



**2016**  
ANNUAL  
REPORT

 **SABAF**



# CREATIVE CONCEPT

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The Sabaf Group has once again, in 2016, presented itself as the industry's world leader thanks to the use of advanced technologies and increasingly cutting-edge, interconnected machinery.

This scenario engendered the concept that accompanies the Annual Report this year: **a celebration of the importance of the human figure in the era of the fourth industrial generation.**

At the heart of **industry 4.0** there is just one element that prevents the production process from becoming just a sequence of cold and standardised steps. This element is Man who, through the qualities intrinsic in his nature, thus not replicable by machines, lays the foundations for achieving objectives and the continuous improvement of the same.

These qualities, conceived as keywords, accompany the reader, cover to cover, until the final manifesto in which they are revealed to be fundamental to the understanding and completion of the text, just as the presence of Man is necessary in the company processes.

*"I cross out words so you will see them more.  
The fact that they are obscured makes you want to read them."*

*Jean-Michel Basquiat*

A message of integration and complementarity between man and the machine expressed by the detail of the hands of Sabaf workers who operate together with the machinery. The two elements merge into a single subject in black and white with particularly contrasting tones, giving you the feeling that the subjects are drawn directly by the light which brings out the details by the shadows it creates.

On the cover, the human intervention becomes necessary, thanks to the special "heat-sensitive" printing technique used, to reveal a fundamental detail, the claim of the company in which human passion and technological research coexist and progress.

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# LETTER TO SHAREHOLDERS FROM THE MANAGING DIRECTOR ALBERTO BARTOLI

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*Dear Shareholders and Partners,*

I hereby write my fifth and final letter as managing director of the Sabaf Group. In fact, in mid-January, with quite a degree of sadness, I decided, after 23 years of working at this Company, to leave my role, one year in advance of its natural expiry.

I joined, as administrative and financial director in 1994, what was then a small family-based company, but which was already set to become bigger and more professionally managed.

Casting my mind back over everything that has been achieved since then (the constant growth in turnover whilst maintaining a substantial margin, the 1998 Stock Exchange listing, the development of firstly the Sustainability Report and then the integrated report, the obtaining of certifications, the awards for best budgets, the foreign offices), I can proudly say that few companies can boast of such outstanding results, not so much and not only in terms of numbers, but also and above all in terms of values, of the concentration of knowledge and of the will to meet the continuous challenges that the competitive context imposes. Now that I am leaving, I can say emphatically that working at Sabaf is a privilege, which is sometimes not even fully understood by the very people working within the company.

These results have been possible thanks to the governance introduced, which has ensured that the company was run with managerial criteria, surpassing the narrow vision of family capitalism that sees, at all costs, the shareholders involved in key roles, even contrary to meritocratic principles.

In the past five years, the years of my leadership, the market challenges have been increasingly demanding. We have reacted to them by intently taking the path of internationalisation. In addition to the main headquarters in Ospitaletto, we now have two excellent production hubs in Brazil and in Turkey, which will become increasingly important in the future, and in which the continuous improvement of product quality and the reduction of costs has already, in 2016, produced excellent results. I hope that, in both countries, this path can be continued.

The progression towards a digital factory began some time ago at Sabaf, thanks to constant investments in Research and Development. Here is the new paradigm, which is based upon production that will use interconnected machines linked to the internet, able to achieve increasing flexibility, to respond in faster timescales

and with high quality standards to the cycles of an increasingly uncertain market.

We recently also introduced into the company the principles of Lean Manufacturing whose objective is continuous, collective and individual improvement. The new guiding principle is the direct participation and responsibility of every single person, making everyone active participants in the business processes, with respect to which each individual must be proactive, identifying any wastage, putting forward more economic and functional solutions and possible opportunities for improvement. People at Sabaf are responding very enthusiastically to this new challenge, because continuous improvement is inherent to this company's culture.

Finally, I am convinced that the Group's path of growth will inevitably involve some new acquisitions, perhaps in sectors adjacent to our own, on the model of what has been done with A.R.C., the Padua company of which we acquired 70% in 2016.

On the other hand, I do have one regret, which is linked to China. The efforts made have been significant, but we are still on the fringes of the market that has the highest potential in the world, whose penetration remains one of the absolute priorities for a company like Sabaf which is striving to be an international player.

I believe that the 2016 results are very satisfying. In a year in which the market of domestic appliances has greatly shrunk, the Sabaf group has managed even to increase its net margins. The year 2017 has begun positively and there are many signs pointing towards it being a year of very satisfactory results.

Abiding by the principles of Adriano Olivetti, I have tried in my own small way to make people aware of the work by people at Sabaf. I believe that I have succeeded a little and I hope you all to continue working with passion, always putting the company first. This is the only way to achieve our ambitious professional and personal goals.

*Thanks to you all.  
Alberto Bartoli*

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# INTRODUCTION TO ANNUAL REPORT

## Sabaf's path towards Integrated Reporting

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

In confirmation of the significance of integrated reporting as a new and emerging model of corporate reporting, works have continued at international level on the issue. In fact, in December 2013, "The International <IR> Framework" was presented by the International Integrated Reporting Council (IIRC), which defines the guidelines to be followed when preparing an Integrated Report and the key contents of the same. Integrated Reporting is a major evolution of company reporting, increasingly focused on creating greater cohesion and efficiency in the reporting process and the adoption of "integrated thinking".

Sabaf, one of the first companies internationally to grasp the trend of integrated reporting, intends to continue along this path, taking inspiration from the contents of the international Framework, in the awareness that integrated, complete and transparent information is able to benefit both companies themselves, through better understanding of the strategy and greater internal cohesion, and the community of

investors, which can thus clearly understand the link between strategy, governance and company performances.

Sabaf also adopts a virtuous approach in relation to compliance with new regulatory obligations on non-financial reporting. On 30 December 2016, Italian Legislative Decree no. 254 entered into force which, in implementation of Directive 2014/95/EU on the disclosure of non-financial information and diversity information, requires public interest bodies to report all information relevant to the activity performed by the company and their impacts starting from annual periods beginning on 1 January 2017.

In particular, companies must provide information on the management model, policies and risks relating to aspects such as diversity, environment, society, human rights, staff and bribery, also reporting the performance indicators of the same. Sabaf, in line with its characteristic pioneering spirit, is assessing the need to define or update the existing policies and procedures to guarantee compliance with the requirements of the Decree. Moreover, the Group already provides in its Annual Report almost all the information required by the new regulation.

