**2,307**	**(723)**	**(7,048)**	**(581)**	**86,552**	**8,998**	**111,040**	**0**	**111,040**
Allocation of 2015 profit											
• dividends paid out								(5,467)	(5,467)		(5,467)
• carried forward							3,531	(3,531)	0		0
ARC acquisition and consolidation										1,210	1,210
IFRS 3 effect on ARC acquisition								(15)	(15)	83	68
ARC put option							(1,522)		(1,522)		(1,522)
Purchase of treasury shares				(1,676)					(1,676)		(1,676)
Total profit at 31 Dec 2016					(340)	(31)		9,009	8,638	86	8,724
BALANCE AT 31 DEC 2016 *	**11,533**	**10,002**	**2,307**	**(2,399)**	**(7,388)**	**(612)**	**88,561**	**8,994**	**110,998**	**1,379**	**112,377**
Allocation of 2016 profit											
• dividends paid out								(5,384)	(5,384)		(5,384)
• carried forward							3,610	(3,610)	0		0
Purchase of treasury shares				(2,110)					(2,110)		(2,110)
Total profit at 31 Dec 2017					(4,806)	62		14,835	10,091	81	10,172
BALANCE AT 31 DEC 2017	**11,533**	**10,002**	**2,307**	**(4,509)**	**(12,194)**	**(550)**	**92,171**	**14,835**	**113,595**	**1,460**	**115,055**

* Figures recalculated pursuant to IFRS 3, in order to retrospectively take into account the effects resulting from the fair value measurement of A.R.C.'s assets and liabilities, at the acquisition date previously considered provisional.

Consolidated cash flow statement

	2017	2016 *
Cash and cash equivalents at beginning of year	*12,143*	*3,991*
Profit for the year	14,916	9,075
Adjustments for:		
• Depreciation and amortisation	12,826	12,882
• Realised gains	12	(18)
• Net financial income and expenses	590	519
• Income tax	2,888	3,350
Change in post-employment benefit reserve	(189)	(184)
Change in risk provisions	(49)	39
Change in trade receivables	*(5,421)*	*5,107*
Change in inventories	*(1,445)*	*416*
Change in trade payables	*998*	*(1,286)*
Change in net working capital	**(5,868)**	**4,237**
Change in other receivables and payables, deferred tax	1,029	1,268
Payment of taxes	(3,058)	(4,762)
Payment of financial expenses	(532)	(576)
Collection of financial income	214	101
CASH FLOW FROM OPERATIONS	**22,779**	**25,931**
Investments in non-current assets		
• intangible	(860)	(477)
• tangible	(13,604)	(11,465)
• financial	0	5
Disposal of non-current assets	520	175
CASH FLOW ABSORBED BY INVESTMENTS	**(13,944)**	**(11,762)**
Repayment of loans	(16,526)	(33,141)
Raising of loans	17,751	37,321
Short-term financial assets	(247)	69
Purchase of treasury shares	(2,110)	(1,676)
Payment of dividends	(5,384)	(5,467)
CASH FLOW ABSORBED BY FINANCING ACTIVITIES	**(6,516)**	**(2,894)**
A.R.C. acquisition	0	(2,614)
Foreign exchange differences due to translation	(2,929)	(509)
NET FINANCIAL FLOWS FOR THE YEAR	**(610)**	**8,152**
Cash and cash equivalents at end of year (Note 11)	*11,533*	*12,143*
Current financial debt	17,363	14,947
Non-current financial debt	19,703	20,654
NET FINANCIAL DEBT (NOTE 22)	**25,533**	**23,458**

* Figures recalculated pursuant to IFRS 3, in order to retrospectively take into account the effects resulting from the fair value measurement of A.R.C.'s assets and liabilities, at the acquisition date previously considered provisional.

Explanatory Notes

Accounting Standards

STATEMENT OF COMPLIANCE AND BASIS OF PRESENTATION

The consolidated financial statements of the Sabaf Group for the financial year 2017 have been prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union. Reference to IFRS also includes all current International Accounting Standards (IAS). The financial statements have been prepared in euro, the current currency in the economies in which the Group mainly operates, rounding amounts to the nearest thousand, and are compared with consolidated financial statements for the previous year, prepared according to the same standards. The report consists of the statement of financial position, the income statement, the statement of changes in shareholders' equity, the cash flow statement, and these explanatory notes. The financial statements have been prepared on a historical cost basis except for some revaluations of property, plant and equipment undertaken in previous years, and are considered a going concern. The Group assessed that it is a going concern (as defined by paragraphs 25 and 26 of IAS 1), also due to the strong competitive position, high profitability and solidity of the financial structure.

FINANCIAL STATEMENTS

The Group has adopted the following formats:

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

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

SCOPE OF CONSOLIDATION

The scope of consolidation at 31 December 2017 comprises the parent company Sabaf S.p.A. and the following companies controlled by Sabaf S.p.A.:

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

Sabaf U.S. is not consolidated since it is irrelevant for the purposes of the consolidation. Handan A.R.C. Ltd, Chinese company in which the Group holds a 35% share, was measured at cost in that at 31 December 2017 operations are still in the early stages, and therefore the company is considered irrelevant for consolidation purposes.
The companies in which Sabaf S.p.A. simultaneously possesses the following three elements are considered subsidiaries: (a) power over the company; (b) exposure or rights to variable returns resulting from involvement therein; (c) ability to affect the size of these returns by exercising power. If these subsidiaries exercise a significant influence, they are consolidated as from the date in which control begins until the date in which control ends so as to provide a correct representation of the Group's operating results, financial position and cash flows.

CONSOLIDATION CRITERIA

The data used for consolidation have been taken from the income statements and statements of financial position prepared by the directors of the individual subsidiary companies. These figures have been appropriately amended and restated, when necessary, to align them with international accounting standards and with uniform group-wide classification criteria.
The criteria applied for consolidation are as follows:

a) Assets and liabilities, income and costs in the financial statements consolidated on a 100% line-by-line basis are incorporated into the Group financial statements, regardless of the entity of the equity interest concerned. In addition, the carrying value of equity interests is eliminated against the shareholders' equity relating to investee companies.
b) Positive differences arising from elimination of equity investments against the carrying value of shareholders' equity at the date of first-time consolidation are attributed to the higher values of assets and liabilities when possible and, for the remainder, to goodwill. In accordance with the provisions of IFRS 3, the Group has changed the accounting treatment of goodwill on a prospective basis as from the transition date. Therefore, since 1 January 2004, the Group has not amortised goodwill and instead subjects it to impairment testing.
c) Payable/receivable and cost/revenue items between consolidated companies and profits/losses arising from intercompany transactions are eliminated.
d) The portion of shareholders' equity and net profit for the period pertaining to minority shareholders is posted in specific items of the balance sheet and income statement.

INFORMATION RELATED TO IFRS 3

Upon completion of the valuation of the assets and liabilities of A.R.C. at the acquisition date, pursuant to IFRS 3, previously considered provisional, the temporary figures of the tangible assets acquired recorded at the time in the consolidated financial statements at the date of first consolidation (30 June 2016) were increased by € 410,000, subsequent to a technical analysis carried out by experts on plants, machinery and equipment to identify their fair value. Furthermore, provisions for deferred tax liabilities were increased by € 114,000 in order to record the relevant tax effect. The Group has used the option provided by IFRS 3 in order to finalise the allocation within 12 months from the purchase date given that the technical analysis on plants, machinery and equipment was not previously complete and available.

Final goodwill of € 1,770,000 reflects the net change of € 296,000 described above, net of the allocation made to minority interests (€ 89,000), during the measurement period to the temporary values of tangible assets and deferred tax liabilities. At 31 December 2017, goodwill was tested for impairment, as described in detail in Note 3 below.

As required by IFRS 3, the comparative financial statements at 31 December 2016 have been restated to retrospectively take into account the effects resulting from the higher value of the assets acquired (€ 381,000) and the related tax effect (€ 106,000), as well as the reduction in goodwill (€ 207,000).

This entry resulted in a reduction in 2016 consolidated net income and consolidated shareholders' equity of € 21,000, of which € 15,000 owned by the Group.

	ORIGINAL VALUES ACQUIRED ASSETS/LIABILITIES	MEASUREMENT AT FAIR VALUE	FAIR VALUE ACQUIRED ASSETS/LIABILITIES
NON-CURRENT ASSETS			
Property, plant and equipment and intangible assets	303	410	713
Financial fixed assets	107		107
Non-current receivables and deferred tax assets	145		145
CURRENT ASSETS			
Inventories	891		891
Trade receivables	1,525		1,525
Other receivables	234		234
Cash and cash equivalents	2,186		2,186
TOTAL ASSETS	**5,391**	**410**	**5,801**
NON-CURRENT LIABILITIES			
Post-employment benefit reserve	(238)		(238)
Deferred tax liabilities reserve	-	(114)	(114)
CURRENT LIABILITIES			
Trade payables	(813)		(813)
Sundry payables	(308)		(308)
TOTAL LIABILITIES	**(1,359)**	**(114)**	**(1,473)**
FAIR VALUE OF NET ASSETS ACQUIRED	**4,032**	**296**	**4,328**
- % pertaining to Sabaf (70%) (a)	2,823	207	3,030
Total cost of acquisition (b)	4,800		4,800
Goodwill deriving from acquisition (b-a) (Note 3)	1,977	(207)	1,770
Acquired cash and cash equivalents (c)	2,186		2,186
Total cash outlay (b-c)	2,614		2,614

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

Separate financial statements of each company belonging to the Group are prepared in the currency of the country in which that company operates (functional currency). For the purposes of the consolidated financial statements, the financial statements of each foreign entity are expressed in euro, which is the Group's functional currency and the reporting currency for the consolidated financial statements.
Balance sheet items in accounts expressed in currencies other than euro are converted by applying current end-of-year exchange rates. Income statement items are converted at average exchange rates for the year.

Foreign exchange differences arising from the comparison between opening shareholders' equity converted at current exchange rates and at historical exchange rates, together with the difference between the net result expressed at average and current exchange rates, are allocated to "Other Reserves" in shareholders' equity.
The exchange rates used for conversion into euro of the financial statements of the foreign subsidiaries, prepared in local currency, are shown in the following table:

DESCRIPTION OF CURRENCY	EXCHANGE RATE IN EFFECT AT 31.12.17	AVERAGE EXCHANGE RATE 2017	EXCHANGE RATE IN EFFECT AT 31.12.16	AVERAGE EXCHANGE RATE 2016
Brazilian real	3.9729	3.6048	3.4305	3.8576
Turkish lira	4.5464	4.1207	3.7072	3.3435
Chinese renminbi	7.8044	7.6289	7.3202	7.3512

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

	31.12.2017		31.12.2016 *	
DESCRIPTION	Profit for the year	Shareholders' equity	Profit for the year	Shareholders' equity
Profit and shareholders' equity of parent company Sabaf S.p.A.	**8,001**	**92,087**	**2,460**	**91,524**
Equity and consolidated company results	7,971	67,929	6,175	66,276
Elimination of consolidated equity investments' carrying value	682	(48,596)	521	(49,900)
Goodwill	0	6,215	0	6,215
Put option on A.R.C. minorities	(241)	(1,763)	0	(1,522)
IFRS 3 effect on A.R.C. acquisition	0	0	(21)	275
Intercompany eliminations	(1,497)	(817)	(60)	(491)
Minority interests	(81)	(1,460)	(81)	(1,379)
PROFIT AND SHAREHOLDERS' EQUITY ATTRIBUTABLE TO THE GROUP	**14,835**	**113,595**	**8,994**	**110,998**

SEGMENT REPORTING

The Group's Operating segments in accordance with IFRS 8 - Operating Segment are identified in the business segments that generate revenue and costs, whose results are periodically reassessed by top management in order to assess performance and decisions regarding resource allocation. The Group operating segments are the following:

- gas parts (household and professional)
- hinges.

ACCOUNTING POLICIES

The accounting standards and policies applied for the preparation of the consolidated financial statements at 31 December 2017, unchanged versus the previous year, are shown below:

Property, plant and equipment

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

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

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

Leased assets

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

* Figures recalculated pursuant to IFRS 3, in order to retrospectively take into account the effects resulting from the fair value measurement of A.R.C.'s assets and liabilities, at the acquisition date previously considered provisional.

Goodwill

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

Other intangible assets

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

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

Impairment of value

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

Investment property

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

Equity investments and non-current receivables

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

Inventories

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

Receivables

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

Current financial assets

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

Provisions for risks and charges

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

Post-employment benefit reserve

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

Payables

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

Loans

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

Policy for conversion of foreign currency items

Receivables and payables originally expressed in foreign currencies are converted into euro at the exchange rates in force on the date of the transactions originating them. Forex differences realised upon collection of receivables and payment of payables in foreign currency are posted in the income statement. Income and costs relating to foreign-currency transactions are converted at the rate in force on the transaction date.

At year-end, assets and liabilities expressed in foreign currencies, with the exception of non-current items, are posted at the spot exchange rate in force at the end of the reporting period and related foreign exchange gains and losses are posted in the income statement. If conversion generates a net gain, this value constitutes a non-distributable reserve until it is effectively realised.

Derivative instruments and hedge accounting

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

Revenue reporting

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

Financial income

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

Financial expenses

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

Income taxes for the year

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

Dividends

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

Treasury shares

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

Earnings per share

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

Use of estimates

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

Recoverable value of tangible and intangible assets

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

Provisions for bad debts

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

Provisions for inventory obsolescence

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

Employee benefits

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

Income tax

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

Other provisions and reserves

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

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

New accounting standards

Accounting standards, amendments and interpretations applicable from 1 January 2017

- Amendment to **IAS 7** ***"Disclosure Initiative"*** (published on 29 January 2016). The aim of the document is to provide some clarification to improve disclosure on financial liabilities. In particular, the amendments require providing disclosures that enable the users of financial statements to understand changes in liabilities arising from financing activities.
- Amendment to **IAS 12** ***"Recognition of Deferred Tax Assets for Unrealised Losses"*** (published on 19 January 2016). The aim of the document is to provide some clarification on the recognition of deferred tax assets on unrealised losses in the measurement of financial assets in the "Available for Sale" category upon

the occurrence of certain circumstances and on the estimate of taxable income for future years.

The application of these amendments did not have any effect on the Group's consolidated financial statements.

IFRS and IFRIC accounting standard, amendments approved by the European Union, not yet universally applicable and not adopted early by the Group at 31 December 2017

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

  The principle applies from 1 January 2018. The amendments to IFRS 15, Clarifications to IFRS 15 - Revenue from Contracts with Customers, were approved by the European Union on 6 November 2017. On the basis of the analyses carried out, the directors expect that the application of IFRS 15 will have a minor impact on the amounts recorded as revenues and on the related disclosures in the Group's consolidated financial statements.

- Final version of **IFRS 9 – *Financial Instruments*** (published on 24 July 2014). The document includes the results of the IASB project designed to replace IAS 39:
    - introduces new methods for the classification and measurement of financial assets and liabilities (together with the measurement of non-substantial changes in financial liabilities);
    - with reference to the impairment model, the new standard requires that the estimate of credit losses be made on the basis of the expected losses model (and not on the basis of the incurred losses model used by IAS 39) using supportable information available without unreasonable effort or expense that include historical, current and future figures;
    - introduces a new hedge accounting model (increase in the types of transactions eligible for hedge accounting, changes in the method of recognition of forward contracts and options when included in a hedge accounting report, changes in efficacy tests).

  The new standard must be applied by financial statements from 1 January 2018 onwards.

  On the basis of the analyses carried out, the directors expect that the application of IFRS 9 will have a minor impact on the amounts and on the related disclosures in the Group's consolidated financial statements.

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

  The directors not expect that the application of IFRS 16 can have a significant impact on the amounts and on the relevant disclosures in the Group's consolidated financial statements. However, it is not possible to provide a reasonable estimate of the effects until the Group has completed a detailed analysis of the related contracts.

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

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

- Amendment to **IFRS 2 *"Classification and measurement of share-based payment transactions"*** (published on 20 June 2016), which contains some clarification on the recording of the effects of vesting conditions in the presence of cash-settled share-based payments, on the classification of share-based payments with net settlement characteristics and on the recording of amendments under the terms and conditions of a share-based payment that change their classification from cash-settled to equity-settled. The amendments apply from 1 January 2018. The directors do not expect a significant effect on the Group's consolidated financial statements through the adoption of these changes.

- Document ***"Annual Improvements to IFRSs: 2014-2016 Cycle"***, published on 8 December 2016 (including IFRS 1 First-Time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters, IAS 28 Investments in Associates and Joint Ventures – Measuring investees at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice, IFRS 12 Disclosure of Interests in Other Entities – Clarification of the scope of the Standard) which partially integrate the existing standards. Most of the amendments apply from 1 January 2018. The directors do not expect a significant effect on the Group's consolidated financial statements through the adoption of these amendments.

- **IFRIC 22** ***Interpretation "Foreign Currency Transactions and Advance Consideration"*** (published on 8 December 2016). The interpretation aims to provide guidelines for foreign currency transactions if advances or non-cash payments are recognised in the financial statements, prior to the recognition of the related asset, cost or revenue. This document provides guidance on how an entity should determine the date of a transaction, and consequently, the spot exchange rate to be used when foreign currency transactions occur in which the payment is made or received in advance. IFRIC 22 is applicable from 1 January 2018.

- Amendment to **IAS 40 *"Transfers of Investment Property"*** (published on 8 December 2016). These amendments clarify the transfers of a property to, or from, investment property. In particular, an entity must reclassify a property among, or from, investment property only when there is evidence that there was a change in the intended use of the property. This change must refer to a specific event that happened and must not be limited to a change of intention by the Management of an entity. These amendments are applicable from 1 January 2018. The directors do not expect a significant effect on the Group's consolidated financial statements through the adoption of these changes.

- On 7 June 2017, IASB published the clarification document **IFRIC 23 –** ***Uncertainty over Income Tax Treatments.*** The document deals with uncertainties about the tax treatment of income taxes. The document requires that uncertainties in determining deferred tax assets and liabilities be reflected in the financial statements only when it is probable that the entity will pay or recover the amount in question. Moreover, the document does not contain any new disclosure requirement but emphasises that an entity will have to determine whether it will be necessary to disclose information on management considerations and on the uncertainty relating to tax accounting in accordance with IAS 1. The new interpretation applies from 1 January 2019, but early application is permitted.

- Amendment to **IFRS 9** "***Prepayment*** Features with Negative Compensation (published on 12 October 2017). This document specifies the instruments that envisage early repayment that could comply with the "SPPI" test even if the "reasonable additional compensation" to be paid in the event of early repayment is a "negative compensation" for the lender. The amendment applies from 1 January 2019, but early application is permitted. The directors do not expect a significant effect on the Group's consolidated financial statements through the adoption of these changes.

- Amendment to **IAS 28** ***"Long-term Interests in Associates and Joint Ventures"*** (published on 12 October 2017)". This document clarifies the need to apply IFRS 9, including the requirements of impairment, to other long-term interests in associate companies and joint ventures that are not accounted for under the equity method. The amendment applies from 1 January 2019, but early application is permitted. The directors do not expect a significant effect on the Group's consolidated financial statements through the adoption of these changes.

- Document ***"Annual Improvements to IFRSs 2015-2017 Cycle",*** published on 12 December 2017 (including IFRS 3 Business Combinations and IFRS 11 Joint Arrangements – Remeasurement of previously held interest in a joint operation, IAS 12 Income Taxes – Income tax consequences of payments on financial instruments classified as equity, IAS 23 Borrowing costs Disclosure of Interests in Other Entities – Borrowing costs eligible for capitalisation) which implements changes to some standards as part of the annual process of improving them. The amendments apply from 1 January 2019 but early application is permitted. The directors do not expect a significant effect on the Group's consolidated financial statements through the adoption of these changes.

Comments on significant balance sheet items

1. PROPERTY, PLANT AND EQUIPMENT

	PROPERTY	PLANT AND EQUIPMENT	OTHER ASSETS	ASSETS UNDER CONSTRUCTION	TOTAL
COST					
AT 31 DECEMBER 2015	**51,225**	**176,529**	**37,149**	**2,059**	**266,962**
Increases	95	8,417	2,275	1,101	11,888
Disposals	(1)	(3,075)	(312)	-	(3,388)
Change in the scope of consolidation	-	1,745	584	-	2,329
Reclassifications	1	875	177	(1,476)	(423)
Forex differences	(52)	657	430	86	1,121
AT 31 DECEMBER 2016	**51,268**	**185,148**	**40,303**	**1,770**	**278,489**
Increases	1,589	7,050	2,487	2,782	13,908
Disposals	-	(1,002)	(538)	-	(1,540)
Reclassifications	118	587	192	(1,201)	(304)
Forex differences	(914)	(1,900)	(626)	(29)	(3,469)
AT 31 DECEMBER 2017	**52,061**	**189,883**	**41,818**	**3,322**	**287,084**
ACCUMULATED DEPRECIATIONS					
AT 31 DECEMBER 2015	**15,470**	**146,059**	**32,396**	**-**	**193,925**
Depreciations for the year	1,442	7,961	2,328	-	11,731
Eliminations for disposals	-	(3,066)	(231)	-	(3,297)
Change in scope of consolidation	-	1,174	492	-	1,666
Reclassifications	5	40	21	-	66
Forex differences	59	588	306	-	953
AT 31 DECEMBER 2016	**16,976**	**152,756**	**35,312**	**-**	**205,044**
Depreciations for the year	1,459	8,047	2,260	-	11,766
Eliminations for disposals	-	(800)	(479)	-	(1,279)
Reclassifications	5	41	30	-	76
Forex differences	(156)	(1,002)	(434)	-	(1,592)
AT 31 DECEMBER 2017	**18,284**	**159,042**	**36,689**	**-**	**214,015**
NET CARRYING VALUE					
AT 31 DECEMBER 2017	**33,777**	**30,841**	**5,129**	**3,322**	**73,069**
AT 31 DECEMBER 2016	**34,292**	**32,392**	**4,991**	**1,770**	**73,445**

1 Figures recalculated pursuant to IFRS 3, in order to retrospectively take into account the effects resulting from the fair value measurement of A.R.C's assets and liabilities, at the acquisition date previously considered provisional.

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

	31.12.2017	31.12.2016	CHANGE
Land	6,877	6,688	189
Industrial buildings	26,900	27,604	(704)
TOTAL	**33,777**	**34,292**	**(515)**

The net carrying value of industrial property includes an amount of € 2,125,000 (€ 2,211,000 at 31 December 2016) relating to industrial buildings held under finance leases.

The main investments in the financial year were aimed at automation of the assembly lines for light alloy valves and at the interconnection of production plants with management systems (Industry 4.0). The building in Campodarsego (PD) was acquired, where A.R.C., formerly rented, operates. In Brazil, the factory was expanded, against increased production volumes; while in Turkey all the die-casting machines were robotised. Other investments were made in the production of presses for new burners. Investments in maintenance and replacement, so that production equipment is kept constantly up to date and efficient, are systematic.
Decreases mainly relate to the disposal of machinery no longer in use. Assets under construction include machinery under construction and advance payments to suppliers of capital equipment.
At 31 December 2017, the Group found no endogenous or exogenous indicators of impairment of its property, plant and equipment. As a result, the value of property, plant and equipment was not submitted to impairment testing.

2. INVESTMENT PROPERTY

COST	
AT 31 DECEMBER 2015	**13,136**
Increases	-
Disposals	-
AT 31 DECEMBER 2016	**13,136**
Increases	-
Disposals	(199)
AT 31 DECEMBER 2017	**12,937**
ACCUMULATED DEPRECIATIONS	
AT 31 DECEMBER 2015	**6,424**
Depreciations for the year	442
Eliminations for disposals	-
AT 31 DECEMBER 2016	**6,866**
Depreciations for the year	436
Eliminations for disposals	(62)
AT 31 DECEMBER 2017	**7,240**
NET CARRYING VALUE	
AT 31 DECEMBER 2017	**5,697**
AT 31 DECEMBER 2016	**6,270**

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

At 31 December 2017, the Group found no endogenous or exogenous indicators of impairment of its investment property. As a result, the value of investment property was not submitted to impairment testing.

