



2015
ANNUAL
REPORT





ANNUAL
REPORT
2015

With over 20 million burners and as many valves manufactured each year, the **Sabaf Group** was once again recognised as the global market leader in this sector in 2015.

Our components for cooking appliances can be found in hobs and ovens throughout the world: a genuine touch of Made in Italy in the kitchen.

This idea led us to the creative design of our Annual Report this year: it provides a virtual tour of the world through the countries shown in the report, distinguished by the company's representative products in each region.

The photographic design marks a departure from previous Annual Reports, in which vector diagrams were the main graphic element. The materials and props used to design and create the sets result in bold yet complementary colours which dominate the scene: each country has its own reference colour, depicted in the image through the use of special Fedrigoni paper from the Sirio Colour series. Geometry and alignment are achieved using solid shapes with ad hoc designs in which iconographic elements and foods typical of the eight selected countries are carefully arranged, creating evocative settings which allow our minds to wander from Brazil to China and from Italy to Turkey.

It conveys a message of unity and collaboration, a tribute to the world and to the various cultures within it.

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CHIEF EXECUTIVE OFFICER'S
**LETTER TO
STAKEHOLDERS**

“The future presents huge opportunities, but we must work hard to make our organisation stronger and more cohesive so that we can seize them.”

Dear Shareholders and Stakeholders,

2015 was a moderately pleasing year for us. After an outstanding start to the year, there was a series of ups and downs. The fourth quarter saw a slight decline, so the year ended with a marginal increase in revenues but a more significant improvement in profit. This increase was aided by the appreciation of the dollar, but we have worked internally to ensure continuous improvement in our productivity and the quality of our products and related services. This important work will continue and even accelerate in 2016 – a year in which we have also planned significant organisational, production and logistical changes, as part of a move towards lean manufacturing, alongside a clear focus on all the innovations that could come with the Internet of Things. To make a further leap in quality, we need everyone at Sabaf to pull in the same direction: individual interests must be set aside in favour of cooperation. The future presents huge opportunities, but we must work hard to make our organisation stronger and more cohesive so that we can seize them.

Our foreign factories are, and will remain, a cornerstone of the effort to improve our results. Both Brazil (despite the profound crisis in the country) and Turkey (notwithstanding the geopolitical risks in the region) have made a crucial contribution to our profit and loss account and I want to reiterate that without the move we made towards internationalisation, our group would be smaller and more exposed to the risks of weak demand in our industry.

As I informed you a year ago, we have continued our path of international expansion by opening a small production site in China. Production began in June, and we are pleased with how things are progressing in this distant outpost. Of course, the level of sales is not yet satisfactory, but China is the biggest market in the world for gas cookers, so it is one of our priorities. Even though there are some signs of a slowdown in the Chinese economy, Sabaf's potential remains intact and is actually probably improving due to the increased cost of labour, which on one hand causes difficulties for our local competitors, and on the other raises the buying power of households and demand for higher quality products. Now we must redouble our sales push so that we can achieve revenues that are befitting of our strategic positioning.

In 2015, we also seriously considered a possible acquisition in the American market in order to accelerate our level of growth there as well. However, levels of quality among the local competition was frankly very far from our standards, so we decided not to make any acquisitions. Even so, our level of interest remains unchanged and we are looking at investing in a new production facility in Mexico or the United States. This facility would complete our international presence, meaning we could meet demand in every continent.

Even as we achieve a truly global reach, I think that the time has come for Sabaf to take a new direction. Our industry becomes more difficult every day: the concentration of our customers, significant price pressure, and a global situation in which the highest demand comes from areas of great instability means, to my mind, that we need to expand our range of products and services. Of course, the clear focus on our core business will remain, but inorganic growth is also an opportunity that we should explore. I am thinking especially of niches adjacent to our own, where we would exploit the technical expertise we have built up over decades and the business relationships developed with a great many contacts in every corner of the planet.

In contrast to 2015, the year 2016 has begun very slowly: demand is weak in all areas, with the exception of North America. Yet we will not stop investing, bringing down costs, launching new products, and winning new customers. All of this will bring fruit in due course, but by no means within a single quarter. For us, in any case, short-term results have always been secondary to results that will last and create sustainable growth.

We have added to our numerous certifications (ISO 9001, ISO 14001, SA 8000) in 2015 by achieving ISO 50001 energy certification. The quality of our products, the protection of the environment and the health and safety of our staff are now further improved by the best possible use of energy sources, in what is a virtuous and self-perpetuating cycle. Certifications are not trophies to be displayed, but tools to help us work better and with greater discipline. I would therefore like to thank my colleagues who worked so hard to achieve this important recognition.

Thank you.
Alberto Bartoli

INTRODUCTION TO THE ANNUAL REPORT

Sabaf's progress towards Integrated Reporting

The publication of Sabaf's Annual Report, in its eleventh edition this year, confirms the Group's commitment, undertaken in 2005, to providing integrated reporting of its economic, social and environmental performance.

Confirming the importance of integrated reporting as the new emerging corporate reporting model, work continued in this regard at an international level. In December 2013, the International Integrated Reporting Council (IIRC) presented the international framework on sustainability reporting, "The International <IR> Framework", which sets the guidelines to be followed in the preparation of an integrated report and its key contents. Integrated reporting represents a significant development in corporate

reporting, which is increasingly focused on promoting cohesion and efficiency in the reporting process and adopting "*integrated thinking*".

Sabaf was one of the first companies at international level to adopt integrated reporting, and intends to continue along this path, guided by the International Framework, in the knowledge that integrated, complete and transparent disclosure can benefit both companies themselves - through a better understanding of the various strategic strands and greater internal cohesion - and the investor community, which can thereby gain a clearer understanding of the link between strategy, governance and company performance.

Methodology

Sections **1 - Business model and strategic approach**, **2 - International operations and core markets** and **4 - Social and environmental sustainability** comprise the Annual Report at 31 December 2015, prepared according to the G4 Sustainability Reporting Guidelines defined by the Global Reporting Initiative (GRI) in 2013, and include the indicators laid down for the option of "Core" reporting.

The Annual Report also refers to the AA 1000 (AccountAbility 1000) standards issued by AccountAbility, as regards the social reporting process and dialogue with stakeholders. As in previous years, the process of defining content and determining materiality is based on GRI principles (materiality, inclusivity of stakeholders, sustainability and completeness, comparability, accuracy, timeliness, reliability, clarity and balance). The reporting scope of the annual report corresponds to that of the consolidated financial statements.

Any exceptions are indicated as appropriate in the document.

For 2015, the reporting scope was extended to Sabaf Appliance Components (Kunshan) Co. Ltd. China.

Section **3 - Governance, risk management, compliance and remuneration** reports important information regarding the corporate governance structure and the company risk management system.

Sections **5 - Report on operations**, **6 - Consolidated Financial Statements** and **7 - Financial Statements of Sabaf S.p.A.** make up the Annual Financial Report at 31 December 2015.

Finally, the **Report on Remuneration** is provided, prepared pursuant to Article 123-ter of the Consolidated Law on Finance.

Once again this year, the "non-financial indicators" include the results of operating and improving intangible fixed assets, the principal drivers that allow monitoring of the business strategy's ability to create value in the medium to long term.

To ensure that the information contained in the Annual Report is reliable, only directly measurable figures are included, avoiding the use of estimates wherever possible. The calculations are based on the best information available or on sample-based surveys. Where they have been used, estimates are clearly indicated as such.

The Annual Report was approved by the Board of Directors on 22 March 2016 and presented to shareholders at the Annual General Meeting held on 28 April 2016.

Sabaf's sustainability reporting: the expert view

This year Sabaf launched survey to gather opinions from academia about the sustainability section in the Annual Report. Feedback was collected through telephone interviews with lecturers in business economics and corporate social responsibility at the universities of Brescia, Verona and Ca' Foscari. The result was very positive overall. The document was seen as clear and comprehensive both in terms of presentation and content, above all thanks to its "concise but to the point" approach, which remains aligned with the GRI G4 Sustainability Reporting Guidelines and provides a good balance of qualitative and quantitative information.

It is an example of sustainability reporting used to teach students about best practices in the sector. The industry comparisons were much appreciated and made the sustainability report stand out from the others. In fact, the report's disclosures are more transparent than the average; they offer a comparison with industry indexes and previous years' results, indicators on intangible fixed assets, clear reporting on indicators on the remuneration of men and women and parental leave, and a detailed representation of information flows within the Governance unit.

Sabaf's efforts to comply with IIRC (International Integrated Reporting Council) standards were highlighted. The integrated representation of the business model and structure by capital – which were personalised and adapted to Sabaf's business – are hallmarks of the Group's move towards an Integrated Report.

The survey also highlighted a number of ways to improve for the future. For example, the importance of including a future outlook in reports – including both short- and medium-term objectives – was underlined. In addition, to complete the transition to an integrated report, it was suggested that we should examine and quantify how the different capital types interact in the value-creation process and transpose the results of this analysis into the report, increasing the connection between material aspects and the risks faced by Sabaf and reflecting this in the sustainability disclosures, thereby providing a comprehensive overview of Sabaf's economic, social and environmental impacts.

Analysis of materiality

The GRI-G4 guidelines stipulate that the contents of the Annual Report must be defined on the basis of a materiality analysis. In accordance with GRI-G4 requirements, in 2014 Sabaf began working with company management to identify material (significant) issues to include in the Annual Report. In other words, material issues are those:

- of significant financial, environmental or social impact for Sabaf's business;
- that could have a significant influence on the evaluations and decisions of stakeholders.

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

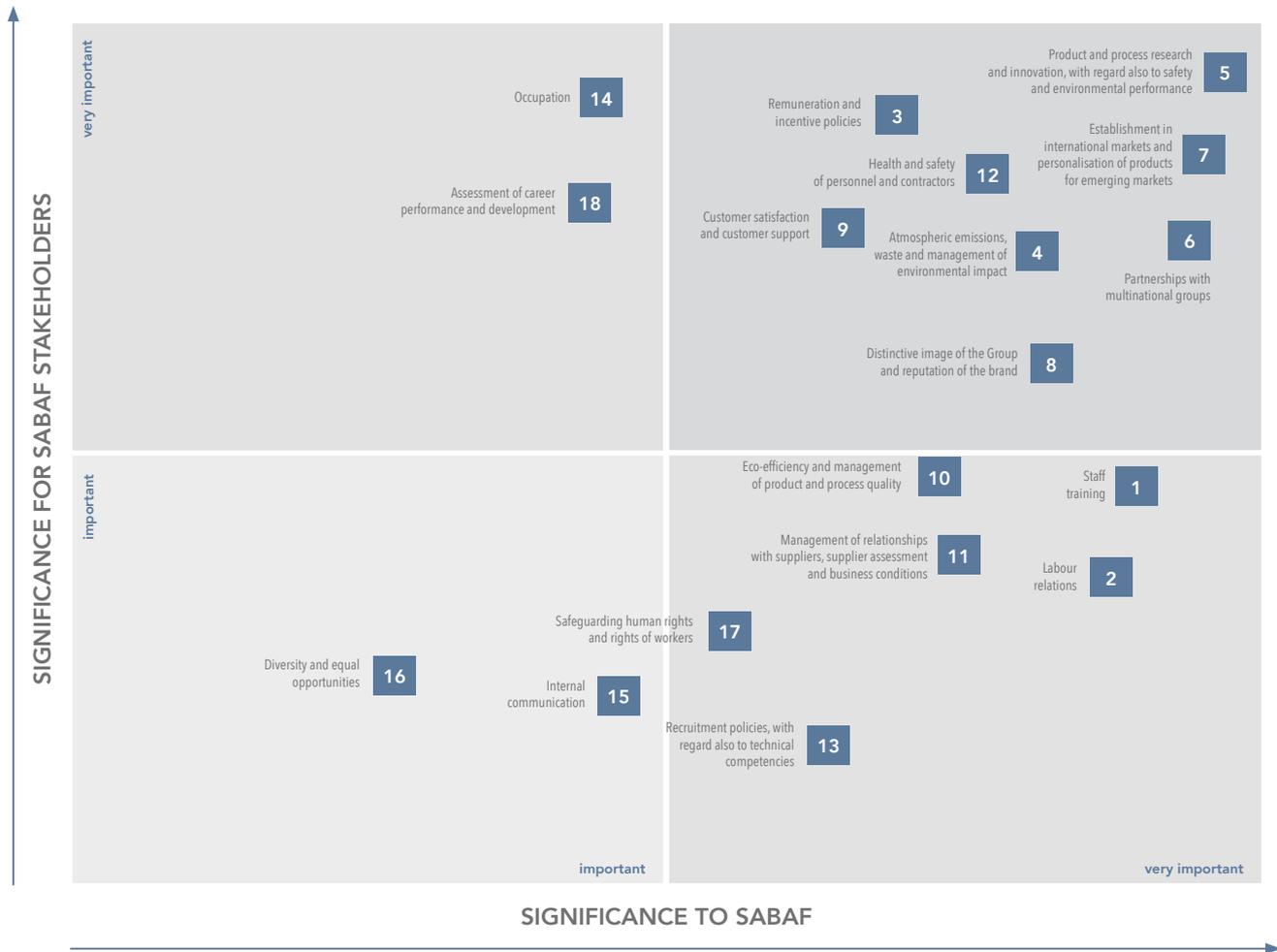
The material issues remained unchanged for 2015.

In the identification of material issues, the following aspects are considered to be preconditions for operation, and are therefore assessed as "very significant" both for Sabaf and for the stakeholders:

- a) the creation and diffusion of sustainable value over time;
- b) a system of governance that is transparent and that supports the business effectively;
- c) constant attention to respecting the law when Sabaf carries out its activities.

For further details on the methodology used for the material analysis, see page 7 of the 2014 Annual Report.

Materiality matrix



Material issue

ID	MATERIAL ISSUE	IMPORTANCE OF THE ISSUE TO SABAF	LINK TO GRI-G4 ASPECTS	INTERNAL IMPACT	EXTERNAL IMPACT
1	Staff training	Training activities with the aim of ensuring the continued professional development of employees	Training and Education (G4-LA9)	Sabaf	
2	Labour relations	Relationship between Sabaf and internal trade union representatives, based on principles of transparency and mutual trust	Freedom of Association and Collective Bargaining (G4-HR4)	Sabaf	Trade unions
3	Remuneration and incentive policies	- Setting the fixed and variable components of employees' salaries - Incentive system based on the attainment of pre-set objectives, with the aim of achieving company targets	- Market Presence (G4-EC5) - Training and Education (G4-LA11) - Equal Remuneration for Men and Women (G4-LA13)	Sabaf	Trade unions
4	Atmospheric emissions, waste and management of environmental impact	Definition of monitoring activities and the reduction of the emission of polluting substances into the atmosphere and of waste generated by Sabaf's production processes	- Materials (G4-EN1, G4-EN2) - Energy (G4-EN3, G4-EN5) - Water (G4-EN8, G4-EN9, G4-EN10) - Emissions (G4-EN15, G4-EN16, G4-EN20, G4-EN21) - Effluents and Waste (G4-EN22, G4-EN23, G4-EN24) - Overall (G4-EN31)	Sabaf	Environment, community
5	Product and process research and innovation, with regard also to safety and environmental performance	Identification of new technological and production solutions (with specific focus on safety and environmental performance) that allow the Company to reinforce 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	Partnerships with multinational groups	Openness of Sabaf to strategic partnerships with major players in the sector	. (*)	Sabaf	Customers
7	Establishment in international markets and personalisation of products for emerging markets	The replication of Sabaf's business model in emerging countries, adapting to local cultures	. (*)	Sabaf	Customers, community
8	Distinctive image of the Group and reputation of the brand	Operating while maintaining the distinctive image of the brand - synonymous with reliability, quality and innovation - that Sabaf has acquired in the market	. (*)	Sabaf	Customers, financial backers
9	Customer satisfaction and support	Ability to respond effectively to customer expectations at all stages of the relationship (from design to post-sales support)	Product and Service Labeling (G4-PR5)	Sabaf	Customers
10	Eco-efficiency and management of product and process quality	Research of the best product or process performance or solutions in terms of environmental impact Design of new eco-efficient products	See items 4 and 5	Sabaf	Customers, environment, community
11	Management of relationships with suppliers, supplier assessment and business conditions	The commitment by Sabaf to create a relationship with the supplier chain based on principles of business integrity, propriety and contractual fairness The sharing of Sabaf values with suppliers. The definition, by Sabaf, of minimum criteria for the development of a longterm relationship with suppliers, based on principles of social responsibility	- Supplier Assessment for Labor Practices (G4-LA14) - Assessment (G4-HR9) - Supplier Human Rights Assessment (G4-HR10)	Sabaf	Customers, environment, community
12	Health and safety of personnel and contractors	Management, in compliance with regulations regarding health and safety at work, of matters relating to the health and safety of employees: training, prevention, monitoring, improvement objectives	Occupational Health and Safety (G4-LA6, G4-LA7, G4-LA8)	Sabaf	Suppliers
13	Recruitment policies, with regard also to technical competencies	Personnel recruitment policies aimed at ensuring equal opportunities for all candidates, avoiding any form of discrimination Assessment of candidates based on competencies, previous working experience and potential	Employment (G4-LA1)	Sabaf	Society
14	Occupation	Focus on maintaining stable relationships, with an awareness of the importance of human capital to the implementation of company strategy	Employment (G4-LA2, G4-LA3)	Sabaf	
15	Internal communication	Activities and projects aimed at developing a continuous dialogue between the company and its employees	. (*)	Sabaf	
16	Diversity and equal opportunities	Commitment to ensuring equal opportunities for women or for minorities	Diversity and equal opportunity (G4-LA12)	Sabaf	
17	Safeguarding human rights and rights of workers	Safeguarding human rights as prescribed by "The Universal Declaration of Human Rights" and the principles set out in the rules of the International Labour Organisation The socially responsible management of employment processes and working conditions in the supply chain, in accordance with the requirements of norm SA8000	- Non-discrimination (G4-HR3) - Child Labor (G4-HR5) - Forced or Compulsory Labor (G4-HR6) - Assessment (G4-HR9) - Supplier Human Rights Assessment (G4-HR10)	Sabaf	Suppliers
18	Assessment of career performance and development	- Internal development of favoured competencies instead of acquiring these externally - Development based on merit	- Training and Education (G4-LA11)	Sabaf	

(*) With regard to a particular issue (not directly linked to an aspect covered by the GRI-G4 guidelines), Sabaf sets out the management approach adopted in the document, along with the relative indicators.



Sabaf adheres to the CECED Code of Conduct

Sabaf has adopted the CECED Italia Code of Conduct. CECED Italia is an association that represents more than 100 companies in the household appliances industry.

The **CECED Code of Conduct** confirms the commitment by the European domestic appliance industry to support behaviour that is **ethical and equitable**. The Code aims to promote ethical and sustainable standards as regards **working conditions** and **safeguarding the environment** in order to support **fair competition** in **global markets**.

The manufacturers that adhere to the code **voluntarily** commit to implementing decent working conditions that respect shared standards relating to **minimum age, working hours, hygiene and safety conditions, freedom of association** and **collective bargaining**, as well as **environmental regulations**. The signatory companies also commit to making their **suppliers aware** of the principles of the Code of Conduct, and to encourage them to adhere to these principles. The signatory companies ask, through the suppliers, that the principles are recommended to the whole supply chain.

In this context, the Sabaf Annual Report is the tool through which the Group reports each year on the practical implementation of the code's principles and the progress achieved, as specifically required of participating companies.



Sabaf is a member of the Global Compact

In April 2004 Sabaf formally subscribed to the *Global Compact*, the United Nations programme for companies that commit to supporting and promoting 10 universally accepted principles covering human rights, labour rights, environmental protection and the fight against corruption. By publishing the 2015 Annual Report, we are renewing our commitment to making the *Global Compact* and its principles an integral part of our strategy, our culture and our daily operations, and we also undertake explicitly to declare this commitment to all our employees, partners, customers and public opinion in general.

The Annual Report contains details of the measures taken by the Sabaf Group in support of the 10 principles. The references are set out in the index of GRI indicators, according to the guidelines "*Making the connection. The GRI Guidelines and the UNGC Communication on Progress*".

Alberto Bartoli

The 10 principles

Human rights

PRINCIPLE I

BUSINESSES SHOULD SUPPORT AND RESPECT THE PROTECTION OF INTERNATIONALLY PROCLAIMED HUMAN RIGHTS IN THE AMBIT OF THEIR RESPECTIVE SPHERES OF INFLUENCE AND

PRINCIPLE II

MAKE SURE THAT THEY ARE NOT DIRECTLY NOR 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

ELIMINATION OF ALL FORMS OF FORCED AND COMPULSORY LABOUR.

PRINCIPLE V

EFFECTIVE ABOLITION OF CHILD LABOUR.

PRINCIPLE VI

ELIMINATION OF ALL FORMS 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.

PRINCIPLE IX

ENCOURAGE THE DEVELOPMENT AND DIFFUSION OF ENVIRONMENTALLY FRIENDLY TECHNOLOGIES.

Anti-corruption

PRINCIPLE X

BUSINESSES SHOULD WORK AGAINST CORRUPTION IN ALL ITS FORMS, INCLUDING EXTORTION AND BRIBERY.

KEY PERFORMANCE INDICATORS (KPIs)

FINANCIAL CAPITAL

		2015	2014	2013
SALES REVENUES	€ /000	138,003	136,337	130,967
EBITDA	€ /000	26,172	25,952	24,572
OPERATING PROFIT (EBIT)	€ /000	14,091	13,175	11,132
PRE-TAX PROFIT	€ /000	13,474	12,157	9,811
NET PROFIT	€ /000	8,998	8,338	8,104
WORKING CAPITAL	€ /000	48,163	45,844	41,241
CAPITAL EMPLOYED	€ /000	136,948	137,671	134,681
SHAREHOLDERS' EQUITY	€ /000	111,040	110,738	117,955
NET FINANCIAL DEBT	€ /000	25,908	26,933	16,726
ROCE (RETURN ON CAPITAL EMPLOYED)	%	10.3%	9.6%	8.3%
DIVIDENDS PAID OUT	€ /000	4,613	16,146 ¹	3,911

¹ On 12 November 2014, shareholders were paid an ordinary dividend of €1.00 per share (total dividends of €11,533,000).

NET PROFIT

€/000



HUMAN CAPITAL



AVERAGE AGE OF EMPLOYEES

(sum of age of employees/total employees at 31/12)

YEARS

37.7

37.2

36.6



LEVEL OF EDUCATION

(number of university and high school graduates/total employees at 31/12)

%

55.7

54.4

54.5



STAFF TURNOVER

(employees who resign or are dismissed/total employees at 31/12)

%

25.1

11.9

11.3

%

18.9

20

4.7



HOURS OF TRAINING PER EMPLOYEE

(hours of training/average no. of employees)

HOURS

17.5

14.4

18



INVESTMENT IN TRAINING/REVENUE

%

0.33

0.31

0.45



HOURS OF INDUSTRIAL ACTION FOR INTERNAL CAUSES

N°

0

0

0



TOTAL EMPLOYEE HEADCOUNT

N°

759

726

730

%

65.1

64.9

65.2

%

34.9

35.1

34.8



SICKNESS RATE

(sick leave hours/total workable hours)

%

2.93

2.88

2.88



ACCIDENT FREQUENCY INDEX

(no. of accidents - excluding accidents in transit - per 1 million hours worked)

13.73

11.08

12.99



ACCIDENT SEVERITY INDEX

(days of absence - excluding accidents in transit - per 1,000 hours worked)

0.40

0.39

0.22



JOBS CREATED

(lost)

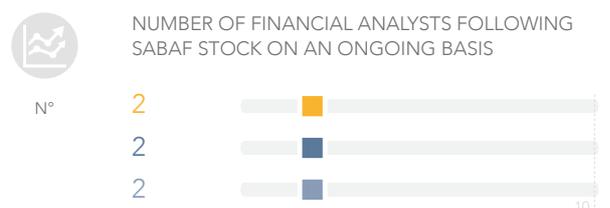
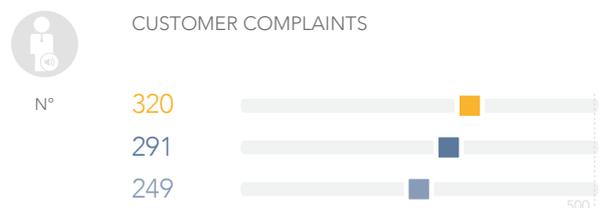
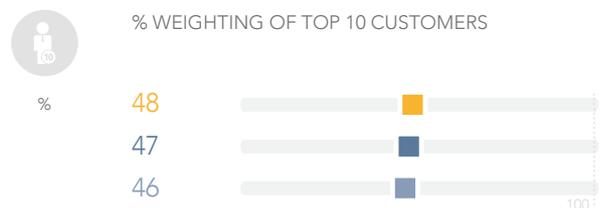
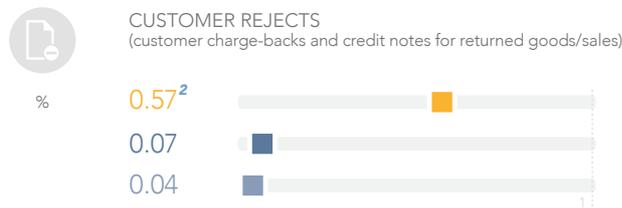
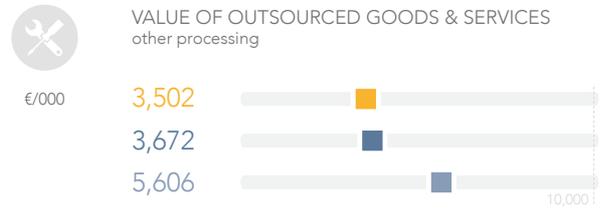
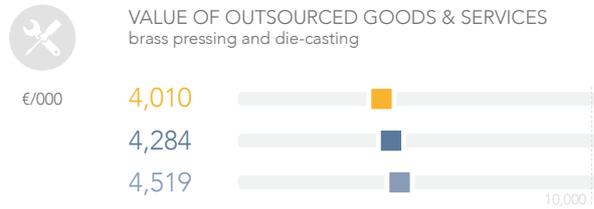
N°

33

(4)

5

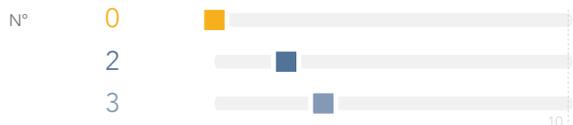
RELATIONAL CAPITAL



² N 2015, the Group received a significant charge from a customer following the discontinuation of production resulting in a quality issue with the delivery of one of our components.