## Methodological note

Sections **1 – Business Model and Strategic Approach**, **2 – International Dimension and Relevant Markets** and **4 – Social and Environmental Sustainability** constitute the sustainability report at 31 December 2016, prepared in accordance with the Sustainability Reporting Guidelines G4 defined by the Global Reporting Initiative (GRI) in 2013, and they include the indicators required by the "core" reporting option.

The sustainability report also makes reference to the AA 1000 standards issued by AccountAbility, as regards the social reporting process and dialogue with stakeholders. In line with previous years, the process of defining the contents and determining materiality was based upon the principles laid down by the GRI (materiality, stakeholder inclusiveness, sustainability context, completeness, comparability, accuracy, timeliness, clarity, reliability and balance).

The reporting perimeter of the sustainability report is the same as the consolidated financial statements, with the sole exception of A.R.C. s.r.l., a company whose control was acquired by the Group in 2016. That company fell within the perimeter of the consolidated financial statements from 1 July 2016, but it has not been included in the reporting perimeter of the sustainability report as all information required was not yet available at the preparation date. Extending the reporting perimeter to A.R.C. would not have had a significant impact, in view of its small size (2016 sales of 5.1 million Euro, 18 employees in late 2016) compared to the Sabaf Group.

Any further exceptions are clearly disclosed in the document.

Section **3 – Governance, Risk Management, Compliance and Remuneration** sets out significant information on the corporate governance structure and the corporate risk management system.

Sections **5 – Management Report**, **6 – Consolidated Financial Statements** and **7 – Financial Statements of Sabaf S.p.A. constitute the Annual Financial Report at 31 December 2016.**

Finally, the **Remuneration Report** is included, as prepared in accordance with Article 123-ter of the Consolidated Law on Finance.

This year, once again, the "non-financial indicators" include results achieved in the management and development of intangible capital, the main driver that enables monitoring of the capacity of the business strategy to create value in a medium to long-term perspective.

In order to guarantee the reliability of the information set out in the Sustainability Report, we have included directly measurable quantities, limiting the use of estimates as much as possible. The calculations are based upon the best available information or on sample surveys. Estimated quantities are clearly indicated as such.

The Annual Report was approved by the Board of Directors on 20 March 2017 and presented to the shareholders' meeting on 27 April 2017.

# Materiality analysis

The GRI-G4 Guidelines require the contents of the Sustainability Report to be defined on the basis of a materiality analysis. Sabaf, in compliance with the requirements of GRI-G4, launched as early as 2014, with the involvement of company management, a process of identification of the material (relevant) issues to be included in the Annual Report, i.e. those issues:

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

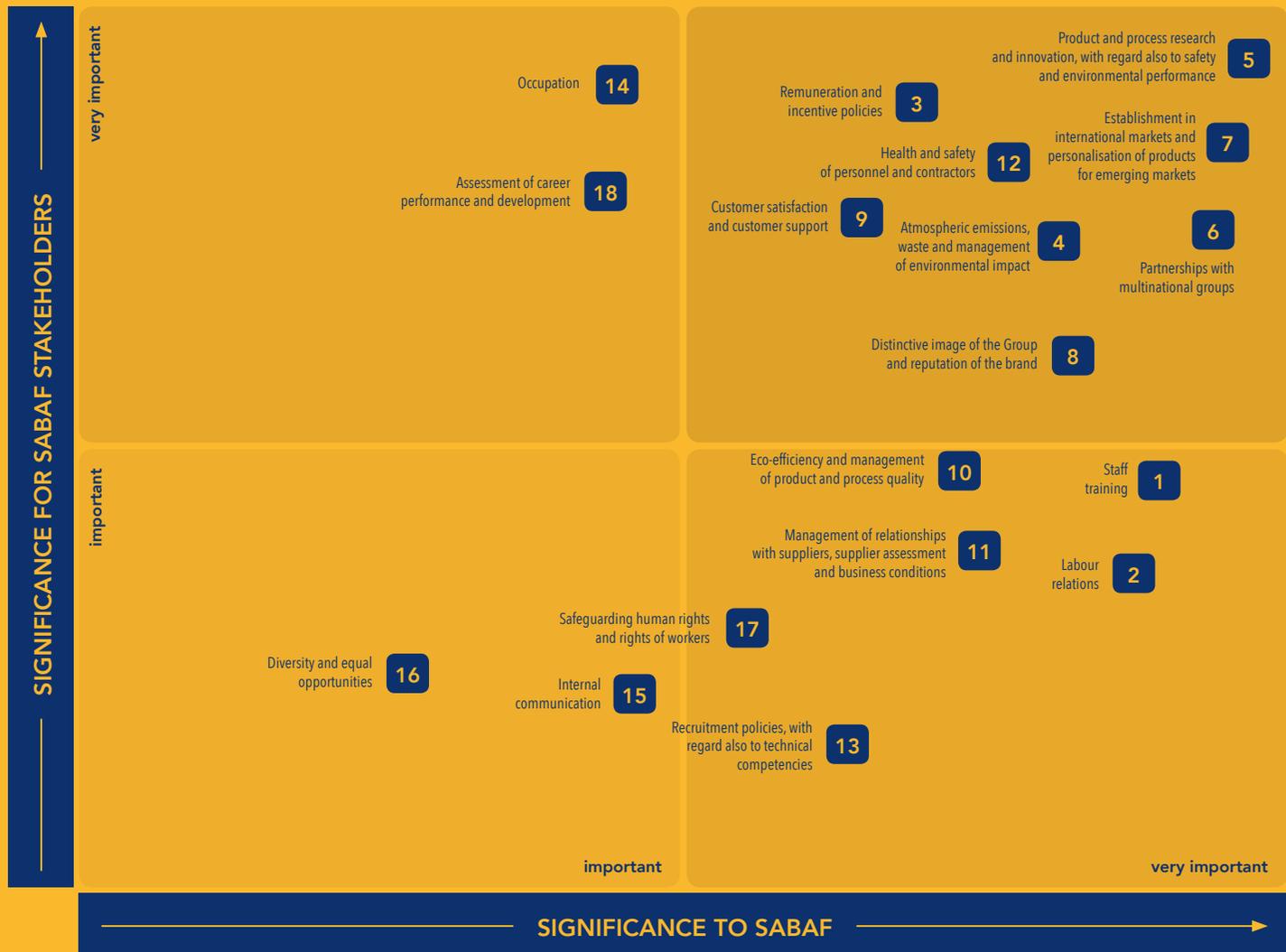
In line with this perspective, materiality considers not only the point of view of the organisation but also that of the stakeholders.