3. INTANGIBLE ASSETS

	GOODWILL	PATENTS, SOFTWARE AND KNOW-HOW	DEVELOPMENT COSTS	OTHER INTANGIBLE ASSETS	TOTAL
COST					
AT 31 DECEMBER 2015	**9,008**	**6,231**	**4,685**	**799**	**20,723**
Increases	-	155	314	18	487
Change in the scope of consolidation	1,770	13	-	19	1,802
Reclassifications	-	62	(44)	(30)	(12)
Decreases	-	-	-	(15)	(15)
Forex differences	-	6	-	-	6
AT 31 DECEMBER 2016	**10,778**	**6,467**	**4,955**	**791**	**22,991**
Increases	-	420	496	23	939
Reclassifications	-	-	(79)	-	(79)
Decreases	-	(14)	-	(13)	(27)
Forex differences	-	(14)	-	(8)	(22)
AT 31 DECEMBER 2017	**10,778**	**6,859**	**5,372**	**793**	**23,802**
AMORTISATION/WRITE-DOWNS					
AT 31 DECEMBER 2015	**4,563**	**5,732**	**2,347**	**556**	**13,198**
Amortisation for the year	-	266	352	98	716
Change in the scope of consolidation	-	3	-	8	11
Decreases	-	-	-	(15)	(15)
Forex differences	-	4	-	-	4
AT 31 DECEMBER 2016	**4,563**	**6,005**	**2,699**	**647**	**13,914**
Amortisation for the year	-	272	342	22	636
Decreases	-	(14)	-	-	(14)
Forex differences	-	(9)	-	(8)	(17)
AT 31 DECEMBER 2017	**4,563**	**6,254**	**3,041**	**661**	**14,519**
NET CARRYING VALUE					
AT 31 DECEMBER 2017	**6,215**	**605**	**2,331**	**132**	**9,283**
AT 31 DECEMBER 2016	**6,215**	**462**	**2,256**	**144**	**9,077**

Goodwill

Goodwill recognised at 31 December 2017 is allocated:
- to "Hinges" (CGU) cash generating units of € 4.445 million;
- to the "Professional burners" CGU of € 1.770 million[2].

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

Goodwill allocated to the Hinges CGU

In 2017, the Hinges CGU achieved very positive and better results, in terms of sales and profitability, both compared to the previous year and compared to the budget. The 2018-2022 forward plan, drafted at the beginning of 2018, envisages a further increase in sales. Profitability is expected to decline in 2018, following the devaluation of the dollar (the currency in which more than 40% of sales are denominated) and the increase in the price of steel, before gradually recovering in subsequent years. At 31 December 2017, the Group tested the carrying value of its CGU Hinges for impairment, determining its recoverable value, considered to be equivalent to its usable value, by discounting expected future cash flow in the forward plan drafted by the management. Cash flows for the period from 2018 to 2022 were augmented by the so-called terminal value, which expresses the operating flows that the CGU is expected to generate from the sixth year to infinity and determined based on the perpetual income. The value of use was calculated based on a discount rate (WACC) of 9.18% (7.76% in the impairment test conducted while preparing the consolidated financial statements at 31 December 2016) and a growth rate (g) of 1.50%, which is in line with historical data.

The recoverable value calculated on the basis of the above-mentioned assumptions and valuation techniques is € 12.680 million, compared with a carrying value of the assets allocated to the Hinges unit of € 7.427 million; consequently, the value recorded for goodwill at 31 December 2017 was deemed recoverable.

Sensitivity analysis

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

(€/000)	GROWTH RATE				
DISCOUNT RATE	1.00%	1.25%	1.50%	1.75%	2.00%
8.18%	13,890	14,312	14,765	15,254	15,782
8.68%	12,902	13,263	13,649	14,063	14,508
9.18%	12,036	12,348	12,680	13,035	13,414
9.68%	11,272	11,543	11,831	12,138	12,464
10.18%	10,592	10,830	11,081	11,348	11,631

Goodwill allocated to the Professional burners CGU

At 31 December 2017, the Group tested the carrying value of its Professional burners CGU for impairment, determining its recoverable value, considered to be equivalent to its usable value, by discounting expected future cash flow in the forward plan drafted at the beginning of 2018. Cash flows for the 2018-2022 period were augmented by the so-called terminal value, which expresses the operating flows that the CGU is expected to generate from the fourth year to infinity and determined based on the perpetual income. The value of use was calculated based on a discount rate (WACC) of 6.90% (5.79% in the impairment test conducted while preparing the consolidated financial statements at 31 December 2016) and a growth rate (g) of 1.50%.

The recoverable value calculated on the basis of the above-mentioned assumptions and valuation techniques is € 11.345 million, compared with a carrying value of the assets allocated to the Professional burners unit of € 4.409 million (including minority interests); consequently, the value recorded for goodwill at 31 December 2017 was deemed recoverable.

Sensitivity analysis

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

(€/000)	GROWTH RATE				
DISCOUNT RATE	1.00%	1.25%	1.50%	1.75%	2.00%
5.90%	12,794	13,396	14,066	14,816	15,663
6.40%	11,549	12,033	12,566	13,156	13,814
6.90%	10,516	10,917	11,345	11,820	12,343
7.40%	9,646	9,975	10,333	10,721	11,146
7.90%	8,903	9,180	9,479	9,802	10,153

Patents, software and know-how

Software investments include the implementation of a production scheduler and the application development of the Group management system (SAP).

Development costs

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

2 Figure recalculated pursuant to IFRS 3, in order to retrospectively take into account the effects resulting from the fair value measurement of A.R.C's assets and liabilities, at the acquisition date previously considered provisional.

4. EQUITY INVESTMENTS

	31.12.2016	DISPOSALS	31.12.2017
Sabaf US	139	-	139
ARC Handan Burners Co.	101	-	101
Other equity investments	66	(25)	40
TOTAL	**306**	**(25)**	**281**

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

Handan ARC Burners Co. is a Chinese joint venture built at the end of 2015, in which A.R.C. s.r.l. holds 50% (therefore, the Group's share is 35%). The aim of Handan ARC Burners is to produce and market in China burners for professional cooking; production of the first pre-series began in 2017.

5. NON-CURRENT RECEIVABLES

	31.12.2017	31.12.2016	CHANGE
Tax receivables	153	225	(72)
Guarantee deposits	43	37	6
TOTAL	**196**	**262**	**(66)**

Tax receivables relate to indirect taxes expected to be recovered after 31 December 2018.

6. INVENTORIES

	31.12.2017	31.12.2016	CHANGE
Commodities	11,459	9,740	1,719
Semi-processed goods	11,180	10,893	287
Finished products	13,448	13,308	140
Obsoloscence provision	(3,158)	(2,457)	(701)
TOTAL	**32,929**	**31,484**	**1,445**

The value of final inventories at 31 December 2017 increased compared to the end of the previous year to meet the higher volumes of activity. The obsolescence provision is mainly allocated for hedging the obsolescence risk, quantified on the basis of specific analyses carried out at the end of the year on slow-moving and non-moving products.

7. TRADE RECEIVABLES

	31.12.2017	31.12.2016	CHANGE
Total trade receivables	43,002	37,576	5,426
Bad debt provision	(739)	(734)	(5)
NET TOTAL	**42,263**	**36,842**	**5,421**

Trade receivables at 31 December 2017 were higher than at the end of 2016 subsequent to higher sales. There were no significant changes in payment terms agreed with customers.

At 31 December 2017, trade receivables included balances totalling USD 6,826,000, booked at the EUR/USD exchange rate in effect on 31 December 2017, i.e. 1.1993. The amount of trade receivables recognised in the financial statements includes approximately € 28.2 million of insured receivables (€ 22.4 million at 31 December 2016). The bad debt provision was adjusted to the better estimate of the credit risk at the end of the reporting period.

	31.12.2017	31.12.2016	CHANGE
Current receivables (not past due)	38,282	32,616	5,666
Outstanding up to 30 days	2,802	3,296	(494)
Outstanding from 30 to 60 days	868	218	650
Outstanding from 60 to 90 days	594	136	458
Outstanding for more than 90 days	456	1,310	(854)
TOTAL	**43,002**	**37,576**	**5,426**

8. TAX RECEIVABLES

	31.12.2017	31.12.2016	CHANGE
For income tax	1,998	2,186	(188)
For VAT and other sales taxes	682	533	149
Other tax credits	385	444	(59)
TOTAL	**3,065**	**3,163**	**(98)**

The income tax receivables derives for € 1,153,000 from the full deductibility of IRAP from IRES relating to the expenses incurred for employees for the 2006-2011 period (Italian Legislative Decree 201/2011), for which an application for a refund was presented and, for the residual part, to the payments on account on 2017 income, for the part exceeding the tax to be paid.

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

9. OTHER CURRENT RECEIVABLES

	31.12.2017	31.12.2016	CHANGE
Credits to be received from suppliers	360	706	(346)
Advances to suppliers	155	168	(13)
Other	542	545	(3)
TOTAL	**1,057**	**1,419**	**(362)**

At 31 December 2017, credits to be received from suppliers included € 248,000 related to the relief due to the parent company as an energy-intensive business (so-called "energy-intensive bonuses") for the years 2016 and 2017. "Energy-intensive bonuses" due for the years 2014 and 2015 were regularly collected during 2017.

10. CURRENT FINANCIAL ASSETS

	31.12.2017		31.12.2016	
	current	non current	current	non current
Escrow bank accounts	60	180	-	-
Derivative instruments on interest rates	7	-	-	-
TOTAL	**67**	**180**	**0**	**0**

The item Derivative instruments on interest rates refers to the positive fair value of an IRS hedging rate risks of an unsecured loan pending, for a notional amount of approximately € 4 million and expiry until 31 December 2021. Financial income was recognised in the income statement with a balancing entry.

11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents, which amounted to € 11,533,000 at 31 December 2017 (€ 12,143,000 at 31 December 2016) consisted of bank current account balances of approximately € 11 million and sight deposits of approximately € 0.5 million.

12. SHARE CAPITAL

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

13. TREASURY SHARES

During the financial year Sabaf S.p.A. acquired 148,630 treasury shares at an average unit price of € 14.20; there have been no sales.

At 31 December 2017, the parent company Sabaf S.p.A. held 381,769 treasury shares, equal to 3.31% of share capital (233,139 treasury shares at 31 December 2016), reported in the financial statements as an adjustment to shareholders' equity at a unit value of € 11.81 (the market value at year-end was € 19.91).

There were 11,151,681 outstanding shares at 31 December 2017 (11,300,311 at 31 December 2016).

14. LOANS

	31.12.2017		31.12.2016	
	current	non current	current	non current
Property leasing	149	1,462	145	1,611
Unsecured loans	5,982	16,298	6,656	17,281
Short-term bank loans	9,477	-	7,802	-
Advances on bank receipts or invoices	1,678	-	2	-
Interest payable	2	-	7	-
TOTAL	**17,288**	**17,760**	**14,612**	**18,892**

To manage interest rate risk, unsecured loans are either fixed-rate or hedged by IRS. Two of the outstanding unsecured loans, amounting to € 9 million at 31 December 2017, have covenants, defined with reference to the consolidated financial statements at the end of the reporting period, as specified below:

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

both widely observed at 31 December 2017.

All outstanding bank loans are denominated in euro, with the exception of a short-term loan of USD 2 million and a short-term loan of 1.4 million Turkish lira.

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

15. OTHER FINANCIAL LIABILITIES

	31.12.2017		31.12.2016	
	current	non current	current	non current
Option on minorities	-	1,763	-	1,522
Payables to A.R.C. shareholders	60	180	60	240
Currency derivatives	-	-	238	-
Derivative instruments on interest rates	15	-	37	-
TOTAL	**75**	**1,943**	**335**	**1,762**

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

Pursuant to the provisions of IAS 32, the assignment of an option to sell (put option) in the terms described above required the recording of a liability corresponding to the estimated redemption value, expected at the time of any exercise of the option: to this end, a financial liability of € 1.522 million was recognised in the consolidated financial statements at 31 December 2016. At 31 December 2017, the Group revalued the outlay estimate, based on the expected results of A.R.C. at 31 December 2020 in accordance with the business plan of the subsidiary prepared at the beginning of 2018. The recalculation of the fair value, in compliance with IAS 39, led to an increase of € 241,000 in the liability; financial expenses were recognised as a balancing entry (Note 29).

The payable to the A.R.C. shareholders of € 240,000 at 31 December 2017 is related to the part of the price still to be paid to the sellers, which was deposited on an escrow account and will be released in favour of the sellers at constant rates in 4 years, in accordance with contractual agreements and guarantees issued by the sellers.

Other financial liabilities also include the negative fair value of two IRSs hedging rate risks of unsecured loans pending, for residual notional amounts of approximately € 5.4 million and expiry until 31 December 2021. Financial expenses in the same amount were recognised in the income statement.

16. POST-EMPLOYMENT BENEFIT AND RETIREMENT RESERVES

	31.12.2017	31.12.2016	CHANGE
Post-employment benefit reserve	2,720	2,961	(241)
Retirement reserve	125	125	-
TOTAL	**2,845**	**3,086**	**(241)**

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

Post-employment benefits are calculated as follows:

FINANCIAL ASSUMPTIONS	31.12. 2017	31.12.2016
Discount rate	1.15%	1.15%
Inflation	1.80%	1.75%

DEMOGRAPHIC THEORY	31.12. 2017	31.12.2016
Mortality rate	ISTAT 2016 M/F	ISTAT 2010 M/F
Disability rate	INPS 1998 M/F	INPS 1998 M/F
Staff turnover	3% - 6%	3% - 6%
Advance payouts	5% - 7% per year	5% - 7% per year
Retirement age	Pursuant to legislation in force on 31 december 2017	Pursuant to legislation in force on 31 december 2016

17. PROVISIONS FOR RISKS AND CHARGES

	31.12.2016	PROVISIONS	UTILISATION	RELEASE OF EXCESS PORTION	EXCHANGE RATE DIFFERENCES	31.12.2017
Reserve for agents' indemnities	231	15	(15)	(21)	-	210
Product guarantee fund	60	11	(11)	-	-	60
Reserve for legal risks	143	-	(7)	-	(21)	115
TOTAL	**434**	**26**	**(33)**	**(21)**	**(21)**	**385**

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

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

18. TRADE PAYABLES

	31.12.2017	31.12.2016	CHANGE
TOTAL	**19,975**	**18,977**	**998**

Average payment terms did not change versus the previous year. At 31 December 2017, there were no overdue payables of a significant amount and the Group did not receive any injunctions for overdue payables.

19. TAX PAYABLES

	31.12.2017	31.12.2016	CHANGE
For income tax	240	361	(121)
Withholding taxes	656	788	(132)
Other tax payables	199	41	158
TOTAL	**1,095**	**1,190**	**(95)**

20. OTHER CURRENT PAYABLES

	31.12.2017	31.12.2016	CHANGE
To employees	4,552	3,965	587
To social security institutions	2,304	2,139	165
To agents	195	268	(73)
Advances from customers	94	181	(87)
Other current payables	346	104	242
TOTAL	**7,491**	**6,657**	**834**

At the beginning of 2018, payables due to employees and social security institutions were paid in accordance with the scheduled expiry dates.

21. DEFERRED TAX ASSETS AND LIABILITIES

	31.12.2017	31.12.2016
Deferred tax assets	5,096	4,781
Deferred tax liabilities	(804)	(870)
NET POSITION	**4,293**	**3,911**

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

	Depreciation and amortisation and leasing	Provisions and value adjustments	Fair value of derivative instruments	Goodwill	Tax incentives	Actuarial post-employment benefit reserve evaluation	Other temporary differences	TOTAL
AT 31 DECEMBER 2016	**(83)**	**1,062**	**67**	**1,771**	**595**	**210**	**289**	**3,911**
To the income statement	(37)	105	(64)	-	159	(2)	423	584
To shareholders' equity	-	-	-	-	-	(19)	-	(19)
Forex differences	-	(17)	-	-	(125)	-	(41)	(183)
AT 31 DECEMBER 2017	**(120)**	**1,150**	**3**	**1,771**	**629**	**189**	**671**	**4,293**

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

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

22. NET FINANCIAL POSITION

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

		31.12.2017	31.12.2016	CHANGE
A.	Cash (Note 11)	14	12	2
B.	Positive balances of unrestricted bank accounts (Note 11)	11,009	8,376	2,633
C.	Other cash equivalents	510	3,755	(3,245)
D.	**LIQUIDITY (A+B+C)**	**11,533**	**12,143**	**(610)**
E.	Current bank payables (Note 14)	11,157	7,811	3,346
F.	Current portion of non-current debt (Note 14)	6,131	6,801	(670)
G.	Other current financial payables (Note 15)	75	335	(260)
H.	**CURRENT FINANCIAL DEBT (E+F+G)**	**17,363**	**14,947**	**2,416**
I.	**NET CURRENT FINANCIAL DEBT (H-D)**	**5,830**	**2,804**	**3,026**
J.	Non-current bank payables (Note 14)	16,298	17,281	(983)
K.	Other non-current financial payables (Note 14)	3,405	3,373	32
L.	**NON-CURRENT FINANCIAL DEBT (J+K)**	**19,703**	**20,654**	**(951)**
M.	**NET FINANCIAL DEBT (I+L)**	**25,533**	**23,458**	**2,075**

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

Comments on key income statement items

23. REVENUE

In 2017, sales revenues totalled € 150,223,000, up by € 19,245,000 (+14.7%) compared with 2016. Taking into consideration the same scope of consolidation, revenue increased by 12.9%.

Revenue by product family

	2017	%	2016	%	% CHANGE
Brass valves	5,991	*4.0%*	9,007	*6.9%*	-33.5%
Light alloy valves	39,351	*26.2%*	32,393	*24.7%*	+21.5%
Thermostats	7,376	*4.9%*	7,699	*5.9%*	-4.2%
Standard burners	41,070	*27.3%*	37,338	*28.5%*	+10.0%
Special burners	27,184	*18.1%*	21,215	*16.2%*	+28.1%
Accessories	15,267	*10.2%*	12,613	*9.6%*	+21.0%
Household gas parts	136,239	*90.7%*	120,265	*91.8%*	+13.3%
Professional gas parts	5,079	*3.4%*	2,289	*1.8%*	+121.9%
Hinges	8,905	*5.9%*	8,424	*6.4%*	+5.7%
TOTAL	**150,223**	***100%***	**130,978**	***100%***	**+14.7%**

Revenue by geographical area

	2017	%	2016	%	% CHANGE
Italy	36,523	*24.3%*	36,365	*27.8%*	+0.4%
Western Europe	11,678	*7.8%*	8,553	*6.5%*	+36.5%
Eastern Europe	42,824	*28.5%*	34,123	*26.1%*	+25.5%
Middle East and Africa	13,009	*8.6%*	11,698	*8.9%*	+11.2%
Asia and Oceania	10,516	*7.0%*	8,088	*6.2%*	+30.0%
South America	22,938	*15.3%*	20,847	*15.9%*	+10.0%
North America and Mexico	12,735	*8.5%*	11,304	*8.6%*	+12.7%
TOTAL	**150,223**	***100%***	**130,978**	***100%***	**+14.7%**

An analysis of sales by product category shows the strong growth of special burners, the family where product innovation has been strongest in recent years. The trend in sales of light alloy valves, which have now almost completely replaced brass valves, was also very positive. All other product lines also recorded good growth rates, with the exception of thermostats.

In 2017, all markets recorded double-digit growth rates; Italy, where sales remained stable after years of decline due to the sharp reduction in the production of domestic appliances, is an exception. Very positive sales growth rates have been recorded in other European markets, where Sabaf is consolidating its leadership. The Middle East market showed a strong recovery compared to 2016; Asia, North and South America confirmed a positive underlying trend.

Average sales prices in 2017 were on average 0.8% lower compared with 2016.

24. OTHER INCOME

	2017	2016	CHANGE
Sale of trimmings	2,261	1,684	577
Contingent income	311	146	165
Rental income	89	85	4
Use of provisions for risks and charges	36	67	(31)
Other income	664	837	(173)
TOTAL	**3,361**	**2,819**	**542**

The increase in income from the sale of trimmings is directly related to higher production volumes and to the increase in the price of raw materials.

25. MATERIALS

	2017	2016	CHANGE
Commodities and outsourced components	54,179	42,540	11,639
Consumables	5,615	4,806	809
TOTAL	**59,794**	**47,346**	**12,448**

In 2017, the effective purchase prices of the main raw materials (aluminium alloys, steel and brass) were on average higher than in 2016, with a negative impact of 0.9% of sales. Consumption (purchases plus change in inventories) as a percentage of sales was 38.2% in 2017, compared with 36.7% in 2016.

26. COSTS FOR SERVICES

	2017	2016	CHANGE
Outsourced processing	9,779	8,435	1,344
Natural gas and power	4,485	4,622	(137)
Maintenance	4,474	4,071	403
Transport	2,221	1,848	373
Advisory services	2,106	1,639	467
Directors' fees	1,084	1,181	(97)
Travel expenses and allowances	715	693	22
Commissions	637	648	(11)
Insurance	537	675	(138)
Canteen	394	395	(1)
Temporary agency workers	199	125	74
Other costs	3,596	3,651	(55)
TOTAL	**30,227**	**27,983**	**2,244**

The higher costs for outsourced processing were related to the increase in production volumes in Italy. The reduction in energy costs is due to the recognition of the "energy-intensive bonuses" for 2016 and 2017 for a total of € 248,000, which was not recognised in the 2016 financial statements because the collectability was uncertain at the end of the reporting period. The increase in maintenance costs was due to activities in progress for the ongoing adaptation of plants, machinery and equipment at the premises of all the factories of the Group.

Other costs included expenses for the registration of patents, waste disposal, cleaning, leasing third-party assets and other minor charges.

Costs for advisory services related to technical (€ 568,000), sales (€ 343,000) and legal, administrative and general (€ 1,195,000) services.

27. PAYROLL COSTS

	2017	2016	CHANGE
Salaries and wages	23,987	22,284	1,703
Social Security costs	7,585	7,088	497
Temporary agency workers	1,910	1,216	694
Post-employment benefit reserve and other costs	1,846	1,524	322
TOTAL	**35,328**	**32,112**	**3,216**

The average Group headcount in 2017 was 760 employees compared to 755 in 2016. The average number of temporary staff was 60 in 2017 (40 in 2016).
During the financial year, the Group made only negligible use of the solidarity contract and temporary lay-off scheme, whereas in 2016 these institutions, used in periods characterised by low production requirements, made it possible to save personnel costs of € 689,000.

28. OTHER OPERATING COSTS

	2017	2016	CHANGE
Non-income taxes	539	488	51
Other operating expenses	331	205	126
Contingent liabilities	145	69	76
Losses and write-downs of trade receivables	93	189	(96)
Provisions for risks	11	127	(116)
Other provisions	15	-	15
TOTAL	**1,134**	**1,078**	**56**

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

29. FINANCIAL EXPENSES

	2017	2016	CHANGE
Interest paid to banks	260	243	17
Interest paid on finance lease contracts	19	22	(3)
IRS spreads payable	10	37	(27)
Banking expenses	240	263	(23)
Adjustment to the fair value of the ARC option (Note 15)	241	-	241
Other financial expense	34	55	(22)
TOTAL	**804**	**620**	**183**

30. EXCHANGE RATE GAINS AND LOSSES

In 2017, the Group reported net foreign exchange gains of € 274,000, versus net gains of € 435,000 in 2016.

31. INCOME TAXES

	2017	2016	CHANGE
Current taxes	3,836	3,454	382
Deferred tax liabilities	(452)	73	(525)
Taxes related to previous financial years	(496)	(176)	(320)
TOTAL	**2,888**	**3,351**	**(463)**

The current income taxes include the IRES of € 2,448,000, the IRAP of € 545,000 and foreign income taxes of € 843,000 (€ 2,078,000, € 452,000 and € 924,000 respectively in 2016).