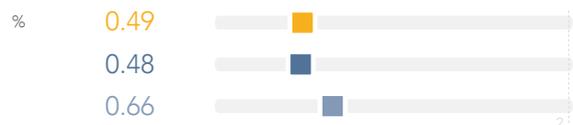
LAWSUITS ACTIONED AGAINST GROUP COMPANIES



% OF SUPPLIER SALES IN PROVINCE OF BRESCIA

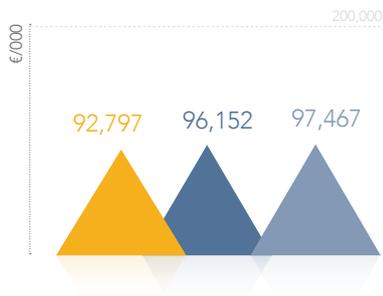


DONATIONS/NET PROFIT

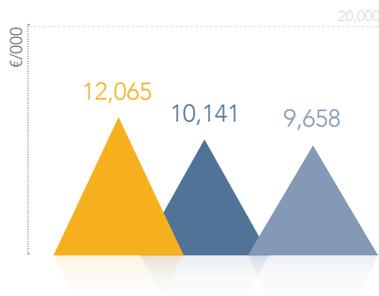


PRODUCTIVE CAPITAL

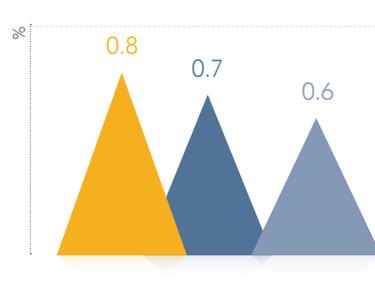
TIED-UP CAPITAL



TOTAL NET INVESTMENTS



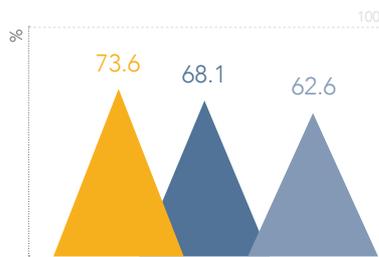
IT BUDGET (capital expenditure + current expenses) / SALES



CAPITAL EXPENDITURE ON TANGIBLE ASSETS/SALES



AMOUNT OF LIGHT ALLOY VALVES SOLD OUT OF TOTAL VALVES AND THERMOSTATS

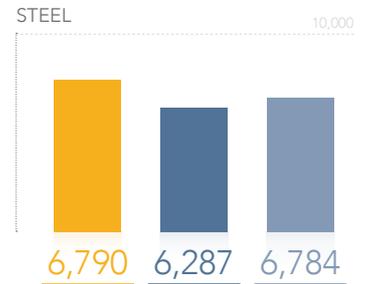
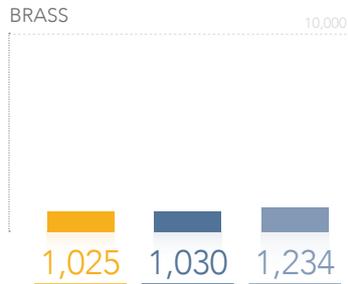


AMOUNT OF HIGH ENERGY EFFICIENCY BURNERS SOLD OUT OF TOTAL BURNERS

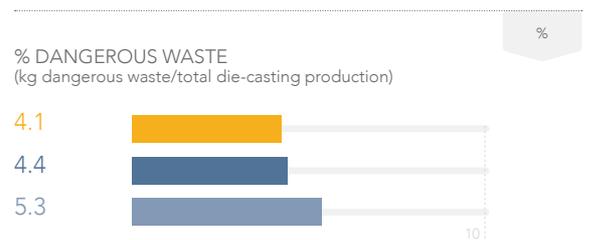
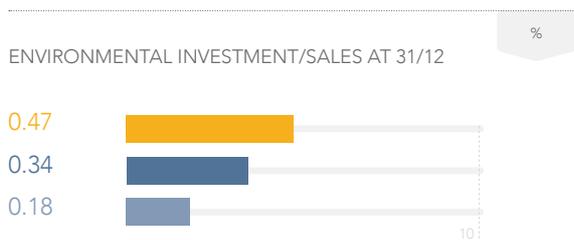
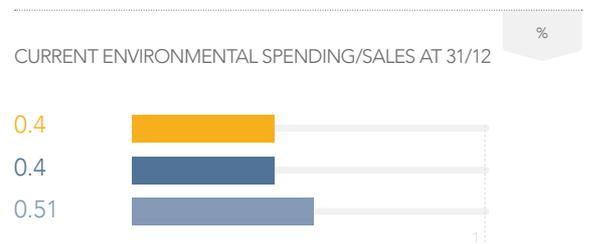
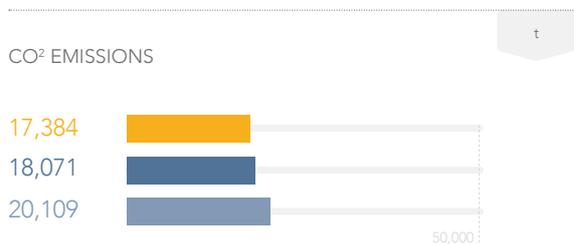
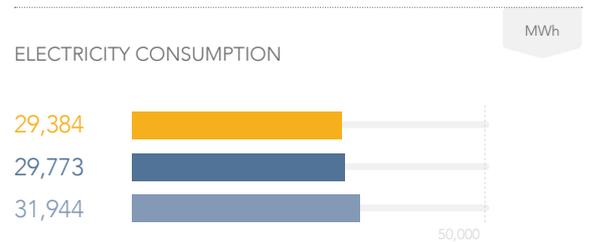
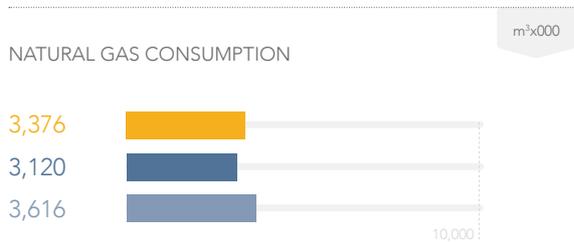


ENVIRONMENTAL CAPITAL

MATERIALS USED (t)



WASTE (t)



INTELLECTUAL CAPITAL

		2015	2014	2013	
	INVESTMENTS IN RESEARCH & DEVELOPMENT	€000	297	341	368
	HOURS SPENT ON NEW PRODUCT DEVELOPMENT/TOTAL HOURS WORKED	%	1.4	1.8	1.9
	HOURS SPENT ON PROCESS ENGINEERING/HOURS WORKED (hours spent on orders for construction of new machinery for new products or to increase production capacity/total hours worked)	%	3.0	2.0	2.0
	CAPITAL EXPENDITURE ON INTANGIBLE ASSETS/SALES	%	0.6	0.5	0.4
	CURRENT EXPENSES FOR QUALITY/SALES	%	0.19	0.11	0.14
	CAPITAL EXPENDITURE FOR QUALITY/SALES	%	0.05	0.08	0.07
	VALUE OF REJECTS/SALES (production rejects/sales)	%	1.22	1.25	1.13
	% QUALITY COSTS/SALES (production rejects + customer charge-backs and returns/sales)	%	1.80 ³	1.31	1.18
	NUMBER OF SAMPLES PRODUCED FOR CUSTOMERS	N°	1,069	1,143	1,109
	NUMBER OF DIFFERENT PRODUCT SKUS (stock-keeping units) supplied to top 10 customers	N°	2,895	2,770	2,176

Generated and Distributed Economic Value

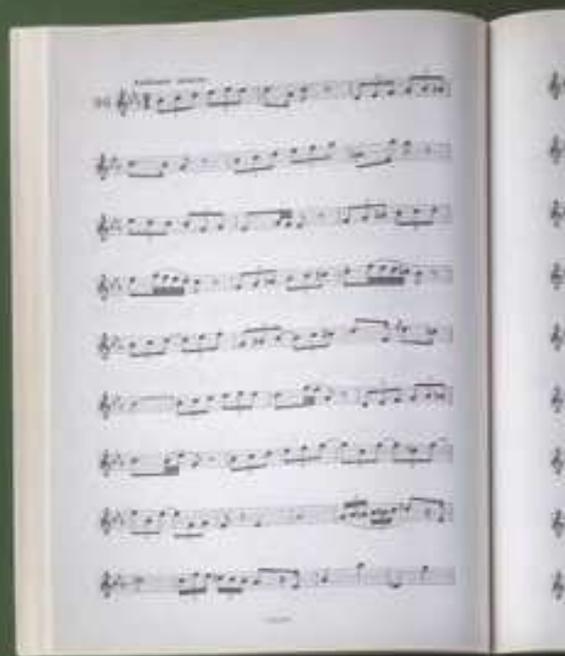
The following table shows the amounts and allocation of economic value among stakeholders, prepared in accordance with GRI guidelines.

The table was prepared by defining three levels of economic value: generated value, distributed value and value retained by the Group. Economic value represents the aggregate wealth generated by Sabaf, which is then allocated amongst the various stakeholders: suppliers (operating costs), staff, investors, shareholders, the public administration and the community (external donations).

IN THOUSANDS OF EURO	2015	2014	CHANGE
ECONOMIC VALUE GENERATED BY GROUP	142,648	140,022	2,626
Revenue	138,003	136,337	1,666
Other income	3,689	3,722	(33)
Financial income	67	61	6
Adjustments	1,230	989	241
Allowances for doubtful accounts	(356)	(115)	(241)
Foreign exchange loss (gain)	(89)	119	(208)
Income/expenses from sale of tangible and intangible fixed assets	104	63	41
Adjustments to tangible and intangible fixed assets	0	(548)	548
Gains/ losses from equity investments	0	(606)	606
ECONOMIC VALUE DISTRIBUTED BY THE GROUP	126,098	123,907	2,191
Remuneration of suppliers	83,844	82,663	1,181
<i>of which environmental costs</i>	559	547	12
Employee compensation	32,526	32,180	346
Remuneration of lenders	596	592	4
Shareholder earnings	4,613	4,613	0
Remuneration of public administration ⁴	4,475	3,819	656
External donations	44	40	4
ECONOMIC VALUE RETAINED BY THE GROUP	16,550	16,115	435
Amortisation/depreciation	12,185	12,292	(107)
Provisions	49	124	(75)
Use of provisions	(69)	(26)	(43)
Reserves	4,385	3,725	660

Key 2015 2014 2013 CHANGE

⁴ Includes deferred taxes.



CHAPTER 1

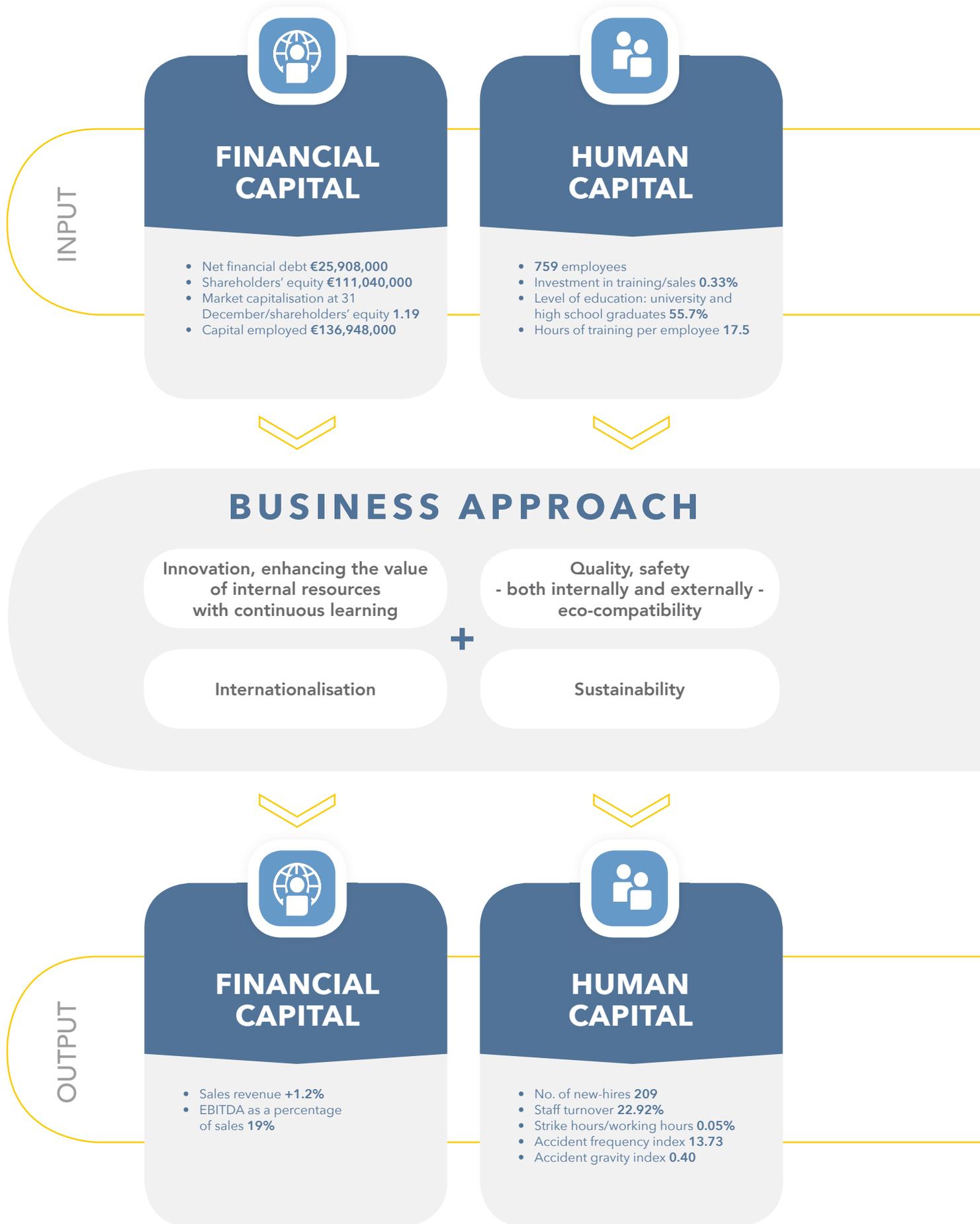
BUSINESS MODEL AND STRATEGIC APPROACH

ITALY

BUSINESS MODEL

In keeping with its shared values and mission, the Company believes that there is a successful business and cultural model to be consolidated as a priority through organic growth.

Innovation, safety, personal development and socio-environmental sustainability are the distinctive characteristics of the Sabaf model.





RELATIONAL CAPITAL

- Sales deriving from top 10 customers **48%**
- No. of customers **288**
- Purchases from suppliers in the province of Brescia **41.7%**



PRODUCTIVE CAPITAL

- Production sites **4**
- Capital expenditure/sales **8.4%**
- Value of tangible assets **€92,797,000**



ENVIRONMENTAL CAPITAL

- Brass **1,025t**
- Aluminium alloys **7,431t**
- Steel **6,790t**
- Electricity consumed **29,384MWh**
- Natural gas consumed **3,376,000m³**
- Water used **89,081m³**



INTELLECTUAL CAPITAL

- Hours spent on product development/total hours worked **1.4%**
- Hours spent on process engineering/total hours worked **3%**

INPUT

DISTINGUISHING FACTORS

Internal and vertical production of:

components and products

+

machinery, tools and presses based on specific know-how

PRODUCTS

Valves and thermostats

+

Burners

Hinges

+

Accessories



RELATIONAL CAPITAL

- Average sales per customer **€416,000**
- Customer complaints **320**
- Lawsuits actioned against Group companies **0**
- Donations/net profit **0.49%**
- No. of samples produced per client **1,069**



PRODUCTIVE CAPITAL

- Burners sold
- No. of pieces **33,936,738**
- High-efficiency burners **13.4%**
- Valves and thermostats sold
- No. of pieces **20,785,285**
- Valves and thermostats sold in light alloy **73.6%**



ENVIRONMENTAL CAPITAL

- Ton. dangerous waste/total die cast parts **4.1%**
- CO₂ emissions **17,384t**



INTELLECTUAL CAPITAL

- No. of patents **31**
- No. of codes supplied to top 10 customers **2,895**
- % of current spending on quality/sales **0.19%**

OUTPUT

Strategic approach and value creation



Values, vision and mission

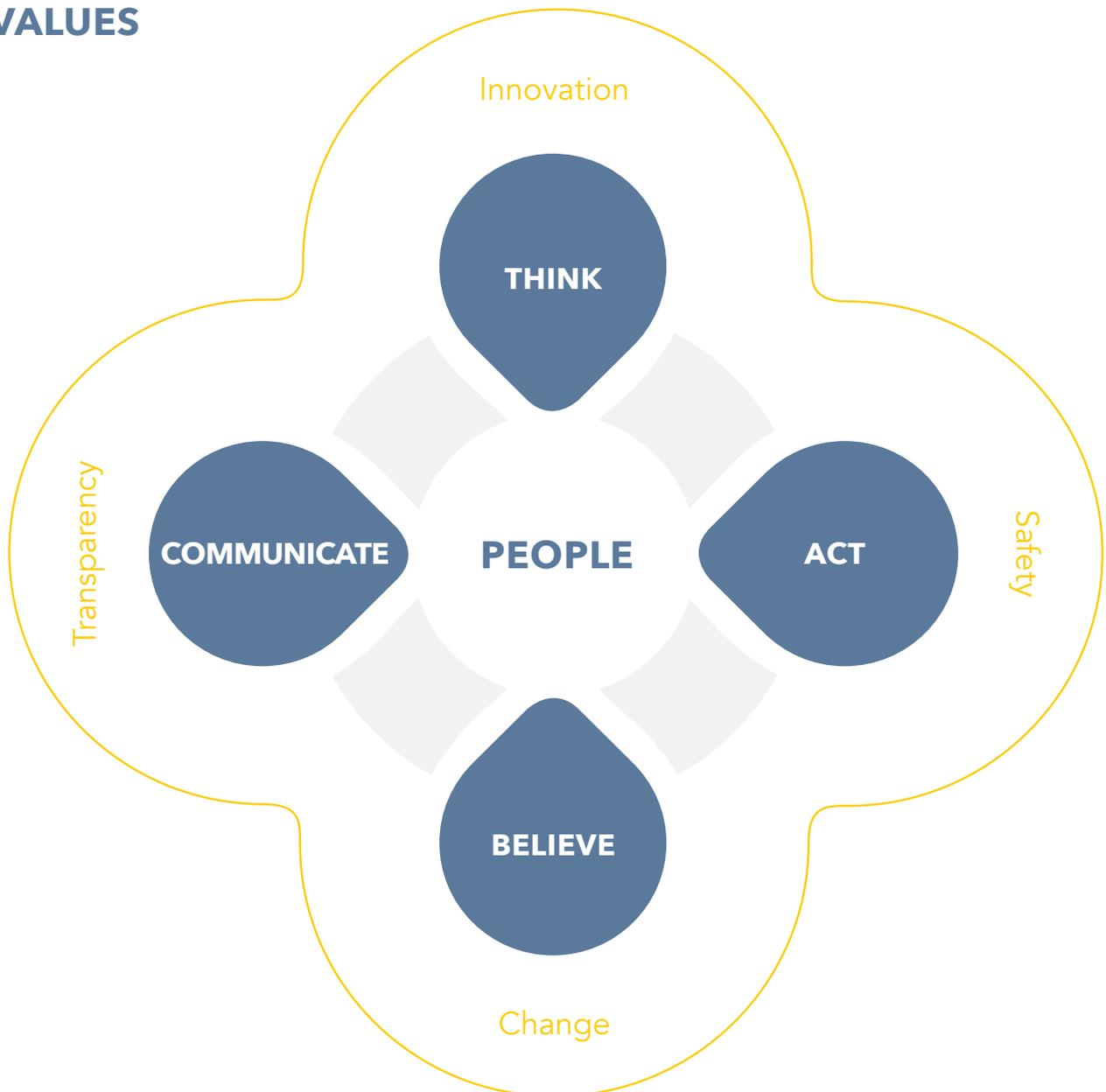
Sabaf uses the individual as its core value – and therefore the fundamental criterion for all its decisions. This creates a central entrepreneurial vision that guarantees the individual's dignity and freedom within the framework of a shared code of conduct.

The centrality of the individual is a universal value, i.e. a "hyper-rule" applicable regardless of place or time. In accordance with this universal value, the Sabaf Group fosters cultural diversity through the criterion of spatial and temporal equality. This

type of moral commitment implies the renouncement of all choices that do not respect the individual's physical, cultural and moral integrity, even if such decisions would be efficient, economically beneficial, and legally acceptable.

Respecting the value of the individual means, first and foremost, making "being" a priority before "doing" and "having", and thus protecting and enhancing the "quintessential" manifestations that allow people to express themselves fully.

VALUES



The Sabaf Charter of Values

The Sabaf Charter of Values is a governance tool through which Sabaf's Board of Directors expresses the values, standards of conduct and ways in which relations between Sabaf and its stakeholders are managed. All Group companies are formally required to adopt it.

The Charter of Values is also a reference document in the ambit of the Organisation, Operation and Control Model pursuant to Legislative Decree 231/2001 and, as such, it has also been modified to set out a series of general rules of conduct with which Group employees and independent contractors must comply.



Innovation

For Sabaf, innovation is one of the essential components of its business model and one of its main strategic drivers.

Through constant innovation, the Group has succeeded in achieving excellent results, identifying some of the most advanced and efficient technological and manufacturing solutions currently available, and creating a virtuous circle of continuous process and product improvement – ultimately acquiring technological skills that are difficult for competitors to emulate. A key factor in the Group's success has been the know-how acquired over the years in the internal development and construction of machinery, tools and moulds, which integrates in synergy with know-how in the development and production of our products.

Investments in innovation have enabled the Company to become a global leader in an extremely specialised niche market and, over time, to achieve high standards of technological advancement, specialisation and manufacturing flexibility. The manufacturing sites in Italy and abroad are designed to ensure that products are based on the highest technological standards available today. They are a cutting-edge model in terms of both environmental protection and worker safety.

Eco-efficiency

One of the underlying priorities of Sabaf's product innovation strategy is the quest for superior performance in terms of environmental impact. Our attention to environmental issues materialises through innovative production processes with lower energy consumption in product manufacturing, and, above all, products that are designed to be eco-efficient during everyday use. More specifically, innovation efforts are predominantly focused on the development of burners that reduce fuel consumption (natural or other gases) and emissions (particularly carbon dioxide and carbon monoxide) during use.

Safety

Safety has always been one of the indispensable features of Sabaf's business model.

Safety for Sabaf is not mere compliance with existing standards, but a management philosophy striving for continuous improvement in performance in order to guarantee end users an increasingly safe product. Besides investing in new-product R&D, the Group has chosen to play an active role in fostering a safety culture, both by promoting the sale of products featuring thermoelectric safety devices, and via a communication policy aimed at promoting the use of products with thermoelectric safety devices. Sabaf has long been a worldwide promoter in the various institutional environments of the introduction of regulations making the adoption of products with thermoelectric safety devices obligatory. Safety has proved to be a key factor for success, partly because the Company has succeeded in anticipating demand for products with safety devices in the European market and in stimulating the spread of such products in developing countries. More recently, Sabaf has become a promoter, together with the Brazilian regulatory authority, of the ban on the use of zamak (a zinc and aluminium alloy) for the production of gas cooking valves due to its inherent risks. Today, however, the use of zamak is still permitted in Brazil, Mexico and in other South American countries, limiting business opportunities in the valves segment for Sabaf, which does not plan to consider the production of valves using zamak.

Establishment in international markets

Sabaf is continuing to expand by becoming established in international markets, seeking to replicate its business model in emerging countries and adapting it to the local culture.

In keeping with its corporate values and mission, the Group is seeking to bring state-of-the-art know-how and technology to these countries, whilst fully respecting human and environmental rights and complying with the United Nations Code of Conduct for Transnational Corporations. This choice is based on our awareness that only by operating in a socially responsible manner is it possible to assure the long-term development of business initiatives in emerging markets.

Expansion of the component product line and partnership with multinational groups

Ongoing expansion of our range is intended to further increase our customers' loyalty via greater satisfaction of their needs. Its ability to offer a complete range of components further distinguishes Sabaf from its competitors.

This expansion is mainly pursued via in-house research, although possible strategic alliances with other leading players in the sector or acquisitions, even in related sectors, are not ruled out.

The Group intends to further consolidate its collaborative relationships with customers and to strengthen its positioning as sole supplier of a complete product range in the cooking components market, thanks to its ability to tailor its production processes to customers' specific requirements.

Enhanced exploitation of intangible assets and intellectual capital

Enhanced exploitation of intangible assets is essential to be able to compete effectively in the international market.

Sabaf carefully monitors and enhances the value of its true "intangible assets", i.e. the great technical and professional skill of the people working in the company, its image now synonymous with quality and reliability, and its reputation as a company attentive to social and environmental problems and to the needs of its counterparts. Advocating the idea of work and relations with stakeholders as **"the passion for a project founded on common ethical values in which everyone recognises themselves"** is not only a moral commitment, but also a real guarantee of enhanced exploitation of intangible assets. From this perspective the sharing of ethical values is the link between the promotion of a business culture oriented towards social responsibility and enhanced exploitation of the Company's intellectual capital.

Social responsibility in business processes



In order to translate the values and principles of sustainable development into decisions regarding of action and operating activities, Sabaf applies a structured methodology, whose key factors are as follows:

1

the **sharing of values, mission and sustainability strategy**;

2

training and communication;

3

an **internal control and audit system** capable of monitoring risks (including ethical and reputational risks) and of verifying that commitments to stakeholders are fulfilled;

4

key performance indicators (KPI), capable of monitoring our economic, social and environmental performance;

5

a clear and complete **reporting system**, able to inform the various categories of stakeholder effectively;

6

a **stakeholder engagement system**, to deal with the expectations of all stakeholders and to receive useful feedback with a view to continuous improvement.

Prudent approach

Awareness of the social and environmental implications of Group activities, together with consideration both of the importance of a cooperative approach with stakeholders and the Group's own reputation, has led Sabaf to adopt a **prudent approach** to the management of the economic, social and environmental variables that it encounters on a daily basis. Accordingly, the Group has developed specific analyses of the main risks faced by its business entities.

Detailed information on the internal control and audit system and the risk management system are provided in **Section 3 "Governance, Risk Management, Compliance and Remuneration"**.

STAKEHOLDER ENGAGEMENT

Sabaf is committed to constantly strengthening the social value of its business activities through the careful management of its relations with stakeholders. The Company intends to establish an open and transparent dialogue, promoting opportunities for discussion in order to find out their legitimate expectations, increase their confidence in the Company, manage risks and identify new opportunities.

The identification of stakeholders is an essential starting point for the definition of socio-environmental reporting processes. The "stakeholder map" shows Sabaf's main stakeholders, identified according to their business features, typical market characteristics and the intensity of Sabaf's relations with them.

The Annual Report is the key communication tool for the presentation of economic, social and environmental performance over the year.

Engagement initiatives relating to each category of stakeholder are shown below. These initiatives are undertaken periodically (generally every two or three years). The significant issues emerging from these activities are shown in the section "Social and environmental sustainability".



Employees	Customers	Suppliers	Shareholders	Community & institutions	Stakeholder
EMPLOYEE SATISFACTION SURVEYS AND THE COMPANY CLIMATE ANALYSIS MEETINGS WITH EMPLOYEES PANEL DISCUSSIONS WITH TRADE UNION ORGANISATIONS	CUSTOMER SATISFACTION SURVEYS	QUESTIONNAIRE REGULAR MEETINGS	QUESTIONNAIRE FOR FINANCIAL ANALYSTS AND INVESTMENT FUND MANAGERS MEETINGS WITH MANAGERS OF ETHICAL FUNDS	MULTI-STAKEHOLDER PANEL INTERACTION WITH UNIVERSITIES	Stakeholder engagement initiatives undertaken



CHAPTER 2

INTERNATIONAL OPERATIONS AND CORE MARKETS

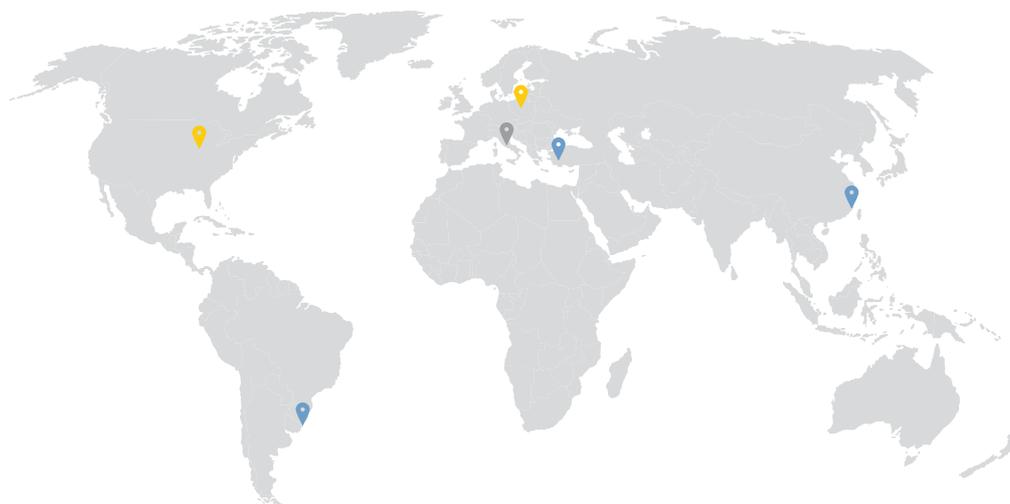
CHINA

International operations and core markets

INTERNATIONAL PRESENCE

The Sabaf Group is one of the world's leading manufacturers of components for household gas cooking appliances, with a market share of around 50% in Europe and a global share of about 10%. Its core market consists of manufacturers of household appliances, particularly cookers, hobs, and ovens. The majority of Sabaf's sales consist of the supply of original equipment, whereas sales of spare parts are negligible.