The issues were confirmed as those most significant also for 2016.

It is noted that in defining the material issues, the following aspects are considered pre-conditions for operating and are therefore considered very significant both for Sabaf and for the stakeholders:

- a) creation and distribution of sustainable value**
- b) a transparent and effective governance system to support the business**
- c) constant attention to compliance with the law in the conduct of its activities**

## 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 customer 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 adheres to the code of conduct of CECED Italy, an association that represents over 100 companies in the domestic appliances industry.

The **CECED Code of Conduct** asserts the commitment of the European domestic appliances industry in sustaining **ethical** and fair **behaviour**. The Code aims to promote correct and sustainable standards in **working conditions** and in **environmental protection** to sustain fair competition on the global markets.

Its members, the manufacturers, **voluntarily** undertake to create decent working conditions, which involve the respect of common standards relating to **minimum age, working hours, health and safety**, respect of **freedom of association** and **collective bargaining**, along with compliance with **environmental** rules. The signatory companies also undertake to raise the **awareness** of their **suppliers** with respect to the principles of the Code of Conduct and encourage them to pursue them. They also ask that, through the latter, the same principles are suggested to the entire supply chain.

The Sabaf Annual Report also represents, in that sense, the tool through which the Group reports year by year on the practical implementation of the principles of the Code and on the progress achieved, as specifically required from the member companies.



## Sabaf adheres to the Global Compact

Sabaf, in April 2004, formally joined Global Compact, the United Nations initiative for companies that are committed to supporting and promoting ten universally accepted principles on human rights, labour rights, environmental protection and anti-corruption. With the publication of the 2015 Annual Report, we renew our commitment to making the Global Compact and its principles an integral part of our strategy, culture and daily operations and we also undertake explicitly to declare this commitment to all employees, partners, customers and the public in general.

The Annual Report describes in detail the actions undertaken by the Sabaf Group in support of the ten principles; the references are contained 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 Global Compact 10 principles

## Human rights

### PRINCIPLE I

BUSINESSES SHOULD SUPPORT AND RESPECT THE PROTECTION OF INTERNATIONALLY PROCLAIMED HUMAN RIGHTS; AND

### PRINCIPLE II

MAKE SURE THAT THEY ARE NOT, EVEN INDIRECTLY, COMPLICIT IN HUMAN RIGHTS ABUSES.

## Labour

### PRINCIPLE III

BUSINESSES SHOULD UPHOLD THE FREEDOM OF ASSOCIATION AND THE EFFECTIVE RECOGNITION OF THE RIGHT TO COLLECTIVE BARGAINING.

### PRINCIPLE IV

THE ELIMINATION OF ALL FORMS OF FORCED AND COMPULSORY LABOUR.

### PRINCIPLE V

THE EFFECTIVE ABOLITION OF CHILD LABOUR.

### PRINCIPLE VI

THE ELIMINATION OF DISCRIMINATION IN RESPECT OF EMPLOYMENT AND OCCUPATION.

## Environment

### PRINCIPLE VII

BUSINESSES SHOULD SUPPORT A PRECAUTIONARY APPROACH TO ENVIRONMENTAL CHALLENGES AND

### PRINCIPLE VIII

UNDERTAKE INITIATIVES TO PROMOTE GREATER ENVIRONMENTAL RESPONSIBILITY; AND

### PRINCIPLE IX

ENCOURAGE THE DEVELOPMENT AND DIFFUSION OF ENVIRONMENTALLY FRIENDLY TECHNOLOGIES.

## Anti-Corruption

### PRINCIPLE X

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

# Key Performance Indicators in brief (KPI)

## ECONOMIC CAPITAL

		2016	2015	2014
REVENUES FROM SALES	€/000	130,978	138,003	136,337
GROSS OPERATING PROFIT (EBITDA)	€/000	25,365	26,172	25,952
OPERATING PROFIT (EBIT)	€/000	12,530	14,091	13,175
PRE-TAX PROFIT	€/000	12,446	13,474	12,157
NET PROFIT	€/000	9,009	8,998	8,338
WORKING CAPITAL	€/000	46,084	48,163	45,844
INVESTED CAPITAL	€/000	135,767	136,948	137,671
SHAREHOLDERS' EQUITY	€/000	112,309	111,040	110,738
NET DEBT	€/000	23,458	25,908	26,933
PROFITABILITY OF INVESTED CAPITAL (EBIT/INVESTED CAPITAL)	%	9.2	10.3	9.6
DIVIDENDS PAID	€/000	5,467	4,613	16,146 <sup>1</sup>

<sup>1</sup> On 12 November 2014 the shareholders were paid an extraordinary dividend of €1.00 per shares (total dividends paid of 11,533,000 Euro).

## NET PROFIT

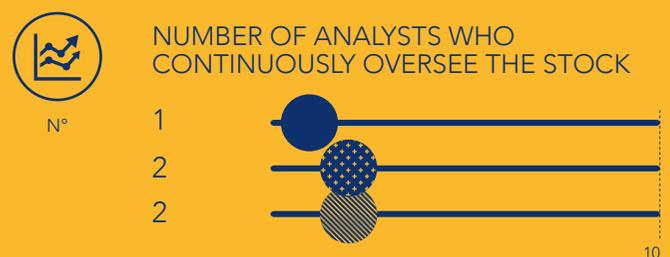
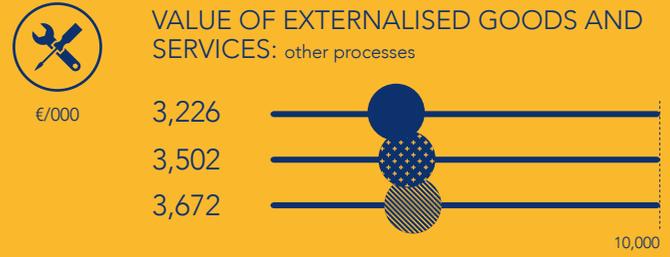
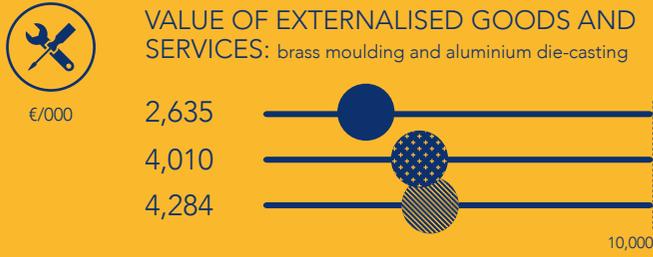
€/000