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

	2017	2016
Theoretical income tax	4,272	3,280
Permanent tax differences	172	202
Taxes related to previous financial years	91	(138)
Tax effect from different foreign tax rates	5	(109)
Effect of non-recoverable tax losses	172	162
"Patent box" tax benefit	(1,151)	-
"Super ammortamento" tax benefit	(179)	-
Tax incentives for investments in Turkey	(950)	(408)
Other differences	10	(71)
Income taxes booked in the accounts, excluding IRAP and withholding taxes (current and deferred)	**2,442**	**2,918**
IRAP (current and deferred)	446	433
TOTAL	**2,888**	**3,351**

Theoretical taxes were calculated applying the current corporate income tax (IRES) rate, i.e. 24% (27.50% in 2016), to the pre-tax result.

Following the prior agreement signed with the Revenue Agency, in 2017 the Group recognised the tax benefit relating to the Patent Box for the three-year period 2015 to 2017, for a total of € 1,324,000 (€ 1,151,000 for IRES and € 173,000 for IRAP), of which € 772,000 for 2015 and 2016 (Note 38) and € 552,000 for 2017.

In 2018, the Group also recognised € 950,000 in tax benefits deriving from investments made in Turkey, of which € 582,000 deriving from investments made in previous years for which access to the incentive was only established in 2017 (Note 38).

IRAP is not taken into account for the purpose of reconciliation because, as it is a tax with a different assessment basis from pre-tax profit, it would generate distorting effects.

No significant tax disputes were pending at 31 December 2017.i

32. EARNINGS PER SHARE

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

EARNINGS	2017	2016
	(€/000)	(€/000)
Profit for the year	14,835	8,994

NUMBER OF SHARES	2017	2016
Weighted average number of ordinary shares for determining basic earnings per share	11,208,062	11,376,320
Dilutive effect from potential ordinary shares	-	-
Weighted average number of ordinary shares for determining diluted earnings per share	11,208,062	11,376,320

EARNINGS PER SHARE (€)	2017	2016
Basic earnings per share	1.323	0.791
Diluted earnings per share	1.323	0.791

Basic earnings per share are calculated on the average number of outstanding shares minus treasury shares, equal to 325,388 in 2017 (157,130 in 2016).
Diluted earnings per share are calculated taking into account any shares approved but not yet subscribed, of which there were none in 2017 and 2016.

33. DIVIDENDS

On 31 May 2017, shareholders were paid an ordinary dividend of € 0.48 per share (total dividends of € 5,384,000).
The Directors have recommended payment of a dividend of € 0.55 per share this year. This dividend is subject to approval of shareholders in the annual Shareholders' Meeting and was not included under liabilities in these financial statements.
The dividend proposed is scheduled for payment on 30 May 2018 (ex-date 28 May and record date 29 May).

34. INFORMATION BY BUSINESS SEGMENT

Below is the information by business segment for 2017 and 2016.

	2017 FY			2016 FY		
	Gas parts (household and professional)	Hinges	TOTAL	Gas parts (household and professional)	Hinges	TOTAL
Sales	141,280	8,943	**150,223**	122,636	8,342	**130,978**
Ebit	16,974	1,143	**18,117**	11,643	887	**12,530**

35. INFORMATION ON FINANCIAL RISK

Categories of financial instruments

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

FINANCIAL ASSETS	31.12.2017	31.12.2016
Amortised cost		
• Cash and cash equivalents	11,533	12,143
• Escrow bank deposits	240	-
• Trade receivables and other receivables	43,516	38,523
Income statement fair value		
• Derivative to hedge cash flows	7	-

FINANCIAL LIABILITIES	31.12.2017	31.12.2016
Amortised cost		
• Loans	35,048	33,504
• Other financial liabilities	240	300
• Trade payables	19,975	18,977
Income statement fair value		
• ARC put option	1,763	1,522
• Derivative to hedge cash flows	15	275

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

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

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

Credit risk management

Trade receivables involve producers of domestic appliances, multinational groups and smaller manufacturers in a few or single markets. The Company assesses the creditworthiness of all its customers at the start of supply and systemically on at least an annual basis. After this assessment, each customer is assigned a credit limit.
A credit insurance policy is in place, which guarantees cover for approximately 65% of trade receivables.
Credit risk relating to customers operating in emerging economies is generally attenuated by the expectation of revenue through letters of credit.

Forex risk management

The key currencies other than the euro to which the Group is exposed are the US dollar, the Brazilian real and the Turkish lira, in relation to sales made in dollars (chiefly on some Asian and American markets) and the production units in Brazil and Turkey. Sales in US dollars represented 14% of total revenue in 2017, while purchases in dollars represented 4% of total revenue. During the year, operations in dollars were partially hedged through forward sales contracts; no currency derivatives were pending at 31 December 2017.

Sensitivity analysis

With reference to financial assets and liabilities in US dollars at 31 December 2017, a hypothetical and immediate revaluation of 10% of the euro against the dollar would have led to a loss of € 475,000.

Interest rate risk management

At 31 December 2017, gross financial debt of the Group was at a floating rate for approximately 35% and at a fixed rate for approximately 65%; to reach an optimum mix of floating and fixed rates in the structure of the loans, the Group also used derivative financial instruments. At 31 December 2017, three interest rate swap (IRS) contracts totalling € 9.4 million were in place, mirrored in mortgages with the same residual debt, through which the Group transformed the floating rate of the mortgages into fixed rate. Considering the IRS in place, at the end of 2017, the fixed-rate portion amounted to approximately 90% of the total financial debt. The derivative contracts were not designated as a cash flow hedge and were therefore recognised using the "fair value in the income statement" method.

Sensitivity analysis

At 31 December 2017, the sensitivity analysis concerned financial leases and the floating rate portion of the short-term financial debt. The Group is not exposed to interest rate risk as regards medium/long-term bank debt, since the floating rate of loans has been transformed into a fixed rate by means of the interest rate swap contracts in place.
With reference to financial assets and liabilities at variable rate at 31 December 2017 and 31 December 2016, a hypothetical increase (decrease) in the interest rate of 100 base points versus the interest rates in effect at the same date – all other variables being equal - would lead to the following effects:

	31.12.2017	31.12.2016
	FINANCIAL EXPENSES	FINANCIAL EXPENSES
Increase of 100 base points	31	20
Decrease of 100 base points	(31)	-

Commodity price risk management

A significant portion of the Group's purchase costs is represented by brass and aluminium alloys. Sale prices of products are generally renegotiated annually; as a result, the Group is unable to pass on to customers any changes in the prices of commodities during the year. The Group protects itself from the risk of changes in the price of brass and aluminium with supply contracts signed with suppliers for delivery up to twelve months in advance or, alternatively, with derivative financial instruments. In 2017 and 2016, the Group did not use financial derivatives on commodities.
To stabilise the rising costs of commodities, Sabaf preferred to execute transactions on the physical market, fixing prices with suppliers for immediate and deferred delivery.

Liquidity risk management

The Group operates with a low debt ratio (net financial debt / shareholders' equity at 31 December 2017 of 22%, net financial debt / EBITDA of 0.82) and has unused short-term lines of credit. To minimise the risk of liquidity, the Administration and Finance Department:

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

Below is an analysis by expiration date of financial payables at 31 December 2017 and 31 December 2016:

AT 31 DECEMBER 2017

	CARRYING VALUE	CONTRACTUAL FINANCIAL FLOWS	WITHIN 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 TO 5 YEARS	MORE THAN 5 YEARS
Short-term bank loans	11,157	11,157	11,157	0	-	-
Unsecured loans	22,280	22,676	1,537	4,612	16,527	-
Finance leases	1,611	1,818	47	141	754	876
Payables to ARC shareholders	240	240	-	60	180	-
ARC option	1,763	1,763	-	-	1,763	-
TOTAL FINANCIAL PAYABLES	**37,051**	**37,654**	**12,741**	**4,813**	**19,224**	**876**
Trade payables	19,975	19,975	19,021	954	-	-
TOTAL	**57,026**	**57,629**	**31,762**	**5,767**	**19,224**	**876**

AT 31 DECEMBER 2016

	CARRYING VALUE	CONTRACTUAL FINANCIAL FLOWS	WITHIN 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 TO 5 YEARS	MORE THAN 5 YEARS
Short-term bank loans	7,811	7,811	5,811	2,000	-	-
Unsecured loans	23,937	24,388	1,709	5,129	17,550	-
Finance leases	1,756	2,007	47	141	754	1,065
Payables to ARC shareholders	300	300	-	60	240	-
ARC option	1,522	1,522	-	-	1,522	-
TOTAL FINANCIAL PAYABLES	**35,326**	**36,028**	**7,567**	**7,330**	**20,066**	**1,065**
Trade payables	18,977	18,977	18,340	637	-	-
TOTAL	**54,303**	**55,005**	**25,907**	**7,967**	**20,066**	**1,065**

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

Hierarchical levels of fair value assessment

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

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

The following table shows the assets and liabilities valued at fair value at 31 December 2017, by hierarchical level of fair value assessment.

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Other financial assets (derivatives on interest rates)	-	7	-	7
Other financial liabilities (derivatives on interest rates)	-	(15)	-	(15)
Other financial liabilities (ARC put option)	-	-	(1,763)	(1,763)
TOTAL LIABILITIES	**0**	**(8)**	**(1,763)**	**(1,771)**

36. RELATED-PARTY TRANSACTIONS

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

Impact of related-party transactions on balance sheet items

	TOTAL 2017	GIUSEPPE SALERI S.A.P.A.	NON-CONSOLIDATED SUBSIDIARIES	OTHER RELATED PARTIES	TOTAL RELATED PARTIES	IMPACT ON THE TOTAL
Trade receivables	42,263	-	299	-	299	0.71%
Tax receivables	3,065	1,158	-	-	1,158	37.78%
Trade payables	19,976		-	2	2	0.01%

	TOTAL 2016	GIUSEPPE SALERI S.A.P.A.	NON-CONSOLIDATED SUBSIDIARIES	OTHER RELATED PARTIES	TOTAL RELATED PARTIES	IMPACT ON THE TOTAL
Trade receivables	36,842	-	221	-	221	0.60%
Tax receivables	3,163	1,158	-	-	1,158	36.61%
Trade payables	18,977	-	-	2	2	0.01%

Impact of related-party transactions on income statement accounts

	TOTAL 2017	GIUSEPPE SALERI S.A.P.A.	NON-CONSOLIDATED SUBSIDIARIES	OTHER RELATED PARTIES	TOTAL RELATED PARTIES	IMPACT ON THE TOTAL
Other income	3,361	10	-	-	10	0.30%
Services	(30,227)	-	(167)	(20)	(187)	0.62%

	TOTALE 2016	GIUSEPPE SALERI S.A.P.A.	NON-CONSOLIDATED SUBSIDIARIES	OTHER RELATED PARTIES	TOTAL RELATED PARTIES	IMPACT ON THE TOTAL
Other income	2,819	10	-	-	10	0.35%
Services	(27,983)	-	(181)	(22)	(203)	0.73%

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

- administration services provided by Sabaf S.p.A. to Giuseppe Saleri S.a.p.A.;
- transactions as part of the domestic tax consolidation scheme until 2016, which generated the receivables shown in the tables.

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

Fees to directors, statutory auditors and executives with strategic responsibilities

Please see the 2017 Report on Remuneration for this information.

37. SHARE-BASED PAYMENTS

At 31 December 2017, there were no equity-based incentive plans for the Group's directors and employees.

38. SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

Pursuant to CONSOB memorandum of 28 July 2006, the following section describes and comments on significant non-recurring events, the consequences of which are reflected in the economic, equity and financial results for the year:

	SHAREHOLDERS' EQUITY ATTRIBUTABLE TO THE GROUP	PROFIT ATTRIBUTABLE TO THE GROUP	NET FINANCIAL DEBT	CASH FLOWS
Financial statement values (A)	**113,595**	**14,835**	**25,533**	**(610)**
Recognition of "Patent box" tax benefit related to 2015 and 2016	(772)	(772)	-	-
Recognition of tax incentives for investments in Turkey carried out in previous financial years	(592)	(592)	-	-
FINANCIAL STATEMENT NOTIONAL VALUE (A+B)	**112,231**	**13,471**	**25,533**	**(610)**

As described in Note 31, in these consolidated financial statements, the Group recognised:
- the tax benefit relating to the Patent Box for the three-year period 2015 to 2017;
- the tax benefit on investments made in Turkey, against which a tax credit was recognised.
The tax benefits relating to previous years are considered non-recurring and are therefore shown in the table above.

39. ATYPICAL AND/OR UNUSUAL TRANSACTIONS

Pursuant to CONSOB memorandum of 28 July 2006, the Group declares that no atypical and/or unusual transactions as defined by the CONSOB memorandum were executed during 2017.

40. COMMITMENTS

Guarantees issued

The Sabaf Group has issued sureties to guarantee consumer and mortgage loans granted by banks to Group employees for a total of € 5,145,000 (€ 5,510,000 at 31 December 2016).

41. SCOPE OF CONSOLIDATION AND SIGNIFICANT EQUITY INVESTMENTS

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

COMPANY NAME	REGISTERED OFFICES	SHARE CAPITAL	SHAREHOLDERS	OWNERSHIP %
Faringosi Hinges s.r.l.	Ospitaletto (BS)	€ 90,000	Sabaf S.p.A.	100%
Sabaf Immobiliare s.r.l.	Ospitaletto (BS)	€ 25,000	Sabaf S.p.A.	100%
Sabaf do Brasil Ltda	Jundiaì (SP, Brazil)	BRL 24,000,000	Sabaf S.p.A.	100%
Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki	Manisa (Turkey)	TRK 28,000,000	Sabaf S.p.A.	100%
Sabaf Appliance Components Trading Ltd.	Kunshan (China)	€ 200,000	Sabaf S.p.A.	100%
Sabaf Appliance Components Ltd.	Kunshan (China)	€ 4,400,000	Sabaf S.p.A.	100%
A.R.C. s.r.l.	Campodarsego (PD) - Italy	€ 45,000	Sabaf S.p.A.	70%

Non-consolidated companies valued at cost

COMPANY NAME	REGISTERED OFFICES	SHARE CAPITAL	SHAREHOLDERS	OWNERSHIP %	HOLDING %
Sabaf US Corp.	Plainfield (USA)	USD 100,000	Sabaf S.p.A.	100%	100%
Handan ARC Burners Co., Ltd.	Handan (China)	RMB 7,000,000	A.R.C. s.r.l.	50%	35%

42. GENERAL INFORMATION ON THE PARENT COMPANY

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

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

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

APPENDIX

Information pursuant to article 149 *duodecies* of the CONSOB Issuers' Regulation

The following table, prepared pursuant to Article 149-*duodecies* of the CONSOB Issuers' Regulation, shows fees relating to 2017 for auditing and for services other than auditing provided by the Independent Auditor and its network.

(€/000)	PARTY PROVIDING THE SERVICE	RECIPIENT	FEES PERTAINING TO THE 2017 FINANCIAL YEAR
Audit	Deloitte & Touche S.p.A.	Parent company	57
	Deloitte & Touche S.p.A.	Italian subsidiaries	30
	Deloitte network	Sabaf do Brasil	27
	Deloitte network	Sabaf Turkey	21
Certification services	Deloitte & Touche S.p.A.	Parent company	2 (1)
	Deloitte & Touche S.p.A.	Italian subsidiaries	1 (1)
Other services	Deloitte & Touche S.p.A.	Parent company	14 (2)
	Deloitte network	Sabaf do Brasil	3 (3)
TOTAL			155

(1) Signing of Unified Tax Return, IRAP and 770 forms
(2) Auditing procedures agreement relating to interim management reports, auditing of statements and training activities
(3) Tax assistance regarding transfer pricing

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

of the administrative and accounting procedures for the formation of the consolidated financial statements during the 2017 financial year.

They also certify that:

- the Consolidated financial statements:
  - were prepared in accordance with the international accounting policies recognised in the European Community in accordance with EC regulation 1606/2002 of the European Parliament and Council of 19 July 2002 and with the measures issued in implementation of Article 9 of Italian Legislative Decree 38/2005;
  - are consistent with accounting books and records;
  - provide a true and fair view of the operating results, financial position and cash flows of the issuer and of the companies included in the consolidation;
- the report on operations contains a reliable analysis of the performance and results of operations and the situation of the issuer and the companies included in the scope of consolidation, along with a description of the key risks and uncertainties to which they are exposed.

Ospitaletto, 26 March 2018

Chief Executive Officer	**The Financial Reporting Officer**
Pietro Iotti	Gianluca Beschi

Deloitte.

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25124 Brescia
Italia

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INDEPENDENT AUDITOR'S REPORT PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010 AND ARTICLE 10 OF THE EU REGULATION 537/2014

To the Shareholders of
SABAF S.p.A.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Sabaf Group (the Group), which comprise the consolidated statement of financial position as at December 31, 2017, the consolidated income statement, the consolidated statement of comprehensive income, the statement of changes in consolidated shareholders' equity, the consolidated cash flow statement for the year then ended, and the related explanatory notes.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the parent company Sabaf S.p.A. (the "Company") in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Roma Torino Treviso Verona

Sede Legale: Via Tortona, 25 - 20144 Milano | Capitale Sociale: Euro 10.328.220,00 i.v.
Codice Fiscale/Registro delle Imprese Milano n. 03049560166 - R.E.A. Milano n. 1720239 | Partita IVA: IT 03049560166

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Impairment test on goodwill

Description of key audit matter

The consolidated financial statements of the Sabaf Group as at December 31, 2017 report goodwill of Euro 6,215 thousand (3.4% of consolidated assets). Based on the Group's strategic and organisational decisions, the goodwill has been allocated to the "Hinges" cash generating unit (hereinafter, also "CGU") in the amount of Euro 4,445 thousand and to the "Professional Burners" CGU in the amount of Euro 1,770 thousand. Impairment tests have been performed by comparing the recoverable amount of the CGU with carrying amount, which takes account of both the goodwill and the other tangible and intangible assets allocated to the CGU. The impairment test was set up by Management which considers recoverable amount as value in use, determining the value of the assets based on their ability to generate future cash flows.

The impairment process carried out by the Management is complex since it includes several assumptions regarding the forecasted future cash flows from CGUs, the definition of an appropriate discount rate (WACC) and of a long-term growth rate (g-rate). In order to determine the recoverable amounts, the Group took into account cash flows as reported in the 2018-2022 forward plan, drafted at the beginning of 2018.

The assumptions on forecast cash flows are affected by future expectations on exogenous variables, among which the most relevant are the market evolution, in term of volumes and values and the discount rates.

Considering the relevant value of assets accounted for within the financial statements, and the subjectivity of estimates used to determine future cash flows, as well as the variables described above, we considered the impairment test to be a key audit matter for Sabaf Group consolidated financial statements.

The paragraphs "Use of estimates" and in particular the section "Goodwill" of the paragraph "Intangible assets", within the explanatory notes report information on the impairment test, including the sensitivity analysis, which shows the effects of variations of the key variables used in implementing the impairment test.

Audit procedures

We first examined how the Management determined the value in use of the CGUs, taking into account procedures and assumptions on which the impairment test is based.

In particular, we carried out the following procedures, with assistance of experts of our network:

- observation and understanding of relevant controls carried out by the Group on the implementation of the impairment test;
- Assessment of the reasonableness of main assumptions used to forecast cash flows, also through analysis of sector-based data (for example national demand, estimates on GDP growth) and collection of other relevant information for us obtained by the Management;
- Analysis of actual values, compared with the original plans, in order to understand the nature of variations and the reliability of the budgeting process;
- Assessment of the reasonableness of the discount rate (WACC) and the growth rate (g-rate);
- Assessment of mathematical accuracy of the model used to determine the value in use of CGUs;

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- Verification of the correct determination of the carrying amount of the assets allocated to the CGU "Hinges" and "Professional burners" and comparison with the recoverable amount emerging from the impairment test;

- Assessment of the sensitivity analysis implemented by Management;

- Assessment of compliance with applicable accounting standards over the procedures implemented by Management for the impairment test;

- Assessment of compliance with IAS 36 over the information disclosed by the Group with reference to the impairment test.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05, and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the parent company Sabaf S.p.A. or the termination of the business or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of Sabaf S.p.A. has appointed us on April 28, 2009 as auditors of the Company for the years from December 31, 2009 to December 31, 2017.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

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REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14 paragraph 2 (e) of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of Sabaf S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and the ownership structure of Sabaf Group as at December 31, 2017, including their consistency with the related consolidated financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and the ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98, with the consolidated financial statements of Sabaf Group as at December 31, 2017 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and the ownership structure are consistent with the consolidated financial statements of Sabaf Group as at December 31, 2017 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the Group and of the related context acquired during the audit, we have nothing to report.

Statement pursuant to art. 4 of the Consob Regulation for the implementation of Legislative Decree 30 December 2016, no. 54

The Directors of Sabaf S.p.A. are responsible for the preparation of the non-financial statement pursuant to Legislative Decree 30 December 2016, no. 254.

We verified the approval by the Directors of the non-financial statement.

Pursuant to art. 3, paragraph 10 of Legislative Decree 30 December 2016, no. 254, this statement is subject of a separate attestation issued by other auditor.

DELOITTE & TOUCHE S.p.A.

Signed by
Andrea Restelli
Partner

Brescia, Italy
April 12, 2018

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

Social

A major company like ours sets out to serve as a point of reference for society as a whole: we are committed to establishing a responsible and sustainable relationship with the local communities in which we operate.

SABAF®

Separate financial statements at 31 december 2017

Corporate bodies

Board of Directors

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

Board of Statutory Auditors

Chairman	Antonio Passantino
Statutory Auditor	Luisa Anselmi
Statutory Auditor	Enrico Broli

Independent Auditor

Deloitte & Touche S.p.A.