» A market share of around 50% in Europe and a global share of about 10%



MANAGEMENT

SALES NETWORK

SALES OFFICES

Main production lines

Valves and thermostats

These components regulate the flow of gas to covered burners (in the oven or grill) or exposed burners; thermostats are characterised by the presence of a thermal regulator device to maintain a constant pre-set temperature.

Burners

These are the components that, via the mixing of gas with air and combustion of the gas used, produce one or more rings of flame.

Hinges

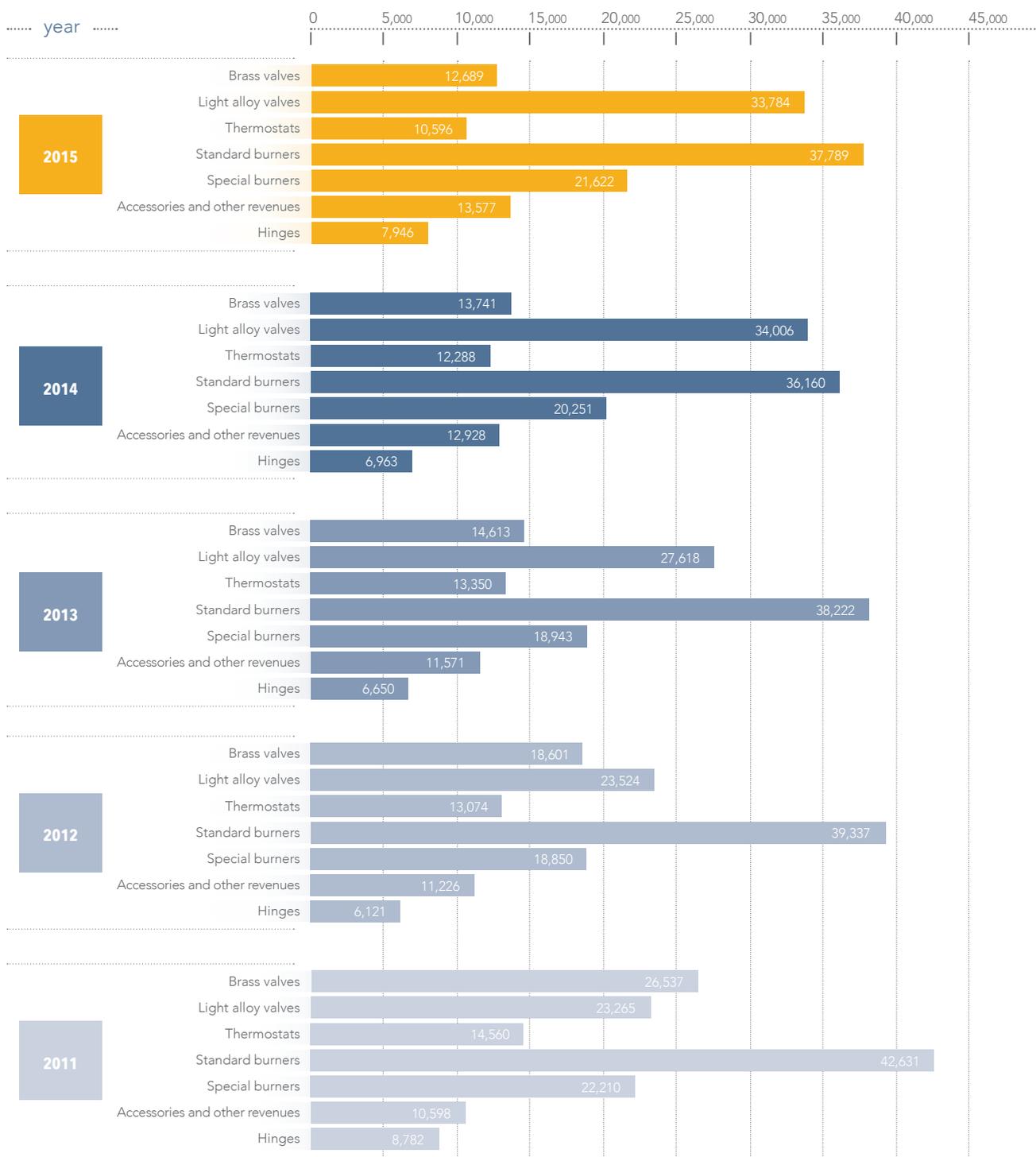
These are the components that allow a smooth and balanced movement of oven, washing-machine or dishwasher doors when they are opened or closed.

Accessories

The Group also produces and markets an extensive range of accessories, which supplement the offering of the main product lines.

Sales by product line

€/000



TOTAL

138,003 136,337 130,967 130,733 148,583

INTERNATIONAL DEVELOPMENT OF SABAF: CHALLENGES AND OPPORTUNITIES

Sales by geographical area

€/000

ANALYSIS OF SCENARIO

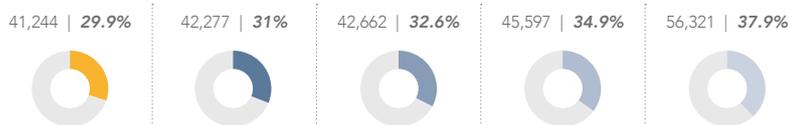
PERFORMANCE DATA

Italy



The crisis of recent years has significantly transformed the household appliances sector in Italy. Today, the major Italian manufacturers of cooking appliances focus on the high-end segment of the market or on special products. With a strong emphasis on exports, they continue to achieve excellent results. Sabaf offers its Italian customers extremely high quality and a differentiated range of com-

ponents that allow customers to promote "Made in Italy" in international markets. The great majority (estimated to be around 80%) of Sabaf's sales in Italy are, in fact, destined for our customers' household appliances exports. Only a small proportion is destined for the Italian consumer market, which continues to be affected by the slump in the property market as well as negative demographic trends.

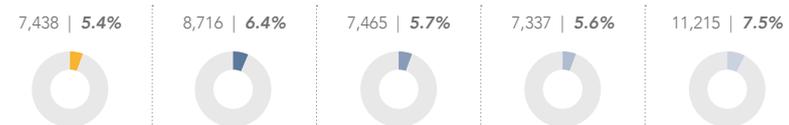


Western Europe



The production of household appliances has also been heavily cut in Western Europe in recent years: some manufacturers have closed down, others have re-located (in particular in Poland and Turkey).

Production for the high-end segment remains in Western Europe, where Sabaf's objective is to increase its market share significantly.



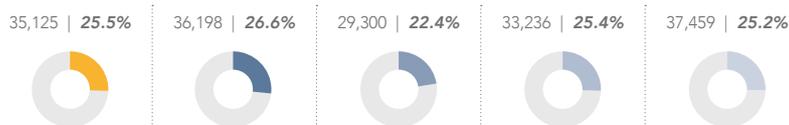
Eastern Europe and Turkey



Turkey is today the European country that produces the greatest number of household appliances. In this regard, the opening of a production facility in Turkey and the development of new trade relations are key to supporting the growth strategy. The Turkish domestic market is potentially of greater and

greater importance: the average age of the population, the number of new families and the increase in incomes are converging indicators that point towards growing demand for consumer goods.

The Group's strategy includes further development in activities in Turkey in the coming years.



Key

2015

2014

2013

2012

2011

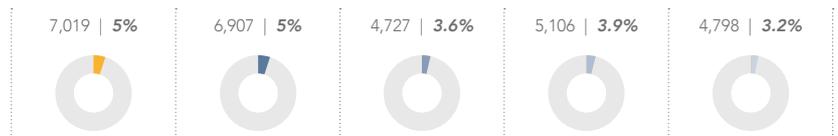
Asia and Oceania



China produces around 26 million hobs per year, making it the biggest market in the world. After many years of having just a commercial presence in China, in 2015 Sabaf began manufacturing a special burner that guarantees efficiency savings of 63% for built-in hobs and ovens. The Group knows that it is making high-quality products that are more competitive than local competitors'

offerings and is aiming to seal long-term partnerships with the main Chinese manufacturers of hobs.

Another high-potential market is India, where Sabaf has developed a dedicated range of burners and is seeing consistently rising sales, albeit still at modest levels overall.

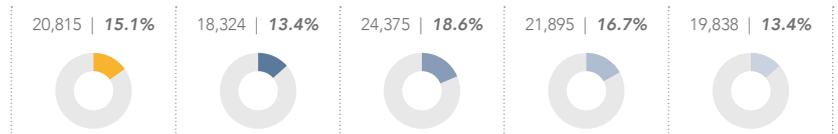


Central and South America



For its future development Sabaf can rely on its solid presence, including production facilities, (a plant in Brazil has been operational since 2001). Despite the difficulties in the Brazilian market over the last two years,

the Sabaf Group believes that the potential for expansion in this area are still extremely attractive given the significant market size and demographic growth trends.

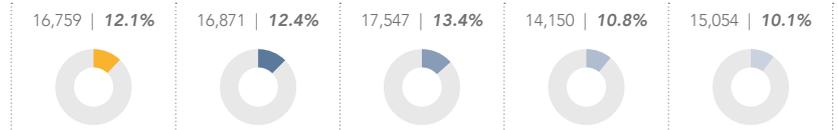


Middle East and Africa



Capitalising on the solid reputation of its brand, its geographical closeness and its long-term presence, Sabaf is increasing its presence in the region. The urban growth plans in the Middle East and North Africa represent the key to possible market opportunities, despite difficulties relating to the current political

situation in some of the major countries. The normalisation of commercial relations with Iran, following the lifting of sanctions from the start of 2016, opens the way to a strong sales recovery in a market where Sabaf has a historic presence and an excellent reputation.

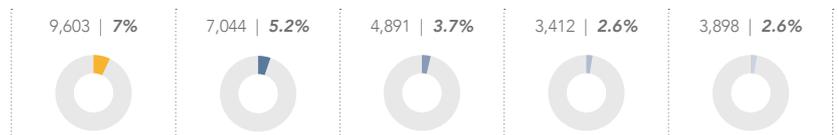


North America and Mexico



Its wide range of innovative and efficient products, together with relations with the main producers, and its good technical reputation, provide the Group with new opportunities.

Sabaf's market share is growing steadily in the premium segment. The Group is assessing the opportunity of a direct production presence to serve all segments of the market competitively.



TRENDS IN THE COOKING APPLIANCE MANUFACTURING SECTOR

For years now the sector has tended to outsource component design and production to highly specialised suppliers that, like Sabaf, are active in the world's main markets and are able to supply a range of products tailored to the specific requirements of individual markets.

In addition, the trend to internationalise production is becoming more accentuated, with production increasingly shifting to countries with low-cost labour and lower levels of saturation.

Moreover, the emergence of new players at the international level is causing over-supply. This in turn is leading to pressure from competition and is bringing about greater concentration in the sector. However, this trend is less pronounced for kitchen ranges than for other household appliances: in the cooking segment, design and aesthetics on the one hand and less intensive investment on the other hand also permit the success of small, highly innovative producers.

CORE MARKETS

In Western Europe, which accounts for about half of the end-user market for Sabaf products, the level of saturation reached by cooking appliances (i.e. the number of households owning such appliances) is close to 100%. Purchases of new appliances are therefore mainly replacement purchases. Moving house or the purchase or refurbishment of a home are often occasions for the purchase of a new cooking appliance. The market trend is therefore directly influenced by the general economic trend and, in particular, by households' disposable income, consumer confidence and housing market trends. In this context, the household appliances sector has, for many

years, been experiencing a situation where demand is stagnant, most notably in the peripheral countries.

Conversely, in other markets the saturation level is often much lower. Faster economic growth rates and a more favourable demographic trend than in Western Europe are creating huge opportunities for groups such as Sabaf that are able to work both with multinational household appliance manufacturers and with local manufacturers.

A varied picture

Manufacturers of gas cooking appliances – Sabaf's core market – consist of:

- large multinational groups with a well-established international presence in sales and production and possessing strong brands;
- manufacturers located in countries with low-cost labour that aim both to exploit opportunities in their home markets and to grow fast globally;
- manufacturers focused on specific markets in which they are the market leader;
- manufacturers (mainly Italian export firms) occupying segments featuring greater product differentiation (built-in hobs and ovens, free-standing cookers, for example).



CHAPTER 3

CORPORATE GOVERNANCE, RISK MANAGEMENT, COMPLIANCE AND GENERAL REMUNERATION POLICY

TURKEY

Corporate Governance

Overview

The corporate governance model adopted by Sabaf is based on the decision to strictly separate the interests and choices of the reference shareholder – the Saleri family – from those of the Company and the Group, and therefore assign corporate management to managers who are distinct from the reference shareholder.

Expansion of the shareholder base following listing on the stock exchange, admission to the STAR segment (with the voluntary acceptance of stricter transparency and disclosure rules), and the desire to comply consistently with best practice in relation to corporate governance, represent the subsequent steps taken by Sabaf towards compliance of its corporate governance system with a model whose benchmark is that directors act in the Company's interests and create value for shareholders and other stakeholders.

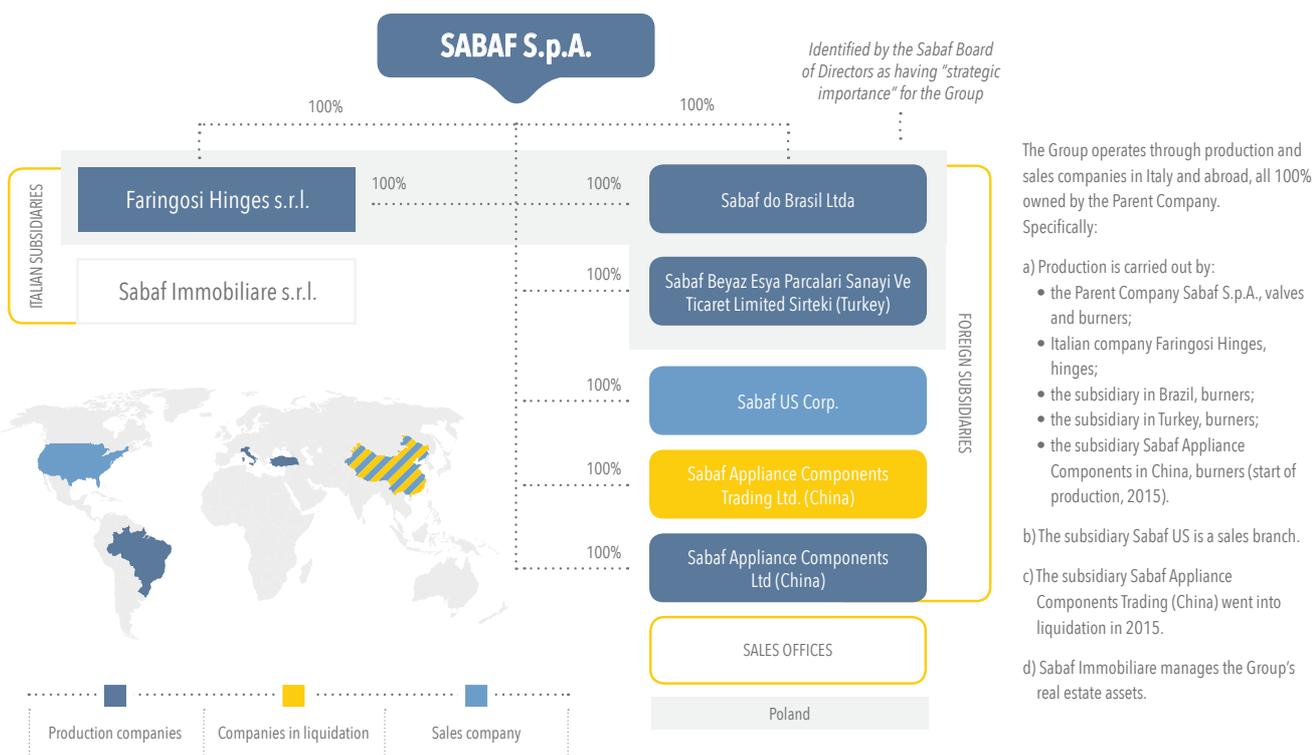
As a further step along this path, Sabaf's management believes that ethics aimed at creating value and founded on the centrality of the individual and respect for common values can guide decision-making that is in line with the corporate culture and significantly contribute to assuring the Company's sustainable long-term growth. For this purpose, Sabaf has prepared and published a Charter of Values, in accordance with the existing national and international regulatory principles, guidelines and documents with regard to human rights, corporate social responsibility and corporate governance.

The document is the governance tool through which the Board of Directors clearly explains the Company's values, standards of conduct and commitments in respect of all stakeholders – shareholders, employees, customers, suppliers, investors, the public administration, the community and the environment.

The Charter of Values was approved by the Board of Directors on 11 February 2014 and is available on the website www.sabaf.it under the section "Sustainability".

This section of the report highlights the decisions taken by Sabaf and the special features of its governance system, reviewed in the light of the new measures introduced by the Corporate Governance Code. Where possible, a comparison is also provided with other listed companies, using information taken from Assonime in its report "Corporate Governance in Italy", published in November 2015 and based on the 2014 Corporate Governance reports (available on 15 July 2015) of 228 listed Italian companies, of which 93% (212 companies) have formally chosen to adhere to the Corporate Governance Code. The benchmark used below takes into account a panel of only "non-financial" companies, where available. A further comparison is provided of the composition and functioning of the Board of Directors, using data from the Italia Board Index Observatory 2015, published by Spencer Stuart, which analyses the characteristics and functioning of the Boards of Directors of the top 100 (industrial and financial) listed companies in Italy in order of capitalisation as at 16 March 2015, as well as a comparison with major European and non-European countries.

The information below is a summary and does not replace the "Report on Corporate Governance and Ownership Structures", prepared by the Issuer pursuant to article 123-bis of the Consolidated Law on Finance (TUF) for 2015 and available in the Investors/Corporate Governance section of the website www.sabaf.it.



Management and control model

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

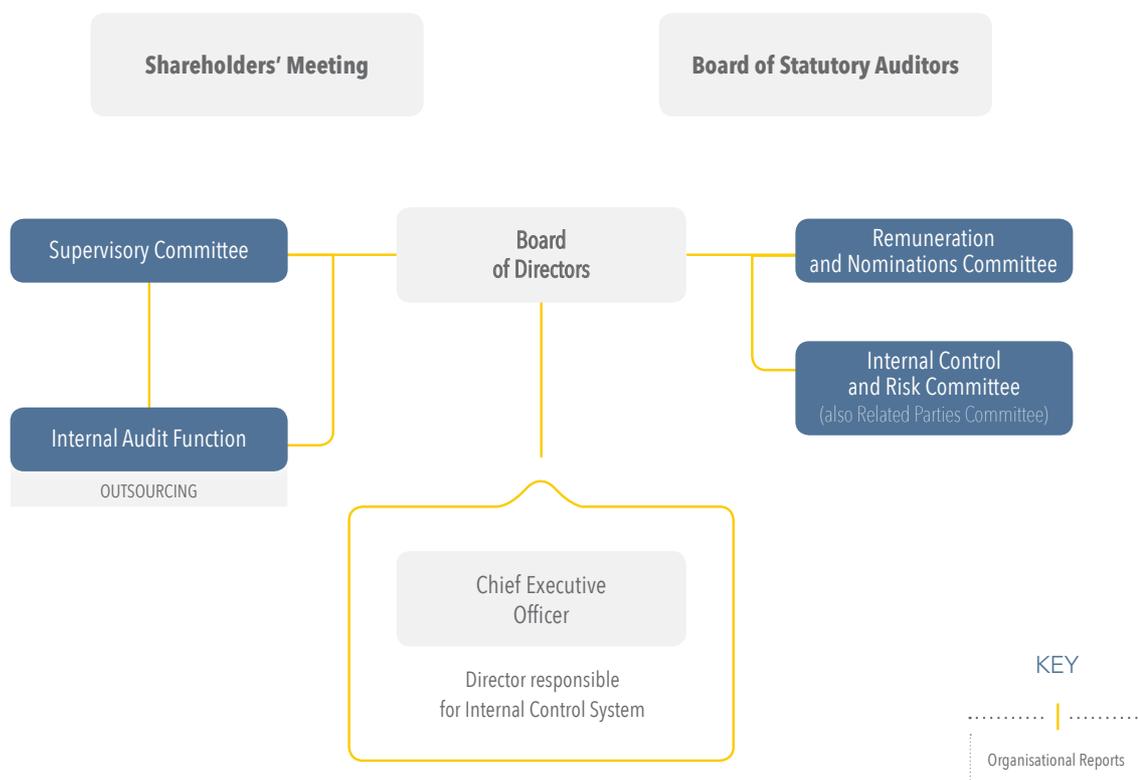
- **Shareholders' Meetings**, ordinary and extraordinary, called to pass resolutions pursuant to the laws in force and the By-laws;
- **Board of Statutory Auditors**, responsible for supervising: (i) compliance with the law and Articles of Incorporation and adherence to principles of proper management in the performance of corporate activities; (ii) the adequacy of the Company's organisational structure, internal control and risk management system, and administrative/accounting system; (iii) the procedures for effective implementation of the corporate governance rules envisaged in the Code; (iv) risk management; (v) the statutory review of the accounts and the independence of the auditing firm;
- **Board of Directors**, in charge of company administration and management of Company operations;

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

- a) board-level committees established when the bodies are renewed by the Board of Directors, each with responsibility for making proposals or providing consultancy on specific topics and having no decision-making powers:
 - **Control and Risk Committee** which also assumes the functions of the Related Parties Committee;
 - **Remuneration and Nomination Committee** which assumes the functions stipulated by the previous mandate of the Remuneration Committee as well as those relating to the appointment and composition of the supervisory bodies indicated by the Code;
- b) the **Internal Audit Function**, responsible for verifying that the internal control and risk management system is adequate and operates properly.

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

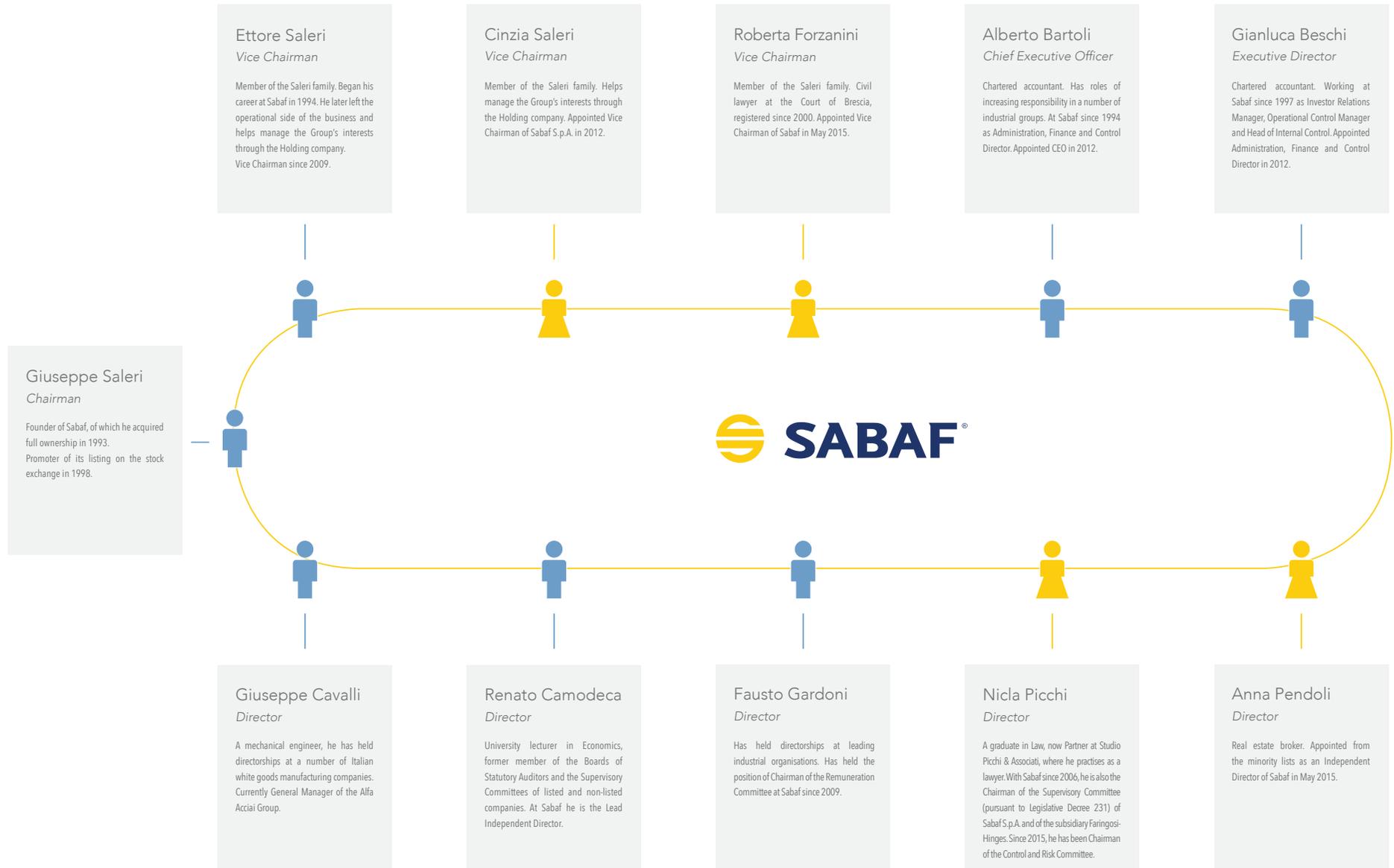
The Governance structure



BOARD OF DIRECTORS

The Board of Directors currently has 11 members, 5 of whom are non-executive and independent, of whom one was chosen by the minority shareholders (consistent with 39% of the sample analysed by Assonime in 2015).

COMPOSITION OF THE BOARD OF DIRECTORS

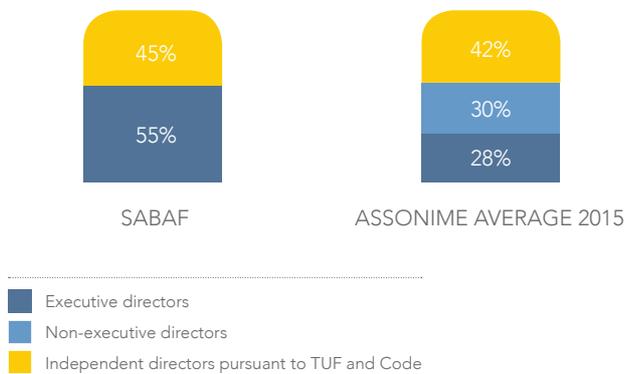


The Board of Directors currently has 11 members, 5 of whom are non-executive and independent, of whom one was chosen by the minority shareholders (consistent with 39% of the sample analysed by Assonime in 2015).

ROLE	NAME
Chairman	Giuseppe Saleri
Vice Chairman	Ettore Saleri
Vice Chairman	Cinzia Saleri
Vice Chairman	Roberta Forzanini
Chief Executive Officer	Alberto Bartoli
Executive Director	Gianluca Beschi
Director	Giuseppe Cavalli
Director	Renato Camodeca <i>Lead Independent Director</i>
Director	Fausto Gardoni
Director	Nicla Picchi
Director	Anna Pendoli

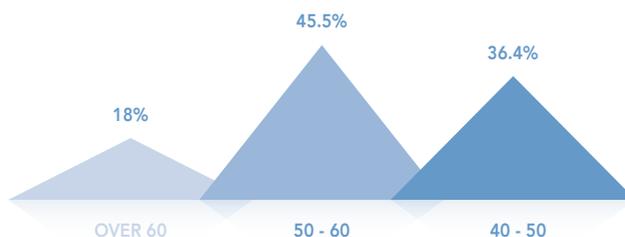
The curricula vitae of individual directors are available on the Company website.

Composition of the Board of Directors



Average age of Directors

Average overall age: Sabaf 56 vs 57.5 Assonime



Observations

Around 45% of the serving Board members are aged between 50 and 60; the average age is in line with the average of the sample analysed by Assonime (56 vs. 57.5 years). In the last three years the Board has met fewer times than the average of the sample analysed by Assonime (8 Sabaf BoD meetings in 2015) and with members' attendance

always higher than 90%, which is in line with the other listed non-financial companies in the study (93% in 2015). The meetings were attended by the Board of Statutory Auditors and – in turn – Sabaf executives, invited to attend and discuss specific subjects on the agenda.