## HUMAN CAPITAL

 <b>AVERAGE AGE OF STAFF</b> <small>(sum of ages of employees/total employees at 31/12)</small> YEARS		 <b>EDUCATION LEVEL</b> <small>(number of graduates/total employees at 31/12)</small> %		 <b>EXITING TURNOVER</b> <small>(resigned and dismissed employees/total employees at 31/12)</small> %		 <b>TRAINING HOURS PER EMPLOYEE</b> <small>(training hours/average employees)</small> HOURS	
38.6	57.2	15.4	8.7	15.7	2016		
37.7	55.7	25.1	18.9	17.5	2015		
37.2	54.4	11.9	20	14.4	2014		
 <b>TRAINING INVESTMENTS/TURNOVER</b> %		 <b>HOURS OF STRIKES FOR INTERNAL REASONS</b> N°		 <b>TOTAL EMPLOYEES</b> N°    %		 <b>SICKNESS RATE</b> <small>(sickness hours/total workable hours)</small> %	
0.23	0	736	65.5	34.5	3.28	2016	
0.33	0	759	65.1	34.9	2.93	2015	
0.31	0	726	64.9	35.1	2.88	2014	
 <b>ACCIDENT FREQUENCY RATE</b> <small>(number of accidents - excluding commuting accidents - x 1,000,000/total hours worked)</small>		 <b>ACCIDENT SEVERITY RATE</b> <small>(days of absenc - excluding commuting accidents - x 1,000/total hours worked)</small>		 <b>JOBS CREATED (lost)</b> N°			
9.21	0.04	(23)	2016				
13.73	0.40	33	2015				
11.08	0.39	(4)	2014				

## RELATIONAL CAPITAL





CASES BROUGHT AGAINST THE GROUP COMPANIES



PERCENTAGE OF AMOUNT OF SUPPLIERS IN PROVINCE OF BRESCIA

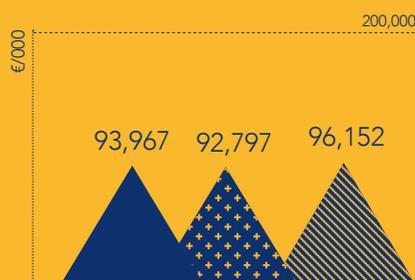


DONATIONS/EARNINGS



## PRODUCTION CAPITAL

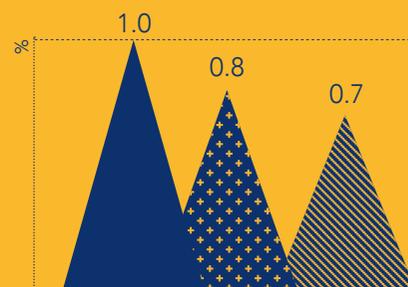
FIXED CAPITAL



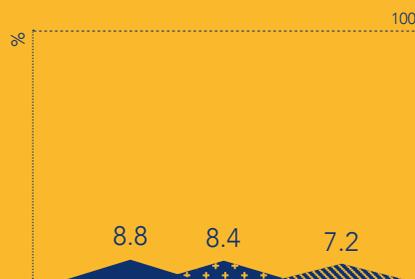
NET TOTAL INVESTMENTS



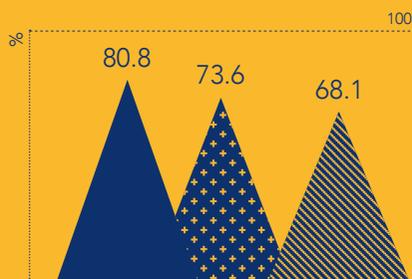
BUDGET (investments + current expenses) IT/TURNOVER



MATERIAL INVESTMENTS/ TURNOVER



QUANTITY OF SALES OF LIGHT ALLOY TAPS ON TOTAL TAPS AND THERMOSTATS



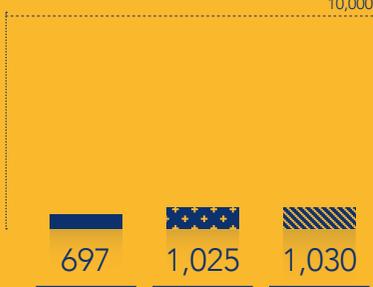
QUANTITY OF SALES OF HIGH ENERGY EFFICIENCY BURNERS ON TOTAL BURNERS



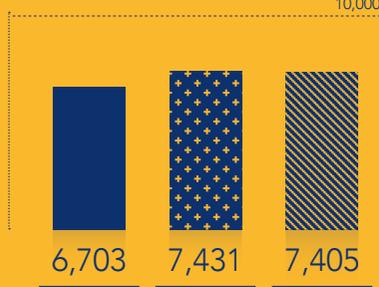
## ENVIRONMENTAL CAPITAL

MATERIALS USED (t)

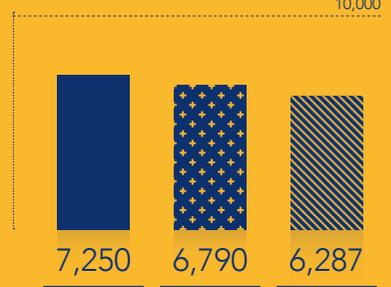
BRASS



ALUMINIUM ALLOYS

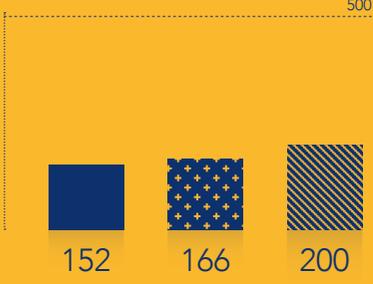


STEEL

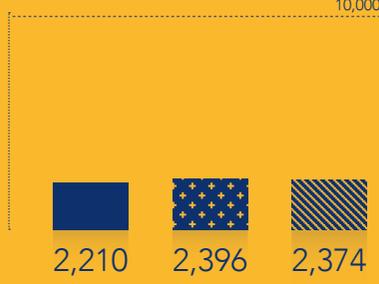


WASTE (t)