* Independent directors

Statement of financial position

(IN €)	NOTES	31.12.2017	31.12.2016
ASSETS			
Non-current assets			
Property, plant and equipment	1	31,610,510	31,092,204
Investment property	2	1,453,564	1,645,412
Intangible assets	3	3,370,260	3,095,000
Equity investments	4	49,451,811	50,098,459
Non-current financial assets	5	1,847,639	2,137,353
- of which from related parties	36	*1,667,639*	*1,897,353*
Non-current receivables		19,871	11,621
Deferred tax assets	21	3,455,483	3,315,263
TOTAL NON-CURRENT ASSETS		**91,209,138**	**91,395,312**
Current assets			
Inventories	6	24,768,927	23,492,840
Trade receivables	7	31,154,012	27,465,436
- of which from related parties	36	*1,208,883*	*1,191,581*
Tax receivables	8	2,229,708	2,477,294
- of which from related parties	36	*1,083,666*	*1,083,666*
Other current receivables	9	721,529	1,039,324
Current financial assets	10	1,067,429	1,060,000
- of which from related parties	36	*1,000,000*	*1,000,000*
Cash and cash equivalents	11	2,696,664	1,796,980
TOTAL CURRENT ASSETS		**62,638,269**	**57,331,874**
Assets held for sale		**0**	**0**
TOTAL ASSETS		**153,847,407**	**148,727,186**

SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	12	11,533,450	11,533,450
Retained earnings, other reserves		72,552,367	77,530,764
Profit for the year		8,001,327	2,459,688
TOTAL SHAREHOLDERS' EQUITY		**92,087,144**	**91,523,902**
Non-current liabilities			
Loans	14	16,297,969	17,281,379
Other financial liabilities	15	180,000	240,000
Post-employment benefit and retirement reserves	16	2,199,523	2,435,538
Provisions for risks and charges	17	369,482	322,979
Deferred tax liabilities	21	67,983	129,289
TOTAL NON-CURRENT LIABILITIES		**19,114,957**	**20,409,185**
Current liabilities			
Loans	14	18,927,558	14,054,604
- of which from related parties	36	*2,100,000*	*0*
Other financial liabilities	15	74,849	298,161
Trade payables	18	16,569,390	16,010,381
- of which from related parties	36	*509,631*	*104,142*
Tax payables	19	623,013	641,944
Other payables	20	6,450,496	5,789,009
TOTAL CURRENT LIABILITIES		**42,645,306**	**36,794,099**
Liabilities held for sale		**0**	**0**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**153,847,407**	**148,727,186**

Income statement

(IN €)	NOTES	2017	2016
INCOME STATEMENT COMPONENTS			
Operating revenue and income			
Revenue	23	115,687,029	101,523,407
- of which from related parties	36	*10,238,606*	*6,680,209*
Other income	24	2,647,542	2,278,649
TOTAL OPERATING REVENUE AND INCOME		**118,334,571**	**103,802,056**
Operating costs			
Materials	25	(46,554,625)	(36,875,454)
Change in inventories		1,276,087	(1,182,000)
Services	26	(27,603,637)	(26,031,824)
- of which by related parties	36	*(3,966,399)*	*(4,151,074)*
Payroll costs	27	(28,734,310)	(26,382,450)
Other operating costs	28	(715,296)	(647,178)
Costs for capitalised in-house work		1,474,322	841,526
TOTAL OPERATING COSTS		**(100,857,459)**	**(90,277,380)**
OPERATING PROFIT BEFORE DEPRECIATION AND AMORTISATION, CAPITAL GAINS/LOSSES, WRITE-DOWNS/WRITE-BACKS OF NON-CURRENT ASSETS		**17,477,112**	**13,524,676**
Depreciations and amortisation	1,2,3	(8,843,617)	(9,020,829)
Capital gains/(losses) on disposals of non-current assets		97,873	87,113
Write-downs/write-backs of non-current assets	29	(681,628)	(521,021)
- of which by related parties	36	*(681,628)*	*(521,021)*
EBIT		**8,049,740**	**4,069,939**
Financial income		88,754	84,559
Financial expenses	30	(482,136)	(512,872)
Exchange rate gains and losses	31	(88,145)	(48,356)
Profits and losses from equity investments	32	1,503,354	0
PROFIT BEFORE TAXES		**9,071,567**	**3,593,270**
Income tax	33	(1,070,240)	(1,133,582)
PROFIT FOR THE YEAR		**8,001,327**	**2,459,688**

Comprehensive income statement

(IN €)	2017	2016
PROFIT FOR THE YEAR	8,001,327	2,459,688
Total profits/losses that will not be subsequently reclassified under profit (loss) for the year		
• Actuarial post-employment benefit reserve evaluation	73,372	(35,894)
• Tax effect	(17,609)	8,615
Total other profits/(losses) net of taxes for the year	**55,763**	**(27,279)**
TOTAL PROFIT	8,057,090	2,432,409

Statement of changes in shareholders' equity

(€/000)	Share Capital	Share premium reserve	Legal reserve	Treasury shares	Actuarial post-employment benefit reserve evaluation	Other reserves	Profit for the year	Total shareholders' equity
BALANCE AT 31 DEC 2015	**11,533**	**10,002**	**2,307**	**(723)**	**(506)**	**67,979**	**5,642**	**96,234**
Allocation of 2015 profit								
• dividends paid out							(5,467)	(5,467)
• to reserve						175	(175)	
Purchase of treasury shares				(1,676)				(1,676)
Total profit at 31 Dec 2016					(27)		2,460	2,433
BALANCE AT 31 DEC 2016	**11,533**	**10,002**	**2,307**	**(2,399)**	**(533)**	**68,154**	**2,460**	**91,524**
2017 dividend payment						(2,924)	(2,460)	(5,384)
Purchase of treasury shares				(2,110)				(2,110)
Total profit at 31 Dec 2017					56		8,001	8,057
TOTAL PROFIT AT 31 DEC 2017	**11,533**	**10,002**	**2,307**	**(4,509)**	**(477)**	**65,230**	**8,001**	**92,087**

Cash flow Statement

(€/000)	2017 FY	2016 FY
Cash and cash equivalents at beginning of year	**1,797**	**1,090**
Profit for the year	8,001	2,460
Adjustments for:		
• Depreciation and amortisation	8,844	9,021
• Realised gains	(98)	(87)
• Write-downs/write-backs of non-current assets	622	521
• Profits and losses from equity investments	(1,503)	
• Net financial income and expenses	393	428
• Non-monetary foreign exchange differences	23	(60)
• Income tax	1,070	1,133
Change in post-employment benefit reserve	(263)	(131)
Change in risk provisions	47	(3)
Change in trade receivables	*(3,689)*	*5,405*
Change in inventories	*(1,276)*	*1,182*
Change in trade payables	*559*	*(2,192)*
Change in net working capital	**(4,406)**	**4,395**
Change in other receivables and payables, deferred tax	830	367
Payment of taxes	(847)	(2450)
Payment of financial expenses	(456)	(474)
Collection of financial income	89	85
CASH FLOW FROM OPERATIONS	**12,554**	**15,205**
Investments in non-current assets		
• intangible	(1,099)	(735)
• tangible	(8,670)	(7,298)
• financial	-	(4,800)
Disposal of non-current assets	449	242
CASH FLOW ABSORBED BY INVESTMENTS	**(9,319)**	**(12,591)**
Repayment of loans	(10,607)	(19,077)
Raising of loans	14,273	24,243
Change in financial assets	(7)	69
Sale of treasury shares	(2,110)	(1,675)
Payment of dividends	(5,384)	(5,467)
Collection of dividends	1,500	-
CASH FLOW ABSORBED BY FINANCING ACTIVITIES	**(2,335)**	**(1,907)**
TOTAL FINANCIAL FLOWS	**900**	**707**
Cash and cash equivalents at end of year (Note 11)	**2,697**	**1,797**
Net current financial debt	15,239	11,496
Non-current financial debt	16,478	17,521
NET FINANCIAL DEBT (NOTE 22)	**31,717**	**29,017**

Explanatory notes

Accounting standards

STATEMENT OF COMPLIANCE AND BASIS OF PRESENTATION

The separate financial statements of Sabaf S.p.A. for the financial year 2017 have been prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Union. Reference to IFRS also includes all current International Accounting Standards (IAS).
The separate financial statements are drawn up in euro, which is the currency in the economy in which the Company operates. The income statement, the comprehensive income statement and the statement of financial position schedules are prepared in euro, while the cash flow statement, the statement of changes in shareholders' equity and the values reported in the explanatory notes are in thousands of euro.
The financial statements have been prepared on a historical cost basis except for some revaluations of property, plant and equipment undertaken in previous years, and are considered a going concern. The Company assessed that it is a going concern (as defined by paragraphs 25 and 26 of IAS 1), also due to the strong competitive position, high profitability and solidity of the financial structure.
Sabaf S.p.A., as the Parent Company, also prepared the consolidated financial statements of the Sabaf Group at 31 December 2017.

FINANCIAL STATEMENTS

The Company has adopted the following formats:

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

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

ACCOUNTING POLICIES

The accounting standards and policies applied for the preparation of the separate financial statements at 31 December 2017, unchanged versus the previous year, are shown below:

Property, plant and equipment

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

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

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

Investment property

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

Intangible assets

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

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

Equity investments and non-current receivables

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

Impairment of value

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

Inventories

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

Receivables

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

Current and non-current financial assets

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

Provisions for risks and charges

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

Post-employment benefit reserve

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

Payables

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

Loans

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

Policy for conversion of foreign currency items

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

Derivative instruments and hedge accounting

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

Revenue reporting

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

Financial income

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

Financial expenses

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

Income taxes for the year

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

Dividends

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

Treasury shares

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

Use of estimates

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

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

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

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

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

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

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

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

New accounting standards

Accounting standards, amendments and interpretations applicable from 1 January 2017

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

- Amendment to **IAS 12** ***"Recognition of Deferred Tax Assets for Unrealised Losses"*** (published on 19 January 2016). The aim of the document is to provide some clarification on the recognition of deferred tax assets on unrealised losses in the measurement of financial assets in the "Available for Sale" category upon the occurrence of certain circumstances and on the estimate of taxable income for future years.

The adoption of these amendments did not have any effect on the Company's separate financial statements.

IFRS and IFRIC accounting standards, amendments and interpretations approved by the European Union, not yet universally applicable and not adopted early by the Company at 31 December 2017

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

The principle applies from 1 January 2018. The amendments to IFRS 15, Clarifications to IFRS 15 - Revenue from Contracts with Customers, were approved by the European Union on 6 November 2017.
On the basis of the analyses carried out, the directors expect that the application of IFRS 15 will have a minor impact on the amounts recorded as revenues and on the related disclosures in the Company's separate financial statements.

- Final version of **IFRS 9 – *Financial Instruments*** (published on 24 July 2014). The document includes the results of the IASB project designed to replace **IAS 39**:
  - introduces new methods for the classification and measurement of financial assets and liabilities (together with the measurement of non-substantial changes in financial liabilities);
  - with reference to the impairment model, the new standard requires that the estimate of credit losses be made on the basis of the expected losses model (and not on the basis of the incurred losses model used by IAS 39) using supportable information available without unreasonable effort or expense that include historical, current and future figures;
  - introduces a new hedge accounting model (increase in the types of transactions eligible for hedge accounting, changes in the method of recognition of forward contracts and options when included in a hedge accounting report, changes in efficacy tests).

  The new standard must be applied by financial statements from 1 January 2018 onwards.

On the basis of the analyses carried out, the directors expect that the application of **IFRS 9** will have a minor impact on the amounts and on the related disclosures in the Company's separate financial statements.

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

The directors expect that the application of **IFRS 16** can have a significant impact on the amounts and on the relevant disclosures in the Company's separate statements. However, it is not possible to provide a reasonable estimate of the effects until the Company has completed a detailed analysis of the related contracts.

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

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

- Amendment to **IFRS 2** "***Classification and measurement of share-based payment transactions"*** (published on 20 June 2016), which contains some clarification on the recording of the effects of vesting conditions in the presence of cash-settled share-based payments, on the classification of share-based payments with net settlement characteristics and on the recording of amendments under the terms and conditions of a share-based payment that change their classification from cash-settled to equity-settled. The amendments apply from 1 January 2018. The directors do not expect a significant effect on the Company's separate financial statements through the adoption of these changes.

- Document "Annual Improvements to **IFRSs**: 2014-2016 Cycle", published on 8 December 2016 (including **IFRS 1** ***First-Time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters, IAS 28 Investments in Associates and Joint Ventures – Measuring investees at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice***, **IFRS 12** ***Disclosure of Interests in Other Entities – Clarification of the scope of the Standard***) which partially integrate the existing standards. Most of the amendments apply from 1 January 2018. The directors do not expect a significant effect on the Company's separate financial statements through the adoption of these amendments.

- **IFRIC 22** ***Interpretation "Foreign Currency Transactions and Advance Consideration"*** (published on 8 December 2016). The interpretation aims to provide guidelines for foreign currency transactions if advances or non-cash payments are recognised in the financial statements, prior to the recognition of the related asset, cost or revenue. This document provides guidance on how an entity should determine the date of a transaction, and consequently, the spot exchange rate to be used when foreign currency transactions occur in which the payment is made or received in advance. IFRIC 22 is applicable from 1 January 2018.

- Amendment to **IAS 40** ***"Transfers of Investment Property"*** (published on 8 December 2016). These amendments clarify the transfers of a property to, or from, investment property. In particular, an entity must reclassify a property among, or from, investment property only when there is evidence that there was a change in the intended use of the property. This change must refer to a specific event that happened and must not be limited to a change of intention by the Management of an entity. These amendments are applicable from 1 January 2018. The directors do not expect a significant effect on the Company's separate financial statements through the adoption of these changes.

- On 7 June 2017, **IASB** published the clarification document **IFRIC 23** ***– Uncertainty over Income Tax Treatments***. The document deals with uncertainties about the tax treatment of income taxes. The document requires that uncertainties in determining deferred tax assets and liabilities be reflected in the financial statements only when it is probable that the entity will pay or recover the amount in question. Moreover, the document does not contain any new disclosure requirement but emphasises that an entity will have to determine whether it will be necessary to disclose information on management considerations and on the uncertainty relating to tax accounting in accordance with IAS 1. The new interpretation applies from 1 January 2019, but early application is permitted.

- Amendment to **IFRS 9** ***"Prepayment Features with Negative Compensation*** (published on 12 October 2017). This document specifies the instruments that envisage early repayment that could comply with the "SPPI" test even if the "reasonable additional compensation" to be paid in the event of early repayment is a "negative compensation" for the lender. The amendment applies from 1 January 2019, but early application is permitted. The directors do not expect a significant effect on the Company's separate financial statements through the adoption of these changes.

- Amendment to **IAS 28** ***"Long-term Interests in Associates and Joint Ventures"*** (published on 12 October 2017)". This document clarifies the need to apply IFRS 9, including the requirements of impairment, to other long-term interests in associate companies and joint ventures that are not accounted for under the equity method. The amendment applies from 1 January 2019, but early application is permitted. The directors do not expect a significant effect on the Company's separate financial statements through the adoption of these changes.

- Document "Annual Improvements to **IFRSs** 2015-2017 Cycle", published on 12 December 2017 (including **IFRS 3** ***Business Combinations*** and **IFRS 11** ***Joint Arrangements – Remeasurement of previously held interest in a joint operation***, **IAS 12** ***Income Taxes – Income tax consequences of payments on financial instruments classified as equity***, **IAS 23** ***Borrowing costs Disclosure of Interests in Other Entities – Borrowing costs eligible for capitalisation***) which implements changes to some standards as part of the annual process of improving them. The amendments apply from 1 January 2019 but early application is permitted. The directors do not expect a significant effect on the Company's separate financial statements through the adoption of these changes.

Comments on the main items of the statement of financial position

1. PROPERTY, PLANT AND EQUIPMENT

	Property	Plant and equipment	Other assets	Assets under construction	Total
COST					
AT 31 DECEMBER 2015	**6,275**	**155,364**	**30,574**	**1,672**	**193,885**
Increases	53	5,325	1,462	758	7,598
Disposals	(1)	(2,982)	(236)	-	(3,219)
Reclassification	-	684	19	(1,003)	(300)
AT 31 DECEMBER 2016	**6,327**	**158,391**	**31,819**	**1,427**	**197,964**
Increases	56	5,347	1,770	1,785	8,958
Disposals	-	(721)	(430)	(33)	(1,184)
Reclassification	18	551	59	(883)	(255)
AT 31 DECEMBER 2017	**6,401**	**163,568**	**33,218**	**2,296**	**205,483**
ACCUMULATED DEPRECIATION					
AT 31 DECEMBER 2015	**2,711**	**131,920**	**27,314**	**-**	**161,945**
Depreciations for the year	176	6,200	1,702	-	8,078
Eliminations for disposals	-	(2,973)	(178)	-	(3,151)
AT 31 DECEMBER 2016	**2,887**	**135,147**	**28,838**	**-**	**166,872**
Depreciations for the year	177	6,221	1,521	-	7,920
Eliminations for disposals	-	(525)	(395)	-	(920)
AT 31 DECEMBER 2017	**3,064**	**140,843**	**29,965**	**-**	**173,872**
NET CARRYING VALUE					
AT 31 DECEMBER 2017	**3,337**	**22,725**	**3,253**	**2,296**	**31,611**
AT 31 DECEMBER 2016	**3,440**	**23,244**	**2,981**	**1,427**	**31,092**

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

	31.12.2017	31.12.2016	CHANGE
Land	1,291	1,291	-
Industrial buildings	2,046	2,149	(103)
TOTAL	**3,337**	**3,440**	**(103)**

The main investments in the financial year were aimed at the further automation of production of light alloy valves and interconnection of production plants with management systems (Industry 4.0). Other investments were made in the production of presses for new burners. Investments in maintenance and replacement, so that production equipment is kept constantly up to date and efficient, are systematic.
Decreases mainly relate to the disposal of machinery no longer in use.

Assets under construction include machinery under construction and advance payments to suppliers of capital equipment.
At 31 December 2017, the Company found no endogenous or exogenous indicators of impairment of its property, plant and equipment. As a result, the value of property, plant and equipment was not submitted to impairment testing.

2. INVESTMENT PROPERTY

COST	
AT 31 DECEMBER 2015	**6,675**
Increases	-
Disposals	-
AT 31 DECEMBER 2016	**6,675**
Increases	-
Disposals	-
AT 31 DECEMBER 2017	**6,675**
ACCUMULATED DEPRECIATIONS	
AT 31 DECEMBER 2015	**4,838**
Depreciations for the year	192
AT 31 DECEMBER 2016	**5,030**
Depreciations for the year	191
AT 31 DECEMBER 2017	**5,221**
NET CARRYING VALUE	
AT 31 DECEMBER 2017	**1,454**
AT 31 DECEMBER 2016	**1,645**

This item includes non-operating buildings owned by the Group. During the year this item did not undergo any changes except for depreciations for the year.

At 31 December 2017, the Company found no endogenous or exogenous indicators of impairment of its investment property. As a result, the value of investment property was not submitted to impairment testing.

3. INTANGIBLE ASSETS

	Patents, know-how and software	Development costs	Other intangible assets	Total
COST				
AT 31 DECEMBER 2015	**6,113**	**4,676**	**1,807**	**12,596**
Increases	108	313	53	474
Reclassifications	54	(87)	207	174
Decreases	-	-	-	-
AT 31 DECEMBER 2016	**6,275**	**4,902**	**2,067**	**13,244**
Increases	243	441	161	845
Reclassifications	99		155	254
Decreases	(14)	(79)	(14)	(107)
AT 31 DECEMBER 2017	**6,603**	**5,264**	**2,369**	**14,236**
AMORTISATION AND WRITE-DOWNS				
AT 31 DECEMBER 2015	**5,619**	**2,347**	**1,432**	**9,398**
Amortisation	254	350	147	751
Decreases	-	-	-	-
AT 31 DECEMBER 2016	**5,873**	**2,697**	**1,579**	**10,149**
Amortisation	242	341	148	731
Decreases	(14)	-	-	(14)
AT 31 DECEMBER 2017	**6,101**	**3,038**	**1,727**	**10,866**
NET CARRYING VALUE				
AT 31 DECEMBER 2017	**502**	**2,226**	**642**	**3,370**
AT 31 DECEMBER 2016	**402**	**2,205**	**488**	**3,095**

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

At 31 December 2017, the Company found no endogenous or exogenous indicators of impairment of its intangible assets. As a result, the value of property, plant and equipment was not submitted to impairment testing.

4. EQUITY INVESTMENTS

	31.12.2017	31.12.2016	CHANGE
In subsidiaries	49,417	50,039	(622)
Other equity investments	34	59	(25)
TOTAL	**49,451**	**50,098**	**(647)**

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

	SABAF IMMOBI-LIARE	FARINGOSI HINGES	SABAF DO BRASIL	SABAF U.S.	SABAF APPLIANCE COMPO-NENTS (CHINA)	SABAF A.C. TRADING (CHINA)	SABAF TURKEY	A.R.C. S.R.L.	TOTAL
HISTORICAL COST									
AT 31 DECEMBER 2015	13,475	10,329	8,469	139	4,400	200	12,005	0	49,017
Purchase of equity investments	-	-	-	-	-	-	-	4,800	4,800
AT 31 DECEMBER 2016	13,475	10,329	8,469	139	4,400	200	12,005	4,800	53,817
Purchase of equity investments	-	-	-	-	-	-	-	-	0
AT 31 DECEMBER 2017	13,475	10,329	8,469	139	4,400	200	12,005	4,800	53,817
PROVISION FOR WRITE-DOWNS									
AT 31 DECEMBER 2015	0	0	0	0	3,257	0	0	0	3,257
Write-downs (Note 28)	-	-	-	-	521	-	-	-	521
AT 31 DECEMBER 2016	0	0	0	0	3,778	0	0	0	3,778
Write-downs (Note 28)	-	-	-	-	622	-	-	-	622
AT 31 DECEMBER 2017	0	0	0	0	4,400	0	0	0	4,400
NET CARRYING VALUE									
AT 31 DECEMBER 2017	13,475	10,329	8,469	139	0	200	12,005	4,800	49,417
AT 31 DECEMBER 2016	13,475	10,329	8,469	139	622	200	12,005	4,800	50,039
PORTION OF SHAREHOLDERS' EQUITY (CALCULATED IN COMPLIANCE WITH IFRS)									
AT 31 DECEMBER 2017	30,061	6,248	10,409	(79)	(60)	251	16,449	3,200	66,479
AT 31 DECEMBER 2016	30,027	5,546	10,628	(25)	683	266	14,805	3,025	64,955
DIFFERENCE BETWEEN SHAREHOLDERS' EQUITY AND CARRYING VALUE									
AT 31 DECEMBER 2017	16,586	(4,081)	1,940	(218)	(60)	51	4,444	(1,600)	17,062
AT 31 DECEMBER 2016	16,552	(4,783)	2,159	(164)	61	66	2,800	(1,775)	14,916

Faringosi Hinges s.r.l

In 2017, the Faringosi Hinges achieved very positive and better results, in terms of sales and profitability, both compared to the previous year and compared to the budget. The 2018-2022 forward plan, drafted at the beginning of 2018, envisages a further increase in sales. Profitability is expected to decline in 2018, following the devaluation of the dollar (the currency in which more than 40% of sales are denominated) and the increase in the price of steel, before gradually recovering in subsequent years. At 31 December 2017, Sabaf S.p.A. tested the carrying value of the equity investment for impairment, determining its recoverable value, considered to be equivalent to its usable value plus available liquidity, by discounting expected future cash flows in the forward plan drafted by the management. Cash flows for the period from 2018 to 2022 were augmented by the so-called terminal value, which expresses the operating flows that the investee is expected to generate from the sixth year to infinity and determined based on the perpetual income. The value of use was calculated based on a discount rate (WACC) of 9.18% (7.76% in the impairment test conducted while drafting the separate financial statements at 31 December 2016) and a growth rate (g) of 1.50%, which is in line with historical data.

The recoverable value calculated on the basis of the above-mentioned assumptions and valuation techniques is € 12.279 million, compared with a carrying value of the equity investment of € 10.329 million; consequently, the value recorded for equity investment at 31 December 2017 was deemed recoverable.

Sensitivity analysis

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

(€/000)	GROWTH RATE				
DISCOUNT RATE	1.00%	1.25%	1.50%	1.75%	2.00%
8.18%	13,466	13,888	14,341	14,830	15,358
8.68%	12,490	12,851	13,237	13,651	14,096
9.18%	11,635	11,847	12,279	12,634	13,013
9.68%	10,882	11,154	11,442	11,748	12,074
10.18%	10,213	10,451	10,703	10,969	11,252

Sabaf do Brasil

In 2017, Sabaf do Brasil continued to obtain positive results, which improved compared with 2016. The decrease in shareholders' equity (converted into euros at the end-of-year exchange rate) is entirely attributable to the devaluation of the Brazilian real.

Sabaf U.S.

The subsidiary Sabaf U.S. operates as a commercial support for North America.
The difference between the carrying value and the shareholders' equity of the investee is attributable to the non-durable losses taking into consideration expected development on the North American market.

Sabaf Appliance Components

Sabaf Appliance Components (Kunshan) Co., Ltd. has been producing burners for the Chinese market since 2015. Furthermore, the company has performed the function as distributor on the Chinese market of Sabaf products manufactured in Italy and Turkey. Low production volumes have enabled the company to reach the break-even point in 2017. At 31 December 2017, the value of the equity investment decreased by € 622,000, zeroing the value of shareholders' equity at the end of the year, in that the loss was considered permanent.

Sabaf Appliance Components Trading

Sabaf Appliance Components Trading (Kunshan) Co., Ltd., was founded during 2012 in order to perform the function as distributor. During 2015, this activity was centralised at Sabaf Appliance Components; however, the company went into liquidation; the process of liquidation will end in 2018.

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

Sabaf Turkey achieved extremely satisfactory results in 2017 as well. The conversion into euro of the shareholders' equity at the end of the financial year was affected by the strong devaluation of the Turkish lira at the end of 2017; however, the shareholders' equity remains higher than the carrying value of the equity investment.

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

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

At 31 December 2017, the Company tested the carrying value of the equity investment for impairment, determining its recoverable value, considered to be equivalent to its usable value plus available liquidity, by discounting expected future cash flows in the forward plan drafted at the beginning of 2018. Cash flows for the period from 2018 to 2022 were augmented by the so-called terminal value, which expresses the operating flows that the investee is expected to generate from the fourth year to infinity and determined based on the perpetual income. The value of use was calculated based on a discount rate (WACC) of 6.90% (5.79% in the impairment test carried out while drafting the separate financial statements at 31 December 2016) and a growth rate (g) of 1.50%, in line with last year.