Number of meetings of the Board of Directors



Average participation in meetings of the Board of Directors



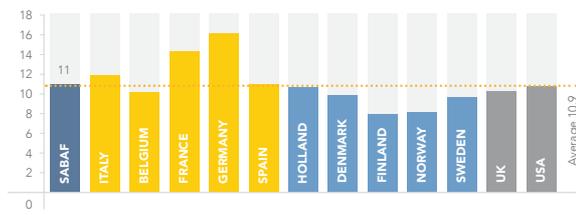
Legend: Sabaf (blue), Assonime Average (yellow)

1 Assonime panel including financial companies.

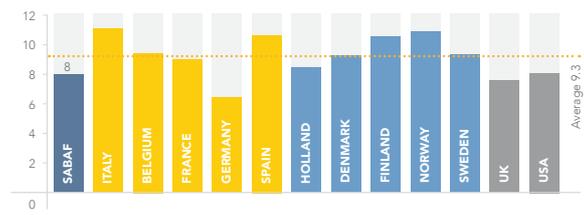
The comparison is made using data from the Italia Board Index Observatory 2015, published by Spencer Stuart, which analyses the characteristics and functioning of the Boards of Directors of the top 100 (industrial and financial) listed companies in Italy in order of capitalisation as at 16 March 2015, as well as a comparison with major European and non-European countries.

During the financial year, the Board of Directors carried out a review of the size, membership (including professional competences, managerial skills and seniority) and activities of the Board of Directors and its Committees, opting for self-assessment by individual directors, coordinated by the Lead Independent Director. The results of the evaluation were generally positive and were discussed in the Board of Directors' meeting of 15 December 2015.

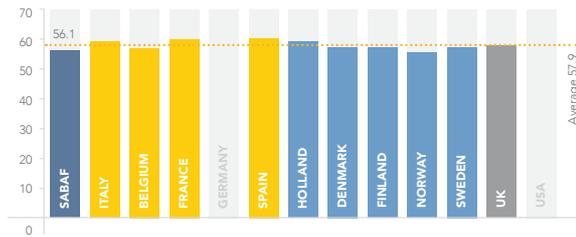
Average size of Boards of Directors



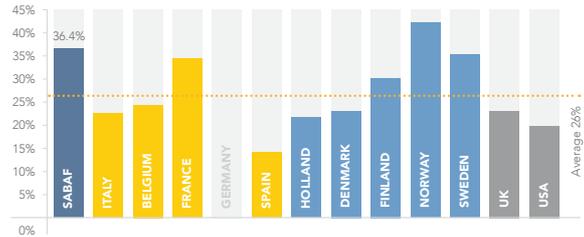
Average number of BoD meetings



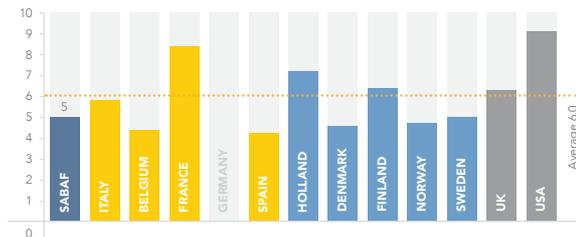
Average age of directors



% of women on BoD



Average number of independent directors



BOARD OF STATUTORY AUDITORS

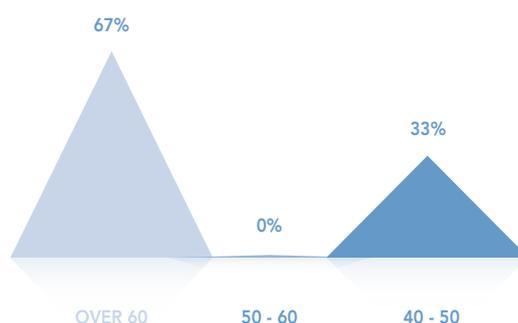
The Board of Statutory Auditors, appointed by the Shareholders' Meeting on 5 May 2015 for the period 2015-2017, has 3 members, with an average age of 64 (above the Assonime average of 57), and 2 alternate auditors. The Chairman of the Board of Statutory Auditors was chosen by the minority shareholders.

ROLE	NAME
Chairman	Antonio Passantino
Standing Auditor	Enrico Broli
Standing Auditor	Luisa Anselmi
Alternate Statutory Auditor	Paolo Guidetti
Alternate Statutory Auditor	Riccardo Rizza

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

Age of statutory auditors

Average overall age: **64 years**



Observations

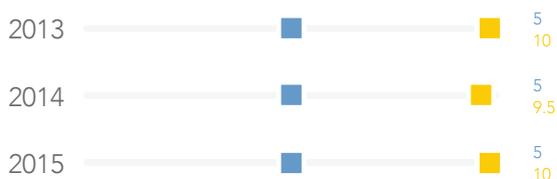
In the last three years, Sabaf's Board of Statutory Auditors has had fewer meetings than the average of the sample analysed by Assonime, which was affected by companies, other than Sabaf, experiencing difficulties and/or financial restructuring which therefore required greater involvement from the Statutory Auditors (10 meetings on average in 2015).

Members' attendance at the meetings was, on average, around 95% in the period 2013-2015

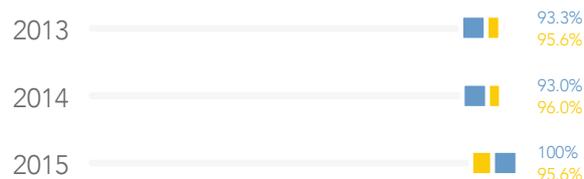
(100% in 2015), and in line with the other companies assessed in the study.

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

Number of meetings of the Board of Statutory Auditors



Average participation in meetings of the Board of Statutory Auditors



■ Sabaf ■ Assonime Average ²

² Assonime panel including financial companies.

CONTROL AND RISK COMMITTEE

The serving Internal Control and Risk Committee, formed within the Board, is composed entirely of 3 non-executive and independent directors, in line with the Assonime average (3 members). The Committee has also been allocated the relevant functions of the Related Parties Committee.

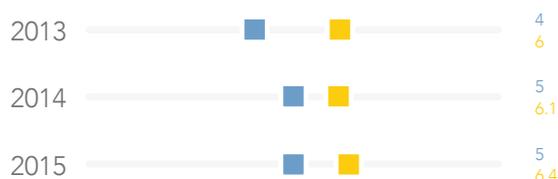
ROLE	NAME
Chairman	Nicla Picchi
Member	Giuseppe Cavalli
Member	Renato Camodeca

Observations

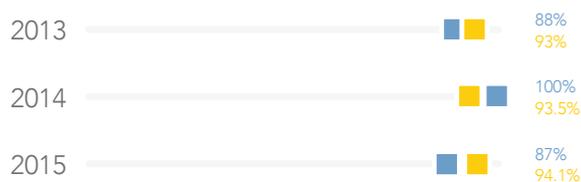
The Committee met 5 times in 2015 (Assonime average: 6.4 meetings). In the last three years, the number of meetings was on average in line with the sample analysed by Assonime.

During the year the Committee updated the procedure on Related-Party Transactions, which was approved by the BoD at its meeting on 22 September 2015.

Number of meetings



Average participation in meetings



■ Sabaf ■ Assonime Average ³

REMUNERATION AND NOMINATION COMMITTEE

The Remuneration and Nomination Committee, set up within the Board, has 3 non-executive and independent members (Assonime average: 3 members), with knowledge and experience of accounting, finance and remuneration policies, as confirmed by the Board.

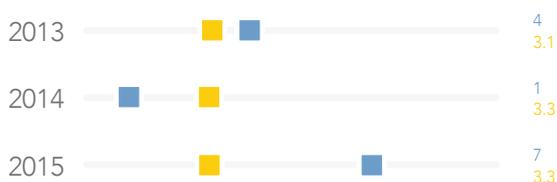
ROLE	NAME
Chairman	Fausto Gardoni
Member	Giuseppe Cavalli
Member	Renato Camodeca

Observations

In the last three years the Committee has met more times than the Assonime average (except in 2014).

In particular, last year the Committee met 7 times, with the aim of updating the Remuneration Policy and drawing up the long-term incentive plan tied to the 2015-2017 Industrial Plan.

Number of meetings



Average participation in meetings



■ Sabaf ■ Assonime Average ⁴

INTERNAL AUDIT HEAD AND SUPERVISORY COMMITTEE

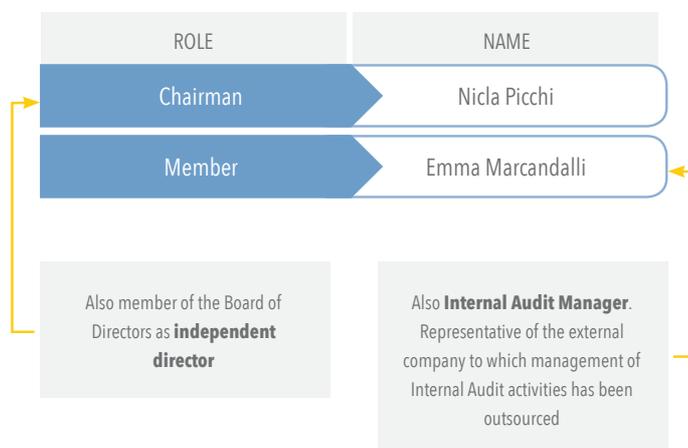
Internal Audit

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

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

Supervisory Committee

The Supervisory Committee (appointed on 8 May 2012 by the Board of Directors of Sabaf for the period 2012-2015), and subsequently renewed on 5 May 2015 for the period 2015-2017, comprises one non-executive and independent member and one external member.



Sabaf's Supervisory Committee met 9 times in 2015, requesting the attendance of the Company's Management at the meetings in order to perform an in-depth review of specific topics.

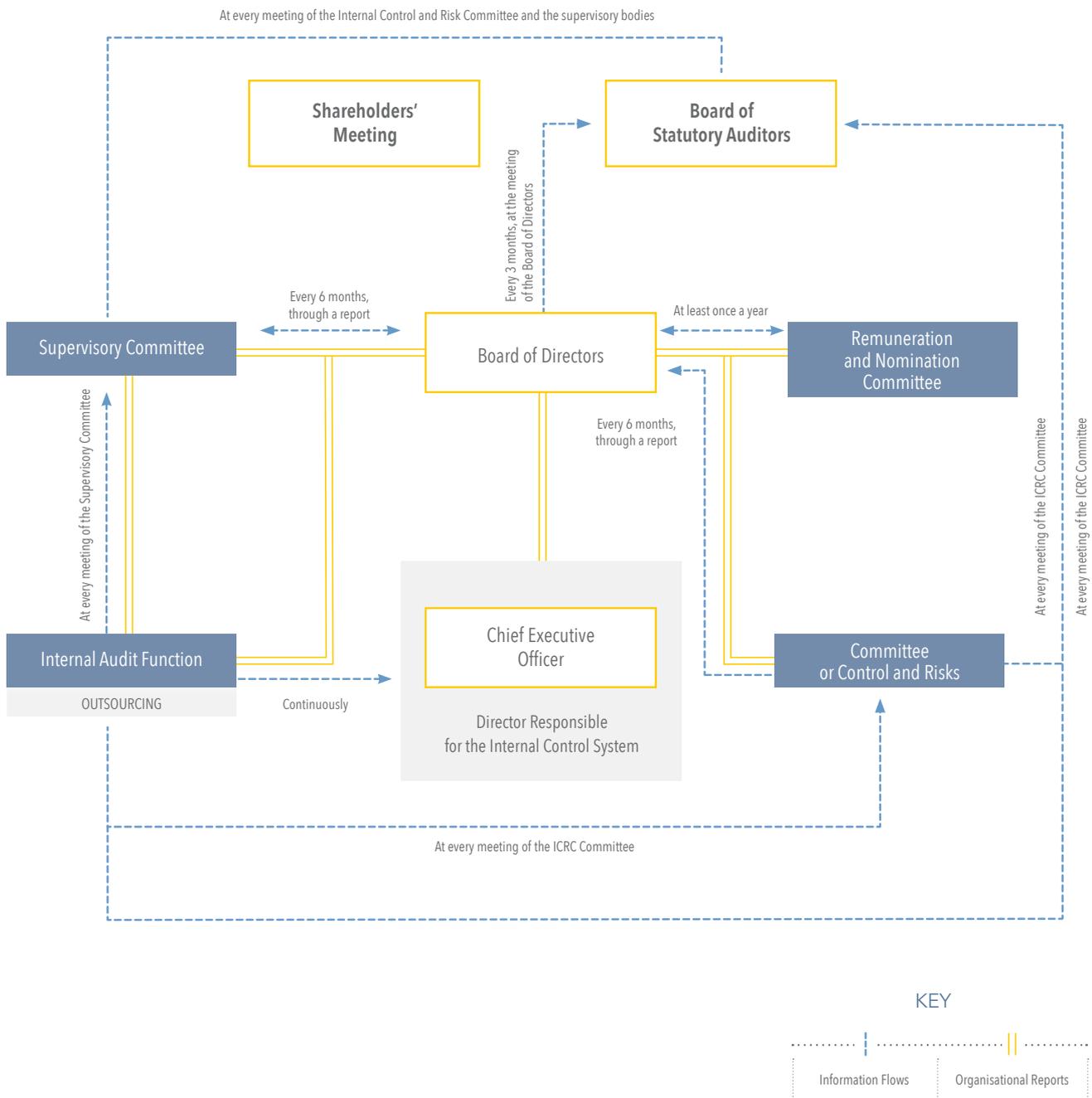
⁴ Assonime panel including financial companies.

INFORMATION FLOWS

Sabaf's management and control model operates through a **network of information flows**, which are regular and systematic, between the various company bodies. Each body, according to the time frames and procedures defined by the By-laws, the

Governance Model and other internal documents, reports to the functionally superior body regarding the activities conducted during the time period in question and those planned for the subsequent period, noting any observations and suggested actions.

Information flows within the Corporate Governance structure



Risk Management

Framework



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

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



The guidelines define the roles and responsibilities for risk assessment and risk management processes, indicating the parties to be involved, process frequency and assessment scales.

Each risk is subject to an **assessment** which breaks down into the following variables:

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

ASSESSMENT SCALE		1	2	3	4
IMPACT	Financial impact	approx 1% Ebit	approx 1%-2.5% Ebit	approx 2.5% -10% Ebit	approx 10% Ebit
	Damage to persons	Limited impact on health	General impact on health	Serious risks to health	Irreversible effects
	Damage to image	Effects at local level	Effects at regional level	Effects at national level	Effects at international level
PROBABILITY	Frequency of occurrence	Once every 3 years or more	Once every 2 years	Once every year	More than once a year
	Qualitative assessment	Very unlikely / Remote	Fairly unlikely	Likely	Very likely
LEVEL OF RISK MANAGEMENT		Inadequate	To improve	Satisfactory (with limited room for improvement)	Excellent

2015

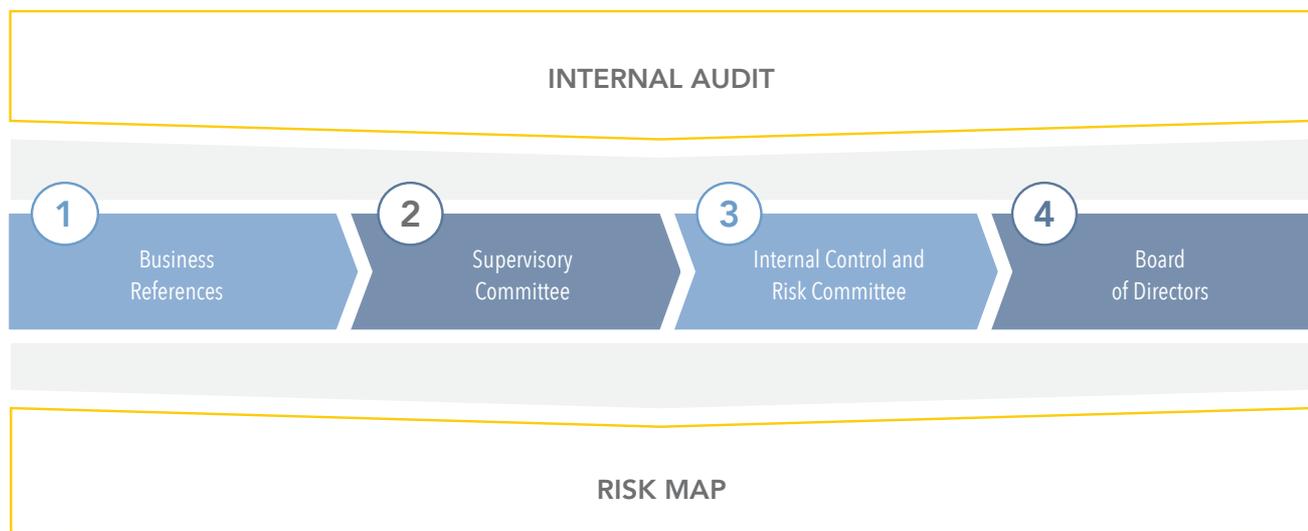
RESULTS

In the final quarter of 2015, the Internal Audit Function conducted the periodic risk assessment process to identify and assess Group risks, calling for the involvement of some Heads of Function at the Parent Company, according to their area of expertise:

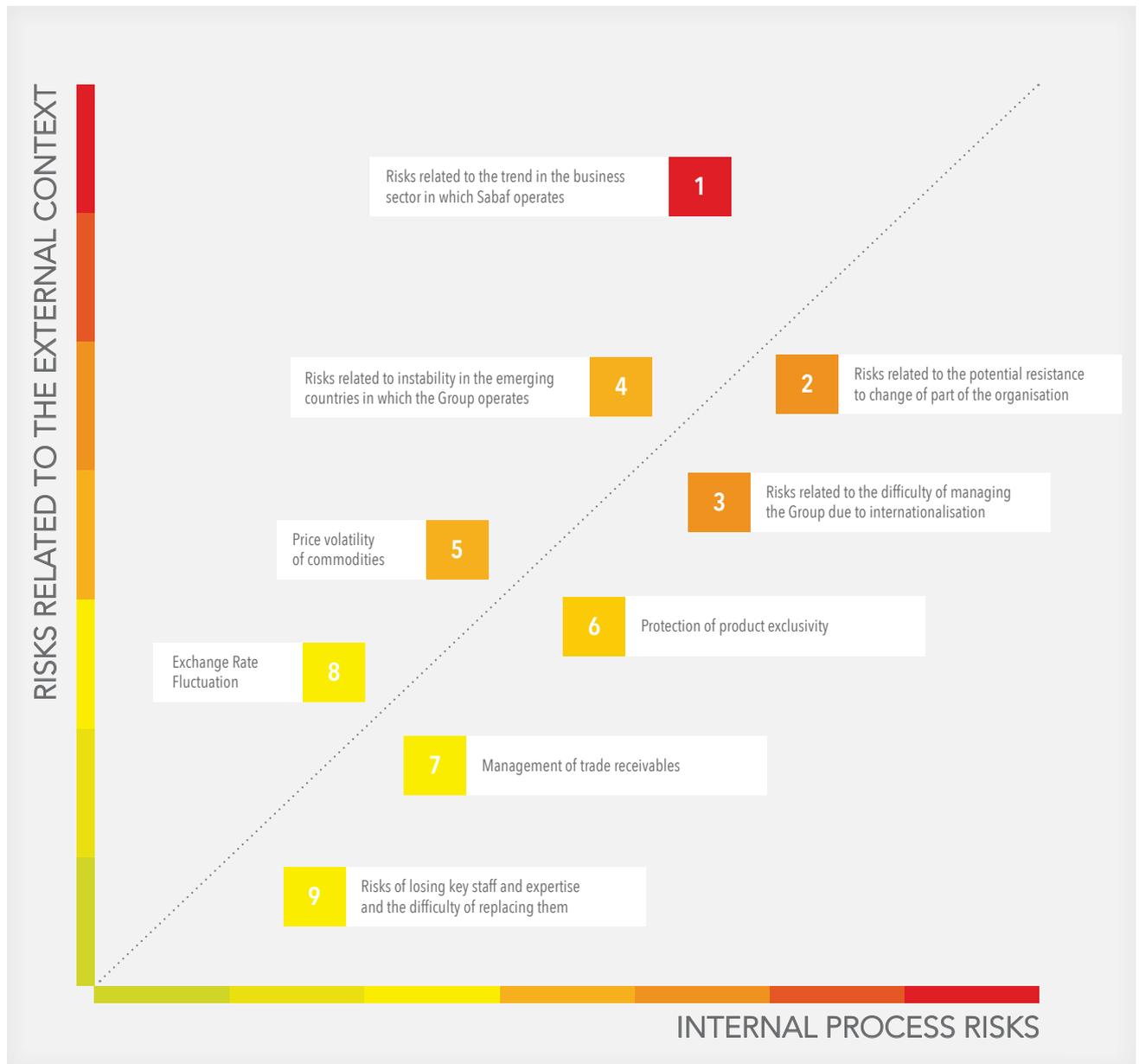


During the assessment process, which involves the control bodies, the risks take shape and are allocated on the map.

Risk Assessment Process



The results of Sabaf's 2015 risk assessment highlight, among other things, the following 9 main risks, selected for their importance and consistency with the issues covered in this document:



For more information on the Group's financial risks, including those not mentioned here owing to their lack of relevance, please see the Notes to the Consolidated Financial Statements.

MAIN RISKS FOR THE GROUP

1

**RISKS RELATED TO THE PERFORMANCE OF THE INDUSTRY:
CONTRACTION OF DEMAND IN MATURE COUNTRIES,
CONCENTRATION OF DEMAND/SUPPLY**

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

The continuation of the European crisis, which over the years has become systemic, has affected the transformation of the white goods industry – a sector in which the Sabaf Group operates. Indeed, the continued contraction of demand on mature markets has been accompanied by a further concentration of end markets, a progressive increase in sales volumes in emerging countries and, lastly, tougher competition, phenomena that require aggressive sales pricing policies.

RISK MANAGEMENT MEASURES

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

- the launch of new products characterised by superior performance compared with market standards, and tailored to the needs of the customer;
- expansion on markets with high growth rates;
- the maintenance of high quality and safety standards, which make it possible to differentiate the product through the use of resources and implementation of production processes that are not easily sustainable by competitors;
- the improvement of the efficiency of production processes.

2

**RISKS RELATED TO THE POTENTIAL RESISTANCE
TO CHANGE OF PART OF THE ORGANISATION**

Sabaf operates in a market scenario whose dynamic nature has repercussions for its organisation and processes. As such, Sabaf may be unable to seize market opportunities due to potential resistance to change within the organisation.

RISK MANAGEMENT MEASURES

To address this risk, the Group has launched initiatives to educate all levels of the organisation about critical success factors and to share targets and plans for improvement.

3

**RISKS RELATED TO THE DIFFICULTY OF MANAGING
THE GROUP DUE TO INTERNATIONALISATION**

The Sabaf Group is continuing with its policy of expansion abroad, and is undergoing a process of growing internationalisation, with the opening of new companies and production facilities in countries considered strategic for the future development of its business.

This process requires appropriate measures, which include the recruitment and training of management staff, the implementation of management and coordination measures by the parent company, the definition of the areas of action and responsibilities of each function involved, and analysis of the legal context of the countries where the subsidiaries are based.

RISK MANAGEMENT MEASURES

In order to support this expansion process, the Sabaf Group is committed to defining suitable measures, which include the appropriate definition and formalisation of the spheres and responsibilities of management action, careful planning of activities in implementing new projects, and a detailed analysis of the regulatory environment in the various countries involved.

In particular, the necessary governance actions have been taken in terms of company organisation, systems of responsibilities, control and coordination, and improved market competitiveness.

4

**RISKS RELATED TO INSTABILITY IN THE EMERGING COUNTRIES
IN WHICH THE GROUP MANUFACTURES OR SELLS**

Most Sabaf Group sales are generated in markets outside Europe. Furthermore, products sold in Italy can be exported by customers in international markets, making the percentage of sales earned directly and indirectly from emerging economies more significant.

The Group's main markets outside Europe include the Middle East, North Africa and South America.

Any embargoes or major political or economic stability, or changes in the regulatory and/or local law systems, or new tariffs or taxes imposed in the future could affect a portion of Group sales and the related profitability.

RISK MANAGEMENT MEASURES

To combat this risk, the Group has adopted a policy of diversifying investments at international level, setting different strategic priorities that, as well as business opportunities, also consider the different associated risk profiles.

In addition, the Group monitors the economic and social performance of the target countries, including through a local network, in order to make strategic and investment decisions with full awareness of the exposure to associated risks.

5

RISKS RELATED TO THE PRICE VOLATILITY OF COMMODITIES

The Group uses metals and alloys in its production processes, chiefly brass, aluminium alloys and steel.

The trend in the price of the commodities used in the production process has been highly volatile in recent years due to the economic instability in the market. The sale prices of products are generally renegotiated semi-annually or annually; as a result, Group companies may not be able to immediately pass on to customers changes in the prices of commodities that occur during the year, which has an impact on profitability.

RISK MANAGEMENT MEASURES

Over the years the Group has developed various tools to monitor commodity prices and has adopted a number of management processes that call, among other things, for the definition of centralised commodity procurement strategies.

In particular, 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 or, alternatively, with hedging instruments on the physical market.

6

RISKS RELATED TO THE FAILURE TO PROTECT PRODUCT EXCLUSIVITY IN THE MARKETS WHERE THE GROUP OPERATES

There is a risk that some Group products, although patented, will be copied by competitors; trading in countries where it is more difficult to enforce intellectual property rights exposes the Company to greater risk in terms of protecting its products. Sabaf's business model therefore bases the protection of product exclusivity mainly on design capacity and the internal production of special machines used in manufacturing processes, which result from its unique know-how that competitors would find difficult to replicate.

RISK MANAGEMENT MEASURES

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

7

RISK RELATED TO THE MANAGEMENT OF TRADE RECEIVABLES

The high concentration of sales to 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 a customer. In particular, given the structural difficulties of the household appliance sector in mature markets, it is possible that situations of financial difficulty and insolvency among customers could arise.

RISK MANAGEMENT MEASURES

The risk is constantly monitored through the preliminary assessment of customers and checks that agreed payment terms are met. From November 2014, a credit insurance policy was taken out which covers approximately 60% of the credit risk.

A further portion is partly guaranteed through letters of credit issued by major banks in favour of customers. The remainder of the receivable risk is covered by a doubtful account provision considered appropriate.

8

RISKS RELATED TO EXCHANGE RATE FLUCTUATION

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

Given the rising internationalisation of the Group, there has been a progressive increase of transactions in foreign currency as a percentage of total Group revenues. This situation exposes the Group to the risk of economic losses due to deteriorations in exchange rates.

Specifically, since sales in US dollars accounted for around 12% of consolidated revenue, the gradual depreciation could lead to a loss in competitiveness on the markets where sales are made in that currency (mainly South and North America).

RISK MANAGEMENT MEASURES

The Administration, Finance and Control Department constantly monitors forex exposure, the trend in exchange rates and the operational management of related activities.

During 2015, the Group entered into flexible forward contracts to sell \$6.5 million in a number of tranches.

9

RISKS RELATING TO THE LOSS OF KEY STAFF AND EXPERTISE AND THE DIFFICULTY OF REPLACING THEM

Group results depend to a large extent on the work of executive directors and management. The loss of a key staff member for the Group without an adequate replacement and the inability to attract new resources could have negative effects on the future of the Group and on the quality of financial and economic results.

RISK MANAGEMENT MEASURES

The Group has had in place, for some years, policies to strengthen the most critical internal organisational structures and loyalty schemes, including the signing of non-competition agreements with key figures.

Key - Change compared to RA 2014



Increasing



Decreasing

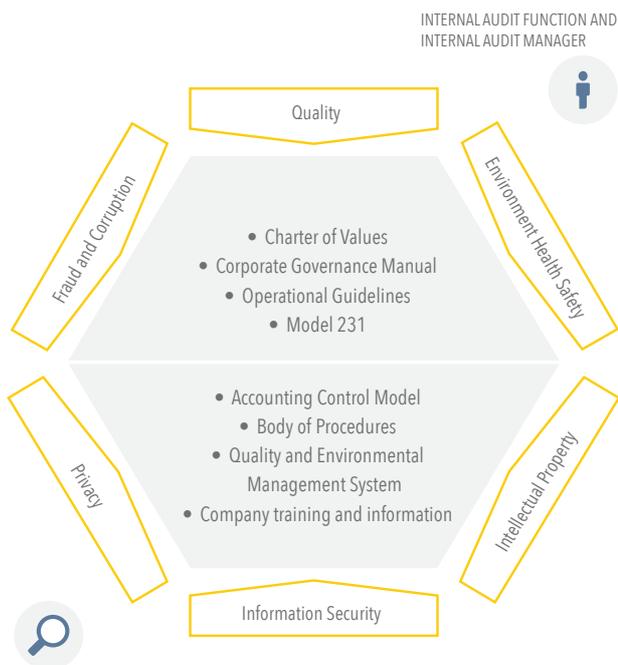


Stable

Compliance

Integrated compliance

THE INTERNAL CONTROL SYSTEM



For the purposes of meeting company objectives, the risk management activities conducted by Sabaf also take compliance requirements into account.