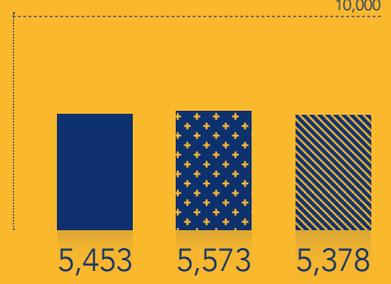
URBAN



HAZARDOUS WASTE



NON-HAZARDOUS WASTE



METHANE CONSUMPTION

m<sup>3</sup>x000



ELECTRICITY CONSUMPTION

MWh



CO<sub>2</sub> EMISSIONS

t



CURRENT ENVIRONMENTAL COSTS/TURNOVER AT 31/12

%



ENVIRONMENTAL INVESTMENTS/TURNOVER AT 31/12

%



INCIDENCE OF HAZARDOUS WASTE  
(kg hazardous waste / total die-cast production)

%



Key



## INTELLECTUAL CAPITAL

		2016	2015	2014	
	CAPITALISED INVESTMENTS IN RESEARCH AND DEVELOPMENT	€/000	231	297	341
	HOURS SPENT DEVELOPING NEW PRODUCTS/HOURS WORKED	%	1.5	1.4	1.8
	HOURS SPENT ON PROCESS ENGINEERING/HOURS WORKED (hours spent on jobs for construction of new machines for new products or to increase production capacity/total hours worked)	%	2.3	3.0	2.0
	INTANGIBLE INVESTMENTS/TURNOVER	%	0.4	0.6	0.5
	CURRENT QUALITY COSTS/TURNOVER	%	0.24	0.19	0.11
	INVESTMENTS FOR QUALITY/TURNOVER	%	0.10	0.05	0.08
	VALUES OF WASTE/TURNOVER (production waste/turnover)	%	0.87	1.22	1.25
	INCIDENCE OF QUALITY COSTS/TURNOVER (production waste + charges and returns from customers/turnover)	%	0.96	1.80	1.31
	NUMBER OF SAMPLES FOR CUSTOMERS	N°	1,154	1,069	1,143
	NUMBER OF CODES PROVIDED TO TOP 10 CUSTOMERS	N°	2,303	2,278	2,158

# Economic Value Generated and Distributed

Set out below is an analysis of the determination and distribution of economic value between the stakeholders, prepared in accordance with GRI guidelines.

The table was prepared distinguishing three levels of economic value. That generated, that distributed and that retained by the Group. Economic value represents the total wealth created by Sabaf, which is subsequently distributed between the different stakeholders: suppliers (operating costs), collaborators, lenders, shareholders, public administration and society (external donations).

THOUSANDS OF EURO	2016	2015	VARIATION
<b>ECONOMIC VALUE GENERATED BY GROUP</b>	<b>134,937</b>	<b>142,648</b>	<b>(7,711)</b>
Revenues	130,978	138,003	(7,025)
Other income	2,752	3,689	(937)
Financial income	101	67	34
Adjustments of value	842	1,230	(388)
Write-down of receivables	(189)	(356)	167
Exchange rate differences	435	(89)	524
Income/expenses from sale of tangible and intangible assets	18	104	(86)
<b>ECONOMIC VALUE DISTRIBUTED BY GROUP</b>	<b>118,396</b>	<b>126,098</b>	<b>(7,702)</b>
Remuneration of suppliers	76,809	83,844	(7,035)
<i>of which for environmental costs</i>	559	559	0
Remuneration of collaborators	32,112	32,526	(414)
Remuneration of lenders	621	596	25
Remuneration of shareholders <sup>2</sup>	5,467	4,613	854
Remuneration of public administration <sup>3</sup>	3,351	4,475	(1,124)
External donations	36	44	(8)
<b>ECONOMIC VALUE RETAINED BY GROUP</b>	<b>16,541</b>	<b>16,550</b>	<b>(9)</b>
Amortisations	12,853	12,185	668
Provisioning	127	49	78
Use of provisions	(67)	(69)	2
Reserves	3,628	4,385	(757)

<sup>2</sup> The amount is estimated based upon the proposed dividend.

<sup>3</sup> This includes deferred taxes.



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# CHAPTER 1

BUSINESS  
MODEL AND  
STRATEGIC  
APPROACH

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## SABAF 4.0

"Industry 4.0" means the fourth industrial revolution, i.e. the one which will lead to production almost entirely based upon the use of intelligent machines, interconnected and connected to the internet.

These machines, however, are not able to work alone: the more powerful data calculation and storage capacity will go hand in hand with better efficiency in drawing value from the same. Currently, only 1% of the data collected is used by businesses to perfect their processes based upon available information.

For us, as we have already, for about a decade, been on the path towards industry 4.0, through the use of robots and the capacity of the different work phases to intercommunicate, the new frontier consists of achieving greater flexibility, to respond increasingly quickly and with high quality

standards to the cycles of an increasingly uncertain market.

Our aim is to make available and usable in real time the data deriving from these integrations to the people directly involved in the processes, **because it is only human knowledge that can guarantee the real 4.0 revolution**, particularly in a vertically-structured and integrated company like Sabaf. We must learn to use everything to the best possible extent to draw from it better performances, saving time, waste, costs and energy.

We must all become the minds of new and powerful processes. Sabaf's knowledge, its history, tradition, expertise and the new frontier of work.

This is what "Industry 4.0" means for us.

## Sabaf and lean philosophy

A Japanese model, *lean production*, total quality. These are the formulas with which the manufacturing industry is attempting to keep in step with the times, the global challenges that make the market uncertain and the competitive benefits not forever captured.

**Sabaf has long been oriented towards the philosophy of continuous improvement and it applies, in its factory as in its office activities, numerous techniques typical of *lean manufacturing* and *lean office*.**

It is a necessary path so as not to miss out on market shares in a situation made complicated by the difficult economic period, not only for the domestic appliances industry.

We also know that continuous improvement is an objective that concerns us all, at every level. If we want to remain in step with the times, everyone must strive to **do everything excellently that they already know how to do well**. Everyone is invited to bring out the skills they possess and to share with others their experience and knowledge acquired in the field.

**We know that every resource that is poorly used or unused is a wasted resource**; this means energy, time, people, intelligence, raw materials.

Finally, we know that continuous improvement means the **willingness of people to change**, as Charles Darwin taught us *it is not*

*the strongest or most intelligent species that survives, but the one that adapts best to change.*

To make more structured and to continue to support this path, **in 2016 an ambitious training programme was launched** on the topic of lean philosophy and lean production, which we called **"The path of excellence"**.