The portion pertaining to Sabaf S.p.A. of the recoverable value calculated on the basis of the above-mentioned assumptions and valuation techniques is € 8.746 million (70% of total recoverable value, equal to € 12.495 million), compared with a carrying value of the equity investment of € 4.8 million; consequently, the carrying value recorded for equity investment at 31 December 2017 was deemed recoverable.

Sensitivity analysis

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

(€/000)	GROWTH RATE				
DISCOUNT RATE	1.00%	1.25%	1.50%	1.75%	2.00%
5.90%	13,929	14,531	15,201	15,951	16,798
6.40%	12,692	13,176	13,709	14,299	14,957
6.90%	11,667	12,063	12,495	12,970	13,493
7.40%	10,804	11,133	11,490	11,879	12,303
7.90%	10,067	10,345	10,643	10,967	11,317

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

The option for the purchase of the residual 30% of A.R.C. represents a derivative instrument; since the exercise price defined by contract was considered representative of the fair value of the portion that can be potentially acquired, no value was recorded in the separate financial statements ended 31 December 2017.

5. NON-CURRENT FINANCIAL ASSETS

	31.12.2017	31.12.2016	CHANGE
Financial receivables from subsidiaries	1,668	1,897	(229)
Escrow bank account	180	240	(60)
TOTAL	**1,848**	**2,137**	**(289)**

At 31 December 2017 and at 31 December 2016, financial receivables from subsidiaries consist of an interest-bearing loan of USD 2 million, granted to the subsidiary Sabaf do Brasil with the aim of optimising the Group's exposure to foreign exchange rate risk and whose maturity, originally expected for 31 March 2017, was postponed to 14 March 2019.

As part of the acquisition of 70% of A.R.C., Sabaf S.p.A. deposited in an escrow account the total amount of € 300,000. This amount was deducted from the consideration agreed to guarantee the commitments assumed by the sellers and will be released in favour of the sellers at constant rates in 4 years (Note 15). At 31 December 2017, the portion due beyond 12 months amounted to € 180,000.

6. INVENTORIES

	31.12.2017	31.12.2016	CHANGE
Commodities	8,795	7,455	1,340
Semi-processed goods	9,115	9,310	(195)
Finished products	8,789	8,773	16
Obsolescence provision	(1,930)	(2,045)	115
TOTAL	**24,769**	**23,493**	**1,276**

The value of final inventories at 31 December 2017 increased compared to the end of the previous year to meet the higher volumes of activity. The obsolescence provision is mainly allocated for hedging the obsolescence risk, quantified on the basis of specific analyses carried out at the end of the year on slow-moving and non-moving products, and refers to raw materials for € 453,000, semi-finished products for € 536,000 and finished products for € 941,000.

7. TRADE RECEIVABLES

	31.12.2017	31.12.2016	CHANGE
Total trade receivables	31,754	28,065	3,689
Bad debt provision	(600)	(600)	0
NET TOTAL	**31,154**	**27,465**	**3,689**

At 31 December 2017, trade receivables included balances totalling USD 3,656,000, booked at the EUR/USD exchange rate in effect on 31 December 2017, i.e. 1.1993. The amount of trade receivables recognised in the financial statements includes approximately € 22 million of insured receivables (€ 14 million at 31 December 2016).

The bad debt provision is considered adequate to cover the credit risk at the end of the reporting period, unchanged from the previous year.
Trade receivables at 31 December 2017 were higher than at the end of 2016 subsequent to higher sales. There were no significant changes in average payment terms agreed with customers.

	31.12.2017	31.12.2016	CHANGE
Current receivables (not past due)	28,591	24,378	4,213
Outstanding up to 30 days	1,524	2,242	(718)
Outstanding from 31 to 60 days	754	184	570
Outstanding from 61 to 90 days	519	64	455
Outstanding for more than 90 days	366	1,197	(831)
TOTAL	**31,754**	**28,065**	**3,689**

8. TAX RECEIVABLES

	31.12.2017	31.12.2016	CHANGE
For income tax	1,644	2,075	(431)
For VAT and other sales taxes	586	402	184
TOTAL	**2,230**	**2,477**	**(247)**

The income tax receivables derives for € 1,153,000 from the full deductibility of IRAP from IRES relating to the expenses incurred for employees for the 2006-2011 period (Italian Legislative Decree 201/2011), for which an application for a refund was presented and, for the residual part, to the payments on account on 2017 income, for the part exceeding the tax to be paid.

9. OTHER CURRENT RECEIVABLES

	31.12.2017	31.12.2016	CHANGE
Credits to be received from suppliers	351	678	(327)
Advances to suppliers	28	54	(26)
Due from INAIL	21	58	(37)
Other	322	249	73
TOTAL	**722**	**1,039**	**(317)**

At 31 December 2017, credits to be received from suppliers included € 248,000 related to the relief due to the Company as an energy-intensive business (so-called "energy-intensive bonuses") for the years 2016 and 2017. "Energy-intensive bonuses" due for the years 2014 and 2015 were regularly collected during 2017.

10. CURRENT FINANCIAL ASSETS

	31.12.2017	31.12.2016	CHANGE
Financial receivables from subsidiaries	1,000	1,000	-
Escrow bank account (Note 5)	60	60	-
Interest rates derivatives	7	-	7
TOTAL	**1,067**	**1,060**	**7**

At 31 December 2017 and at 31 December 2016, financial receivables from subsidiaries consist of an interest-bearing loan of € 1 million to Sabaf Appliance Components Co., Ltd. to support the Chinese subsidiary's working capital. The loan has a term of 12 months and was renewed in December 2017 for the same period. The receivable is considered recoverable in that the Chinese subsidiary is expected to generate sufficient cash flows to repay this loan in future years.

11. CASH AND CASH EQUIVALENTS

The item Cash and cash equivalents, equal to € 2,697,000 at 31 December 2017 (€ 1,797,000 at 31 December 2016) refers almost exclusively to bank current account balances.

12. SHARE CAPITAL

At 31 December 2017, the Company's share capital consists of 11,533,450 shares with a par value of € 1.00 each. The share capital paid in and subscribed did not change during the year.

13. TREASURY SHARES

During the financial year, Sabaf S.p.A. acquired 148,630 treasury shares at an average unit price of € 14.20; there have been no sales.
At 31 December 2017, the Company held 381,769 treasury shares, equal to 3.31% of share capital (233,139 treasury shares at 31 December 2016), reported in the financial statements as an adjustment to shareholders' equity at a unit value of € 11.81 (the market value at year-end was € 19.91). There were 11,151,681 outstanding shares at 31 December 2017 (11,300,311 at 31 December 2016).

14. LOANS

	31.12.2017		31.12.2016	
	current	non current	current	non current
Unsecured loans	5,982	16,298	6,656	17,281
Short-term bank loans	10,846	-	7,397	-
Sabaf Turkey loan	2,100	-	-	-
Advances on bank receipts or invoices	-	-	2	-
TOTAL	**18,928**	**16,298**	**14,055**	**17,281**

During the financial year, the Company signed an unsecured loan totalling € 5 million repayable in five years in quarterly fixed instalments, at a fixed rate of 1.02%.
Two of the outstanding unsecured loans amounting to € 9 million at 31 December 2017 have covenants, defined with reference to the consolidated financial statements at the end of the reporting period, as specified below:

- Commitment to maintain a ratio of net financial position to shareholders' equity of less than 1
- Commitment to maintain a ratio of net financial position to EBITDA of less than 2 widely observed at 31 December 2017.

All outstanding bank loans are denominated in euro, with the exception of a short-term loan of USD 2 million.
As part of the Group's financial management, in 2017 a loan agreement was also signed with the Turkish subsidiary for a total amount of € 2,100,000, expiring on 21 September 2018.
Note 36 provides information on financial risks, pursuant to IFRS 7.

15. OTHER FINANCIAL LIABILITIES

	31.12.2017		31.12.2016	
	current	non current	current	non current
Payables to A.R.C. shareholders	60	180	60	240
Currency derivatives	-	-	201	-
Derivative instruments on interest rates	15	-	37	-
TOTAL	**75**	**180**	**298**	**240**

The payable to the A.R.C. shareholders of € 240,000 at 31 December 2017 is related to the part of the price still to be paid to the sellers, which was deposited on an escrow account (Note 5) and will be released in favour of the sellers at constant rates in 4 years, in accordance with contractual agreements and guarantees issued by the sellers.

Other financial liabilities also include the negative fair value of two IRSs hedging rate risks of unsecured loans pending, for residual notional amounts of approximately € 5.4 million and expiry until 31 December 2021. Financial expenses in the same amount were recognised in the income statement.

16. POST-EMPLOYMENT BENEFIT RESERVE

	31.12.2017	31.12.2016	CHANGE
Post-employment benefit reserve	2,200	2,436	(236)
TOTAL	**2,200**	**2,436**	**(236)**

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

Post-employment benefits are calculated as follows:

Financial assumptions

	31.12.2017	31.12.2016
Discount rate	1.15%	1.15%
Inflation	1.80%	1.75%

Demographic theory

	31.12.2017	31.12.2016
Mortality rate	ISTAT 2016 M/F	ISTAT 2010 M/F
Disability rate	INPS 1998 M/F	INPS 1998 M/F
Staff turnover	6%	6%
Advance payouts	5% per year	5% per year
Retirement age	pursuant to legislation in force on 31 December 2017	pursuant to legislation in force on 31 December 2016

17. PROVISIONS FOR RISKS AND CHARGES

	31.12.2016	PROVISIONS	UTILISATION	RELEASE OF EXCESS	31.12.2017
Reserve for agents' indemnities	213	15	(11)	(18)	199
Product guarantee fund	60	11	(11)	-	60
Provision for risks on equity investments	-	60	-	-	60
Reserve for legal risks	50	-	-	-	50
TOTAL	**323**	**86**	**(22)**	**(18)**	**369**

The reserve for agents' indemnities covers amounts payable to agents if the Company terminates the agency relationship.
The product guarantee fund covers the risk of returns or charges by customers for products already sold.
The provision for risks on equity investments was set-aside to cover future outlays to restore the shareholders' equity of the Chinese subsidiary Sabaf Appliance Components, which was negative at 31 December 2017.
The reserve for legal risks is allocated for disputes of a modest size.
The provisions booked to the provisions for risks, which represent the estimate of future payments made based on historical experience, have not been discounted because the effect is considered negligible.

18. TRADE PAYABLES

	31.12.2017	31.12.2016	CHANGE
TOTAL	**16,569**	**16,010**	**559**

Average payment terms did not change versus the previous year. The amount of trade payables in currencies other than the euro is not significant. At 31 December 2017, there were no overdue payables of a significant amount and the Company did not receive any injunctions for overdue payables.

19. TAX PAYABLES

	31.12.2017	31.12.2016	CHANGE
To inland revenue for IRPEF tax deductions	569	642	(73)
Other tax payables	54	-	54
TOTAL	**623**	**642**	**(19)**

20. OTHER CURRENT PAYABLES

	31.12.2017	31.12.2016	CHANGE
To employees	3,931	3,472	459
To social security institutions	2,063	1,937	126
Advances from customers	64	108	(44)
To agents	165	241	(76)
Other current payables	227	31	196
TOTAL	**6,450**	**5,789**	**661**

At the beginning of 2018, payables due to employees and social security institutions were paid in accordance with the scheduled expiry dates.

21. DEFERRED TAX ASSETS AND LIABILITIES

	31.12.2017	31.12.2016
Deferred tax assets	3,455	3,315
Deferred tax liabilities	(68)	(129)
NET POSITION	**3,387**	**3,186**

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

	Amortisation and leasing	Provisions and value adjustments	Fair value of derivative instruments	Goodwill	Actuarial post-employment benefit reserve evaluation	Other temporary differences	TOTAL
AT 31 DECEMBER 2015	**353**	**793**	**(19)**	**1,771**	**170**	**67**	**3,135**
To the income statement	40	(23)	76	-	-	(50)	43
To shareholders' equity	-	-	-	-	8	-	8
AT 31 DECEMBER 2016	**393**	**770**	**57**	**1,771**	**178**	**17**	**3,186**
To the income statement	(46)	149	(55)	-	(2)	172	218
To shareholders' equity	-	-	-	-	(17)	-	(17)
AT 31 DECEMBER 2017	**347**	**919**	**2**	**1,771**	**159**	**189**	**3,387**

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

22. NET FINANCIAL POSITION

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

		31.12.2017	31.12.2016	CHANGE
A.	Cash (Note 11)	5	4	1
B.	Positive balances of unrestricted bank accounts (Note 11)	2,692	1,793	899
C.	Other cash equivalents	-	-	-
D.	**LIQUIDITY (A+B+C)**	**2,697**	**1,797**	**900**
E.	**CURRENT FINANCIAL RECEIVABLES**	**1,067**	**1,060**	**7**
F.	Current bank payables (Note 14)	12,946	7,399	5,547
G.	Current portion of non-current debt (Note 14)	5,982	6,656	(674)
H.	Other current financial payables (Note 15)	75	298	(223)
I.	**CURRENT FINANCIAL DEBT (F+G+H)**	**19,003**	**14,353**	**4,650**
J.	**NET CURRENT FINANCIAL POSITION (I-D-E)**	**15,239**	**11,496**	**3,743**
K.	Non-current bank payables (Note 14)	16,298	17,281	(983)
L.	Other non-current financial payables	180	240	(60)
M.	**NON-CURRENT FINANCIAL DEBT (K+L)**	**16,478**	**17,521**	**(1,043)**
N.	**NET FINANCIAL DEBT (J+M)**	**31,717**	**29,017**	**2,700**

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

Comments on key income statement items

23. REVENUE

In 2017, sales revenues totalled € 115,687,000, up by € 14,164,000 (+14%) compared with 2016.

Revenue by geographical area

	2017	%	2016	%	% CHANGE
Italy	29,587	25.6%	31,431	30.9%	-5.9%
Western Europe	8,920	7.7%	6,868	6.8%	+29.9%
Eastern Europe and Turkey	35,655	30.8%	27,365	26.9%	+30.3%
Asia and Oceania (excluding Middle East)	9,570	8.3%	7,064	7.0%	+35.5%
Central and South America	11,331	9.8%	10,373	10.2%	+9.2%
Middle East and Africa	12,703	11.0%	11,254	11.1%	+12.9%
North America and Mexico	7,921	6.8%	7,168	7.1%	+10.5%
TOTAL	**115,687**	**100%**	**101,523**	**100%**	**+14.0%**

Revenue by product family

	2017	%	2016	%	% CHANGE
Brass valves	5,992	5.2%	9,002	8.9%	-33.4%
Light alloy valves	39,219	33.9%	32,406	31.9%	+21.0%
Thermostats	7,365	6.4%	7,690	7.6%	-4.2%
TOTAL VALVES AND THERMOSTATS	**52,576**	**45.4%**	**49,098**	**48.4%**	**7.1%**
Standard burners	25,127	21.7%	21,483	21.2%	+17.0%
Special burners	24,136	20.9%	19,438	19.1%	+24.2%
TOTAL BURNERS	**49,263**	**42.6%**	**40,921**	**40.3%**	**+20.4%**
Accessories and other revenues	***13,848***	***11.9%***	***11,504***	***11.3%***	***+20.4%***
TOTAL	**115,687**	**100%**	**101,523**	**100.0%**	**+14.0%**

An analysis of sales by product category shows the strong growth of special burners, the family where product innovation has been strongest in recent years. The trend in sales of light alloy valves, which have now almost completely replaced brass valves, was also very positive. All other product lines also recorded good growth rates, with the exception of thermostats.

In 2017, all markets recorded double-digit growth rates; Italy, where sales are slightly down due to the sharp reduction in the production of domestic appliances, is an exception. Very positive sales growth rates have been recorded in other European markets, where Sabaf is consolidating its leadership. The Middle East market showed a strong recovery compared to 2016; Asia, North and South America confirmed a positive underlying trend.
Average sales prices in 2017 were on average 0.7% lower compared with 2016.

24. OTHER INCOME

	2017	2016	CHANGE
Sale of trimmings	1,457	958	499
Services to subsidiaries	378	154	224
Contingent income	97	136	(39)
Rental income	89	85	4
Use of provisions for risks and charges	39	88	(49)
Services to parent company	10	10	-
Other income	578	848	(270)
TOTAL	**2,648**	**2,279**	**369**

The increase in income from the sale of trimmings is directly related to higher production volumes and to the increase in the price of raw materials.
Services to subsidiaries and to the parent company refer to administrative, commercial and technical services within the scope of the Group.
Other income includes the charge to customers for sharing the development and industrialisation of new products.

25. MATERIALS

	2017	2016	CHANGE
Commodities and outsourced components	42,973	33,692	9,281
Consumables	3,582	3,183	399
TOTAL	**46,555**	**36,875**	**9,680**

In 2017, the effective purchase prices of the main raw materials (aluminium alloys, steel and brass) were on average higher than in 2016, with a negative impact of 0.8% of sales. Consumption (purchases plus change in inventories) as a percentage of sales was 41.3% in 2017, compared with 37.5% in 2016.

26. COSTS FOR SERVICES

	2017	2016	CHANGE
Outsourced processing	8,681	7,587	1,094
Property rental	3,974	3,995	(21)
Electricity and natural gas	3,314	3,526	(212)
Maintenance	3,296	2,813	483
Advisory services	1,676	1,377	299
Transport and export expenses	1,408	1,134	274
Directors' fees	881	1,061	(180)
Insurance	444	562	(118)
Commissions	533	545	(12)
Travel expenses and allowances	550	478	72
Waste disposal	358	352	6
Canteen	296	282	14
Temporary agency workers	180	99	81
Other costs	2,013	2,221	(208)
TOTAL	**27,604**	**26,032**	**1,572**

The higher costs for outsourced processing were related to the increase in production volumes in Italy. The reduction in energy costs is due to the recognition of "energy-intensive bonuses" for 2016 and 2017 for a total of € 248,000, of which € 78,000 relating to the "2016 energy-intensive bonuses" which was not recognised in the 2016 financial statements because the collectability was uncertain at the end of the reporting period. The increase in maintenance costs was due to activities in progress for the ongoing adaptation of plants, machinery and equipment. Other costs included expenses for the registration of patents, waste disposal, cleaning, leasing third-party assets and other minor charges.

Costs for advisory services related to technical (€ 414,000), sales (€ 342,000) and legal, administrative and general (€ 920,000) services.

27. PAYROLL COSTS

	2017	2016	CHANGE
Salaries and wages	19,540	18,322	1,218
Social Security costs	6,249	5,959	290
Temporary agency workers	1,477	845	632
Post-employment benefit reserve and other costs	1,468	1,256	212
TOTAL	**28,734**	**26,382**	**2,352**

Average of the Company headcount in 2017 totalled 514 employees (394 blue-collars, 110 white-collars and supervisors, 10 managers), compared with 543 in 2016 (424 blue-collars, 110 white-collars and supervisors, 9 managers). The average number of temporary staff, with supply contract, was 42 in 2017 (26 in 2016).

During the financial year, the Company made only negligible use of the solidarity contract and temporary lay-off scheme, whereas in 2016 these institutions, used in periods characterised by low production requirements, made it possible to save personnel costs of € 689,000.

28. OTHER OPERATING COSTS

	2017	2016	CHANGE
Losses and write-downs of trade receivables	49	171	(122)
Non-income related taxes and duties	238	181	57
Contingent liabilities	138	56	82
Provisions for risks	26	85	(59)
Other operating expenses	264	154	110
TOTAL	**715**	**647**	**68**

Non-income taxes mainly include IMU, TASI and the tax for the disposal of urban solid waste. Provisions for risks and other provisions relate to sums set aside for the risks described in Note 17.

29. WRITE-DOWNS/WRITE-BACKS OF NON-CURRENT ASSETS

	2017	2016	CHANGE
Write-down of Sabaf Appliance Components	(622)	(521)	(101)
Allocation to risk provisions on equity investments	(60)	-	(60)
TOTAL	**(682)**	**(521)**	**(161)**

The write-down of the equity investment in Sabaf Appliance Components and the allocation to the relevant provision are commented on in Note 4 and 17, to which reference is made.

30. FINANCIAL EXPENSES

	2017	2016	CHANGE
Interest paid to banks	244	241	3
Banking expenses	209	229	(20)
Other financial expense	29	43	(14)
TOTAL	**482**	**513**	**(31)**

31. EXCHANGE RATE GAINS AND LOSSES

During the 2017 financial year, the Company reported net foreign exchange losses of € 88,000 (net loss of € 48,000 in 2016).

32. PROFITS AND LOSSES FROM EQUITY INVESTMENTS

	2017	2016	CHANGE
Dividends received from Sabaf Immobiliare	1,500	-	1,500
Other profits from equity investments	3	-	3
TOTAL	**1,503**	**-**	**1,503**

33. INCOME TAX

	2017	2016	CHANGE
Current taxes	1,791	1,314	477
Deferred tax assets and liabilities	(219)	(43)	(176)
Taxes related to previous financial years	(502)	(137)	(365)
TOTAL	**1,070**	**1,134**	**(64)**

Current taxes include IRES of € 1,436,000 and IRAP of € 355,000 (€ 1,034,000 and € 280,000 respectively in 2016).

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

	2017	2016
Theoretical income tax	2,177	988
Permanent tax differences	(133)	4
Taxes related to previous financial years	88	(131)
"Patent box" tax effect	(1,151)	
"Superammortamento" tax benefit	(179)	-
Other differences	9	7
IRES (CURRENT AND DEFERRED)	**811**	**868**
IRAP (current and deferred)	259	266
TOTAL	**1,070**	**1,134**

Theoretical taxes were calculated applying the current corporate income tax (IRES) rate, i.e. 24% (27.50% in 2016), to the pre-tax result. IRAP is not taken into account for the purpose of reconciliation because, as it is a tax with a different assessment basis from pre-tax profit, it would generate distorting effects.

Following the prior agreement signed with the Revenue Agency, in 2017 the Company recognised the tax benefit relating to the Patent Box for the three-year period 2015 to 2017, for a total of € 1,324,000 (€ 1,151,000 for IRES and € 173,000 for IRAP), of which € 772,000 for 2015 and 2016 (Note 38) and € 552,000 for 2017.

No significant tax disputes were pending at 31 December 2017.

34. DIVIDENDS

On 31 May 2017, shareholders were paid an ordinary dividend of € 0.48 per share (total dividends of € 5,384,000).
The Directors have recommended payment of a dividend of € 0.55 per share this year. This dividend is subject to approval of shareholders in the annual Shareholders' Meeting and was not included under liabilities in these financial statements.
The dividend proposed is scheduled for payment on 30 May 2018 (ex-date 28 May and record date 29 May).

35. SEGMENT REPORTING

Within the Sabaf Group, the Company operates exclusively in the gas parts segment for household cooking. The information in the consolidated financial statements is divided between the various segments in which the Group operates.

36. INFORMATION ON FINANCIAL RISK

Categories of financial instruments

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

	31.12.2017	31.12.2016
FINANCIAL ASSETS		
Income statement fair value		
• Derivative cash flow hedges (on currency)	7	-
AMORTISED COST		
• Cash and cash equivalents	2,697	1,797
• Trade receivables and other receivables	31,876	28,505
• Non-current loans	1,668	1,897
• Current loans	1,000	1,000
• Other financial assets	240	300
FINANCIAL LIABILITIES		
Income statement fair value		
• Derivative cash flow hedges (on currency)	-	201
• Derivative cash flow hedges (on interest rates)	15	37
AMORTISED COST		
• Loans	35,226	31,336
• Other financial liabilities	240	300
• Trade payables	16,569	16,010

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

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

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

Credit risk management

Trade receivables involve producers of domestic appliances, multinational groups and smaller manufacturers in a few or single markets. The Company assesses the creditworthiness of all its customers at the start of supply and systemically on at least an annual basis. After this assessment, each customer is assigned a credit limit.
A credit insurance policy is in place, which guarantees cover for approximately 70% of trade receivables.
Credit risk relating to customers operating in emerging economies is generally attenuated by the expectation of revenue through letters of credit.

Forex risk management

The main exchange rate to which the Company is exposed is the euro/USD in relation to sales made in dollars (mainly in North America) and, to a lesser extent, to some purchases (mainly from Asian manufacturers). Sales in US dollars represented 12% of total revenue in 2017, while purchases in dollars represented 5% of total revenue. During the year, operations in dollars were partially hedged through forward sales contracts; no currency derivatives were pending at 31 December 2017.