The internal control system governing this activity is based on the following elements:

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

Specifically, Sabaf has an integrated risk-based Audit Plan, which is set out according to specific control objectives (e.g. operational risks, compliance with Legislative Decree 262/2005 and Legislative Decree 231/2001, the security and profiling of corporate information systems, etc.).

The implementation of measures is outsourced to a single structure, Internal Audit, which is in turn responsible for reporting the results of the activities conducted to the delegated supervisory bodies.



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

INTEGRATED COMPLIANCE AND THE CORPORATE GOVERNANCE MANUAL

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

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

The Manual contains certain operating guidelines, which were approved by the Board of Directors and updated most recently in September 2013. These guidelines were issued to ensure that the management and control bodies of Sabaf properly carry out their duties.

OPERATIONAL GUIDELINES

ISSUES DISCIPLINED

Self-evaluation
of Board of Directors

Management, coordination and control
of Group subsidiaries

Means of compliance with disclosure obligations
to unions, pursuant to Article 150 of the TUF

Assessment of the Group
internal control system

Process of periodically identifying
and measuring Group risks

Management of significant transactions in which
directors have an interest

Assignment of professional mandates
to the statutory auditing firm

INTEGRATED COMPLIANCE AND LEGISLATIVE DECREE 231/2001

In 2006 Sabaf S.p.A. adopted the Organisational and Management Model pursuant to Legislative Decree 231/2001, designed to prevent the commission of criminal offences by employees and/or outside staff in the Company's interest.

Thereafter, the Company, through the supervision of the Supervisory Committee, has responded promptly to the need to adapt the Model and the control structure to

changes in legislation that have occurred over time.

The Company tasks the Supervisory Committee with assessing the adequacy of the Model (i.e. its real ability to prevent offences), as well as with supervising the functioning and compliance of the protocols adopted.

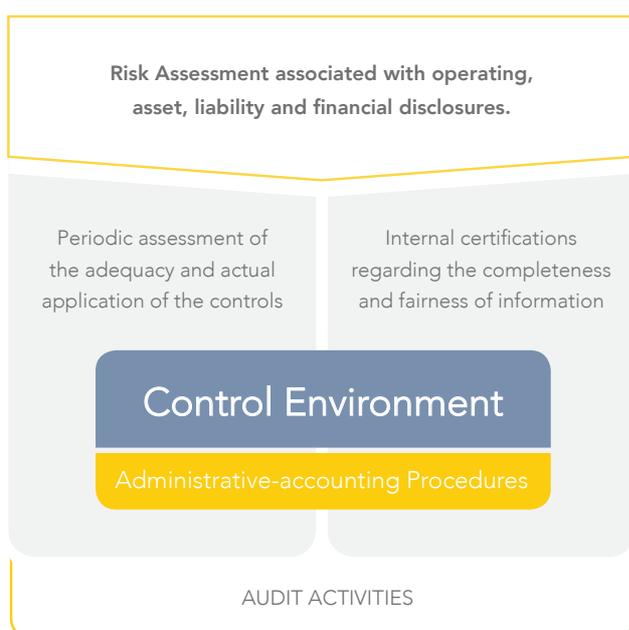


ACTIVITIES CARRIED OUT IN 2015

- **Systematic checks of the Model's effectiveness**, both through audits conducted by Internal Audit and interviews with staff assigned to sensitive activities.
- **Investigative activities** relating to the occupational health and safety management processes.
- **Information and training** of employees regarding the specific protocols regulated by the Model.
- **Training for Directors** of the company on all aspects of the Organisation, Operation and Control Model.
- **Preparatory analysis for revision of the risk assessment under Legislative Decree 231** to confirm/reassess the applicability of offences under Legislative Decree 231 to the current context in which the company operates, assessing the applicability of new offences, and subsequently updating the Model where necessary.
- **Analysis and comparison** of the company's current "231 Model" with the new version of the **Guidelines** for the preparation of Organisation, Operation and Control Models pursuant to Legislative Decree 231/2001 published by the national **Confindustria** organisation, in order to identify any areas to be updated.
- **Request for renewed subscription of the Group's Charter of Values***, also for the year 2015, to build upon the increasing attention paid by the Group to topics such as respect for the environment and management of transparent and proper relationships with all stakeholders.

INTEGRATED COMPLIANCE AND LEGISLATIVE DECREE 262/2005

FEATURES OF THE ACCOUNTING CONTROL MODEL



In 2015 the accounting control model did not require any updating.

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

The Group has established an **Accounting Control Model**, approved by the Board of Directors for the first time on 12 February 2008, and subsequently revised and updated.

Finally, during 2015, by order of the Financial Reporting Officer, the Accounting Control Model has been extended to the Turkish subsidiary; in particular, with the support of the Internal Audit Function, its applicability has been verified and requirements for adaptation have been assessed.

* The text, in its most up-to-date version, approved by the Board of Directors on 11 February 2014, is available in the Sustainability section on the website www.sabaf.it.

General Remuneration Policy

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

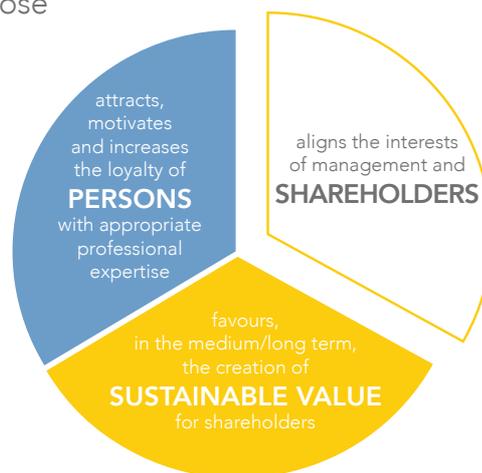
This Policy, applied from the date of approval by the Board, was fully implemented from 2012 following the appointment of the new management bodies.

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

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

See also the Remuneration Report for specific information on remuneration earned and paid out in 2015.

Purpose

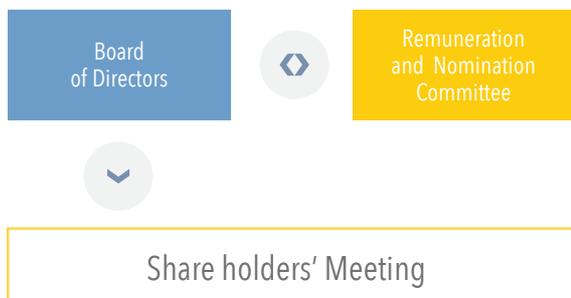


BODIES INVOLVED IN THE APPROVAL PROCESS

Fixed component

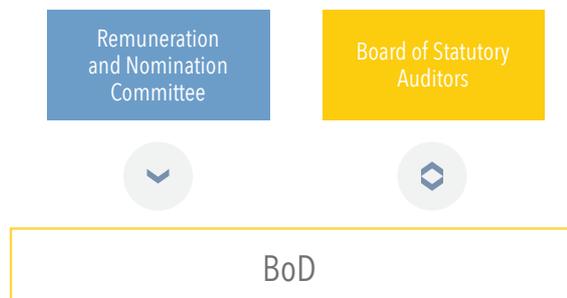
On the proposal of the Board of Directors and having heard the opinion of the Remuneration and Nomination Committee, the Shareholders' Meeting determines a total maximum amount including a fixed amount and attendance fees, for:

- All members of the Board of Directors



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

- Directors vested with special powers



Key Decision-making body proposing body advisory body

Variable Component

Short-term:

On the proposal of the Remuneration and Nomination Committee and in line with the budget, the Board of Directors defines an MBO plan, for:

- Executive directors (excluding the Chairman and Deputy Chairmen)
- Other executives with strategic responsibilities
- Other managers identified by the Chief Executive who report directly thereto or who report to the above-mentioned managers



Long-term:

On the proposal of the Remuneration and Nomination Committee, the Board of Directors approves the long-term financial incentive for:

- Executive directors (excluding the Chairman and Deputy Chairmen)
- Other executives with strategic responsibilities



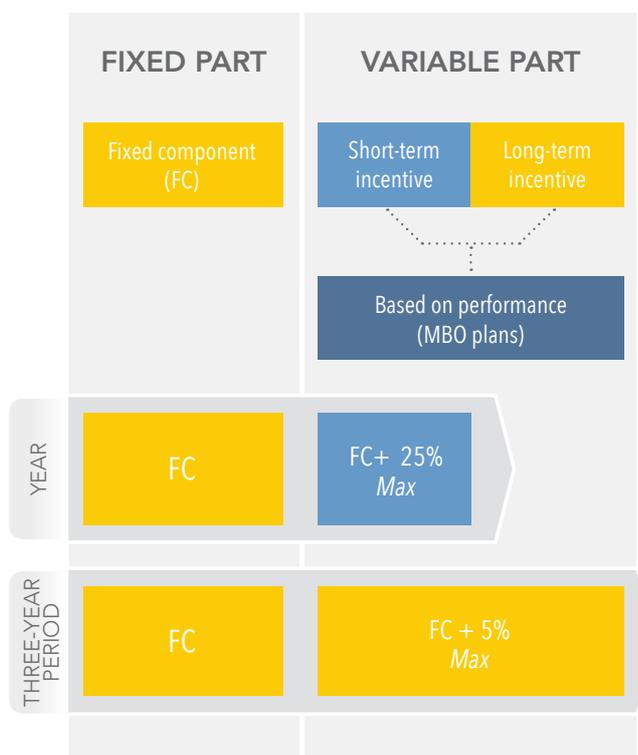
COMPONENTS OF REMUNERATION

Fixed component

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

Variable component

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



Non-monetary benefits

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

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

VARIABLE INCENTIVE PLANS



* Excluding the Chairman and Deputy Chairman.

GROUP EBIT 40%



> EBIT threshold on budget for year

AVERAGE SHARE VALUE 25%



> share value at the end of the relevant industrial plan

GROUP EBITDA 50%



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

INDIVIDUAL OBJECTIVES 60%

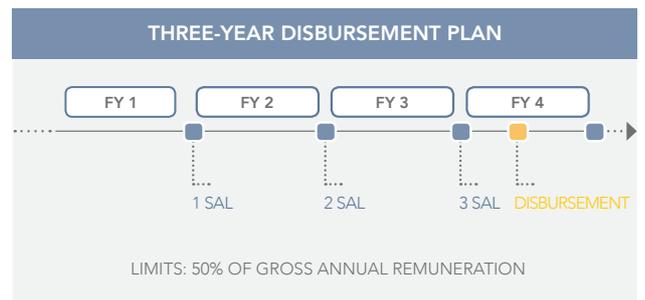
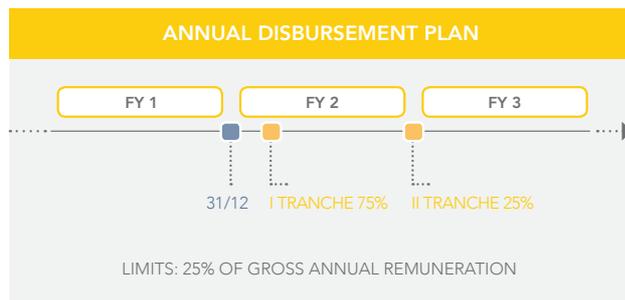


> business / financial
> technical manufacturing

FREE CASH FLOW 25%

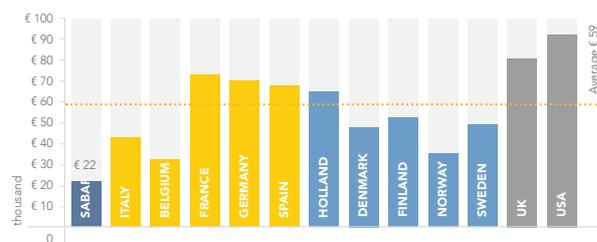


> consolidated group FCF (equal to sum of FCF for the relevant three years)



BENCHMARK

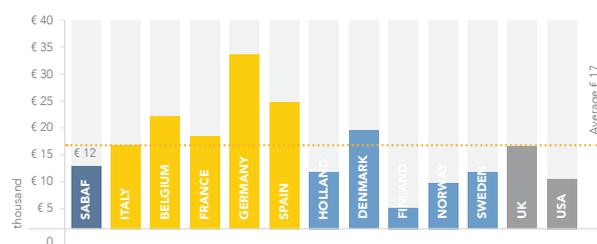
Average compensation of independent directors *



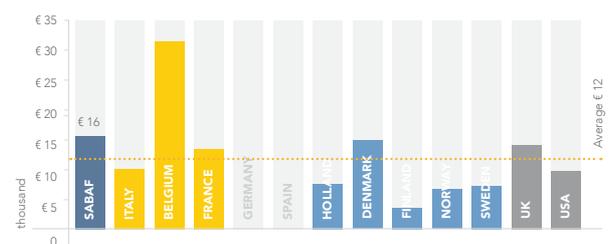
The comparison of remuneration is made using data from the Italia Board Index Observatory 2015, published by Spencer Stuart, which analyses the characteristics and functioning of the Boards of Directors of the top 100 (industrial and financial) listed companies in Italy in order of capitalisation as at 16 March 2015, as well as a comparison with major European and non-European countries.

Considering the size and characteristics of the issuer, Sabaf remuneration is within the average of the panel analysed.

Average compensation of members of the Control and Risk Committee *



Average compensation of members of the Remuneration Committee *



■ Sabaf ■ Northern Europe ■ Southern Europe ■ English-speaking countries

* Emoluments including Attendance Fees.



CHAPTER 4

SOCIAL AND ENVIRONMENTAL SUSTAINABILITY

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SABAF and its staff

THE SA8000 STANDARD

Sabaf S.p.A.'s social accountability system complies with the requirements of the SA8000 standard, for which the company obtained certification in 2005, and which was last renewed in March 2015 for a further three years. The decision to certify the system stemmed from the belief that the Company's human resources are an important asset. In particular, it seeks to raise awareness among management, suppliers, employees and independent contractors of full compliance with the social accountability principles enshrined in the standard.

In implementing SA8000, Sabaf S.p.A. has analysed and monitored the main ethical and social risk factors in terms of child labour, forced labour, health and safety, freedom

of association and the right to collective bargaining, discrimination, disciplinary procedures, working hours and compensation.

During the year dialogue was maintained between management representatives and workers' representatives concerning the concrete application of the SA8000 standard.

The social accountability management system was audited twice by IMQ / IQ NET in 2015. During the audit the auditors collected evidence of the company's commitment to supporting the Social Accountability System, and no evidence of non-compliance emerged.

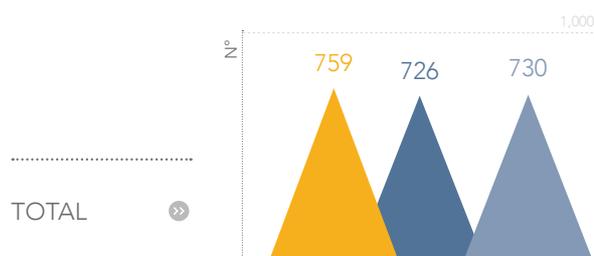
HIRING POLICY, COMPOSITION OF AND CHANGES TO PERSONNEL

As at 31 December 2015, the Sabaf Group had 759 employees, compared with 726 at 2014 year-end (+4.5%).

	31/12/2015			31/12/2014			31/12/2013		
									
Sabaf S.p.A. (Ospitaletto, Brescia - Italy)	367	185	552	370	186	556	372	191	563
Faringosi Hinges (Bareggio, Milan - Italy)	20	23	43	22	24	46	23	26	49
Sabaf do Brasil (Jundiaí, San Paolo - Brazil)	45	14	59	47	17	64	63	26	89
Sabaf Beyaz Esgya Parcalari San Tic Ltd. Manisa - Turkey	57	38	95	32	28	60	18	11	29
Sabaf Appliance Components (Kunshan) Co., Ltd	5	5	10	-	-	-	-	-	-
TOTAL	494	265	759	471	255	726	476	254	730

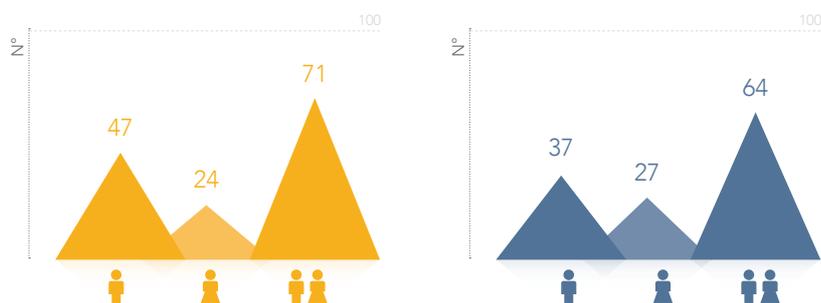
As regards basic types of employment contracts, 695 employees (91.6%) had permanent contracts and 64 (8.4%) had temporary, training and apprenticeship contracts.

	31/12/2015			31/12/2014		
						
Permanent	459	236	695	449	240	689
Training or apprenticeship	4	0	4	1	0	1
Temporary	31	29	60	21	15	36
TOTAL	494	265	759	471	255	726



Temporary staff (on an employment agency or equivalent contract)

ANNUAL AVERAGE



During 2015 Sabaf group companies hired 12 ex-temporary workers on a permanent basis (1 in 2014).

In 2015 Sabaf offered work placements to 11 students (5 in 2014).

In this way, Sabaf offers, for a week, to some students from schools in the province of

Brescia with a bias towards industry, their first direct contact with the world of work, in which they are able to apply the technical knowledge they have acquired in the classroom in the field.

STAFF TURNOVER IN 2015

SABAF S.p.A.

	31/12/14	NEW HIRES		DEPARTURES		CHANGE IN CATEGORY	31/12/15
		Person icon	Person icon	Person icon	Person icon		
Senior management	8	0	0	0	0	1	9
Clerical staff and middle management	110	7	2	6	1	0	112
Manual workers and similar	438	6	0	10	2	-1	431
TOTAL	556	13	2	16	3	0	552

FARINGOSI HINGES s.r.l.

	31/12/14	NEW HIRES		DEPARTURES		CHANGE IN CATEGORY	31/12/15
		Person icon	Person icon	Person icon	Person icon		
Senior management	1	0	0	0	0	0	1
Clerical staff and middle management	15	0	0	1	0	0	14
Manual workers and similar	30	0	0	1	1	0	28
TOTAL	46	0	0	2	1	0	43

SABAF DO BRASIL Ltda

	31/12/14	NEW HIRES		DEPARTURES		CHANGE IN CATEGORY	31/12/15
		Person icon	Person icon	Person icon	Person icon		
Senior management	0	0	0	0	0	0	0
Clerical staff and middle management	8	1	1	1	0	0	9
Manual workers and similar	56	16	1	18	5	0	50
TOTAL	64	17	2	19	5	0	59

SABAF BEYAZ ESYA PARCALARI SAN TIC Ltd

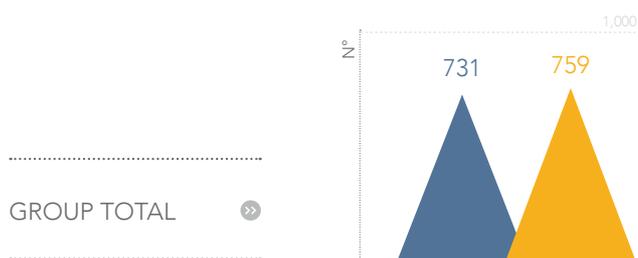
	31/12/14	NEW HIRES		DEPARTURES		CHANGE IN CATEGORY	31/12/15
		Person icon	Person icon	Person icon	Person icon		
Senior management	2	0	0	0	0	1	3
Clerical staff and middle management	6	5	5	0	2	-1	13
Manual workers and similar	52	108	48	88	41	0	79
TOTAL	60	113	53	88	43	0	95

SABAF APPLIANCE COMPONENTS (KUNSHAN) CO., Ltd.

	31/12/14	NEW HIRES		DEPARTURES		CHANGE IN CATEGORY	31/12/15
Senior management	1	0	0	0	0	0	1
Clerical staff and middle management	4	3	0	1	0	0	6
Manual workers and similar	0	3	3	3	0	0	3
TOTAL	5	6	3	4	0	0	10

GROUP TOTAL ¹

	31/12/14	NEW HIRES		DEPARTURES		CHANGE IN CATEGORY	31/12/15
Senior management	12	0	0	0	0	2	14
Clerical staff and middle management	143	16	8	9	3	-1	154
Manual workers and similar	576	133	52	120	49	-1	591
TOTAL	731	149	60	129	52	0	759



New hires by age bracket and gender

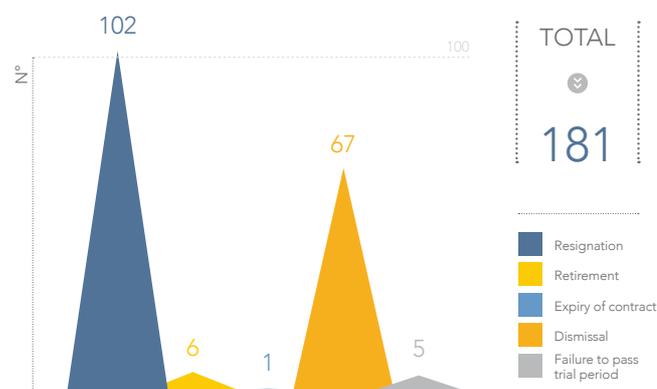
DESCRIPTION	2015			2014		
< 20 years	2	2	4	2	2	4
From 21 to 30 years	88	32	120	37	29	66
From 31 to 40 years	50	24	74	15	24	39
From 41 to 50 years	6	1	7	1	2	3
> 50 years	3	1	4	0	0	0
TOTAL	149	60	209	55	57	112

Redundancies by age bracket and gender

DESCRIPTION	2015			2014		
< 20 years	1	1	2	5	2	7
From 21 to 30 years	69	25	94	40	23	63
From 31 to 40 years	49	22	71	12	24	36
From 41 to 50 years	4	2	6	2	2	4
> 50 years	6	2	8	2	4	6
TOTAL	129	52	181	61	55	116

Reasons for termination of employment in 2015

DESCRIPTION	CLERICAL STAFF AND MIDDLE MANAGEMENT	MANUAL WORKERS	TOTAL
Resignation	9	93	102
Retirement	2	4	6
Expiry of contract	1	0	1
Dismissal	0	67	67
Failure to pass trial period	0	5	5
TOTAL	12	169	181



¹ The data at 31/12/2014 have been revised to include employees of Sabaf Kunshan (China).

The significant increase in turnover in 2015 is associated with the difficulties in establishing stable working relationships at Sabaf Turkey. The Group operates in an area (Manisa) that is undergoing significant industrial development with a constant flow of

new job opportunities. To address this situation the Group is creating retention policies that include monetary incentives, the offer of increased benefits and other loyalty systems.

Staff turnover by geographical area, age bracket and gender

Italy (Sabaf and Faringosi)

DESCRIPTION	2015			2014		
						
< 30 years	0.78%	0.00%	0.50%	0.51%	0.00%	0.33%
From 31 to 40 years	1.81%	0.00%	1.18%	0.26%	1.43%	0.66%
From 41 to 50 years	0.52%	0.96%	0.67%	0.51%	0.48%	0.50%
> 50 years	0.26%	0.00%	0.17%	0.26%	0.00%	0.17%
TOTAL	3.36%	0.96%	2.52%	1.53%	1.90%	1.66%

Brazil

DESCRIPTION	2015			2014		
						
< 30 years	28.89%	21.43%	27.12%	55.32%	47.06%	53.13%
From 31 to 40 years	11.11%	14.29%	11.86%	14.89%	52.94%	25.00%
From 41 to 50 years	2.22%	0.00%	1.69%	0.00%	5.88%	1.56%
> 50 years	0.00%	0.00%	0.00%	2.13%	0.00%	1.56%
TOTAL	42.22%	35.71%	40.68%	72.34%	105.88%	81.25%

Turkey

DESCRIPTION	2015			2014		
						
< 30 years	87.72%	60.53%	76.84%	43.75%	60.71%	51.67%
From 31 to 40 years	64.91%	52.63%	60.00%	6.25%	42.86%	23.33%
From 41 to 50 years	1.75%	0.00%	1.05%	0.00%	0.00%	0.00%
> 50 years	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
TOTAL	154.39%	113.16%	137.89%	50.00%	103.57%	75.00%

China

DESCRIPTION	2015			2014		
						
< 30 years	80.00%	0.00%	40.00%	-	-	-
From 31 to 40 years	0.00%	0.00%	0.00%	-	-	-
From 41 to 50 years	0.00%	0.00%	0.00%	-	-	-
> 50 years	0.00%	0.00%	0.00%	-	-	-
TOTAL	80.00%	0.00%	40.00%	-	-	-

Group

DESCRIPTION	2015			2014		
						
< 30 years	14.17%	9.81%	12.65%	8.92%	9.80%	9.23%
From 31 to 40 years	9.92%	8.30%	9.35%	2.12%	9.41%	4.68%
From 41 to 50 years	0.81%	0.75%	0.79%	0.42%	0.78%	0.55%
> 50 years	0.20%	0.00%	0.13%	0.42%	0.00%	0.28%
TOTAL	25.10%	18.87%	22.92%	11.89%	20.00%	14.74%

Breakdown of employees by age

	31.12.2015	31.12.2014
< 30 years	21.9%	22.4%
31 – 40 years	42.9%	40.5%
41 – 50 years	29.0%	27.0%
> 50 years	6.2%	10.1%
TOTAL	100%	100%

The average age of Group employees (37.7 years) reflects the continuous expansion of the business and the desire to hire young workers, giving preference to in-house training and development rather than bringing in outside skills, particularly in view of the specific nature of Sabaf's business model.

The minimum age of Group employees is 18 in Italy, Turkey and Brazil, and 25 in China.

Breakdown of employees by seniority

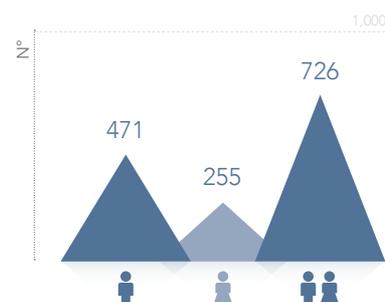
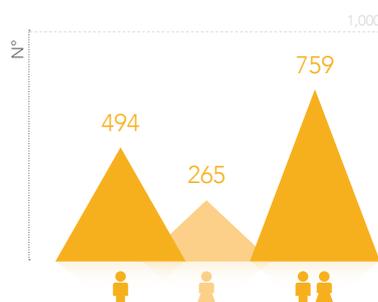
	31.12.2015	31.12.2014
< 5 years	24.6%	25.6%
6 – 10 years	29.12%	27.6%
11 – 20 years	37.2%	37.3%
> 20 years	9.1%	9.5%
TOTAL	100.0%	100.0%

Sabaf is well aware of the fundamental importance of having a stable and qualified workforce that, together with investments in technology, is a key factor in maintaining the Group's competitive advantage.

Staff breakdown by functional area

AREA	2015			2014		
						
Production	304	176	480	294	172	466
Quality	42	33	75	41	32	73
Research & development	67	2	69	70	4	74
Logistics	20	1	21	21	0	21
Administration	9	23	32	8	21	29
Sales	10	14	24	6	12	18
Services	18	10	28	21	9	30
Purchases	6	4	10	5	4	9
Other	18	2	20	5	1	6
TOTAL	494	265	759	471	255	726

TOTAL



HIRING POLICY

In order to attract the best resources, our hiring policy aims to ensure equal opportunities for all candidates, avoiding all forms of discrimination. The selection policy envisages, among other things:

- that the hiring process be carried out in at least two phases with two different interviewers;
- that at least two candidates be considered for each position.

Candidates are assessed based on their skills, training, previous experience, expectations and potential, according to the specific needs of the business.