This involved, first and foremost, all the managers, who underwent a 32 hour training course, focused mainly on developing human skills (the search for excellence as an opportunity for human and professional growth). A second phase of the training path, begun in early 2017, is being provided to almost 200 people, engaged both in office and production activities.

The initial feedback has been extremely positive; people have welcomed the initiative enthusiastically and shown a willingness and desire to get involved. Any outside observer would be surprised: it is well-known just how strong the resistance to change is in some organisations and how much scepticism can be met when faced with innovations. But there are those, like us, **who have grown up with the traditional passion of "doing well", typical of Brescia, a fundamental characteristic of our DNA, in further confirmation of the validity of the human factor at Sabaf, the true strength on which to build our future.**

# BUSINESS MODEL

In line 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 features of the Sabaf model.



## BUSINESS APPROACH

Innovation, human resource development and continuous learning

Quality, internal and external safety, eco-friendliness

+

Internationalisation

Sustainability

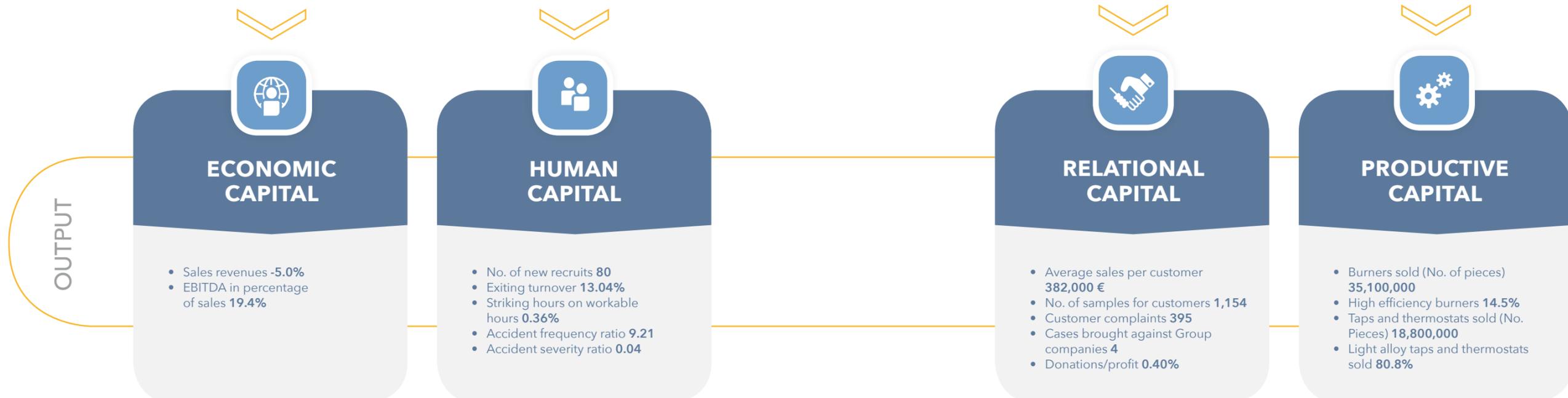
## DISTINCTIVE FACTORS

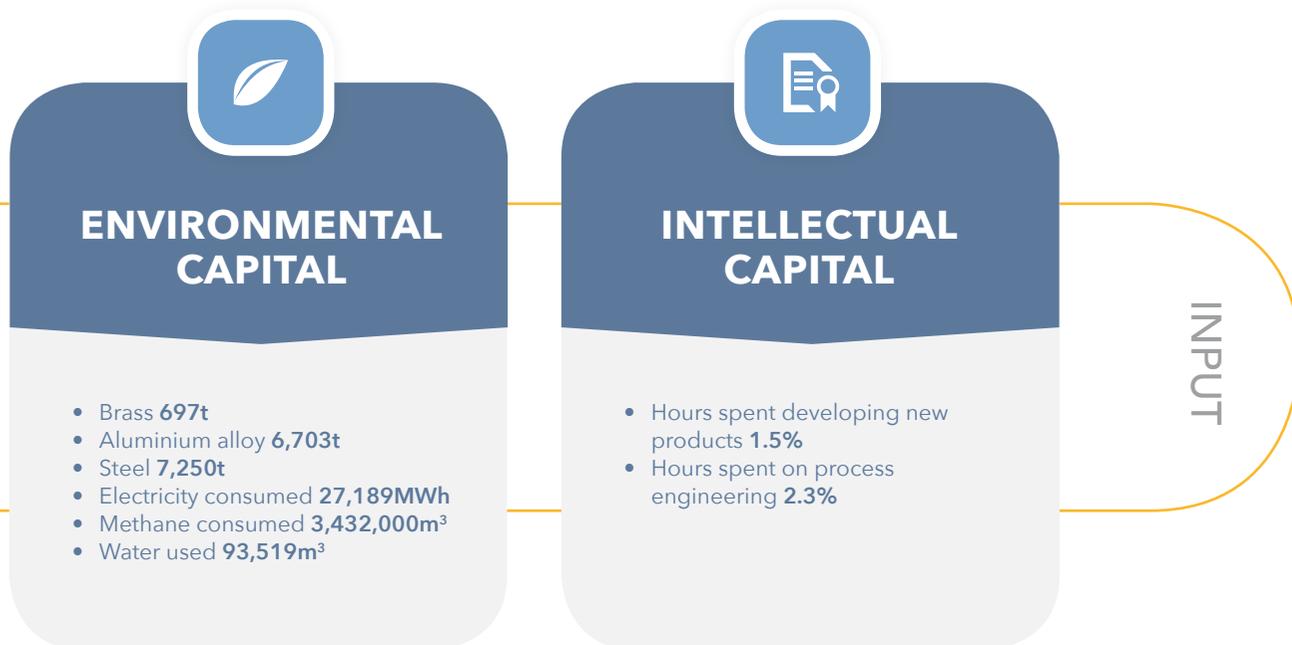
Internal and vertical production of:

components and products

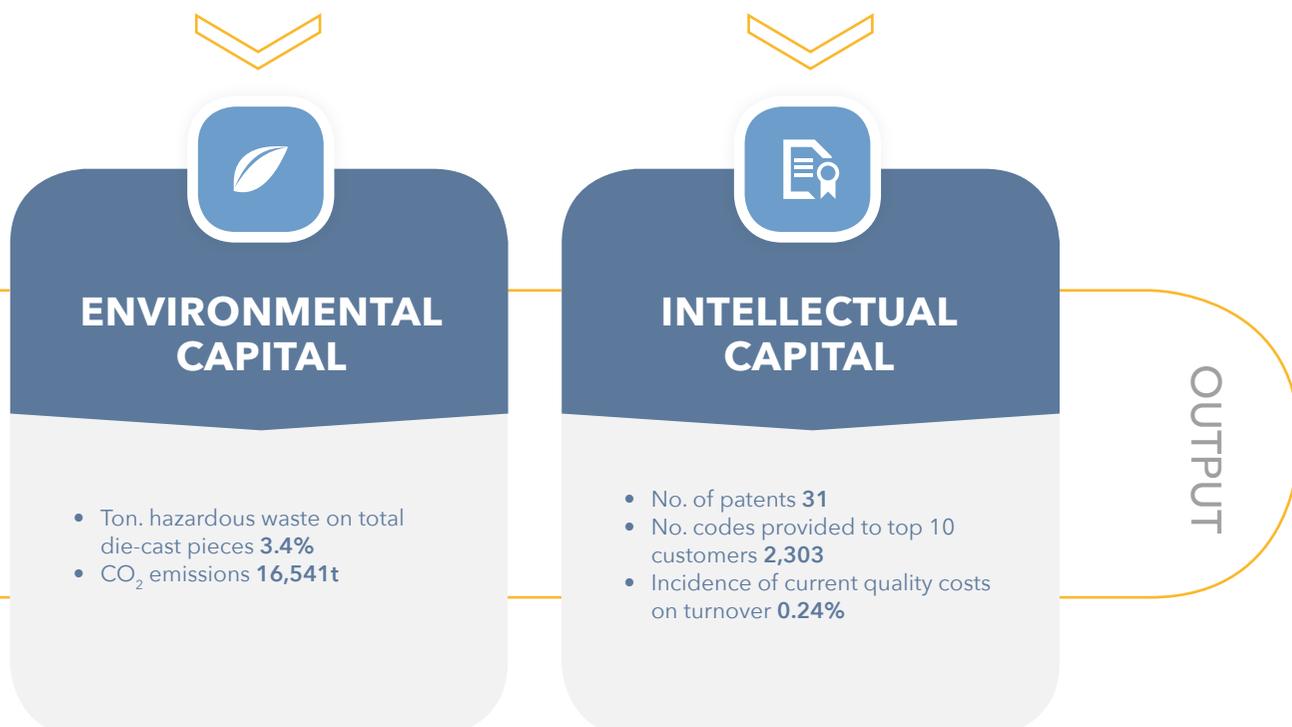
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machinery, tools, and moulds based upon specific know-how





**PRODUCTS**



## Strategic approach and value creation



## Values, vision and mission

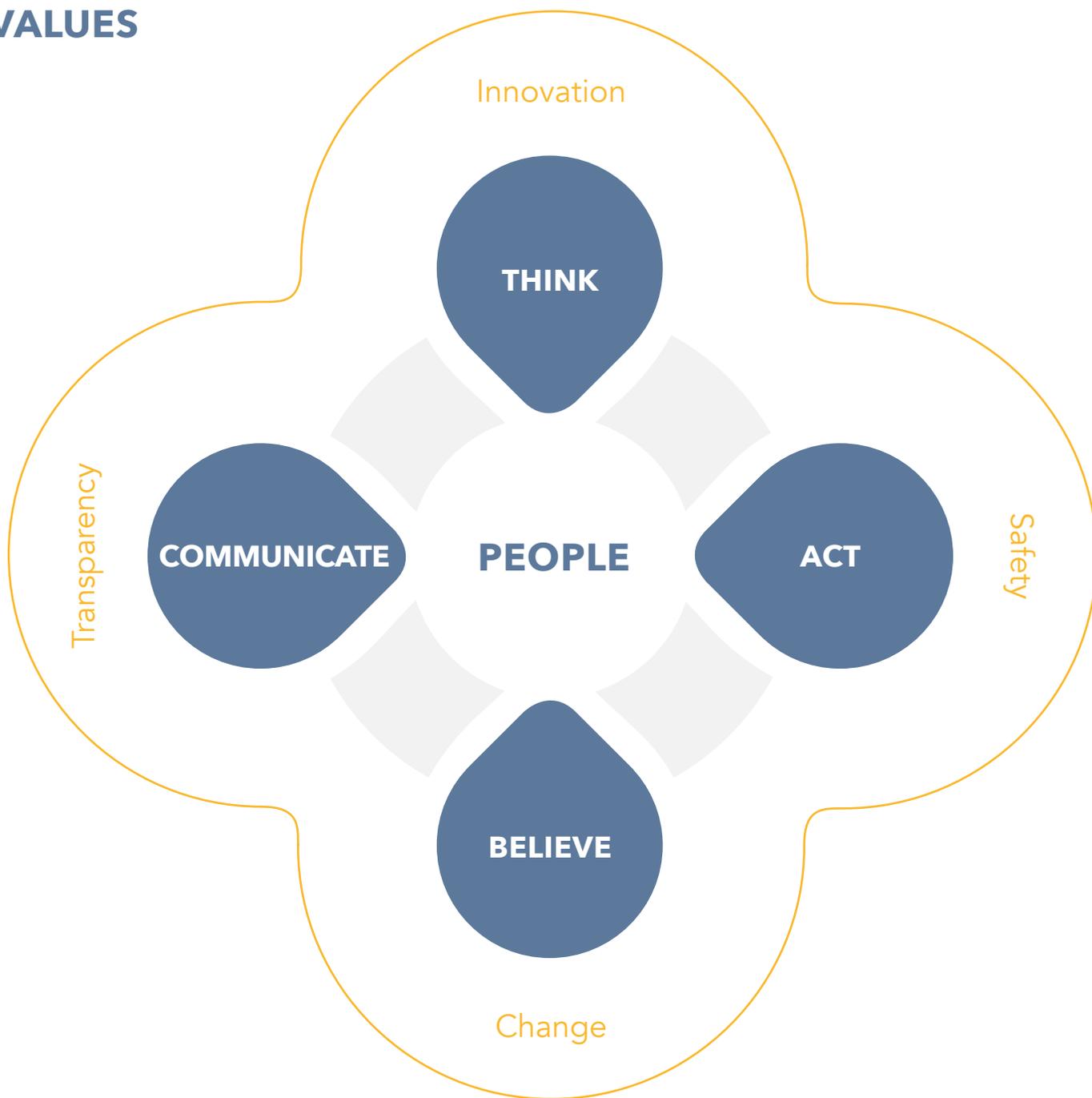
Sabaf sees as an original value and thus a fundamental criterion of every choice the Individual, hence it has a focused business vision which gives dignity and freedom to the Individual within accepted rules of conduct.