Sensitivity analysis
With reference to financial assets and liabilities in US dollars at 31 December 2017, a hypothetical and immediate revaluation of 10% of the euro against the dollar would have led to a loss of € 210,000.

Interest rate risk management

At 31 December 2017, gross financial debt of the Company was at a floating rate for approximately 35% and at a fixed rate for approximately 65%; to reach an optimum mix of floating and fixed rates in the structure of the loans, the Company also used derivative financial instruments. At 31 December 2017, three interest rate swap (IRS) contracts totalling € 9.4 million were in place, mirrored in mortgages with the same residual debt, through which the Company transformed the floating rate of the mortgages into fixed rate. Considering the IRS in place, at the end of 2017, the fixed-rate portion amounted to approximately 90% of the total financial debt. The derivative contracts were not designated as a cash flow hedge and were therefore recognised using the “fair value in the income statement” method.

Sensitivity analysis
At 31 December 2017, the sensitivity analysis concerned financial leases and the floating rate portion of the short-term financial debt. The Company is not exposed to interest rate risk with regard to medium/long-term bank debt, since the floating rate of loans has been transformed into a fixed rate through the interest rate swap contracts in place.
With reference to financial assets and liabilities at variable rate at 31 December 2017 and 31 December 2016, a hypothetical increase (decrease) in the interest rate of 100 base points versus the interest rates in effect at the same date – all other variables being equal - would lead to the following effects:

	31.12.2017	31.12.2016
	FINANCIAL EXPENSES	FINANCIAL EXPENSES
Increase of 100 base points	31	20
Decrease of 100 base points	(31)	-

Commodity price risk management

A significant portion of the purchase costs of the company is represented by brass and aluminium alloys. Sales prices of products are generally renegotiated annually; as a result, the Company is unable to immediately pass on to customers any changes in the prices of commodities during the year. The Company protects itself from the risk of changes in the price of brass and aluminium with supply contracts signed with suppliers for delivery up to twelve months in advance or, alternatively, with derivative financial instruments. In 2017 and 2016, the Company did not use financial derivatives on commodities. To stabilise the rising costs of commodities, Sabaf preferred to execute transactions on the physical market, fixing prices with suppliers for immediate and deferred delivery.

Liquidity risk management

The Group operates with a low debt ratio (net financial debt / shareholders' equity at 31 December 2017 of 34%, net financial debt / EBITDA of 1.81) and has unused short-term lines of credit. To minimise the risk of liquidity, the Administration and Finance Department:

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

Below is an analysis by expiration date of financial payables at 31 December 2017 and 31 December 2016:

AT 31 DECEMBER 2017	Carrying value	Contractual financial flows	Within 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years
Unsecured loans	22,280	22,676	1,537	4,612	16,527	-
Short-term bank loans	10,846	10,846	10,846	-	-	-
Short-term Sabaf Turkey loan	2,100	2,118	-	2,118	-	-
Payables to ARC shareholders	240	240	-	60	180	-
TOTAL FINANCIAL PAYABLES	**35,466**	**35,862**	**12,383**	**6,772**	**16,707**	**0**
Trade payables	16,569	16,569	15,615	954	-	-
TOTAL	**52,035**	**52,431**	**27,998**	**7,726**	**16,707**	**0**

AT 31 DECEMBER 2016	Carrying value	Contractual financial flows	Within 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years
Unsecured loans	23,937	24,388	1,709	5,129	17,550	-
Short-term bank loans	7,399	7,399	5,399	2,000	-	-
Payables to ARC shareholders	300	300	-	60	240	-
TOTAL FINANCIAL PAYABLES	**31,636**	**32,087**	**7,108**	**7,189**	**17,790**	**0**
Trade payables	16,010	16,010	15,373	637	-	-
TOTAL	**47,646**	**48,097**	**22,481**	**7,826**	**17,790**	**0**

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

Hierarchical levels of fair value assessment

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

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

The following table shows the assets and liabilities valued at fair value at 31 December 2017, by hierarchical level of fair value assessment.

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Other financial assets (derivatives on interest rates)	-	7	-	7
Other financial liabilities (derivatives on interest rates)	-	(15)	-	(15)
Option on minorities A.R.C.	-	-	-	-
TOTAL ASSETS AND LIABILITIES AT FAIR VALUE	**0**	**(8)**	**0**	**(8)**

37. RELATIONS BETWEEN GROUP COMPANIES AND WITH RELATED PARTIES

The table below illustrates the impact of all transactions between Sabaf S.p.A. and other related parties on the balance sheet and income statement items and related parties, with the exception of the directors' fees, auditors and key management personnel which is stated in the Report on Remuneration.

Impact of related-party transactions or positions on statement of financial position items

	TOTAL 2017	SUBSIDIARIES	GIUSEPPE SALERI SAPA	OTHER RELATED PARTIES	TOTAL RELATED PARTIES	IMPACT ON THE TOTAL
Non-current financial assets	1,848	1,668	-	-	1,668	90.26%
Trade receivables	31,154	1,209	-	-	1,209	3.88%
Tax receivables	2,230	-	1,084	-	1,084	48.60%
Current financial assets	1,785	1,000	-	-	1,000	56.02%
Trade payables	16,573	510	-	2	512	3.09%
Current financial payables	2,100	2,100	-	-	2,100	100%

	TOTAL 2016	SUBSIDIARIES	GIUSEPPE SALERI SAPA	OTHER RELATED PARTIES	TOTAL RELATED PARTIES	IMPACT ON THE TOTAL
Non-current financial assets	2,137	1,897	-	-	1,897	88.77%
Trade receivables	27,465	1,192	-	-	1,192	4.34%
Tax receivables	2,477	-	1,084	-	1,084	43.76%
Current financial assets	1,060	1,000	-	-	1,000	94.34%
Trade payables	16,010	104	-	2	106	0.66%

Impact of related-party transactions on income statement accounts

	TOTAL 2017	SUBSIDIARIES	GIUSEPPE SALERI SAPA	OTHER RELATED PARTIES	TOTAL RELATED PARTIES	IMPACT ON THE TOTAL
Revenue	115,687	10,239	-	-	10,239	8.85%
Other income	2,648	414	10	-	424	16%
Materials	36,556	1,548	-	-	1,548	4.24%
Services	27,602	3,966	-	20	3,987	14.44%
Capital gains on non-current assets	98	97	-	-	97	99.58%
Write-downs of non-current assets	682	682	-	-	682	100%
Financial income	89	80	-	-	80	89.89%
Financial expenses	482	2	-	-	2	0.46%

	TOTAL 2016	SUBSIDIARIES	GIUSEPPE SALERI SAPA	OTHER RELATED PARTIES	TOTAL RELATED PARTIES	IMPACT ON THE TOTAL
Revenue	101,523	6,680	-	-	6,680	6.58%
Other income	2,279	399	10	-	409	17.95%
Materials	36,895	916	-	-	916	2.48%
Services	26,032	4,129	-	22	4,151	15.95%
Capital gains on non-current assets	87	66	-	-	66	75.86%
Write-downs of non-current assets	521	521	-	-	521	100%
Financial income	85	82	-	-	82	96.47%

Relations with subsidiaries mainly consist of:
- trade relations, relating to the purchase and sale of semi-processed goods or finished products with Sabaf do Brasil, Faringosi Hinges, Sabaf Turkey and Sabaf Kunshan Trading;
- sales of machinery to Sabaf Brasile and Sabaf Turkey, which generated the capital gains highlighted;
- rental of property from Sabaf Immobiliare;
- intra-group loans;
- group VAT settlement.

Transactions with the shareholder, Giuseppe Saleri S.a.p.A., comprise:
- administration services provided by Sabaf S.p.A. to Giuseppe Saleri S.a.p.A.;
- transactions as part of the domestic tax consolidation scheme until 2016, which generated the receivables shown in the tables.

Related-party transactions are regulated by specific contracts regulated at arm's length conditions.

38. SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

Pursuant to CONSOB memorandum of 28 July 2006, the following section describes and comments on significant non-recurring events, the consequences of which are reflected in the economic, equity and financial results for the year:

	Sharehol-ders' equity	Net Profit	Net financial debt	Cash flows
FINANCIAL STATEMENT VALUES (A)	**92,087**	**8,001**	**31,717**	**900**
Recognition of "Patent box" tax benefit related to 2015 and 2016 (B)	(772)	(772)	-	-
FINANCIAL STATEMENT NOTIONAL VALUE (A+B)	**91,315**	**7,229**	**31,717**	**900**

As described in Note 33, in these separate financial statements the Company recognised the tax benefit relating to the Patent Box for the three-year period 2015 to 2017; the share relating to previous years is considered non-recurring and is therefore shown in the table above.

39. ATYPICAL AND/OR UNUSUAL TRANSACTIONS

Pursuant to CONSOB memorandum of 28 July 2006, the Company declares that no atypical and/or unusual transactions as defined by the CONSOB memorandum were executed during 2017.

40. COMMITMENTS

Guarantees issued

Sabaf S.p.A. also issued sureties to guarantee mortgage loans granted by banks to employees for a total of € 5,145,000 (€ 5,510,000 at 31 December 2016).

41. FEES TO DIRECTORS, STATUTORY AUDITORS AND EXECUTIVES WITH STRATEGIC RESPONSIBILITIES

Fees to directors, statutory auditors and executives with strategic responsibilities are described in the Report on Remuneration that will be presented to the shareholders' meeting called to approve these separate financial statements.

42. SHARE-BASED PAYMENTS

At 31 December 2017, there were no equity-based incentive plans for the Company's directors and employees.

List of investments with additional information required by CONSOB
(Communication Dem76064293 of 28 July 2006)

IN SUBSIDIARIES [1]

Company name	Registered offices	Share capital at 31 December 2017	Shareholders	Ownership %	Shareholders' equity at 31 December 2017	2017 profit (loss)
Faringosi Hinges s.r.l.	Ospitaletto (BS)	€ 90,000	Sabaf S.p.A.	100%	€ 6,248,113	€ 695,664
Sabaf Immobiliare s.r.l.	Ospitaletto (BS)	€ 25,000	Sabaf S.p.A.	100%	€ 23,582,409	€ 1,673,079
Sabaf do Brasil Ltda	Jundiaì (Brazil)	BRL 24,000,000	Sabaf S.p.A.	100%	BRL 41,353,284	BRL 4,894,931
Sabaf US Corp.	Plainfield (USA)	USD 100,000	Sabaf S.p.A.	100%	USD -79,482	USD -53,095
Sabaf Appliance Components (Kunshan) Co., Ltd.	Kunshan (China)	€ 4,400,000	Sabaf S.p.A.	100%	CNY 60,007	CNY -5,275,687
Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki	Manisa (Turkey)	TRY 28,000,000	Sabaf S.p.A.	100%	TRY 72,264,252	TRY 19,621,894
Sabaf Appliance Components Trading (Kunshan) Co., Ltd. in liquidation	Kunshan (China)	€ 200,000	Sabaf S.p.A.	100%	CNY 1,955,552	CNY 5,225
A.R.C. s.r.l.	Campodarsego (PD)	€ 45,000	Sabaf S.p.A.	70%	€ 4,650,017	€ 328,544

Other significant equity investments: None

Origin, possibility of utilisation and availability of reserves

Description	Amount	Possibility of utilisation	Available share	Amount subject to taxation for the company in the case of distribution
CAPITAL RESERVE:				
Share premium reserve	10,002	A, B, C	10,002	0
Revaluation reserve, Law 413/91	42	A, B, C	42	42
Revaluation reserve, Law 342/00	1,592	A, B, C	1,592	1,592
RETAINED EARNINGS:				
Legal reserve	2,307	B	0	0
Other retained earnings	58,876	A, B, C	58,876	0
VALUATION RESERVE:				
Post-employment benefit actuarial reserve	(477)		0	0
TOTAL	**72,342**		**70,512**	**1,634**

KEY
A: for share capital increase
B: to hedge losses

[1] Values taken from the separate financial statements of subsidiaries, prepared in accordance with locally applicable accounting standards

C: for distribution to shareholders

Statement of revaluations of equity assets at 31 December 2017

		Gross value	Cumulative depreciation	Net value
Investment property	Law 72/1983	137	(137)	0
	1989 merger	516	(450)	66
	Law 413/1991	47	(42)	5
	1994 merger	1,483	(1,046)	437
	Law 342/2000	2,870	(2,368)	502
		5,053	**(4,043)**	**1,010**
Plants and machinery	Law 576/75	205	(205)	0
	Law 72/1983	2,224	(2,224)	0
	1989 merger	6,140	(6,140)	0
	1994 merger	6,820	(6,820)	0
		15,389	**(15,389)**	**0**
Industrial and commercial equipment	Law 72/1983	**161**	**(161)**	**0**
Other assets	Law 72/1983	**50**	**(50)**	**0**
TOTAL		**20,653**	**(19,643)**	**1,010**

GENERAL INFORMATION

Sabaf S.p.A. is a company organised under the legal system of the Republic of Italy.

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Tax information:
R.E.A. Brescia: 347512
Tax Code: 03244470179
VAT Number: 0178691082

APPENDIX

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

The following table, prepared pursuant to Article 149-duodecies of the CONSOB Issuers' Regulation, shows fees relating to 2017 for auditing services and for services other than auditing provided by the Independent Auditor. No services were provided by entities belonging to the network.

(€/000)	Party providing the service	Fees pertaining to the 2017 financial year
Audit	Deloitte & Touche S.p.A.	57
Certification services	Deloitte & Touche S.p.A.	2 (1)
Other services	Deloitte & Touche S.p.A.	14 (2)
TOTAL		**73**

(1) Signing of Unified Tax Return, IRAP and 770 form
(2) Auditing procedures agreement relating to interim management reports, auditing of statements and training activities

CERTIFICATION OF SEPARATE FINANCIAL STATEMENTS

pursuant to Article 154-bis of Italian Legislative Decree 58/98

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

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

of the administrative and accounting procedures for the formation of the separate financial statements during the 2017 financial year.

They also certify that:

- the separate financial statements:
  - were prepared in accordance with the international accounting policies recognised in the European Community in accordance with EC regulation 1606/2002 of the European Parliament and Council of 19 July 2002 and with the measures issued in implementation of Article 9 of Italian Legislative Decree 38/2005;
  - are consistent with accounting books and records;
  - provide a true and fair view of the financial position and performance of the issuer;
- the report on operations contains a reliable analysis of the performance and results of operations and the situation at the issuer, along with a description of the key risks and uncertainties to which it is exposed.

Ospitaletto, 26 March 2018

Chief Executive Officer	**The Financial Reporting Officer**
Pietro Iotti	Gianluca Beschi
Pietro Iotti	[illegible]

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INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010
AND ARTICLE 10 OF THE EU REGULATION 537/2014

To the Shareholders of
SABAF S.p.A.

REPORT ON THE AUDIT OF THE SEPARATE FINANCIAL STATEMENTS

Opinion

We have audited the separate financial statements of Sabaf S.p.A. (the "Company"), which comprise the statement of financial position as at December 31, 2017, the income statement, the comprehensive income statement, the statement of changes in shareholders' equity, the cash flow statement for the year then ended, and the explanatory notes.

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of the Company as at December 31, 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the separate Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Impairment test on investments

Description of key audit matter

In its separate financial statements as at December 31, 2017, the Company reports investments in Faringosi Hinges S.r.l. and A.R.C. S.r.l. as measured under the cost method with a total amount of Euro 15.2 million. The value of the investments is in line with the net assets of the investee companies, including goodwill and assets with an indefinite useful life recognised upon initial acquisition. Therefore, in order to verify the recoverability of the value of the investments, we referred to the impairment tests performed in terms of IAS 36 on the CGUs represented by the two investments (respectively, the "Hinges" CGU for Faringosi Hinges S.r.l. and the "Professional burners" CGU for A.R.C. S.r.l.). The impairment tests are performed by a comparison between the recoverable amount of the CGU, determined as the highest between the "value in use" and the carrying amount of the investments.

The impairment process carried out by the Management is complex since it includes several assumptions regarding the forecasted future cash flows from CGUs, the definition of an appropriate discount rate (WACC) and of a long-term growth rate (g-rate). In order to determine the recoverable amounts, the Company took into account cash flows as reported in the 2018-2022 forward plans, drafted by the management of the subsidiaries at the beginning of 2018.

The assumptions on forecast cash flows are affected by future expectations on exogenous variables, among which the most relevant are the market evolution, in term of volumes and values and the discount rates.

Considering the relevant value of assets accounted for within the financial statements, and the subjectivity of estimates used to determine future cash flows, as well as the variables described above, we considered the impairment test to be a key audit matter for the Sabaf S.p.A. separate financial statements.

The paragraphs "Use of estimates" and the paragraph "equity Investments", within the explanatory notes report information on the impairment test, including the sensitivity analysis, which shows the effects of variations of the key variables used in implementing the impairment test.

Audit procedures

We first examined how the Management determined the value in use of the CGUs, taking into account procedures and assumptions on which the impairment test is based.

In particular, we carried out the following procedures, with assistance of experts of our network:

- observation and understanding of relevant controls carried out by the Company on the implementation of the impairment test;
- assessment of the reasonableness of main assumptions used to forecast cash flows, also through analysis of sector-based data (for example national demand, estimates on GDP growth) and collection of other relevant information for us obtained by the Management;
- analysis of actual values, compared with the original plans, in order to understand the nature of variations and the reliability of the budgeting process;
- assessment of the reasonableness of the discount rate (WACC) and the growth rate (g-rate);
- assessment of mathematical accuracy of the model used to determine the value in use of CGUs;

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- verification of the correct determination of the carrying amount of the assets allocated to the CGU "Hinges" and "Professional burners" and comparison with the recoverable amount emerging from the impairment test;
- assessment of the sensitivity analysis implemented by Management;
- assessment of compliance with applicable accounting standards over the procedures implemented by Management for the impairment test;
- assessment of compliance with IAS 36 over the information disclosed by the Group with reference to the impairment test.

Responsibilities of the Directors and the Board of Statutory Auditors for the separate Financial Statements

The Directors are responsible for the preparation of the separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or for the termination of the operations or have no realistic alternative to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of Sabaf S.p.A. has appointed us on April 28, 2009 as auditors of the Company for the years from December 31, 2009 to December 31, 2017.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the separate financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

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REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14, paragraph 2 (e), of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of Sabaf S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure of Sabaf S.p.A. as at December 31, 2017, including their consistency with the related separate financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98 with the separate financial statements of Sabaf S.p.A. as at December 31, 2017 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and information contained in the report on corporate governance and ownership structure are consistent with the separate financial statements of Sabaf S.p.A. as at December 31, 2017 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the entity and of the related context acquired during the audit, we have nothing to report.

DELOITTE & TOUCHE S.p.A.

Signed by
Andrea Restelli
Partner

Brescia, Italy
April 12, 2018

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

SABAF S.P.A.

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING OF SABAF S.P.A.

in accordance with Art. 2429, 2nd paragraph of the Italian Civil Code and Art. 153 of Italian Legislative Decree no. 58/1998

Dear Shareholders,

We hereby report to you on the supervisory activity performed during the 2017 financial year.
This report is prepared in accordance with Art. 2429, 2nd paragraph of the Italian Civil Code and Art. 153 of Italian Legislative Decree no. 58/1998, in light of the CONSOB recommendations, the Rules of Behaviour of the Board of Statutory Auditors of listed companies issued by CNDCEC and the indications contained in the Corporate Governance Code of Borsa Italiana, which applies to your Company.
We note below the activity carried out.

1. Supervisory activity on compliance with the law and the bylaws and respect of the principles of correct administration

During the 2017 financial year, the Board of Statutory Auditors met on seven occasions and attended nine meetings of the Board of Directors, five meetings of the Control and Risk Committee, two meetings of the Company's Control Bodies (Board of Statutory Auditors, Control and Risk Committee, Supervisory Body, Financial Reporting Officer, Head of the Internal Audit Function, Independent Auditing Company) and a meeting of the Remuneration and Nomination Committee.
During the Board of Directors' meetings, the Board of Statutory Auditors obtained information on the general management performance, on its outlook, as well as on the most significant economic, financial and capital operations performed by the Company and by its subsidiaries.
In that regard, it is noted that, during 2017:

- we have not identified or received information on any atypical and/or unusual operations performed with third parties, with related parties or within the group. That fact is also confirmed by the Directors in their management report;
- during the financial year, there were no other transactions of particular significance for which specific information to shareholders is required in addition to that already emerging from the Separate financial statements and the management report, to which reference should be made;
- intra-group and related-party transactions are ordinary transactions of reduced significance compared to the group's activity as a whole and are adequately described by the directors in note no. 37 of the Separate Financial Statements and in note no. 36 of the Consolidated Financial Statements to which the management report refers. The Board of Statutory Auditors believes that the conditions under which those operations were concluded are congruous and compliant with the Company's interests;
- the Board of Statutory Auditors issued the opinions required by law and also expressed its favourable opinion with reference to the work plan prepared by the Head of the Internal Audit Function.

In conclusion, based upon the activity carried out, we have not identified any violations of the law and/or the bylaws or any manifestly imprudent or risky operations or operations in potential conflict of interest, in contrast with the resolutions passed by the shareholders' meeting or such as to compromise the integrity of the company's assets.

2. Supervisory activity on the adequacy of the organisational structure and the internal control system

The Board of Statutory Auditors supervised the existence of an adequate **organisational structure** in relation to the company's dimensions.
In that regard, it is noted that the Company has for some time now adopted an Organisation Model compliant with the provisions of Italian Legislative Decree 231/2001, which is regularly updated.
During the financial year, the Board of Statutory Auditors maintained a constant information flow with the Supervisory Body.
The information acquired has not identified any critical issues with regard to the correct implementation of the organisation model that must be highlighted in this report.
With reference to the adequacy of the **internal control system**, the Board of Statutory Auditors expresses its positive assessment and acknowledges that there are no findings to be reported to the Shareholders' Meeting.
The sources of information on which the Board of Statutory Auditors was able to base its assessment are as follows:

- periodic meetings with the Company assigned the Internal Audit Function and with the Representative of that Function. During those meetings, the Board of Statutory Auditors had the opportunity to assess the activity carried out and its results. In that regard, it is noted that the Company itself performs the Internal Audit Function also with reference to the strategic subsidiaries;
- periodic meetings with the Independent Auditing Company;
- the report of the Head of the Internal Audit Function on the Internal Control and Risk Management System, examined during the meeting of the Control and Risk Committee held on 6 February 2018;
- attendance at meetings of the Control and Risk Committee;
- the report of the Control and Risk Committee to the Board of Directors on the activities carried out;
- meetings with the Financial Reporting Officer;
- examination of the company procedures, therein including those provided within the Organisation Model adopted by Sabaf (and by the subsidiary Faringosi Hinges S.r.l.) in application of Italian Legislative Decree 231/2001 and those established by the Financial Reporting Officer in charge of preparing the corporate accounting documents, in accordance with Italian Law 262/2005.

3. Supervisory activity on the adequacy of the administrative and accounting system and the auditing activity

The Board of Statutory Auditors monitored the adequacy of the administrative and accounting system and its reliability in providing a fair presentation of operational transactions by:

- obtaining information from the Financial Reporting Officer;
- examining the procedures in support of the administration function;
- periodic meetings with the Company assigned the Internal Audit Function and with the Representative of that Function;
- meetings and periodic reports of the Independent Auditing Company.

Based upon the gathered information, no findings have emerged.

The Chief Executive Officer and the Financial Reporting Officer have certified with a specific report attached to the 2017 financial statements:

- the adequacy and effective application of the administrative and accounting procedures for preparing the financial statements;
- the conformity of the financial statements to the international accounting standards and their correspondence to the records of the accounting ledgers and deeds as well as their suitability to provide a true and accurate representation of the Company's financial position, the results of the operations and of the cash flows.

A similar declaration has been made with reference to the consolidated financial statements.

The **external audit** was entrusted, by resolution of the shareholders' meeting dated 28 April 2009, to Deloitte & Touche S.p.A. for the period 2009/2017.

During the financial year, the Board of Statutory Auditors held periodic meetings with representatives of the Independent Auditing Company during which no significant data and information emerged that requires a mention in this report.