At Sabaf S.p.A., all new hires receive the Charter of Values and the SA8000 standard, as well as a copy of the national collective bargaining agreement for the industry.

Staff breakdown by educational qualifications

EDUCATIONAL QUALIFICATION	2015				2014			
								
University degree	65	26	91	12.0%	60	19	79	10.9%
High school diploma	231	101	332	43.7%	220	96	316	43.5%
Middle school diploma	196	136	332	43.7%	186	134	320	44.1%
Primary school certificate	2	2	4	0.5%	5	6	11	1.5%
TOTAL	494	265	759	100%	471	255	726	100%

TRAINING

At Sabaf Group, employee professional development is underpinned by a continuous training process. The Human Resources Department, in consultation with the managers concerned, devises an annual training plan, based on which specific courses to be held during the year are scheduled.

	2015			2014		
						
Training for new recruits, apprentices, initial employment contracts	5,728	727	6,455	1,720	238	1,958
Information systems	130	11	141	235	29	264
Technical training	636	13	649	655	31	686
Safety, environment and social responsibility	2,661	830	3,491	4,722	2,024	6,746
Administration & organisation	387	466	853	120	111	231
Foreign languages	1,172	300	1,472	474	268	742
Other	60	0	60	0	0	0
TOTAL HOURS OF TRAINING RECEIVED	10,774	2,347	13,121	7,926	2,701	10,627
of which: training hours provided by in-house trainers	3,511	465	3,976	3,462	489	3,951

The training hours provided by in-house trainers also include the training given to employment agency staff (1,128 hours in 2015).

Per capita hours of training received by job category

	2015			2014		
						
Manual workers	21.6	5.7	15.9	13.7	9.4	12.1
Clerical staff and middle management	21.1	21.4	21.2	28.0	15.4	23.8
Senior management	37.9	82.8	41.1	28.6	47.5	30.3
TOTAL	21.9	9.2	17.5	16.8	10.6	14.6

In 2015 the total cost of training Group employees was about €429,000 (€352,000 in 2014).
In addition, training costs for temporary staff totalled around €23,000 in 2015 (about €67,000 in 2014).

INTERNAL COMMUNICATION

With a view to developing an ongoing dialogue between the business and its employees, Sabaf publishes a biannual magazine featuring key information about corporate life and addressing subjects of general interest.

The Human Resources Department officially has two periods each week during which it is available to meet with employees to offer them help and advice, even with issues not strictly related to the employer-employee relationship, such as information on tax and social security laws.

During 2015, Sabaf S.p.A.'s Human Resources Department held 1,101 appointments with employees regarding employment relationships or personal matters.

Sabaf S.p.A. uses a software program called HR PORTAL which allows all employees to log in and consult information published by the company relating to their payslips, tax data and social security contributions. Collective communication and company agreements are also available.

DIVERSITY AND EQUAL OPPORTUNITIES

Sabaf is permanently committed to assuring equal opportunities for female staff, who today account for 34.9% of the workforce (35.1% in 2014).

The Group – subject to organisational and production requirements – is mindful of staff family commitments. To date, the majority of requests to reduce working hours made by workers have been satisfied. In 2015, the Italian companies of the Group granted a total of 33 part-time contracts (two to female clerical staff, 29 to female manual workers and 2 to male manual workers), equivalent to 4.3% of the total (also 33 contracts in 2014).

Twenty-four disabled people work in the Italian companies of the Group, of which 11 on a part-time basis. The Company recruits with the aim of favouring the integration of people with disabilities within the manufacturing process, and has an agreement with La Fiaccolata (a charity co-op based in Ospitaletto) regarding the hiring of people in protected categories.

Percentage distribution of employment by gender

	2015		2014	
	NUMBER	%	NUMBER	%
	494	65.1	471	64.9
	265	34.9	255	35.1
TOTAL	759	100	726	100

Breakdown by category

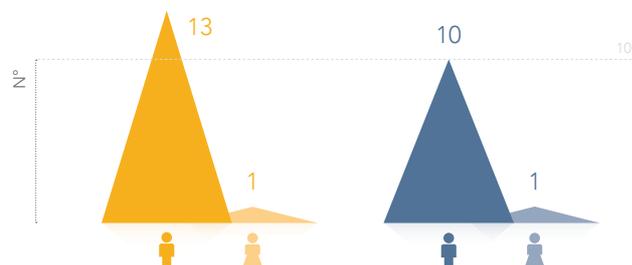
MANUAL WORKERS AND SIMILAR



CLERICAL STAFF and MIDDLE MANAGEMENT



SENIOR MANAGEMENT



TOTAL >> **759** | **726**

At all Group sites, senior management is recruited from the local area, except the production manager at Sabaf China, who has however been resident in China for many years.

Non-EU workers ²

	2015	2014	BENCHMARK ³
Non-EU workers	48	53	-
% of total employees	8.1%	8.8%	3.70

At 31 December 2015, 14 different nationalities were represented on the workforce of the Group's Italian companies.

COMPENSATION, INCENTIVE AND PROMOTION SYSTEMS

Sabaf S.p.A. employees are classified according to the national collective bargaining agreement for the metalworking and mechanical engineering sector, as amended by second-level bargaining, which includes:

- a personal bonus by employee grade;
- a productivity bonus by employee grade;
- a fixed performance-related bonus for all employee grades;
- a standard consolidated bonus for all employee grades;
- a standard variable performance-related bonus for all employee grades.

Details of staff cost components are set out in the notes to the consolidated financial statements.

Besides financial incentives – e.g. individual pay rises, mortgage guarantees issued by the Company for employees, the sale or rental of apartments at cost price, and company discounts on goods and services – Sabaf's incentive system also includes the option of taking part in free training courses held on or off-site.

An incentive system is also in place linked to collective and individual objectives. This involved 35 employees of the Group in 2015.

The types of welfare benefits available to Group employees are those envisaged by the statutory legislation in force in the various countries in which the Group operates.

² Data refers only to the Italian companies of the Group.

³ FEDERMECCANICA, The metalworking industry in figures (June 2015) – Non-EU workers (2013) [L'industria metalmeccanica in cifre (giugno 2015) – Lavoratori extracomunitari (2013)], <http://www.federmeccanica.it>.

Ratio between the minimum monthly salary envisaged by national collective agreements and the minimum salary paid by Group companies

2014	MINIMUM SALARY AS PER NATIONAL COLLECTIVE AGREEMENT		MINIMUM SALARY PAID		% INCREASE OVER MINIMUM	
	♂	♀	♂	♀	♂	♀
IN EURO ⁴						
Sabaf S.p.A.	1,559.3	1,559.3	2,043.98	2,069.03	31%	33%
Faringosi-Hinges	1,559.3	1,559.3	1,731.36	1,706.31	11%	9%
Turkey	288.52	288.52	310.73	310.73	9%	9%
Brazil	318.56	318.56	358.62	358.62	13%	13%

2015	MINIMUM SALARY AS PER NATIONAL COLLECTIVE AGREEMENT		MINIMUM SALARY PAID		% INCREASE OVER MINIMUM	
	♂	♀	♂	♀	♂	♀
IN EURO ⁴						
Sabaf S.p.A.	1,588.63	1,588.63	1,811.84	2,116.79	14%	33%
Faringosi-Hinges	1,588.63	1,588.63	1,760.69	1,760.69	11%	11%
Turkey	286.61	286.61	314.81	314.81	10%	10%
Brazil	256.99	256.99	295.56	295.56	13%	13%
China	257.76	257.76	375.31	375.31	46%	46%

Ratio between maximum salary and the median salary for the companies of the Group

	2015	2014
Italy	4.7	4.9
Turkey	11.9	13.7
Brazil	9.3	9.4
China	10.52	-

Ratio between average salary of female employees and average salary of male employees

	2015	2014
Clerical staff, middle management and senior management	64%	67%
Manual workers	83%	90%

These figures were determined as the ratio between the average gross annual salary of female employees and that of male employees for individual Group companies. The Group indicator was determined by weighing the indicators of the individual companies by the number of employees in each.

WORKING HOURS AND HOURS OF ABSENCE

The ordinary working week is 40 hours for the Italian companies and Sabaf China, and 44 hours for Sabaf do Brasil, spread over five working days, from Monday to Friday. At Sabaf Turkey the working week consists of 45 hours spread over six working days.

Overtime	2015		2014		BENCHMARK ⁵	
	Clerical staff	Manual workers	Clerical staff	Manual workers	Clerical staff	Manual workers
Average number of workers per month who worked overtime	76	264	72	274	-	-
Number of hours of overtime	12,520	35,343	13,094	36,385	-	-
Annual per-capita overtime hours ⁶	81	60	94	63	53	59

Total hours of absence	2015			2014			BENCHMARK ⁷
							
Total annual hours of absence	31,550	36,412	67,962	32,299	39,446	71,745	
Hours of absence as % of workable hours	3.1%	6.9%	4.4%	3.4%	7.9%	5.0%	
Average hours of absence per capita	63.7	136.8	89.2	68.5	153.2	98.4	110.5

Hours of sick leave	2015			2014			BENCHMARK ⁸
							
Total annual hours of sick leave	27,833	17,823	45,656	24,559	17,143	41,702	-
Hours of sick leave as % of workable hours	2.7%	3.4%	2.9%	2.6%	3.4%	2.9%	-
Per capita hours of sick leave	56.2	67.0	59.9	52.1	66.6	57.2	51.7

Hours of maternity/ paternity leave	2015			2014			BENCHMARK ⁹
							
Total annual hours of maternity/ paternity leave	481	17,403	17,884	103	20,315	20,418	-
Hours of maternity leave as % of workable hours	0.0%	3.3%	1.1%	0.0%	4.1%	1.4%	-
Per capita hours of maternity leave	1.0	65.4	23.5	0.2	78.9	28.0	18.5

The high number of hours of maternity leave compared with the sector average reflects our much higher percentage of female staff.

⁵ FEDERMECCANICA, The metalworking industry in figures (June 2015) - Per capita overtime hours (2013) [L'industria metalmeccanica in cifre (giugno 2015) - Ore pro-capite lavoro straordinario (2013)], <http://www.federmeccanica.it>

⁶ In relation to the average number of employees.

⁷ Data from FEDERMECCANICA, The metalworking industry in figures (June 2015) - Per capita hours of absence from work (2013) [L'industria metalmeccanica in cifre (giugno 2015) - Ore pro-capite di assenza dal lavoro (2013)], <http://www.federmeccanica.it>

⁸⁻⁹ FEDERMECCANICA, The metalworking industry in figures (June 2015) - Per capita hours of absence from work (2013) [L'industria metalmeccanica in cifre (giugno 2015) - Ore pro-capite di assenza dal lavoro (2013)], <http://www.federmeccanica.it>

Parental leave ¹⁰

TYPE OF LEAVE	2015			2014			% of workers in workforce after 12 months
							
Statutory maternity leave	0	10	10	0	9	9	100
Early maternity leave	0	8	8	0	9	9	100
Maternity/Paternity optional	1	17	18	1	17	18	94
Child-rearing leave	0	6	6	0	8	8	100
Assistance to families of persons with disabilities (Law 104)	27	10	37	17	11	28	97
OTHER LEAVE							
Blood donation	6	0	6	5	0	5	-
Leave of absence	3	1	4	2	1	3	100
Extraordinary parental leave	2	1	3	1	1	2	100

Recourse to cassa integrazione earnings ¹¹

	2015	2014
Number of hours of statutory redundancy pay	16,612	8,742
Annual average number of hours per capita	30.0	14.4

During the year the Italian companies of the Group made limited use of government subsidised temporary lay-off benefits during periods when production requirements were low.

OCCUPATIONAL HEALTH AND SAFETY

The Company is totally committed to protecting its employees' health and safety: the system used to manage occupational health and safety problems is OHSAS 18001 compliant. Not only does it guarantee compliance with applicable laws and regulations, it is also designed for continuous improvement of working conditions.

Since February 2012, the occupational health and safety system of Faringosi-Hinges has been certified according to the OHSAS 18001 standard. The system underwent a re-certification audit by the TUV NORD certifying authority in February 2015. The result

of this was positive, with a few recommendations for improvement. The most recent audit, carried out by the TUV NORD certifying authority in February 2016, certified that the system complies with standards, finding that the recommendations made in 2015 had been addressed and almost all resolved. No issues of non-compliance were found, only a few areas for improvement.

¹⁰ Data relating to Sabaf S.p.A.

¹¹ Institution operating in accordance with Italian legislation, the data relates only to the Italian companies of the Group.

Number and time period of accidents

	2015			2014			BENCHMARK ¹²
							
On-site accidents	12	5	17	13	2	15	-
Off-site accidents	2	0	2	4	1	5	-
Average absence due to on-site accidents (days)	33.17	23	30.18	33.54	12.00	30.67	-
Average absence due to off-site accidents (days)	33.5	0	33.5	105.00	2.00	84.40	-
Total days of absence due to accidents	2,840	844	3,684	5,611	152	5,763	-
Per capita hours of absence due to accidents ¹³	5.73	3.17	4.84	11.91	0.59	7.91	11.9

TOTAL



4.84 7.91



Accident frequency index

Number of accidents (excluding off-site accidents) per 1 million hours worked

Index	2015			2014		
						
Index	14.31	12.52	13.73	13.79	5.33	11.08

Accident gravity index

Number of accidents (excluding off-site accidents) per 1,000 hours worked

Index	2015			2014		
						
Index	0.47	0.29	0.40	0.55	0.06	0.39

No serious accidents occurred in 2015. Training and instruction on the use of protective and safety equipment continued at all Group sites.

In compliance with current law, Group companies have prepared and implemented a health-monitoring programme for their employees, with medical check-ups focusing on the specific work-related hazards. 2,707 medical check-ups were performed in 2015 (2,925 in 2014).

¹² FEDERMECCANICA, The metalworking industry in figures (June 2015) - Per capita hours of absence from work (2013) [L'industria metalmeccanica in cifre (giugno 2015) - Ore pro-capite di assenza dal lavoro (2013)], <http://www.federmeccanica.it>
¹³ The calculation is based on average annual headcount.

Current expenditure on worker safety

IN THOUSANDS OF EURO	2015	2014
Plant, equipment and materials	42	85
Personal protective equipment (PPE)	77	88
External training	27	49
Advisory services	134	68
Analyses of workplace environment	24	2
Medical check-ups (including pre-hire check-ups)	44	48
Software and databases	0	5
TOTAL	348	345

Investments in worker safety

IN THOUSANDS OF EURO	2015	2014
Plant, equipment and materials	62	169
TOTAL	62	169

Use of hazardous substances

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

LABOUR RELATIONS

Three trade unions are represented internally at Sabaf S.p.A.: FIOM, FIM and UILM. As at December 2015, 142 Group employees were card-carrying members, i.e. 18.7% of total employees (in 2014, 142 employees were card-carrying members, 19.6% of the total).

Relations between senior management and trade union representatives are based on mutual transparency and fairness. During the year, there were 15 meetings at Sabaf S.p.A. between management and trade union representatives. The main issues addressed were:

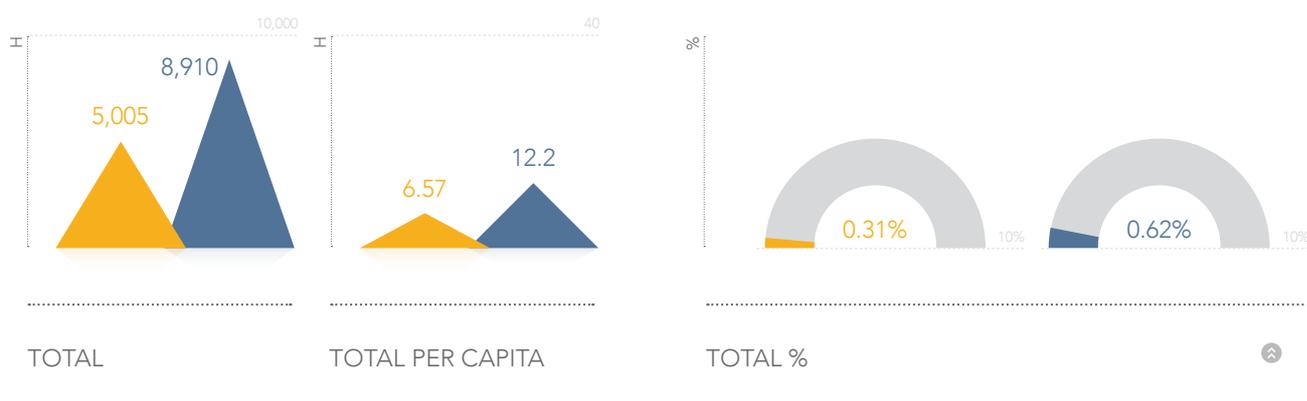
- amendments to the national labour contract;
- announcements regarding changes in permanent staff and employment agency contracts, monitoring temporary and training contracts and planning recruitment and training;

- the presentation of the business plan and the financial results;
- health and safety training for employees;
- recourse to cassa integrazione earnings;
- election of new trade union representatives.

The hours spent taking part in trade union activities in 2015 were equivalent to 0.31% of workable hours.

PARTICIPATION IN TRADE UNION ACTIVITIES

	2015	2014	BENCHMARK ¹⁴
UNION MEETINGS			
Number of hours	2,708	2,919	-
As % of workable hours	0.17	0.20	-
Number of hours per capita	3.6	4.0	-
UNION LEAVE OF ABSENCE			
Number of hours	1,499	1,823	-
As % of workable hours	0.09	0.13	-
Number of hours per capita	2.0	2.5	-
INDUSTRIAL ACTION			
Number of hours	798	4,168	-
As % of workable hours	0.05	0.29	-
Number of hours per capita	1.0	5.7	-
TOTAL			
Number of hours	5,005	8,910	-
As % of workable hours	0.31	0.62	-
Number of hours per capita	6.57	12.2	5.3



In 2015, a total of 5 hours of strike were called at Sabaf S.p.A. as a result of national claims. However, no strikes were called at Faringosi Hinges, Sabaf do Brasil or Sabaf Kunshan.

COMPANY CLIMATE ANALYSIS

In 2015 the Group conducted research at its Italian sites (Sabaf S.p.A and Faringosi Hinges) into "organisational wellbeing", in the belief that the working environment affects the relationship between the individual and the business and can drive acceptance and a sense of belonging or, on the contrary, generate conflict, hostility and a lack of cooperation. The aim of the project was to find out all the invisible 'soft' variables that relate to informal aspects (e.g. emotional welfare, behaviour, values, identity, culture, relations) that define the level of wellbeing of people within the organisation.

The analysis was conducted on a sample of 310 people at Sabaf (56% of the workforce) and 43 people at Faringosi Hinges (all of the workforce) through a questionnaire to be filled in on-site during dedicated sessions. The workers filled in the questionnaires

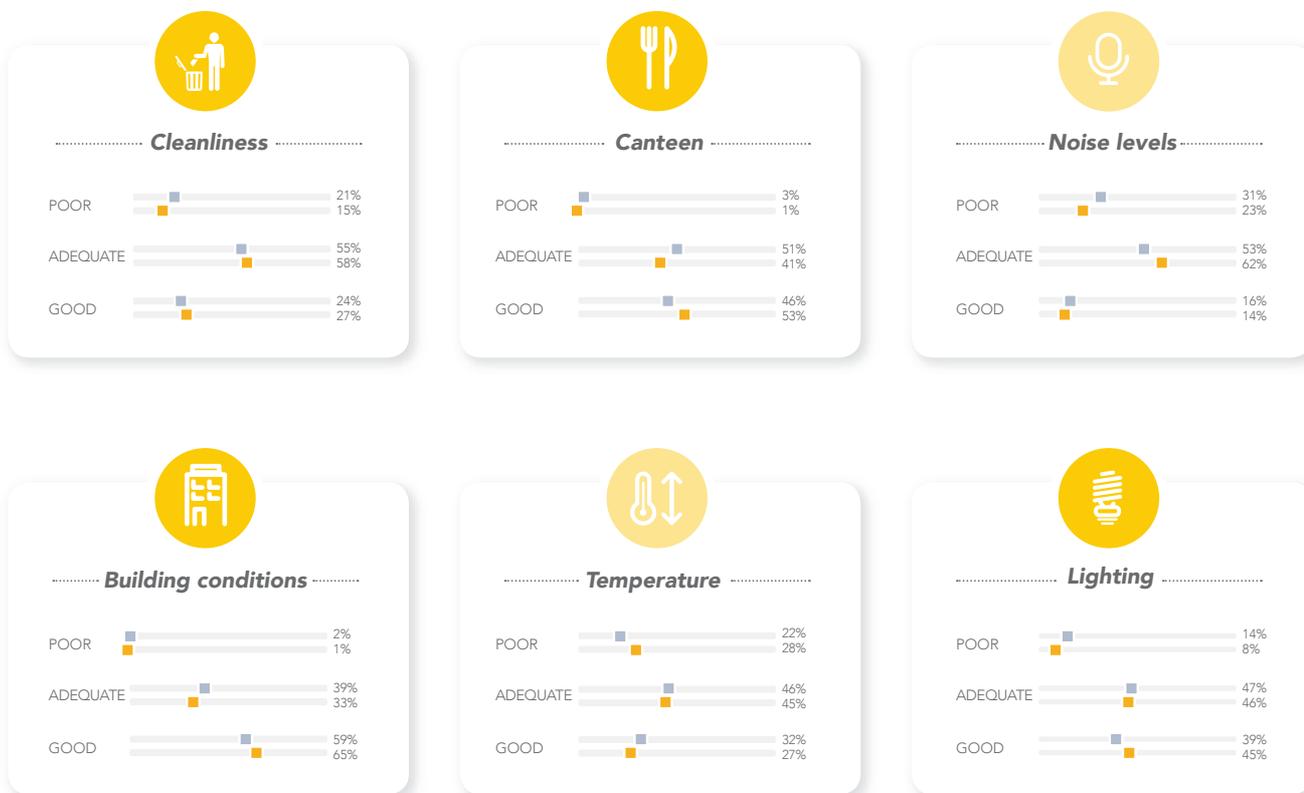
anonymously, under the supervision of a specialist HR consultancy. The results were shared with all employees in a dedicated issue of Sabaf Magazine published in December 2015.

A previous survey had been conducted at Sabaf in 2012. The results of 2015 show a general picture of improvement and of good or moderate satisfaction with the overall situation, despite a few areas for improvement, which management has noted and will assess possible initiatives for improvement.

A summary of the survey results is provided below:

THE SURVEY AT SABAF

Characteristics of workplace environment



Key

2015

2012

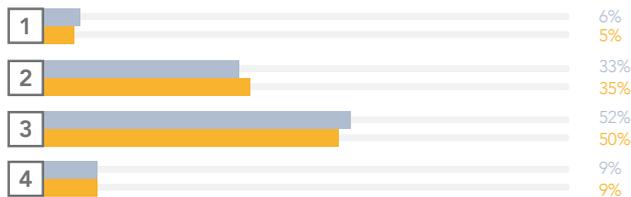
POSITIVE DATA

IMPROVABLE DATA

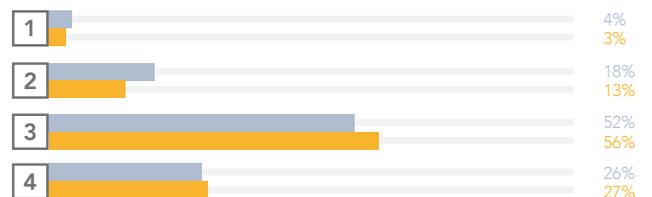
Job satisfaction



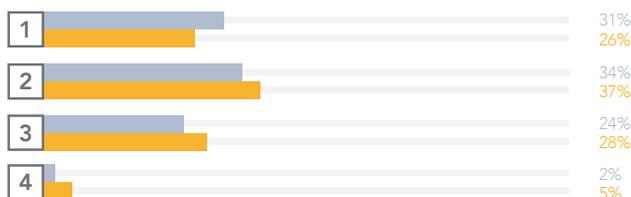
To what extent do you agree that organisational roles are well defined?



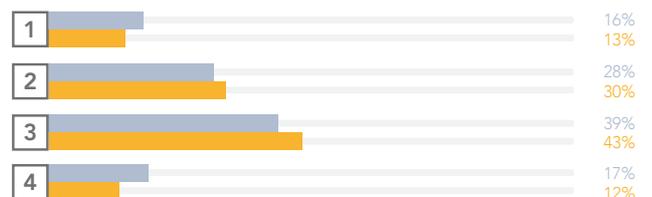
Do you agree that you have access to adequate resources to do your job?



Have you ever considered changing job?



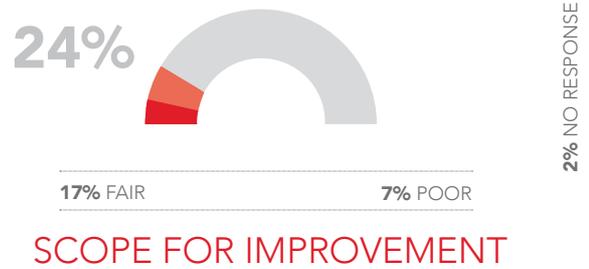
Do you feel part of a group?



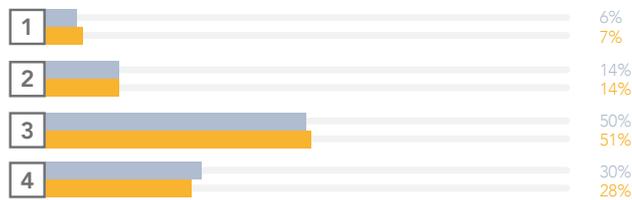
Agreement with company values



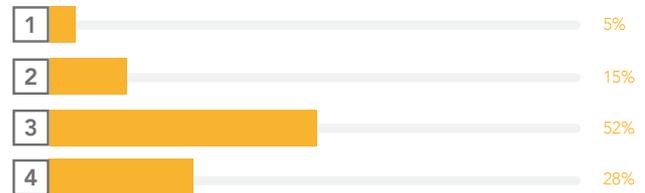
Relationship with superior



Does your boss treat you fairly?



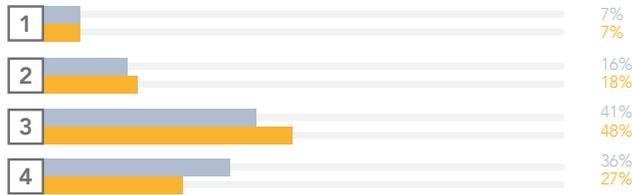
To what extent do you agree that your boss acts in accordance with Sabaf's stated values?



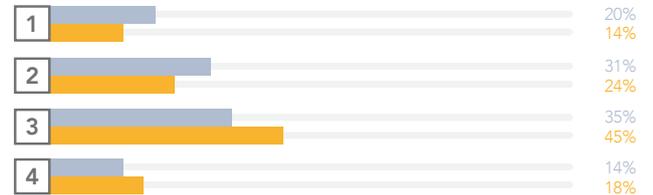
Key



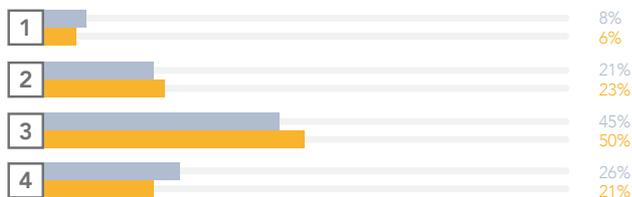
How much does your boss like to be informed of the problems and difficulties that you encounter in your work?



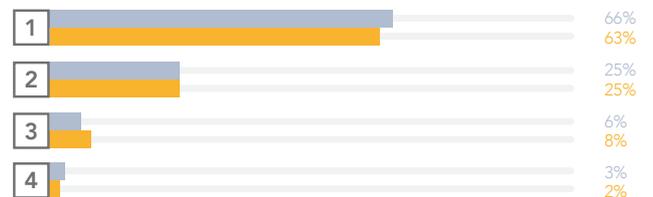
To what extent does your boss involve you in decisions that affect your work?



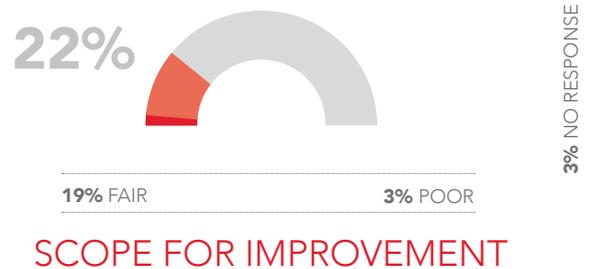
Do you feel that your boss listens to your requests?



Do you have any conflicts with your boss?



Collaboration and dialogue with colleagues



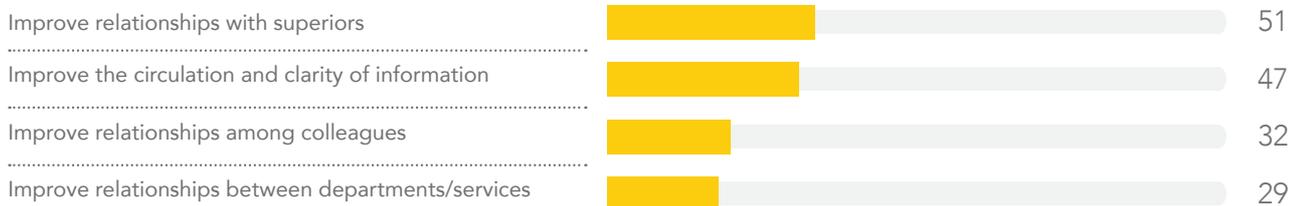
Development and relationships

In your opinion, what are the most urgent changes that need to be made at the company?

AREAS FOR IMPROVEMENT



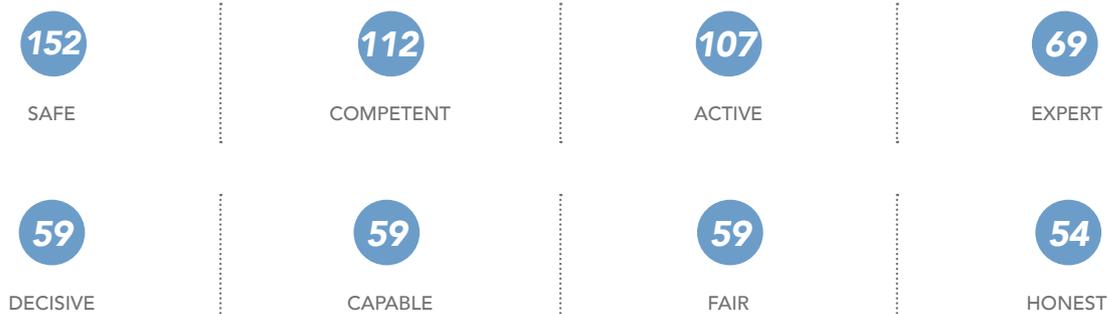
RELATIONSHIPS AND INTERNAL COMMUNICATION



What benefits would you like to see introduced at your organisation?



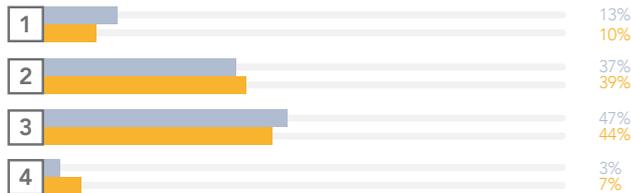
Would you define your organisation as:



Development, assessment and incentives



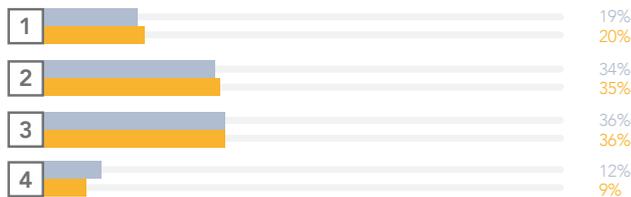
How transparent are the criteria used to assess you?



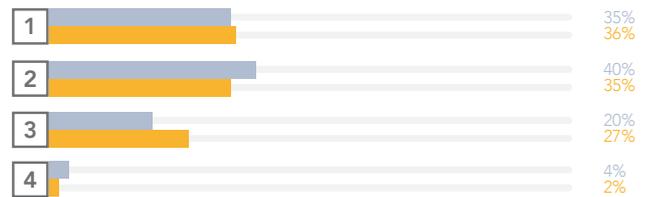
Key



Are there opportunities for training and professional growth?



To what extent do you agree that pay rises are distributed on the basis of quality of performance?

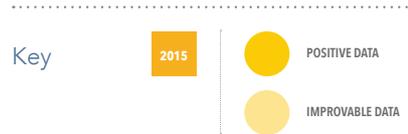
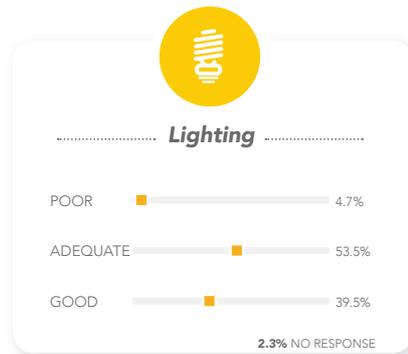
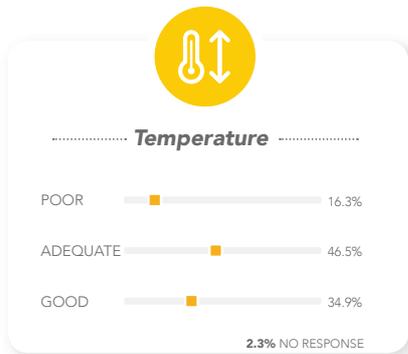
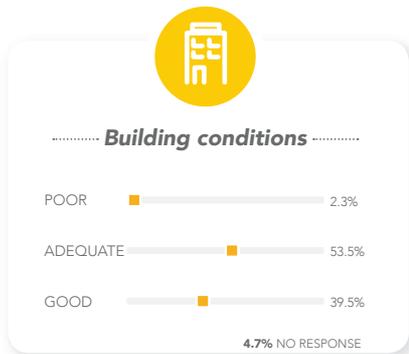
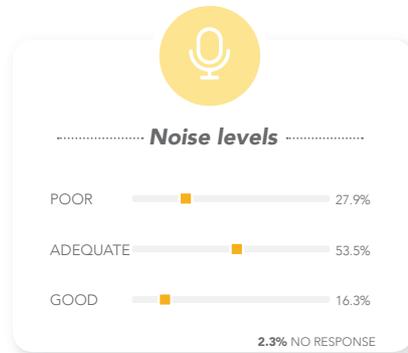
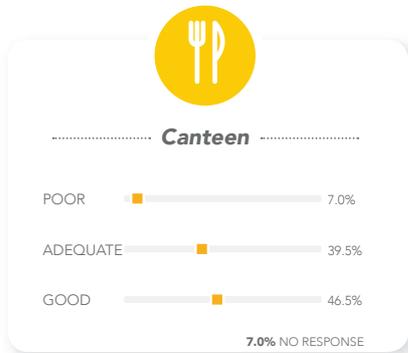


Key

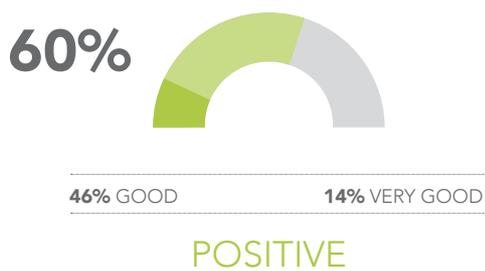


THE FARINGOSI HINGES SURVEY

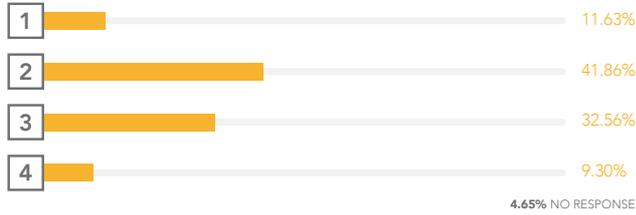
Characteristics of workplace environment



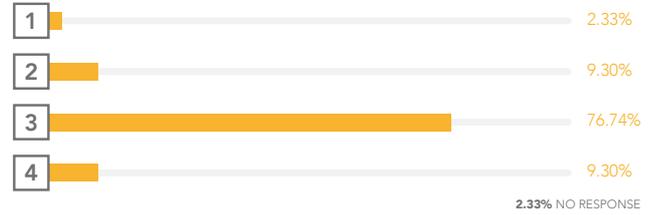
Job satisfaction



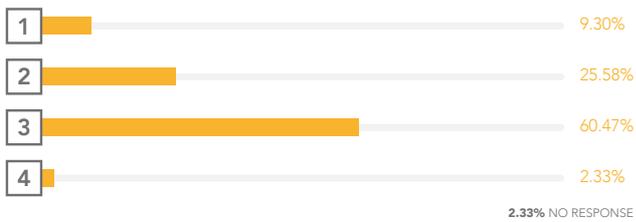
To what extent do you agree that organisational roles are well defined?



Do you agree that you have access to adequate resources to do your job?



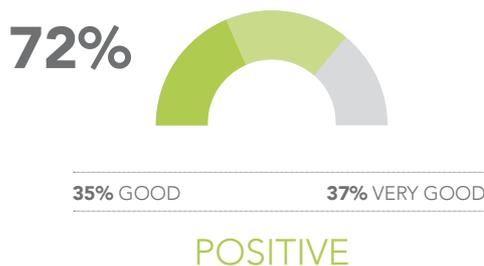
Are you able to take enough breaks?



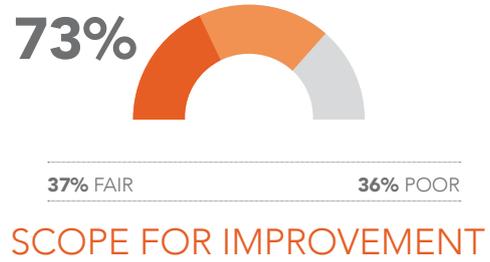
Relationship with superior



Collaboration and dialogue with colleagues

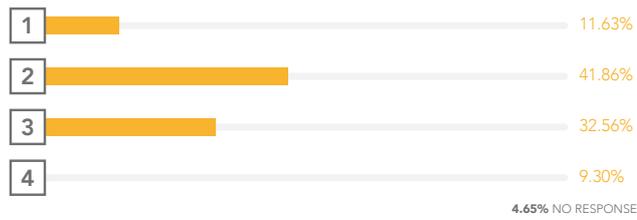


Development, assessment and incentives

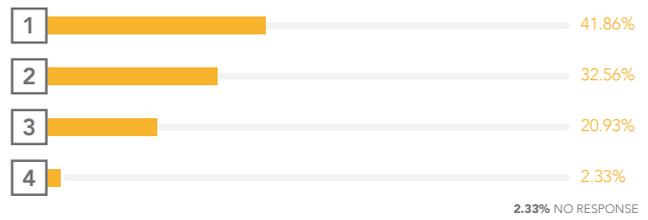


5% NO RESPONSE

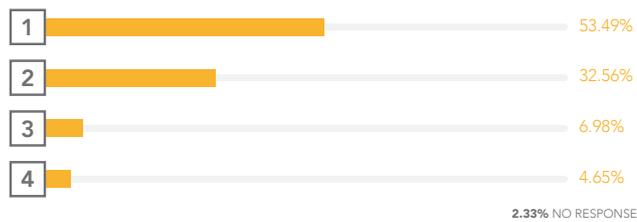
To what extent do you agree that organisational roles are well defined?



To what extent do you agree that pay rises are distributed on the basis of quality of performance?



Are there opportunities for training and professional growth?



Key

2015

- 1 COMPLETELY DISAGREE
- 3 MOSTLY AGREE
- 2 SLIGHTLY AGREE
- 4 COMPLETELY AGREE

What benefits would you like to see introduced in your organisation?



SOCIAL ACTIVITIES AND BENEFITS

Sabaf S.p.A. has signed an agreement with a bank for mortgages and consumer loans with particularly advantageous terms, acting as a guarantor for employees: 63 employees had benefited from the agreement at 31.12.15.

The Company leased a number of apartments to employees near the Ospitaletto site. A residential complex was built in 2007 with 54 units, which are allocated on a priority basis at preferential rates to employees, who bought 29 units.

The Company has also signed various agreements with retailers to purchase products and services at special low prices.

LITIGATION AND DISCIPLINARY MEASURES

During 2015, 108 disciplinary measures were taken against Group employees. These break down as follows:



The main reasons for disciplinary procedures include: unauthorised absence, failure to observe working hours and failure to comply with the rules concerning sick leave.

No disputes with staff were pending at 31 December 2015.

SABAF and its shareholders

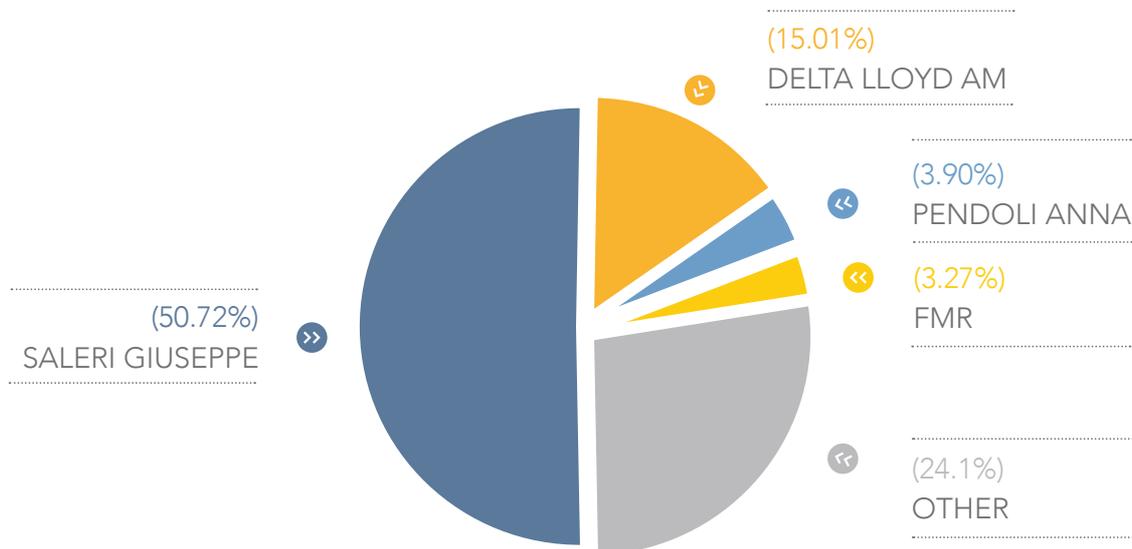
SHAREHOLDER BASE

As at 31 December 2015, 2,182 shareholders were listed in the shareholders' register. Of these:

- 1,802 owned fewer than 1,000 shares
- 298 owned from 1,001 to 5,000 shares
- 32 owned from 5,001 to 10,000 shares
- 50 owned over 10,000 shares.

Shareholders residing outside Italy hold 26% of the share capital.

Institutional investors are very strongly present in share capital, and are estimated to account for approximately 90% of the free float.



RELATIONS WITH INVESTORS AND FINANCIAL ANALYSTS

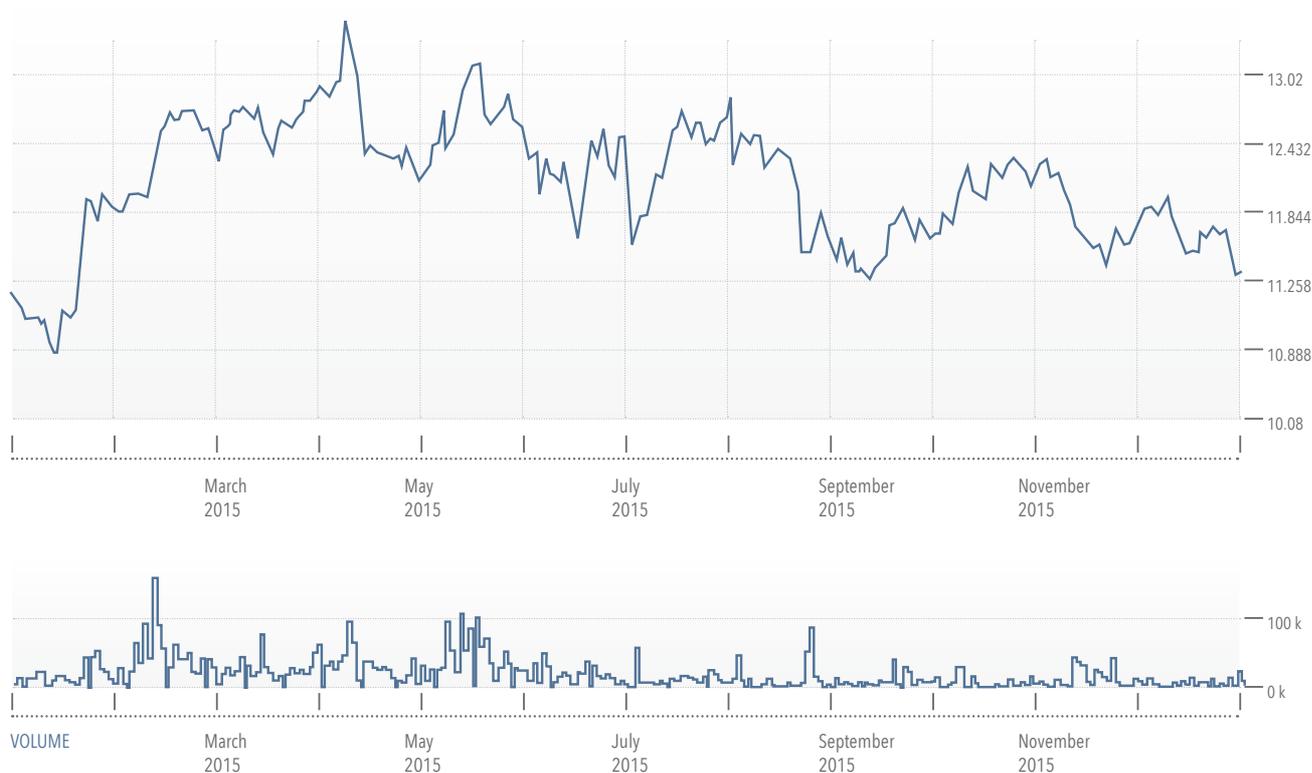
Right from the time when it went public (1998) the Company has considered financial communication to be of strategic importance. Sabaf's financial communication policy is based on the principles of integrity, transparency and continuity, in the belief that this approach enables investors to assess the Company properly. In this regard, Sabaf is 100% willing to engage in dialogue with financial analysts and institutional investors.

The brokers that prepare studies and research documents about Sabaf on an ongoing basis are: Equita and Banca Akros.

In 2015, the Company met with institutional investors at roadshows organised in Milan, Venice, Rimini, London and Paris. In addition, some investors held meetings with management at the company headquarters in Ospitaletto, taking the opportunity to visit the production facilities.

SHAREHOLDER RETURN AND SHARE PERFORMANCE

During 2015, Sabaf shares reached their highest official price on 14 April (€13.177) and their lowest on 19 January (€10.855). Average daily trading volume was 10,624 shares, equivalent to an average daily total value of €133,000 (€159,000 in 2014).



The dividend policy adopted by Sabaf is designed to guarantee a fair return for shareholders. This is realised in part through the annual dividend, by maintaining a ratio in excess of 50% between dividends and profits.

SOCIALLY RESPONSIBLE INVESTMENTS

Sabaf shares have also been the subject of frequent analysis by the analysts and fund managers of SRI funds, which have invested in Sabaf on many occasions.

LITIGATION

No lawsuits are pending with shareholders.

SABAF and its customers

SALES ANALYSIS

Countries and customers

	2015	2014
Countries	52	56
Customers ¹⁵	288	264

For a detailed analysis of revenue by product family and geographical area, please see the Report on Operations.

In line with the Group's commercial policies, most of the active commercial relationships are well established and long-term.

Thirty-four customers had annual sales of over €1 million (32 in 2014). The breakdown by sales amount is as follows:

	2015	2014
< €1,000	43	30
€1,001-€50,000	174	163
€50,001-€100,000	26	23
€100,001-€500,000	43	33
€500,001-€1,000,000	11	13
€1,000,001-€5,000,000	26	25
> €5,000,000	8	7

In addition to the headquarters at Ospitaletto, the commercial network is based on the subsidiaries located in Brazil, Turkey, the United States and China, as well as a representative office in Poland. 11 agency relationships are active, mainly relating to the market outside Europe.

THE QUALITY SYSTEM

Our quality management system is integrated with our environmental management and workplace safety systems, and should enable us to achieve the following objectives:

- increase customer satisfaction by understanding and responding to customers' present and future needs;
- continuously improve processes and products;
- involve partners and suppliers in the continuous improvement process, encouraging a "co-makership" approach;
- develop the potential of our human resources;
- improve business performance.

Current spending on quality

IN THOUSANDS OF EURO	2015	2014
Product certification	91	68
Certification and management of quality system	27	12
Purchase of measuring instruments and equipment	84	33
Calibration of measuring instruments and equipment	47	31
Technical regulations, software and publications	2	2
Training	0	0
Trials and tests by independent laboratories	6	7
TOTAL	257	153

Investments in quality

IN THOUSANDS OF EURO	2015	2014
Purchase of measuring instruments and equipment	74	105
TOTAL	74	105

¹⁵ With sales exceeding 1,000 euros.

Sites that have achieved quality certification in accordance with ISO9001:2008:

<p>..... 1993</p> <p>Sabaf S.p.A</p>	<p>..... 2008</p> <p>Sabaf do Brasil</p>
<p>..... 2001</p> <p>Faringosi Hinges</p>	<p>..... 2015</p> <p>Sabaf Turkey</p>

During 2015, Sabaf's quality system was constantly maintained and monitored to guarantee its correct implementation and compliance with the requirements of the standard UNI EN ISO 9001:2008. The internal audit plan that was defined for both the headquarters at Ospitaletto and the production facility in Brazil was executed. The results show no critical issues regarding the system which, therefore, fully complies with the standard.

As regards the audit conducted by third parties on the quality management system, CSQ (IMO's certification body) conducted its annual audit at the headquarters at Ospitaletto in May and at the Brazil site in June 2015, confirming that the system is effectively applied.

In October 2015 the TUV NORD certifying authority conducted the periodic audit of the Faringosi Hinges S.r.l. quality management system. The audit confirmed that the system is effectively applied. No instances of non-compliance were found.

Late 2014 saw the start of the certification process for the production facility in Turkey. The system has been implemented following the standard at the Italian site and was certified after the CSQ audit on 7 - 9 July 2015.

During 2016 courses and training will be held to examine the new UNI EN ISO 9001:2015 standard in order to prepare the process of updating the system to reflect the change in the standard.

CUSTOMER SATISFACTION

The *customer satisfaction survey*, conducted every two years, is a part of the activities of *stakeholder engagement* that Sabaf undertakes with the aim of constantly improving the quality of the services it provides and of responding to the needs of its customers.

The results of the survey, conducted by sending structured questionnaires to the Group's key customers, confirm the positive opinion they have of Sabaf as a result of the prompt, professional and skilful sales support it provides. The results of the latest survey, conducted in February 2015, are provided in the 2014 Annual Report.

LITIGATION

Sabaf is involved in several proceedings against manufacturers of counterfeit components, cookers and stove tops who market or sell appliances with components that infringe our patents and trademarks.

SABAF and its suppliers

THE SA8000 STANDARD AND SUPPLIERS

In 2005 Sabaf S.p.A. was certified as compliant with the SA8000 (Social Accountability 8000) standard. The Company therefore requires its suppliers to respect – in all their activities – the standard's principles as a basic prerequisite for building a lasting relationship based on the principles of social accountability. The supply contracts include an ethics clause, based on the SA8000 standard, that obligates suppliers to assure respect of human and social rights. More specifically, suppliers undertake to avoid using in their production processes persons below the legal minimum age set by law, to guarantee their workers a safe workplace, to protect trade-union freedom, to

comply with legislation on working hours, and to ensure that workers are paid the legal minimum wage.

Failure to comply with or accept the principles of the SA8000 standard could lead to the supply relationship being terminated. In 2015, 19 audits (32 in 2014) were carried out at suppliers on quality, environmental and social-responsibility management, none of which revealed any critical instances of non-compliance. Suppliers were asked to take the appropriate measures to resolve any non-conformity of a non-critical nature.

PURCHASING ANALYSIS

The Sabaf Group aims to promote development in the areas in which it operates, and therefore gives preference to local firms when choosing suppliers.

Purchases made in Lombardy by the Group's Italian companies represent 65.6% of the total, purchases made by Sabaf do Brasil from Brazilian suppliers account for 72.1% of the total, purchases made by Sabaf Beyaz from Turkish suppliers represent 39.5% of the total, and purchases by Sabaf Kunshan from Chinese suppliers represent 62.3% of the total.

Sales generated outside the European Union mainly come from suppliers in China. Chinese suppliers have signed a clause to comply with the principles set out in the SA8000 standard.

Geographical distribution of suppliers

IN THOUSANDS OF EURO	2015		2014	
	SALES	%	SALES	%
Province of Brescia	40,449	41.7%	41,648	43.9%
Italy	25,609	26.4%	26,534	28.0%
Rest of EU	11,000	11.3%	9,999	10.5%
Brazil	4,269	4.4%	4,804	5.1%
Turkey	5,339	5.5%	4,000	4.2%
China	6,908	7.1%	5,879	6.2%
Non EU - Others	3,437	3.5%	1,929	2.0%
TOTAL	97,011	100%	94,793	100%

Sabaf do Brasil and Sabaf Turkey mainly purchase their production materials from local suppliers. The main machinery items used (transfer machining and assembly equipment and die-casting burner presses) have instead been imported from Italy to

assure uniform group-wide manufacturing processes, particularly as regards quality and safety.

SUPPLIER RELATIONS AND CONTRACTUAL TERMS

Our relations with suppliers aim at long-term partnerships and are based on business integrity, propriety and fairness, and on shared growth strategies.

In order to share the values underpinning its business model with suppliers, Sabaf has widely distributed its Charter of Values.

Sabaf guarantees total impartiality in supplier selection and undertakes to adhere strictly to the agreed payment terms.

Sabaf requires its suppliers to upgrade their technology so that they are constantly able to offer the best value for money. It gives preference to suppliers who have obtained or are in the process of obtaining quality and environmental certification.

In 2015 sales to Sabaf Group by suppliers with certified quality systems accounted for 61.9% of the total (vs. 54.7% in 2014).

Breakdown of purchases by category

IN THOUSANDS OF EURO	2015		2014	
	SALES	%	SALES	%
Commodities	26,056	26.9	24,959	26.3
Members	28,027	28.9	24,112	25.4
Machinery & equipment	11,581	11.9	9,843	10.4
Services and other purchases	31,347	32.3	35,879	37.9
TOTAL	97,011	100	94,793	100

For small suppliers, we have agreed very short payment terms (mainly 30 days).

LITIGATION

There are no disputes pending with suppliers.

SABAF and its lenders

Our commitment to lenders

BANKING RELATIONS

The Group operates with a low debt ratio (net indebtedness/shareholders' equity of 0.23 at 31 December 2015; net indebtedness/EBITDA of 0.99) and has ample unused short-term lines of credit.

At 31 December 2015, net financial debt was €25.9 million, versus €26.9 million at 31 December 2014.

The Group mainly deals with 11 Italian banks (Banco di Brescia, Banca Intesa, Unicredit, Monte dei Paschi di Siena, BNL, Banca Popolare di Vicenza, Banca Popolare dell'Emilia Romagna, Credito Lombardo Veneto, Banca Passadore, Cariparma, Banco Popolare) and with five foreign banks (Banco Itau in Brazil, Halkbank and Isbank in Turkey, Bank of China and Industrial & Commercial Bank of China in China).

LITIGATION

No lawsuits are pending with lenders.

SABAF and its competitors

THE SABAF GROUP'S MAIN ITALIAN AND INTERNATIONAL COMPETITORS

In Italy and in Europe as a whole, Sabaf estimates that it has a market share of over 50% in each product segment. It is the only company offering the complete range of gas cooking components, as its competitors only manufacture part of this product range.

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

Copreci is a cooperative based in the Basque region of Spain. It is part of the Mondragon Cooperative Corporation and, with Sabaf, is Europe's leading valve and thermostat manufacturer.