The procedures adopted in relation to the work plan submitted by the Independent Auditing Company have been examined. We have also received the technical information requested in relation to the accounting standards applied, as well as the accounts representation criteria of the most significant economic, capital and financial facts.

It is also noted that the Independent Auditing Company submitted to the Board of Statutory Auditors on 12 April 2018 the additional report required by Art. 11 of Regulation (EU) no. 537/2014, which illustrates the results of the external audit and provides the other information required by the Regulation, including the declaration of independence required by Art. 6, paragraph 2, letter a).

We note that the report does not reveal any significant shortcomings in the internal control system for financial reporting and in the Company's accounting system.

As required by Art. 19, first paragraph, letter (a) of Legislative Decree No. 39/2010, this report will be sent to the Board of Directors of the Company.

The Board of Statutory Auditors confirms that in the financial year just ended and up to today's date no critical profile has emerged in relation to the independence of the Independent Auditing Company.

It is also acknowledged that the appendix to the Consolidated and Separate Financial Statements indicates the fees for the year for services rendered by the Independent Auditing Company. As can be seen from the table, no services (other than the audit) prohibited pursuant to Art. 5, par. 1, of Regulation (EU) 537/2014 were rendered.

It is also acknowledged that, with the approval of the 2017 Financial Statements, the nine-year mandate of the Independent Auditing Company Deloitte & Touche S.p.a. expires.

As envisaged by Art. 16 of Regulation (EU) no. 537/2014, the Board of Statutory Auditors, in its role as Internal Control and Audit Committee, submitted to the Board of Directors a reasoned recommendation containing the name of two Independent Auditing Companies who are suitable to replace the one that expires, expressing preference for one of them.

This recommendation was developed following a detailed selection procedure that was carried out in compliance with the provisions contained in the Regulation itself.

Finally, it is acknowledged that the supervisory activity described in this paragraph and in the paragraph above has allowed the Board of Statutory Auditors to fulfil its internal control and external audit committee function, pursuant to Art. 19 of Legislative Decree 39/2010, with respect to which it has no findings to report.

4. Proposals in relation to the separate Financial Statements and the consolidated Financial Statements, their approval and the matters under the remit of the Board of Statutory Auditors

The Company prepared the 2017 financial statements in accordance with international accounting standards (IAS/IFRS).

The separate Financial Statements show a financial year profit of € 8,001,327 (€ 2,459,688 in 2016) and a shareholders' equity of € 92,087,144 (€ 91,523,902 in 2016).

Those financial statements were audited by the Company Deloitte & Touche Spa, which issued its report dated 12 April 2018 without findings or information requests.

The financial statements, together with the management report, were made available to us within the time limits prescribed by the law and we have no particular comments to report.

The Company has also prepared the 2017 consolidated financial statements of the Sabaf Spa Group.

The consolidated financial statements show a profit for the year of € 14,916 thousand (€ 9,009 thousand in 2016 - before adjustments pursuant to IFRS 3) and a shareholders' equity of € 115,055 thousand (€ 112,309 thousand in 2016 - before adjustments pursuant to IFRS 3).

Those financial statements have also been subject to statutory audit by Deloitte & Touche Spa, which issued its report on 12 April 2018 without findings or information requests.

It is also acknowledged that the Independent Auditing Company expressed, in the reports mentioned above, a positive opinion with regard to consistency with the financial statements and compliance with the law with reference:

- to the management report;
- to the information referred to in Art. 123-bis, paragraph 4, Legislative Decree 58/98 contained in the Report on Corporate Governance and Ownership Structure.

Insofar as the Board of Statutory Auditors is responsible, we supervised the general layout of the separate financial statements and the consolidated financial statements, verifying their compliance with the law and the relevant accounting standards.

In particular, the results of the impairment test carried out in accordance with IAS 36 on the individual CGUs that coincide with the two equity investments were evaluated ("Hinges" CGU for Faringosi Hinges S.r.l. and "Professional burners" CGU for A.R.C. S.r.l.).

In particular, it is noted that the test was carried out - for the purposes of the separate financial statements - to assess the impairment of the value of investments and - for the purposes of the consolidated financial statements - to assess the impairment of the related goodwill values.

In this regard, it is noted that the Independent Auditing Company, in its reports, accurately described the audit procedures carried out with reference to the impairment tests, as "key aspects of the audit" and to which, therefore, the Board of Statutory Auditors refers.

Finally, we acknowledge that no derogations have been made from the accounting standards adopted.

5. Methods of concrete implementation of the corporate governance rules

Your Company has accepted the Corporate Governance Code approved by the Corporate Governance Committee of listed companies.

In the annual Report on Corporate Governance and Ownership Structures, prepared in accordance with Art. 123 bis of Italian Legislative Decree 58/1998, the Board of Directors acknowledges the acceptance of the Corporate Governance Code and the methods of concrete implementation of the corporate governance rules adopted by the Company, in accordance with Art. 123 bis, 2nd paragraph, letter a).

During the financial year, the Board of Statutory Auditors supervised the methods of concrete application of the corporate governance rules adopted by the Company and, in that regard, it believes that they have been effectively and correctly applied.

Insofar as we are aware, we inform you of the following:

- the Board of Directors has checked the continued existence of the requirements of independence for the directors qualified as such upon their appointment. The Board of Statutory Auditors has checked the correct application of the assessment criteria and procedures adopted by the Board;
- we have performed the self-assessment of the requirement of independence for the members of the Board of Statutory Auditors, as required by the Corporate Governance Code, both initially, after appointment and later, on an annual basis (most recently during the meeting held on 08 March 2018), with methods compliant with those adopted by the directors;
- we complied with the provisions of the regulations for the management and processing of confidential and privileged corporate information.

6. Supervisory activity on relationships with Subsidiaries and parent companies

The Board of Statutory Auditors supervised the adequacy of the instructions given by the Company to the subsidiaries, in accordance with Art. 114, 2nd Paragraph of Italian Legislative Decree 58/1998.

In that regard, it is noted that the Company, by way of the Managing Director, the Administration, Finance and Control Director and the other executives with strategic responsibilities, performs constant control over the operations of the subsidiaries, also due to the use, by the same, of a common accounting and management system (SAP), which is constantly accessible to management of the parent company.

Periodic meetings with the management and the company in charge of Internal Audit did not reveal any critical elements to be reported in this report.

Finally, we acknowledged that to date no communications have been received from the Control Bodies of the Subsidiaries and/or parent companies containing findings to be noted in this report.

7. Supervisory activity over operations with related parties

In relation to the provisions of Art. 2391 bis of the Italian Civil Code, we acknowledge that the Board has adopted a procedure for the regulation of Related-Party Transactions, whose main objective is to define the guidelines and criteria for identifying Related-Party Transactions and setting out roles, responsibilities and operating methods so as to guarantee, for such transactions, adequate information transparency and the related procedural and substantial correctness.

That procedure was prepared in compliance with what was established by the Consob Regulation on Related Parties (no. 17221 dated 12 March 2010 as amended and supplemented).

The Board of Statutory Auditors supervised the effective application of the rules by the Company and it has no comments in that regard.

8. Supervisory activity on compliance with the provisions of Articles 3 and 4 of Legislative Decree No. 254/2016 (consolidated non-financial statement)

In accordance with Legislative Decree no. 254/2016, the Board of Directors of your Company prepared the "Consolidated non-financial statement".

We remind you that, in accordance with the provisions of the Decree, this Statement "to the extent necessary to ensure understanding of the company's activities, performance, results and impact, covers environmental, social and personnel issues, respect for human rights and the fight against active and passive corruption, which are relevant considering the Group's activities and characteristics".

We acknowledge that the Independent Auditing Company KPMG S.p.a., in charge pursuant to Art. 3, paragraph 10, of the Decree, today issued the certificate provided for therein, confirming that, on the basis of the work carried out, no elements have been brought to the attention of the auditor that would suggest that the Consolidated Non-Financial Statement has not been drawn up in all significant aspects in compliance with the requirements of articles 3 and 4 of the decree and the adopted reference standards (GRI – G4).

The Board of Statutory Auditors supervised compliance with the provisions of Legislative Decree 254/2016 and has no observations to make on this subject in this report.

Conclusions

During the supervisory activity carried out during the financial year, no omissions, censurable facts, irregularities or circumstances that require reporting to the Supervisory Authority or a mention herein were identified.

It is also acknowledged that the Board of Statutory Auditors has not received reports in accordance with Art. 2408 of the Italian Civil Code, nor has it become aware of cases and/or lawsuits to be noted in this report.

With regard to the above, the Board of Statutory Auditors expresses a favourable opinion on the approval of the separate financial statements and the proposal for the allocation of net income for the year made by the Board of Directors.

Ospitaletto, 13 April 2018

Chairman of the Board of Statutory Auditors
Antonio Passantino

Statutory Auditor
Enrico Broli

Statutory Auditor
Luisa Anselmi


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Enviroment

We are committed to raising awareness among our staff on environmental issues, contributing constructively to sustainability and environmental protection.

SABAF®

Report on Remuneration

pursuant to Article 123-*ter* of the TUF
and Article 84-*quarter* of the Issuers' Regulations

SEZIONE I - REMUNERATION POLICY

Sabaf S.p.A.'s General Remuneration Policy (hereinafter also "remuneration policy"), approved by the Board of Directors on 22 December 2011 and updated on 20 March 2013, 4 August 2015 and 26 September 2017, defines the criteria and guidelines for the remuneration of members of the Board of Directors, Executives with strategic responsibilities and members of the Board of Statutory Auditors.

The remuneration policy was prepared:

- pursuant to Article 6 of the Corporate Governance Code of listed companies, approved in March 2010 and subsequent amendments and supplements;
- in line with Recommendations 2004/913/EC and 2009/385, which were incorporated into law with Article 123-ter of the Consolidated Law on Finance (TUF).

1. Corporate bodies and persons involved in preparing, approving and implementing the remuneration policy

Shareholders' meeting

- Determines the remuneration due to the members of the Board of Directors, including a fixed amount and attendance fees
- Resolves compensation plans based on the allocation of financial instruments with regard to directors and employees
- Gives a non-binding vote on the first section of the Report on Remuneration (Remuneration Policy)

Board of directors

- At the suggestion of the Remuneration and Nomination Committee and subject to the opinion of the Board of Statutory Auditors, determines the fee for Directors holding specific positions
- Defines the remuneration policy of Executives with strategic responsibilities
- After obtaining the opinion of the Remuneration and Nomination Committee, resolves to sign Non-competition agreements with regard to the Chief Executive Officer and to executives
- At the suggestion of the Remuneration and Nomination Committee, defines incentive plans based on short- and long-term variable remuneration to be assigned to the Chief Executive Officer and to the Executives with strategic responsibilities
- At the suggestion of the Chief Executive Officer, defines the incentive plans based on short-term variable remuneration for company Management and other employees
- At the suggestion of the Remuneration and Nomination Committee, resolves to assign non-monetary benefits to executives
- Makes proposals to the Shareholders' Meeting on compensation plans based on the allocation of financial instruments with regard to directors and employees
- Prepares the Report on Remuneration pursuant to Article 123-ter of the Consolidated Law on Finance and Article 84-quarter of the Issuers' Regulations

No independent experts or advisors contributed to the preparation of the policy, nor were the remuneration policies of other companies used for reference purposes. The Board of Directors is responsible for properly implementing the remuneration policy.

Remuneration and nomination committee

- Makes proposals to the Board of Directors, in the absence of the persons directly concerned, for remuneration of the Chief Executive Officer and Directors holding specific positions
- Examines, with the support of the Human Resources Department, the policy for the remuneration of executives, with a special attention to Executives with strategic responsibilities
- Makes suggestions and proposals to the Board of Directors concerning the setting of targets on which the annual variable component and long-term incentives for the Chief Executive Officer and Executives with strategic responsibilities should be dependent, in order to ensure alignment with shareholders' long-term interests and the company's strategy
- Assesses the level of achievement of the short- and long-term variable incentive targets of Directors and executives
- Prepares the proposals to the Board of Directors of compensation plans based on financial instruments
- Assesses the adequacy, actual application and consistency of the remuneration policy, also with reference to the actual company performance, making suggestions and proposals for change
- Follows the development of the regulatory framework of reference and best market practices on remuneration, getting inspired by them for formulating the remuneration policy and identifying aspects for improving the Report on Remuneration

The Remuneration and Nomination Committee currently in office comprises four non-executive members, the majority of them independent (Fausto Gardoni, Giuseppe Cavalli, Renato Camodeca and Alessandro Potestà), with the knowledge and experience in accounting, finance and remuneration policies that is deemed adequate by the Board of Directors.

Board of statutory auditors

- The Board of Statutory Auditors expresses the opinions required by the regulations in force on proposals for remuneration of Directors holding specific positions
- The Board of Statutory Auditors, i.e. the Chairman of the Board of Statutory Auditors or another Statutory Auditor designated by him/her can attend the meetings of the Remuneration and Nomination Committee

Human resources department

Actually enacts what is decided upon by the Board.

2. Purpose of the remuneration policy

The Company's intention is that the Remuneration Policy:

- Ensures the competitiveness of the company on the labour market and attracts, motivates and increases the loyalty of persons with appropriate professional expertise
- Protects the principles of internal equity and diversity
- Brings the interests of the management into line with those of the shareholders
- Favours the creation of sustainable value for shareholders in the medium to long term, and maintains an appropriate level of competitiveness for the company in the sector in which it operates

3. Remuneration policy guidelines and instruments

The definition of a fair and sustainable remuneration package takes into account three main tools:

- Fixed remuneration
- Variable remuneration (short- and medium- to long-term)
- Benefits

Each remuneration component is analysed below.

Fixed annual component

The fixed component of the remuneration of the Directors is such that it is able to attract and motivate individuals with appropriate expertise for the roles entrusted to them within the Board, and is set with reference to the remuneration awarded for the same positions by other listed Italian industrial groups of a similar size.

The Shareholders' Meeting decides on the remuneration of the members of the Board of Directors, including a fixed amount and attendance fees.

With regard to the remuneration for Directors holding special offices, the Board of Directors, at the proposal of the Remuneration and Nomination Committee and subject to the opinion of the Board of Statutory Auditors, determines the additional fixed remuneration.

Directors who sit on committees formed within the Board (Internal Control and Risk Committee, Remuneration and Nomination Committee) are granted remuneration that includes a fixed salary and attendance fees intended to reward the commitment required of them.

Executives with strategic responsibilities are paid a fixed annual remuneration, determined so that it is sufficient in itself to guarantee an appropriate basic salary level, even in the event that the variable components are not paid owing to a failure to reach the targets.

The members of the Board of Statutory Auditors are paid a fixed remuneration, the amount of which is determined by the Shareholders' Meeting, at the time of their appointment.

COMPONENTS OF THE REMUNERATION	CORPORATE OFFICES				
	EXECUTIVE DIRECTORS [1]	NON-EXECUTIVE DIRECTORS	MEMBERS OF COMMITTEES WITHIN THE BOD	EXECUTIVES WITH STRATEGIC RESPONSIBILITIES	STATUTORY AUDITORS
FIXED COMPONENTS	Fixed remuneration for the office of Director Fixed remuneration for Directors holding special positions	Fixed remuneration for the office of Director Attendance fee	Fixed remuneration for Directors members of committees within the BoD Attendance fee	Collective National Contract for Industrial Managers	Fixed remuneration

Short-term variable component (annual)

The Board of Directors, at the suggestion of the Remuneration and Nomination Committee and in accordance with the budget, defines an MBO plan, for the benefit of:

- Executives with strategic responsibilities
- other persons, identified by the Chief Executive Officer, among the managers who report directly to him or who report to the aforementioned managers

This plan sets a common target (Group EBIT, which is considered to be the Group's main indicator of financial performance) and quantifiable and measurable individual targets economic-financial, technical-productive and/or socio-environmental in nature.

The targets of the Chief Executive Officer and of the Executives with strategic responsibilities are decided by the Board of Directors, at the suggestion of the Remuneration and Nomination Committee, in accordance with the budget.

The targets of the other beneficiaries of the incentive plans are defined by the Chief Executive Officer, in accordance with the budget.

Non-executive directors are not granted any variable remuneration.

1 Executive Directors: Chairman and Vice Chairmen of the BoD, Chief Executive Officer, Executive Directors

Long-term variable component

At the suggestion of the Remuneration and Nomination Committee, and after obtaining the opinion of the Board of Statutory Auditors, the Board of Directors approves a long-term financial incentive, for the benefit of:

- Chief Executive Officer
- Executives with strategic responsibilities

The long-term financial incentive is dependent on measurable and predetermined performance targets relating to the creation of value for shareholders over the long term and extends over three years coinciding with the mandate of the Board of Directors (2015-2017; 2018-2020; etc.).

The performance targets, set in accordance with the three-year business plan, are proposed by the Remuneration and Nomination Committee to the Board of Directors, as the body responsible for approving the long-term financial incentive.

ANNUAL MBO

RELATED TO THE ANNUAL BUDGET

TARGET

EXECUTIVE DIRECTORS*

EXECUTIVES WITH STRATEGIC RESPONSIBILITIES

OTHER PERSONS IDENTIFIED BY THE CHIEF EXECUTIVE OFFICER

COMMON TARGETS

GROUP EBIT

INDIVIDUAL TARGETS

ECONOMIC/FINANCIAL
TECHNICAL AND PRODUCTIVE

LONG TERM INCENTIVES (LTI)

RELATED TO THE THREE-YEAR PLAN

TARGET

CHIEF EXECUTIVE OFFICER

EXECUTIVES WITH STRATEGIC RESPONSIBILITIES

Dependent on predetermined and measurable performance targets relating to the creation of value for shareholders over a long-term horizon and over a time horizon of three years, coinciding with the mandate of the BoD

COMPONENTS OF THE REMUNERATION		CORPORATE OFFICES	
		EXECUTIVE DIRECTORS AND OTHER EXECUTIVES WITH STRATEGIC RESPONSIBILITIES	OTHER PERSONS IDENTIFIED BY THE CEO
VARIABLE COMPONENTS	SHORT-TERM VARIABLE COMPONENT	Annual MBO plan based on achieving a common target and individual targets	Annual MBO plan based on achieving a common target and individual targets
	LONG-TERM VARIABLE COMPONENT	LTI dependent on measurable and predetermined performance targets relating to the creation of value for shareholders over a time horizon of three years	N/A

Non-monetary benefits

- **Third-party civil liability insurance policy:** The Company has taken out a third-party civil liability insurance policy in favour of directors, statutory auditors and executives for unlawful acts committed in the carrying-out of their respective duties, in violation of obligations established by law and the Articles of Association, with the sole exclusion of deliberate intent. The taking-out of this policy is approved by the Shareholders' Meeting.
- **Life insurance policy and cover for medical expenses:** The Company also provides a life insurance policy and cover for medical expenses (FASI) for executives, as established by the Collective National Contract for Industrial Managers; moreover, it has taken out an additional policy to cover medical expenses not covered by FASI reimbursements.
- **Company cars:** At the suggestion of the Remuneration and Nomination Committee, the Board of Directors also assigns company cars to executives.
- **Accommodation costs:** At the suggestion of the Remuneration and Nomination Committee, the Board of Directors can provide for housing to be made available to executives, for the possibility to reimburse the rent of the house or for the temporary reimbursement of the costs of accommodation in a hotel.
-

Incentives based on financial instruments

Any compensation plans based on the allocation of financial instruments with regard to directors and employees are resolved by the Shareholders' Meeting at the suggestion of the Board of Directors.

Entry bonus

With the aim of attracting highly professional individuals, the Board may decide to give entry bonuses to newly hired executives.

Indemnity against the early termination of employment

There is an agreement for the Chief Executive Officer regulating ex ante the economic part concerning the early termination of the employment relationship.

There are no agreements for other Directors or other Executives with strategic responsibilities regulating *ex ante* the economic part concerning the early termination of the employment relationship. For the end of the relationship for reasons other than just cause or justified reasons provided by the employer, it is the Company's policy to pursue consensual agreements to end the employment relationship, in accordance with legal and contractual obligations.

* Excluding the Chairman and Vice Chairmen

The Company does not provide directors with benefits subsequent to the end of their mandate.

The Company has entered into Non-competition agreements with the Chief Executive Officer and with certain executives who report to him, the terms of which were approved by the Board of Directors, after obtaining the opinion of the Remuneration and Nomination Committee.

Claw back clauses

As from 2018, the Company established mechanisms for the ex-post adjustment of the variable remuneration component or claw back clauses to demand the return of all or part of the variable components of remuneration paid out (or to withhold deferred sums), which were determined on the basis of data subsequently found to be clearly incorrect.

Remuneration for offices in subsidiaries

Directors and other executives with strategic responsibilities may be paid remuneration – exclusively as a fixed amount – for offices held in subsidiaries. In addition to the approval of the subsidiaries' corporate bodies, this remuneration is subject to the favourable opinion of the Remuneration and Nomination Committee.

COMPONENTS OF THE REMUNERATION		CORPORATE OFFICES			
		EXECUTIVE DIRECTORS	NON-EXECUTIVE DIRECTORS	EXECUTIVES WITH STRATEGIC RESPONSIBILITIES	STATUTORY
Benefits and other components	NON-MONETARY BENEFITS	Third-party liability insurance policy	Third-party liability insurance policy	Third-party liability insurance policy Life insurance policy, policy to cover medical expenses (FASI), policy for supplementary medical expenses Company cars	Third-party liability insurance policy
	OFFICES IN SUBSIDIARIES	Fixed remuneration for offices in subsidiaries	N/A	Fixed remuneration for offices in subsidiaries	N/A
	INDEMNITY AGAINST THE EARLY TERMINATION OF EMPLOYMENT	Remuneration for Non-competition agreement (*only for Chief Executive Officer*)	N/A	Remuneration for Non-competition agreement	N/A

4. Remuneration of the Board of Directors, Chairman and Vice Chairmen of the Board of Directors, Chief Executive Officer, Executives with strategic responsibilities and Board of Statutory Auditors

Remuneration of the board of directors

The Shareholders' Meeting is responsible for determining the annual gross remuneration (maximum amount) due to the Directors, including a fixed amount and attendance fees.

The members of the Board are covered by a third-party civil liability insurance policy for unlawful acts committed in the exercise of their respective duties, in violation of obligations established by law and the Articles of Association, with the sole exclusion of deliberate intent. The taking-out of this policy is approved by the Shareholders' Meeting.

Remuneration of the chairman of the board of directors and vice chairmen

Sabaf S.p.A. makes it a practice to appoint as Chairman and Vice Chairmen members of the Saleri family, principal shareholder of the Company through the company Giuseppe Saleri S.a.p.A.. No variable remuneration is paid to these directors, even if executive directors, but only remuneration in addition to those of directors for special offices held.

Remuneration of the chief executive officer

The remuneration of the Chief Executive Officer includes the following components:

- **Fixed remuneration for the office of Director:** the Chief Executive Officer is the recipient of the fixed remuneration for the office of Director (pursuant to Article 2389 paragraph I Italian Civil Code).
- **Third-party civil liability insurance policy:** The Company has taken out a third-party civil liability insurance policy for unlawful acts committed in the carrying-out of their respective duties, in violation of obligations established by law and the Articles of Association, with the sole exclusion of deliberate intent. The taking-out of this policy is approved by the Shareholders' Meeting.
- **Long-term variable component:** the long-term financial incentive is dependent on the achievement of performance targets, proposed by the Remuneration and Nomination Committee to the Board of Directors, and extends over three years, coinciding with the mandate of the Board of Directors At the time of approval, the Board of Directors decides on the maximum amount of the long-term variable component, the methods and timing for its payment.

  If the Chief Executive Officer is also assigned an executive management role within the Sabaf Group, the Board decides on the assignment of the following additional remuneration instruments:

  Fixed annual gross salary: the fixed remuneration is determined so that it is sufficient in itself to guarantee an appropriate basic salary level, even in the event that the variable components are not paid owing to a failure to reach the targets.
- **Non-competition agreement:** assignment of a fixed annual remuneration against the signing of a Non-competition Agreement with the Company.
- **Short-term variable component:** annual incentive, dependent on the achievement of the targets envisaged by the MBO plan, approved by the Board of Directors at the suggestion of the Remuneration and Nomination Committee. On the occasion of the annual approval, the Board of Directors decides on the maximum amount of the annual variable component, the methods and timing for its payment.
- **Benefits:** the benefits envisaged for the management of the Company can be assigned: Life insurance policy and cover for medical expenses, assignment of company car; reimbursement of the rent for the house.