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

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

The Sabaf Group's main Italian and international competitors

	VALVES	THERMOSTATS	BURNERS	HINGES
SABAF	X	X	X	X
Burner Systems International (USA)	X	X	X	
CMI (Italy)				X
Copreci (Spain)	X	X		
Defendi Italy (Italy)	X		X	
Nuova Star (Italy)				X
Somipress (Italy)			X	

2013 and 2014 P&L highlights of the Sabaf Group's main Italian competitors¹⁶

IN THOUSANDS OF EURO	2014			2013		
	SALES	OPERATING PROFIT	NET INCOME	SALES	OPERATING PROFIT	NET INCOME
CMI	19,828	1,146	612	19,795	735	321
DEFENDI ITALY	54,694	2,930	2,257	55,916	4,050	2,742
NUOVA STAR	27,793	449	95	25,121	271	40
SOMIPRESS GROUP	40,072	3,160	1,720	41,411	4,636	2,656
SABAF GROUP	138,003	14,091	8,998	136,337	13,175	8,338

No further information is available about Sabaf's competitors due to the difficulty in obtaining data.

LITIGATION

A lawsuit is pending, initiated against a competitor following an alleged patent infringement.

SABAF, Government and Society

INSTITUTIONAL RELATIONS

In line with its standard policies, Sabaf's dealings with the government and tax authorities are informed by the utmost transparency and honesty.

At local level, Sabaf has sought to establish an open dialogue with the various authorities to create harmonious industrial development. For this reason, Sabaf systematically provides Ospitaletto town council with copies of analyses relating to atmospheric emissions from its production plants.

CHARITY INITIATIVES AND DONATIONS

In 2015 donations totalled around €44,000 (€40,000 in 2014), and mainly supported local social and humanitarian initiatives.

LONG-DISTANCE ADOPTION

Sabaf supports the Associazione Volontari per il Servizio Internazionale (AVSI), an Italian non-profit NGO working on international development aid projects. The donations are earmarked for providing support to 20 children living in various countries in the world.

RELATIONS WITH UNIVERSITIES AND STUDENTS

Sabaf systematically organises company visits for groups of students and showcases CSR best practice during major conferences in various Italian cities.

RELATIONS WITH INDUSTRY ASSOCIATIONS

Sabaf is one of the founding members of CECED Italia, the association that develops and coordinates research in Italy, promoted at European level by CECED (European Committee of Domestic Equipment Manufacturers) with the associated scientific, legal and institutional implications in the household appliance sector.

Since 2014 SABAF S.p.A has been an associate of the Brescia Industrial Association (AIB), which is part of the Confindustria federation.

LITIGATION

There are no significant lawsuits pending with public organisations or other representatives of society.

SABAF and the environment

HEALTH AND SAFETY, ENVIRONMENT AND ENERGY POLICY

Programme and objectives

Protecting workers' health and safety, the environment, and ensuring the efficient and rational use of natural and energy resources are part of Sabaf's strategic commitments. In terms of the processes for the production of gas cooker components, for our organisation it is now an ongoing challenge to achieve labour standards that ensure the health and utmost safety of our staff and those who work on our behalf. An integral part of this challenge is reducing environmental impacts and minimising the use of natural resources and energy, starting from the product design stage and through the different stages of production, with a view to the entire operational life cycle of the product.

For this reason, Sabaf has adopted and applies an Integrated System for the Management of Health, Safety, the Environment and Energy, which - in combination with the other Management Systems at the company - provides an effective way to reduce risks, environmental impacts and energy use via the following means:

- Ensuring continued full compliance with current laws and regulations and other voluntary standards, using these proactively for ongoing EHS&En process monitoring.
- Assessing EHS&En aspects before entering into the design phase, process changes and purchasing goods and services.
- Preparing, disseminating and continually applying this Policy in order to engage and ensure the participation of all employees and contractors in achieving our EHS&En performance goals.

Sabaf is committed to pursuing the following objectives:

- Preventing pollution and minimising energy use by continuously improving its processes and products, designing them to maximise the benefits deriving from minimising their impacts on the environment and energy consumption.
- Pursuing efficiencies in the use of natural and energy resources in the production phase, especially as regards water and energy consumption.
- Reducing the quantity of waste produced and improving its quality in terms of hazardousness and reusability.

The environmental management system in place at the Ospitaletto plant (which accounts for around 80% of total Group production) has been ISO 14001 certified since 2003.

During 2015, Sabaf's Environmental Management System was constantly maintained and monitored to guarantee its correct implementation and compliance with the requirements of the standard.

As regards the audit conducted by third parties on the system, CSQ conducted its renewal audit at the headquarters at Ospitaletto (May 2015), confirming that the system is effectively applied.

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

In 2015 the Ospitaletto site was certified compliant with ISO 50001 as regards reducing environmental impacts and restricting the use of natural and energy resources.

DIALOGUE WITH ENVIRONMENTAL ASSOCIATIONS AND INSTITUTIONS

The Group has long promoted the dissemination of information about the lower environmental impact resulting from the use of gas in cooking instead of electricity. The use of gas to generate heat offers far higher yields than those that can be obtained with electric cooking appliances. In addition, there is worldwide demand for increased power and multiple cooking points (plates/burners) to cook food quickly. An increase in electric hobs would cause an increase in peak electricity consumption, typically around meal times, further increasing electricity demand which is already difficult to meet.

PROCESS INNOVATION AND ENVIRONMENTAL SUSTAINABILITY

Washing of metals

The production process for valves requires the washing of metals in several phases. Traditionally, the metals were washed using systems which use chlorine-based solvents. In 2013 Sabaf began to assess alternatives which could guarantee an equal or superior washing quality, while at the same time minimising the environmental impact and management costs. The solution identified involves inserting machinery into the production process; this machinery uses a washing system based on a modified alcohol, a solvent which can be re-distilled (and hence recycled).

With an investment of around €1,000,000, the replacement process resulted in the complete substitution of all of the Company's washing machinery. The environmental impact and management costs have essentially eliminated.

Product marking

Standards in force require products to be marked with a series of distinctive characteristics. Until now the printing has always been done using an ink-jet system: this system makes it possible to print just three lines, with a pre-set number of characters for each line, and with an annual management cost of around €60,000 for ink, solvents and maintenance. Sabaf has decided to opt for a fibre-optic laser marking system which makes it possible to print all the necessary characters on products, without any limitations. In the last three years, with an investment of €250,000, all the ink-jet systems have been replaced with fibre-optic laser marking systems, thereby eliminating the management costs.

PRODUCT INNOVATION AND ENVIRONMENTAL SUSTAINABILITY

Light alloy valves

The production of aluminium alloy valves offers several advantages over the production of brass valves: elimination of the hot moulding step required by brass, reduced lead content in the product, lower weight and consequently lower consumption for packaging and transport. The process to replace brass valves with light alloy valves continued in 2015. Light alloy valves now account for over 70% of the valves produced.

High-efficiency burners

For many years Sabaf has been a pioneer in presenting to the market burners which offer much higher yields than standard burners. After the launch of the Series III, AE and AEO, from 2012 Sabaf introduced a new family of high-efficiency burners, the HE burners, which achieve yields of up to 68%. The HE burners are also almost completely interchangeable with Series II burners. The DCC range of specialist burners was recently completed; these burners have energy efficiency of above 60%, the highest currently available on the market for burners with more than one ring of flame. High-efficiency burners already account for 13% of all burners produced.

ENVIRONMENTAL IMPACT

Materials used and product recyclability

Sabaf's main product lines – valves, thermostats and burners for domestic gas cooking appliances – feature high energy yields and optimal use of natural resources. The use of gas to generate heat offers far higher yields than those that can be obtained with electric cooking appliances.

Sabaf products are also easily recyclable, as they are made almost entirely of brass, aluminium alloys, copper and steel.

Sabaf has introduced in-house recycling of paper/cardboard, glass, cans and plastic. In 2015 recycling made it possible to recover 81,370 kg of paper, cardboard and plastic packaging.

MATERIALS USED	2015 CONSUMPTION (t)	2014 CONSUMPTION (t)
Brass	1,025	1,030
Aluminium alloys	7,431	7,405
Zamak	77	83
Steel	6,790	6,287

100% of the brass and around 65% of the aluminium alloys used are produced through scrap metal recycling; 35% of aluminium alloys and 100% of steel are produced from mineral sources.

The continued decrease in brass consumption was due to the gradual replacement of brass valves with light alloy valves.

Sabaf products fully meet the requirements of the 2003/95/EC directive (**the RoHS Directive**), which aims to restrict the use of hazardous substances, such as lead, in the production of electrical and electronic equipment. This category includes all household appliances, including gas-cooking appliances (which are equipped with electronic ignition devices).

In addition, Sabaf products are fully compliant with **Directive 2000/53/EC** (End of Life Vehicles), i.e. their heavy-metal content (lead, mercury, cadmium, and chromium 6) is lower than the limits set by the directive.

Under the **REACH Regulation** (Regulation No. 1907/2006 of 18 December 2006),

Sabaf S.p.A. is classed as a downstream user of chemicals. The products supplied by Sabaf are classed as items that do not release substances during normal use, therefore the substances contained in them do not need to be registered. Sabaf has contacted its suppliers to ensure that they comply fully with the REACH Regulation and to obtain confirmation of compliance with pre-registration and registration requirements for the chemicals used by them. Sabaf also constantly monitors new legislation derived from the REACH Regulation, in order to identify and manage any new requirements in this area.

Energy sources

ELECTRICITY	2015 CONSUMPTION (Mwh)	2014 CONSUMPTION (Mwh)
TOTAL	29,384	29,773

NATURAL GAS	2015 CONSUMPTION (m ³ X 1000)	2014 CONSUMPTION (m ³ X 1000)
TOTAL	3,376	3,120

Sabaf S.p.A. and Sabaf do Brasil use natural gas as an energy source for the die-casting of aluminium and for firing enamelled caps. Faringosi-Hinges does not use natural gas as an energy source in its production.

Indicator: Energy intensity

ENERGY INTENSITY	2015 CONSUMPTION	2014 CONSUMPTION
Kwh divided by revenue	0.470	0.459

The Energy Management System Audit

In 2015, Sabaf S.p.A. and Faringosi Hinges s.r.l. carried out an energy audit to gain in-depth knowledge of the energy profile of its activities and to identify and quantify opportunities for energy savings.

Several key parts of the energy audit of Sabaf S.p.A. are reproduced below.

MAIN ENERGY SOURCES USED

The main sources used are:

- electricity, for all electrically powered devices, whether or not used in the production process, accounts for 74% of the total energy requirement
- natural gas, linked to the operation of production facilities (foundry ovens, washing burners, enamelling furnaces) and utilities (heating), accounting for 26% of total energy requirements.

IMPROVEMENT OBJECTIVES

The Energy Audit identified a series of measures that can result in lower usage or reduced expenditure on energy supplies, which Sabaf has made one of its improvement objectives starting from 2016:

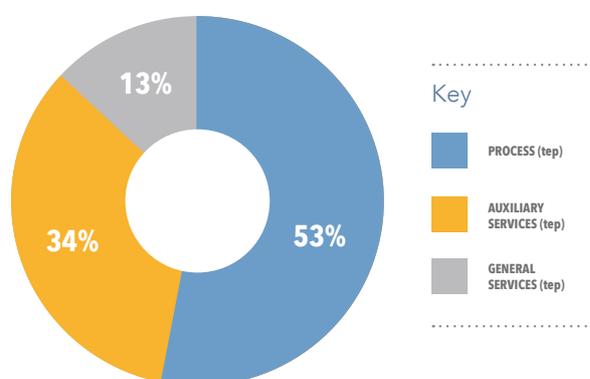
1. finding and repairing leaks of compressed air
2. adjusting combustion parameters for hot air generators
3. upgrading the lighting systems

ANALYSIS OF ENERGY REQUIREMENT BY USE

The production processes that have the greatest energy requirements are the foundry (54% of the process total) and enamelling (15% of the process total).

The energy required for auxiliary services is mainly attributable to the production of compressed air (70% of total auxiliary services) and the treatment plants for waste from the foundry and enamelling (20% of the total auxiliary services).

The energy required for general services is largely attributable to heating and lighting.



Water

WATER	CONSUMPTION 2015 (m ³)	CONSUMPTION 2014 (m ³)
Mains water	50,187	38,081
Groundwater	38,894	27,798
TOTAL	89,081	65,879

All water used in Group companies' manufacturing processes is channelled to disposal and therefore there are no industrial water discharges. The water used in die-casting and enamelling processes in Italy, recovered via a rainwater collection system or taken from groundwater, is treated in concentration plants that significantly reduce the quantities of water used and waste produced.

The increase in mains water usage is mainly attributable to higher production in Turkey. The increase in groundwater usage is a result of the lower rainfall in 2015 compared to 2014 and the consequent reduction in the amount of rainwater that could be used.

Waste

Trimings and waste from the manufacturing process are identified and collected separately for subsequent recycling or disposal. Sprue from aluminium die-casting is directly reused.

Waste for disposal and recycling is summarised below.

WASTE (METRIC TONS)	2015	2014
MUNICIPAL-TYPE WASTE	166	200
Non-hazardous (for disposal)	1,286	1,368
Non-hazardous (for recycling)	4,287	4,010
TOTAL NON-HAZARDOUS WASTE	5,573	5,378
Hazardous (for disposal)	1,531	1,478
Hazardous (for recycling)	865	896
TOTAL HAZARDOUS WASTE	2,396	2,374

No major spills occurred in 2015.

Atmospheric emissions

Most of the atmospheric emissions released by the Sabaf Group derive from activities defined as producing "negligible pollution".

- Sabaf S.p.A. operates three production processes:
 1. the production of burner components (injector-holder casings and flame spreaders) involves melting and subsequent pressure die-casting of aluminium alloy, sandblasting of pieces, a series of mechanical processes removing material, washing of some components, and assembly and testing. This production process releases insignificant amounts of oily and PERC (perchloroethylene) mists, as well as dust and carbon dioxide.
 2. the production of burner caps, in which steel is used as a raw material and subjected to blanking and coining. The semi-finished caps then undergo washing, sand blasting, and application and firing of enamel. The entire process generates dust.
 3. the production of valves and thermostats, in which the main raw materials are brass bars and casings (aluminium alloy for new-generation valves) and, to a much lesser extent, steel bars. The production cycle is divided into the following phases: (a) mechanical processing of pressed bars and bodies with removal of materials, (b) washing of semi-processed products and components so obtained, (c) finishing of the body/male coupling surfaces using diamond machine tools, and (d) assembly and final testing of the finished product. This process generates an insignificant amount of oily mists and PERC emissions.
- At Faringosi-Hinges the main material used to produce hinges is steel. This undergoes a series of mechanical and assembly processes that do not lead to any significant emissions.
- The entire burner production process is carried out at Sabaf do Brasil. Analysis of the internal process did not identify any significant emissions.
- The entire process for producing burner heads and the enamelling of burner caps is carried out at Sabaf Turkey. Analysis of the internal process did not identify any significant emissions.
- Sabaf China's operations consist of machining and assembly of burners. Emissions are entirely negligible.

The efficiency of purification systems is guaranteed through regular maintenance and periodic monitoring of all emissions. Monitoring carried out in 2014 and 2015 showed that all emissions were within the legal limits.

CO ₂ EMISSIONS (t) ¹⁷	2015	2014
Use of natural gas	6,600	6,102
Use of electricity	10,784	11,969
TOTAL CO₂ EMISSIONS	17,384	18,071

The use of methane gas to power the smelting furnaces leads to the release of NOX (nitrogen oxides) and SOX (sulphur oxides) into the atmosphere, although in insignificant quantities. The use of a relatively clean fuel such as natural gas means that Sabaf makes a negligible contribution to greenhouse gas emissions.

There are no emissions of the so-called greenhouse gases CH₄ (methane), N₂O (nitrogen dioxide), HFCs (hydrofluorocarbons), and SF₆ (sulphur hexafluoride). No substances that damage the ozone layer are currently used by Sabaf, with the exception of the refrigerant fluid (R22), which is used in air conditioning units in compliance with applicable regulations.

ENVIRONMENTAL INVESTMENTS

Current environmental spending

IN THOUSANDS OF EURO	2015	2014
Waste disposal	449	492
Advisory services	75	27
Emissions analysis	17	12
Training	6	0
Plant, equipment and materials	12	16
TOTAL	559	547

Environmental investments

IN THOUSANDS OF EURO	2015	2014
Plant, equipment and materials	650	465
TOTAL	650	465

Environmental investments in 2015 refer to the installation of three new washing systems, as part of the plan described above to replace all the washing systems.

LITIGATION

No lawsuits are currently pending with regard to environmental matters.

¹⁷ Calculations based on the following emissions factors: 402 g/kwh for electricity in 2014, 367 g/kwh for electricity in 2015 (source: TERNA), 1.956 x 1000 m3 for methane in 2014, 1.955 x 1000m3 for methane in 2015 (source: MINISTRY OF THE ENVIRONMENT).



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

Independent auditors' report on the social report

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

We have carried out a limited assurance engagement of social report for the year ended 31 December 2015 of the SABAF Group (the "Group"), consisting of the following sections of the Group's annual report at the same date:

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

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

Directors' responsibility for the social report

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

Independent auditors' responsibility

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

KPMG (Italia) è un'entità separata con status di società di diritto italiano. Società del gruppo KPMG è iscritta al Registro Imprese di Brescia, n. 01576010267. Direzione: Via Catedralia, 70, 25124 Brescia (BS).

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KPMG S.p.A. applies International Standard on Quality Control 1 (ISQC (Italia) 1) and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

We have complied 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.

The procedures we performed on the social report included inquiries, primarily of persons responsible for the preparation of information presented in the social report, documental analyses, recalculations and other evidence gathering procedures, as appropriate.

These procedures were related to the compliance with the principle for defining report content and quality, as articulated in the "G4 Sustainability Reporting Guidelines" and may be summarised as follows:

- comparing the information and data presented in the "Generated and distributed economic value" paragraph of the "Introduction to the Annual Report" section of the annual report to the corresponding financial information and data included in the Group's consolidated financial statements as at and for the year ended 31 December 2015, on which other auditors issued their report dated 30 March 2016 pursuant to articles 14 and 16 of Legislative decree no. 39 of 27 January 2010;
- holding interviews aimed at analysing the governance system and the process for managing the sustainable development issues relating to the Group's strategy and activities;
- analysing the reporting of significant matters process, specifically how these matters are identified and prioritised for the each stakeholder category and how the process outcome is validated internally;
- analysing how the processes underlying the generation, recording and management of quantitative data included in the social report operate. In particular, we have performed the following:
 - interviews and discussions with management personnel of SABAF S.p.A. and personnel of Faringosi-Hinges S.r.l., to gather information on the IT, accounting and reporting systems used in preparing the social report, and on the processes and internal control procedures used to gather, combine, process and transmit data and information to the office that prepares the social report;
 - sample-based analysis of documentation supporting the preparation of the social report to confirm the existence and adequacy of processes and that the internal controls correctly manage data and information in relation to the objectives described in the social report.
- analysing the compliance and overall consistency of the qualitative information included in the social report with the guidelines referred to herein in the "Directors' responsibility for the social report" paragraph;



SABAF Group
Independent auditors' report on the social report
31 December 2015

- analysing the stakeholder involvement process, in terms of methods used, by reading the minutes of the meetings or any other information available about the salient features identified;
- obtaining the representation letter signed by the legal representative of SABAF S.p.A. on the compliance of the social report with the guidelines indicated in the "Directors' responsibility for the social report" paragraph and on the reliability and completeness of the information and data contained therein.

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

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

Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the social report for the year ended 31 December 2015 of the SABAF Group has not been prepared, in all material respects, in accordance with the "G4 Sustainability Reporting Guidelines", issued in 2013 by GRI – Global Reporting Initiative, that are detailed in the "Methodology" section of the social report.

Brescia, 12 April 2016

KPMG S.p.A.

(signed on the original)

Paolo Andreasi
Director of Audit

GRI Content Index

KPMG S.p.A. has carried out a "limited assurance engagement" on the Sabaf 2015 Social Report and provides its overall conclusions therein. As far as the scope of activities and procedures are concerned, please refer to the Statement released by the independent auditor on pages 99-101.

GENERAL STANDARD DISCLOSURE	Indicator description	PAGE (o direct reference)	Principle of Global Compact	EXTERNAL ASSURANCE
STRATEGY AND ANALYSIS				
G4-1	Statement from the CEO and Board President	7		✓
G4-2	Key impacts, risks and opportunities	10, 27, 34-36, 49-53		✓
ORGANIZATIONAL PROFILE				
G4-3	Name of the organization	Before the cover page		✓
G4-4	Primary brands, products and services	32-33		✓
G4-5	Location of the headquarter	32, 151		✓
G4-6	Countries where the organization operates	32, 34-35		✓
G4-7	Nature of ownership and legal form	40, 86		✓
G4-8	Markets served	32, 34-35		✓
G4-9	Scale of the organization	14-18, 33-35		✓
G4-10	Total number of employees by employment contract and gender, region and employment type	62-63	6	✓
G4-11	Percentage of total employees covered by collective bargaining agreements	69	3	✓
G4-12	Description of the organization's supply chain	90-91		✓
G4-13	Significant changes	7-8		✓
G4-14	Precautionary approach or principle application modes	49-53		✓
G4-15	Endorsement of externally developed economic, environmental and social charters and principles	12, 40		✓
G4-16	Memberships in industry associations	94		✓
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES				
G4-17	List of entities included in the organization's consolidated financial statements and those non included in the sustainability report	8, 62		✓
G4-18	Process for defining the report content	8, 29		✓
G4-19	Material Aspects identified	10-11		✓
G4-20	For each material Aspect, report the Aspect Boundary within the organization	11		✓
G4-21	For each material Aspect, report the Aspect Boundary outside the organization	11		✓
G4-22	Effect of any restatements of information provided in previous reports, and the reasons for such restatements.	8		✓
G4-23	Significant changes from previous reporting periods	8		✓

GENERAL STANDARD DISCLOSURE	Indicator description	PAGE (o direct reference)	Principle of Global Compact	EXTERNAL ASSURANCE
STAKEHOLDER ENGAGEMENT				
G4-24	List of stakeholder groups engaged by the organization	29		✓
G4-25	Basis for identification and selection of stakeholders with whom to engage	29		✓
G4-26	Approach to stakeholder engagement	9, 29, 76, 89		✓
G4-27	Key topics and concerns that have been raised through stakeholder engagement and the related responses	9, 76-85, 89		✓
REPORT PROFILE				
G4-28	Reporting period	8		✓
G4-29	Date of most recent previous report	8		✓
G4-30	Reporting cycle	8		✓
G4-31	Contact point for questions regarding the report or its contents	135		✓
G4-32	GRI content index and the 'in accordance' option the organization has chosen	8, 102		✓
G4-33	External Assurance	99-101		✓
GOVERNANCE				
G4-34	Governance structure of the organization, including committees of the highest governance body	41-48, 120, 110-117		✓
G4-38	Composition of the highest governance body	41-48		✓
G4-39	Report whether the Chair of the highest governance body is also an executive officer	57		✓
ETHICS AND INTEGRITY				
G4-56	Organization's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics.	12-13, 54	10	✓

SPECIFIC STANDARD DISCLOSURES Material Aspects, DMA and Indicators	Indicator Description	PAGE NUMBER (o direct reference)	Principle of Global Compact	EXTERNAL ASSURANCE
CATEGORY: ECONOMIC				
Material aspect: Economic Performance				
G4-DMA		19		✓
G4-EC1	Direct economic value created and distributed	19		✓
Material aspect: Market Presence				
G4-DMA		7-9, 30-34		✓
G4-EC5	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation	66	6	✓

SPECIFIC STANDARD DISCLOSURES Material Aspects, DMA and Indicators	Indicator Description	PAGE NUMBER (o direct reference)	Principle of Global Compact	EXTERNAL ASSURANCE
CATEGORY: ENVIRONMENTAL				
Material aspect: Materials				
G4-DMA		7-9, 83		✓
G4-EN1	Materials used	83	7, 8	✓
G4-EN2	Recycled input materials	83	8	✓
Material aspect: Energy				
G4-DMA		7-9		✓
G4-EN3	Energy consumption within the organization	83	7, 8	✓
G4-EN5	Energy intensity	83	8	✓
Material aspect: Water				
G4-DMA		10-11, 97		✓
G4-EN8	Total water withdrawal by source	97	7, 8	✓
G4-EN9	Water sources significantly affected by withdrawal of water	Group business processes do not imply such water withdrawals which could significantly affect water sources balance	8	✓
G4-EN10	Percentage and total volume of water recycled and reused	97	8	✓
Material aspect: Emissions				
G4-DMA		10-11, 98		✓
G4-EN15	Direct greenhouse gas emissions	98	7, 8	✓
G4-EN16	Indirect greenhouse gas emissions	98	7, 8	✓
G4-EN20	Emissions of ozone-depleting substances	98	7, 8	✓
G4-EN21	NOx, SOx and other significant air emissions	98	7, 8	✓
Material aspect: Effluents and Waste				
G4-DMA		10-11, 97		✓
G4-EN22	Water discharge	97	8	✓
G4-EN23	Weight of waste and disposal method	97	8	✓
G4-EN24	Total number and volume of significant spills	97	8	✓
Material aspect: Products and Services				
G4-DMA		10-11, 96		✓
G4-EN27	Initiatives aimed at mitigation of environmental impacts of products and services	96	7, 8, 9	✓
Material aspect: Overall				
G4-DMA		10-11		✓
G4-EN31	Environmental protection expenditures and investments	98	7, 8, 9	✓

SPECIFIC STANDARD DISCLOSURES Material Aspects, DMA and Indicators	Indicator Description	PAGE NUMBER (o direct reference)	Principle of Global Compact	EXTERNAL ASSURANCE
CATEGORY: LABOR PRACTICES AND DECENT WORK				
Material aspect: Employment				
G4-DMA		10-11, 62		✓
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	63-65	6	✓
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	69, 196-197		✓
G4-LA3	Return to work and retention rates after parental leave	72	6	✓
Material aspect: Occupational Health and Safety				
G4-DMA		10-11, 72-73		✓
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities	15, 72-73		✓
G4-LA7	Workers with high incidence or risk of diseases related to their occupation	73		✓
G4-LA8	Health and safety topics covered in formal agreements with trade unions	74		✓
Material aspect: Training and Education				
G4-DMA		10-11, 67		✓
G4-LA9	Employees training	67	6	✓
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender	69	6	✓
Material aspect: Diversity and Equal Opportunity				
G4-DMA		10-11, 68		✓
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	43-44, 68	6	✓
Material aspect: Equal Remuneration for Women and Men				
G4-DMA		10-11, 70		✓
G4-LA13	Ratio of basic salary and remuneration of women to men by employee category	70	6	✓
Material aspect: Supplier Assessment for Labor Practices				
G4-DMA		10-11, 90		✓
G4-LA14	Percentage of new suppliers that were screened using labor practices criteria	90		✓

SPECIFIC STANDARD DISCLOSURES Material Aspects, DMA and Indicators	Indicator Description	PAGE NUMBER (o direct reference)	Principle of Global Compact	EXTERNAL ASSURANCE
CATEGORY: HUMAN RIGHTS				
Material aspect: Non-discrimination				
G4-DMA		10-11, 62, 67		✓
G4-HR3	Number of incidents of discrimination and corrective actions taken	No incidents of discrimination have been detected	6	✓
Material aspect: Freedom of Association and Collective Bargaining				
G4-DMA		10-11		✓
G4-HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be at significant risk	62, 90	3	✓
Material aspect: Child Labor				
G4-DMA		10-11		✓
G4-HR5	Operations and suppliers identified as having significant risk for incidents of child labor	62, 90	5	✓
Material aspect: Forced or Compulsory Labor				
G4-DMA		10-11		✓
G4-HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labor	62, 90	4	✓
Material aspect: Assessment				
G4-DMA		10-11		✓
G4-HR9	otal number and percentage of operations that have been subject to human rights reviews or impact assessments	62, 90	1	✓
Material aspect: Supplier Human Rights Assessment				
G4-DMA		10-11		✓
G4-HR10	Percentage of new suppliers that were screened using human rights criteria	12, 90	2	✓
CATEGORY: PRODUCT RESPONSIBILITY				
Material aspect: Customer Health and Safety				
G4-DMA		10-11, 88		✓
G4-PR1	Health and safety impacts of products and services	88-89		✓
Material aspect: Product and Service Labeling				
G4-DMA		10-11, 89		✓
G4-PR5	Results of surveys measuring customer satisfaction	89		✓