Remuneration of executives with strategic responsibilities

- **Fixed annual gross r**emuneration: Employment relationships with Executives with strategic responsibilities are regulated by the Collective National Contract for Industrial Managers. In this regard, fixed remuneration is determined so that it is sufficient in itself to guarantee an appropriate basic salary level, even in the event that the variable components are not paid owing to a failure to reach the targets.
- **Short- and long-term variable components:** Executives with strategic responsibilities are the recipients of short- and long-term MBO plans (ref. paragraph 3). At the time of approval of short- and long-term incentive plans, the Board of Directors is responsible for setting the maximum amounts of variable remuneration, the methods and timing for the payment of this remuneration.
- **Benefits:** Executives with strategic responsibilities receive the benefits envisaged for the management of the Company (Life insurance policy and cover for medical expenses); assignment of company car) and are covered by an occupational risk policy.

Remuneration of the board of statutory auditors

The amount of remuneration for Statutory Auditors is set by the Shareholders' Meeting, which establishes a fixed amount for the Chairman and the other Statutory Auditors.

The members of the Board are covered by a third-party civil liability insurance policy for unlawful acts committed in the exercise of their respective duties, in violation of obligations established by law and the Articles of Association, with the sole exclusion of deliberate intent. The taking-out of this policy is approved by the Shareholders' Meeting.

SECTION II – REMUNERATION OF THE MEMBERS OF THE BOARD OF DIRECTORS AND THE BOARD OF STATUTORY AUDITORS AND OTHER EXECUTIVES WITH STRATEGIC RESPONSIBILITIES IN 2017

This section, by name of Directors and Statutory Auditors:

- Describes each of the items that make up the remuneration, showing their consistency with the remuneration policy of Sabaf
- Analytically illustrates the remuneration paid in the financial year under review (2017), for any reason and in any form, by the Company or by subsidiaries or affiliates, identifying any components of this remuneration that relate to activities undertaken in previous years to the year under review

The components of the remuneration paid to directors for 2017

The remuneration paid to directors for 2017 consisted of the following components:

- An annual fixed remuneration, approved by the Shareholders' meeting of 5 May 2015 (and subsequently amended by the Shareholders' meeting of 28 April 2016) that the Board of Directors decided to divide, in compliance with the maximum limit of € 995,000 established by the Shareholders' Meeting, as follows:
    - € 15,000 assigned to each director without distinction
    - € 10,000 assigned to each member of the committees set up within the Board itself (Internal Control and Risk Committee and Remuneration and Nomination Committee)
    - Additional remuneration of € 480,000 divided among Directors holding special positions (Chairman and Vice Chairmen) as detailed in the table below
    - Remuneration of € 100,000, decided by the Board of Directors of 3 August 2017, assigned as a one-off indemnity to the director Gianluca Beschi, as remuneration for the office of ad interim Chief Executive Officer held from 27 April to 12 September 2017
    - Remuneration of € 10,000, decided by the Board of Directors of 3 August 2017, assigned to the director Pietro Iotti, appointed by the Shareholders' meeting of 20 July 2017, who was appointed Chief Executive Officer as from 12 September 2017
- An attendance fee of € 1,000, due to non-executive directors only, for every occasion on which they attend Board of Directors' meetings and the meetings of committees formed within the Board

A fixed remuneration component for employment and a fixed remuneration for offices in subsidiaries are paid to executive directors appointed as executives.

With reference to variable components, which are intended only for executive directors (excluding the Chairman and Vice Chairmen), the following is pointed out:

- In relation to the annual variable incentive plan established for 2016, given the failure to reach the assigned targets, no remuneration accrued in the previous financial year and, therefore, no remuneration was paid in 2017
- With reference to the annual incentive plan for 2017, the Director Gianluca Beschi accrued variable remuneration of € 36,128 for the achievement of the targets of the 2017 MBO plan. Its payment is deferred and dependent upon the continuation of the employment relationship. Remuneration was paid to the Chief Executive Officer Pietro Iotti on a pro rata basis as from the date of his appointment
- With reference to the long-term incentive plan, dependent on three-year performance targets (2015-2017), the Director Gianluca Beschi accrued remuneration of € 72,474; this variable component is paid in full following the approval of the 2017 financial statements

There are no incentive plans based on financial instruments outstanding.

On 3 August 2017, the Board of Directors, at the suggestion of the Remuneration and Nomination Committee, decided to grant the Chief Executive Officer and General Manager (Pietro Iotti) a gross all-inclusive indemnity for termination of employment relationship of € 700,000. This amount will be recognised in one of the following cases:

- Failure to renew the three-year office and/or removal without just cause before the expiry of the renewal
- Failure to re-appoint for the period after the renewal, or if the removal of the office takes place without "just cause" after the renewal
- Resignation of the Chief Executive Office, if handed in due to the existence of a "just cause"

Moreover, the Company entered into a Non-competition agreement with the Chief Executive Officer valid for twelve months after termination of the employment relationship, which envisages the payment of an additional component of the annual salary of € 30,000, against the commitment of Pietro Iotti not to work for subjects that carry on/will carry on competing activities in Italy, Spain, Turkey, Brazil and China.

Finally, following the resignation of the Director Alberto Bartoli, in 2017 the conditions for the payment of the consideration related to the Non-competition Agreement of € 290,000 signed with the Company took shape. In 2017, a consideration of € 116,000 (40% of the total) was paid; the payment of the remaining amounts is deferred in two tranches that will be paid in 2018 (€ 58,000, equal to 20% of the total) and in 2019 (€ 116,000, equal to 40% of the total).

Remuneration of Statutory Auditors for 2017

The remuneration paid to the Statutory Auditors for 2017 consists of a fixed remuneration determined by the Shareholders' Meeting of 5 May 2015.

The remuneration of other executives with strategic responsibilities for 2017

The remuneration of other executives with strategic responsibilities (three persons) consists of a fixed remuneration for employment totalling € 384,624, and following variable remuneration:

- With reference to the variable incentive plan (MBO) of 2016, during 2017, remuneration totalling € 33,050 was paid
- With reference to the variable incentive plan (MBO) for 2017, remuneration totalling € 86,462 accrued. Its payment is deferred and dependent upon the continuation of the employment relationship
- With reference to the long-term variable incentive plan, dependent on three-year performance targets (2015-2017), remuneration of € 62,157 accrued for the only executive with strategic responsibilities identified as such before passing the resolution of the three-year plan

Remuneration totalling € 96,500 was also disbursed by subsidiaries.

There are no incentive plans based on financial instruments outstanding.

For a breakdown of the remuneration paid in 2017, please refer to the tables below (Table 1 and Table 2), which contain remuneration paid to Directors and Statutory Auditors, and, at the aggregate level, to other executives with strategic responsibilities, taking into account any office held for a fraction of a year. Remuneration received from subsidiaries and/or affiliates, with the exception of that waived or paid back to the Company, is also indicated separately.

With particular reference to Table 1, the column:

- "Fixed remuneration" shows, for the portion attributable to 2017, the fixed remuneration approved by the Shareholders' meeting (and distributed with resolution of the Board of Directors), including the remuneration received for the carrying-out of special offices (pursuant to Article 2389, paragraph 3, Italian Civil Code); attendance fees as approved by the Board of Directors; employee salaries due for the year gross of social security contributions and income taxes owed by the employee
- "Remuneration for attendance at Committee meetings", shows, for the portion relating to 2017, the remuneration due to directors who attended the meetings of the Committees set up within the Board and the related attendance fees
- "Bonus and other incentives" includes the variable remuneration accrued during the year, for monetary incentive plans. This value corresponds to the sum of the amounts provided in Table 2 in the "Bonus for the year - payable/paid", "Bonus of previous years - payable/paid" and "Other bonuses" columns
- "Non-monetary benefits" shows, according to accrual and tax liability criteria, the value of outstanding insurance policies and the company cars assigned
- "Other remuneration" shows, for the portion attributable to 2017, any other remuneration resulting from other services provided
- "Indemnity for end of office or termination of employment relationship", shows the indemnities accrued, even if not yet paid, in favour of directors for termination of offices during the financial year in question, with reference to the financial year in which the effective termination of office occurred. Indemnities for Non-competition commitments, which are paid upon termination of office, are also indicated
- "Total" shows the sum of the amounts provided under the previous items

For a breakdown of other items, see attachment 3A, statement 7-bis and 7-ter of Consob Regulation 11971 of 14 May 1999.

Table 2 contains information on monetary incentive plans for members of the administration body and other executives with strategic responsibilities; in particular, it shows:

For the section "Bonus for the year"

- In the column "Payable/Paid", the bonus accrued for the year for the targets reached during the year and paid or payable because not subject to further conditions (known as upfront fee)
- The column "Deferred" shows the bonus dependent on the targets to be reached during the year but not payable because subject to further conditions (known as deferred bonus)

For the section "Bonus of previous years"

- The column "No longer payable" shows the sum of bonuses deferred in previous years still to be paid at the beginning of the financial year and no longer payable for failure to meet the conditions to which they are subject
- The column "Payable/Paid" shows the sum of bonuses deferred in previous years still to be paid at the beginning of the financial year and paid during the year or payable
- The column "Still deferred" shows the sum of bonuses deferred in previous years still to be paid at the beginning of the financial year and still deferred

Lastly, the column "Other bonuses" shows the bonuses for the year not explicitly included in specific ex ante defined plans.

Finally, pursuant to Article 84-quarter, paragraph four of the Consob Issuers' Regulations, Table 3 shows shareholdings in Sabaf S.p.A. held by directors and executives with strategic responsibilities, as well as their non-separated spouses and dependent children, directly or through subsidiaries, trust companies or third parties, as shown in the shareholder register, communications received and other information acquired from the same parties. This includes all persons who held office during the year, even for only part of the year. The number of shares held is shown by individual director and in aggregate form for executives with strategic responsibilities.

TAB. 1 - Remuneration paid to members of the Board of Directors and Board of Statutory Auditors and other executives with strategic responsibilities in 2017

FIGURES IN EURO

Name and surname	Office	Period of office	Expiry of office	Fixed remuneration	Remuneration for attendance at Committee meetings	Variable remuneration (non equity)		Non-monetary benefits	Other remuneration	Total	Fair Value of equity remunera-tion	Indemnity for end of office or termination of employment relationship
						Bonus and other incentives	Profit sharing					
BOARD OF DIRECTORS												
Giuseppe Saleri	Chairman	1 Jan - 31 Dec 2017	Approval of 2017 financial statements									
(I) Remuneration at Sabaf S.p.A. [(a)]				120,000 [(a)]	0	0	0	0	0	120,000	0	0
(II) Remuneration from subsidiaries and affiliates				8,000	0	0	0	0	0	8,000	0	0
(III) TOTAL				**128,000**	**0**	**0**	**0**	**0**	**0**	**128,000**	**0**	**0**

(a) Of which € 15,000 as Director and € 105,000 as Chairman

Ettore Saleri	Vice Chairman	1 Jan - 31 Dec 2017	Approval of 2017 financial statements									
(I) Remuneration at Sabaf S.p.A. [(a)]				140,000 [(a)]	0	0	0	0	0	140,000	0	0
(II) Remuneration from subsidiaries and affiliates				8,000	0	0	0	0	0	8,000	0	0
(III) TOTAL				**148,000**	**0**	**0**	**0**	**0**	**0**	**148,000**	**0**	**0**

(a) Of which € 15,000 as Director and € 125,000 as Chairman

Cinzia Saleri	Vice Chairman	1 Jan - 31 Dec 2017	Approval of 2017 financial statements									
(I) Remuneration at Sabaf S.p.A. [(a)]				140,000 [(a)]	0	0	0	0	0	140,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) TOTAL				**140,000**	**0**	**0**	**0**	**0**	**0**	**140,000**	**0**	**0**

(a) Of which € 15,000 as Director and € 125,000 as Vice Chairman

Roberta Forzanini	Vice Chairman	1 Jan - 31 Dec 2017	Approval of 2017 financial statements									
(I) Remuneration at Sabaf S.p.A. [(a)]				140,000 [(a)]	0	0	0	0	0	140,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) TOTAL				**140,000**	**0**	**0**	**0**	**0**	**0**	**140,000**	**0**	**0**

(a) Of which € 15,000 as Director and € 125,000 as Vice Chairman

Name and surname	Office	Period of office	Expiry of office	Fixed remuneration	Remuneration for attendance at Committee meetings	Variable remuneration (non equity)		Non-monetary benefits	Other remuneration	Total	Fair Value of equity remu-neration	Indemnity for end of office or termination of employment relationship
						Bonus and other incentives	Profit sharing					
Alberto Bartoli	Chief Executive Officer	1 Jan - 27 Apr 2017	Approval of 2017 financial statements									
(I) Remuneration at Sabaf S.p.A [(a)]				0	0	0	0	0	0	0	0	290,000 [(a)]
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) TOTAL				**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**290,000**

(a) Remuneration accrued upon termination of office (Non-competition Agreement), paid in three years: 2017, 2018, 2019

Pietro Iotti	Chief Executive Officer	12 Set - 31 Dec 2017	Approval of 2017 financial statements									
(I) Remuneration at Sabaf S.p.A.([(a)(b)]				93,077 [(a)]	0	83,333 [(b)]	0	6,765	0	183,175	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) TOTAL				**93,077**	**0**	**83,333**	**0**	**6,765**	**0**	**183,175**	**0**	**0**

(a) Of which € 10,000 as Director and € 83,077 as General Manager
(b) Of which € 50,000 as entry bonus and € 33,000 paid on a pro rata basis

Gianluca Beschi	Director	1 Jan - 31 Dec 2017	Approval of 2017 financial statements									
(I) Remuneration at Sabaf S.p.A. [(a)(b)]				259,315 [(a)]	0	108,602 [(b)]	0	12,929	0	380,846	0	0
(II) Remuneration from subsidiaries and affiliates				43,000	0	0	0	0	0	43,000	0	0
(III) TOTAL				**302,315**	**0**	**108,602**	**0**	**12,929**	**0**	**423,846**	**0**	**0**

(a) Of which € 15,000 as director, € 100,000 as Chief Executive Officer ad interim, and € 144,315 as Administration, Finance and Control Director
(b) Remuneration accrued in the year with reference to the 2017 MBO plan and Long-term Incentive Plan – for details, please refer to what is shown in Tab. 2

Renato Camodeca	Director	1 Jan - 31 Dec 2017	Approval of 2017 financial statements									
(I) Remuneration at Sabaf S.p.A. [(a)(b)]				24,000 [(a)]	27,000 [(b)]	0	0	0	0	51,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) TOTAL				**24,000**	**27,000**	**0**	**0**	**0**	**0**	**51,000**	**0**	**0**

(a) Of which € 15,000 as director and € 9,000 in board meeting attendance fees
(b) Of which € 20,000 as a member of the Internal Control and Risk Committee and the Remuneration and Nomination Committee (i.e., € 10,000 each) and € 7,000 in Committee meeting attendance fees

Name and surname	Office	Period of office	Expiry of office	Fixed remuneration	Remuneration for attendance at Committee meetings	Variable remuneration (non equity)		Non-monetary benefits	Other remuneration	Total	Fair Value of equity remuneration	Indemnity for end of office or termination of employment relationship
						Bonus and other incentives	Profit sharing					

Giuseppe Cavalli	Director	1 Jan - 31 Dec 2017	Approval of 2017 financial statements									
(I) Remuneration at Sabaf S.p.A. [a][b]				23,000 [a]	27,000 [b]	0	0	0	0	50,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) TOTAL				**23,000**	**27,000**	**0**	**0**	**0**	**0**	**50,000**	**0**	**0**

(a) Of which € 15,000 as director and € 8,000 in board meeting attendance fees
(b) Of which € 20,000 as a member of the Internal Control and Risk Committee and the Remuneration and Nomination Committee (i.e., € 10,000 each) and € 7,000 in Committee meeting attendance fees

Fausto Gardoni	Director	1 Jan - 31 Dec 2017	Approval of 2017 financial statements									
(I) Remuneration at Sabaf S.p.A. [a][b]				24,000 [a]	15,000 [b]	0	0	0	0	39,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) TOTAL				**24,000**	**15,000**	**0**	**0**	**0**	**0**	**39,000**	**0**	**0**

(a) Of which € 15,000 as director and € 9,000 in board meeting attendance fees
(b) Of which € 10,000 as a member of the Remuneration and Nomination Committee and € 5,000 in Committee meeting attendance fees

Nicla Picchi	Director	1 Jan - 31 Dec 2017	Approval of 2017 financial statements									
(I) Remuneration at Sabaf S.p.A [a][b][c]				22,000 [a]	14,000 [b]	0	0	0	15,000 [c]	51,000	0	0
(II) Remuneration from subsidiaries and affiliates [c]				0	0	0	0	0	5,000 [c]	5,000	0	0
(III) TOTAL				**22,000**	**14,000**	**0**	**0**	**0**	**20,000**	**56,000**	**0**	**0**

(a) Of which € 15,000 as director and € 7,000 in board meeting attendance fees
(b) Of which € 10,000 as a member of the Internal Control and Risk Committee and € 4,000 in Committee meeting attendance fees
(c) Of which € 15,000 as member of the Sabaf S.p.A. Supervisory Body and € 5,000 as member of the Supervisory Body of the subsidiary Faringosi Hinges S.r.l.

Anna Pendoli	Director	1 Jan - 31 Dec 2017	Approval of 2017 financial statements									
(I) Remuneration at Sabaf S.p.A. [a]				23,000 [a]	0	0	0	0	0	23,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) TOTAL				**23,000**	**0**	**0**	**0**	**0**	**0**	**23,000**	**0**	**0**

(a) Of which € 15,000 as director and € 8,000 in board meeting attendance fees

Alessandro Potestà	Director	28 Apr - 31 Dec 2017	Approval of 2017 financial statements									
(I) Remuneration at Sabaf S.p.A. [a]				21,000 [a]	0	0	0	0	0	21,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) TOTAL				**21,000**	**0**	**0**	**0**	**0**	**0**	**21,000**	**0**	**0**

(a) Of which € 15,000 as director and € 6,000 in board meeting attendance fees

Name and surname	Office	Period of office	Expiry of office	Fixed remuneration	Remuneration for attendance at Committee meetings	Variable remuneration (non equity)		Non-monetary benefits	Other remuneration	Total	Fair Value of equity remunera-tion	Indemnity for end of office or termination of employment relationship
						Bonus and other incentives	Profit sharing					
BOARD OF STATUTORY AUDITORS												
Antonio Passantino	**Chairman**	**1 Jan - 31 Dec 2017**	**Approval of 2017 financial statements**									
(I) Remuneration at Sabaf S.p.A.				24,000	0	0	0	0	0	24,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) TOTAL				**24,000**	**0**	**0**	**0**	**0**	**0**	**24,000**	**0**	**0**
Luisa Anselmi	**Chairman**	**1 Jan - 31 Dec 2017**	**Approval of 2017 financial statements**									
(I) Remuneration at Sabaf S.p.A.				16,000	0	0	0	0	0	16,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) TOTAL				**16,000**	**0**	**0**	**0**	**0**	**0**	**16,000**	**0**	**0**
Enrico Broli	**Statutory Auditor**	**1 Jan - 31 Dec 2017**	**Approval of 2017 financial statements**									
(I) Remuneration at Sabaf S.p.A.				16,000	0	0	0	0	0	16,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) TOTAL				**16,000**	**0**	**0**	**0**	**0**	**0**	**16,000**	**0**	**0**

Name and surname	Office	Period of office	Expiry of office	Fixed remuneration	Remuneration for attendance at Committee meetings	Variable remuneration (non equity)		Non-monetary benefits	Other remuneration	Total	Fair Value of equity remunera-tion	Indemnity for end of office or termination of employment relationship
						Bonus and other incentives	Profit sharing					
OTHER EXECUTIVES WITH STRATEGIC RESPONSIBILITIES												
Other executives with strategic responsibilities (3)		**1 Jan - 31 Dec 2017**	n/a									
(I) Remuneration at Sabaf S.p.A. [(a)]				384,624	0	148,619 [(a)]	0	39,024	0	572,267	0	0
(II) Remuneration from subsidiaries and affiliates				96,500	0	0	0	0	0	96,500	0	0
(III) TOTAL				**481,124**	**0**	**148,619**	**0**	**39,024**	**0**	**668,767**	**0**	**0**

(a) Remuneration accrued in the year with reference to the 2017 MBO plan and Long-term Incentive Plan – for details, please refer to what is shown in Tab. 2

TAB. 2 - Monetary incentive plans for members of the administration body and other executives with strategic responsibilities

FIGURES IN EURO

Name and surname	Office	Plan	Payable / Paid	Deferred	Deferment period	No longer payable	Payable / Paid	Still deferred	Other bonuses
			Bonus for the year			Bonus of previous years			
Pietro Iotti	**Chief Executive Officer**								
Remuneration at Sabaf S.p.A.		2017 MBO Plan (August 2017)	33,000	0	-	-	-	-	0
TOTAL			**33,000**	**0**	**-**	**0**	**0**	**0**	**0**
Gianluca Beschi	**Executive Director**								
Remuneration at Sabaf S.p.A.		2016 MBO Plan (March 2016)	-	-	-	0	0	0	0
Remuneration at Sabaf S.p.A.		2017 MBO Plan (March 2017)	0	36,128	75% March 18 25% December 18	-	-	-	0
Remuneration at Sabaf S.p.A.		Three-year LTI 2015-2017 (August 2015)	72,474	0	-	-	-	-	0
TOTAL			**72,474**	**36,128**	**-**	**0**	**0**	**0**	**0**
Other executives with strategic responsibilities (3)									
Remuneration at Sabaf S.p.A.		2016 MBO Plan (March 2016)	-	-	-	0	33,050	0	0
Remuneration at Sabaf S.p.A.		2017 MBO Plan (March 2017)	0	86,462	75% March 18 25% December 18	-	-	-	0
Remuneration at Sabaf S.p.A.		Three-year LTI 2015-2017 (August 2015)	62,157	0	-	-	-	-	
TOTAL			**62,157**	**86,462**	**-**	**0**	**33,050**	**0**	**0**

TAB. 3 - Shareholdings of members of the administration and control bodies and other executives with strategic responsibilities

FIGURES IN EURO

Surname and Name	Office	Type of Ownership	Investee Company	No. shares held as at 31 Dec 2016	No. shares acquired	No. shares sold	No. shares held as at 31 Dec 2017
Giuseppe Saleri	Chairman	Indirect through the subsidiary Giuseppe Saleri S.a.p.A.	Sabaf S.p.A.	3,543,313	-	777,000	2,766,313
Roberta Forzanini	Vice Chairman	Direct	Sabaf S.p.A.	1,971	-	1,971	0
Alberto Bartoli [a]	Chief Executive Officer *(holding office until 27 April 2017)*	Direct	Sabaf S.p.A.	7,500	-	-	7,500 [a]
		Indirect through spouse	Sabaf S.p.A.	1,000	-	-	1,000 [a]
Pietro Iotti	Chief Executive Officer *(In office from 1 August 2017)*	Direct	Sabaf S.p.A.	0	10,000	-	10,000
Giuseppe Cavalli	Independent Director	Indirect through spouse	Sabaf S.p.A.	5,000	-	-	5,000
Anna Pendoli	Director	Direct	Sabaf S.p.A.	450,000	-	337,500	112,500
Executives with strategic responsibilities (3)	-	Direct	Sabaf S.p.A.	4,300	-	4,300	0

(a) Data updated to 27 April 2017, date of termination of office

CONCEPT AND GRAPHIC DESIGN:
ALL CREATIVE AGENCY - ALL COMUNICAZIONE.IT

PHOTO:
STUDIO 22 - NICOLA TIRELLI

PRINT:
GRAPHIC CENTER

Printed on paper *Fedrigoni Woodstock* and *Fedrigoni Arcoset W/W*

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