The centrality of the Individual is a universal value, i.e. a hyper-rule applicable regardless of differences in time and space. In respect of that universal value, the Sabaf Group operates by promoting cultural diversity through the criterion of spatial and temporal equity. Such a moral commitment requires the abandonment of all decisions that do

not respect the physical, cultural and moral integrity of the individual, even if those decisions may be efficient, economically convenient and legally acceptable.

Respecting the value of the Individual means, primarily, attributing to hierarchical propriety the dimension of the category of Being as opposed to Doing and Having, and thus protecting and developing the "essential" manifestations that allow the fullness of the Individual to be expressed.

## VALUES



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# The Sabaf Charter of Values

Sabaf's Charter of Values is the tool through which its Board of Directors expresses the values, standards of conduct and methods of managing relationships between Sabaf and its stakeholders. All Group companies are required formally to incorporate it.

The Charter of Values is also a reference document within the Organisation, Management and Control Model in accordance with Italian Legislative Decree 231/2001 and, as such, it presents a series of general rules of conduct with which the Group's collaborators must comply.



## Innovation

Innovation represents for Sabaf one of the essential elements of its business model and one of its main "strategic levers".

Thanks to continuous innovation, the Group has succeeded in achieving excellent results, identifying some of the most advanced and effective technological and production solutions currently available and establishing a virtuous cycle of continuous improvement of processes and products, ultimately acquiring technological expertise with characteristics that are difficult for its competitors to replicate. The know-how acquired over the years in the development and internal construction of machinery, tools and moulds, which is integrated synergistically with the know-how in the development and production of our products, is a critical success factor for the Group.

Its investments in innovation have allowed the company to become a leader at global level in a very specialist niche sector and to achieve over time high levels of technological development, specialisation and productive flexibility. The production sites in Italy and abroad are designed to guarantee products in accordance with the highest levels of technology currently available and they represent a cutting-edge model both for respect of the environment and for the safety of workers.

## Eco-efficiency

Sabaf's product innovation strategy is based, as a priority, on the search for superior performances from the perspective of environmental impact. The attention to environmental issues materialises both in innovative production processes that have a lower energy impact in the manufacture of products and, above all, in the design of eco-efficient products during their daily use. The efforts of innovation are oriented towards the development of burners that reduce combustible consumption (methane or other gases) and emissions used (in particular carbon dioxide and carbon monoxide).

## Safety

Safety has always been one of the essential elements of Sabaf's business plan.

Safety for Sabaf does not simply mean complying with existing standards, but it is a management philosophy aimed at the continuous improvement of its performances, in order to provide to end users an increasingly safe product. The Group, as well as investing in the research and development of new products, has chosen to contribute actively to spreading the culture of safety, both encouraging the sale of products with thermoelectric safety devices, and implementing a communication policy aimed at promoting the use of products with thermoelectric safety devices. For some time, Sabaf has promoted throughout the world - at various institutional levels - the introduction of rules making it mandatory to adopt products with thermoelectric safety devices. Safety has shown itself to be a critical success factor, also because the Company has been able to anticipate the demand for products with safety devices in the European market and to stimulate the dissemination of those products even in developing countries. Sabaf has also become a promoter of the prohibition on using zamak (zinc and aluminium alloy) for the production of gas taps for cooking, in view of its intrinsic dangers. To date, however, in Brazil, Mexico and in other South American countries it is still permitted to use zamak, actually limiting Sabaf's business opportunities in the taps segment, as it has no intention of considering manufacturing taps using zamak.

## Success on international markets

Sabaf pursues its growth through success on the international markets, seeking to replicate its business model in emerging countries and to adapt it to the local culture.

In line with the values of reference and its mission, the Group is seeking to bring cutting-edge know-how and technologies to those Countries, operating in full respect of the rights of individuals, the environment and observing the code of conduct of the United Nations for transnational countries. That choice is guided by the awareness that only by operating in a socially responsible manner is it possible to ensure that industrial experiences in the emerging markets have long-term development.

## Expansion of the range of components and partnership with multinational groups

Continuous expansion of the range is aimed at increasing the loyalty of customers through the broadest satisfaction of their requirements. The possibility for Sabaf to offer a complete range of components also represents a further distinctive element compared to its competitors.

That expansion is pursued both through internal research, and through the expansion of external lines, even in related sectors. An example of this is the 2016 acquisition of the majority share of A.R.C. s.r.l., a company leader in Italy in the production of burners for professional cooking.

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

## Enhancing the value of intangible assets and intellectual capital

Enhancing the value of intangible assets is essential to compete effectively on the international market.

Sabaf is attentive to monitoring and increasing the value of its intangible assets: the high technical and professional skill of its people, its image synonymous with quality and reliability, its reputation as a company attentive to social and environmental problems and the requirements of its interlocutors. The promotion of the idea of work and relationships with stakeholders as the **"passion of a project based upon common values in which everyone can recognise themselves symmetrically"** is not just a moral commitment but the true guarantee of enhancing the value of intangible assets. In this perspective, the sharing of values represents the link between the promotion of a business culture oriented towards social responsibility and the enhancement of intellectual capital.

## Social responsibility in business processes

- » To transform into intervention decisions and management activities the values and principles of sustainable development, Sabaf applies a structured methodology, whose crucial factors are the following:

# 1

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

# 2

**training and communication;**

# 3

an **internal control system** able to monitor risks (including ethical and reputational risks) and to verify the implementation of commitments towards stakeholders;

# 4

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

# 5

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

# 6

a **stakeholder engagement system**, to address the expectations of all stakeholders and to receive useful feedback for continuous improvement.

### Precautionary approach

The awareness of social and environmental implications that accompany the activities performed by the Group, together with consideration of the importance held as much by the cooperative approach with stakeholders as the good reputation of the Group itself, has inspired Sabaf to adopt a **precautionary approach** in the management of economic, social and environmental variables which it handles on a daily basis. To this end, the Group has developed specific analyses of the main risks of the different dimensions of operations.

Detailed information on the internal control system and the risk management system is illustrated in **Section 3 "Governance, Risk Management, Compliance and General Remuneration Policy"**.

# STAKEHOLDER ENGAGEMENT

Sabaf is committed to continuously strengthening the social value of its business activities through the attentive management of relationships with stakeholders. The company intends to establish an open and transparent dialogue, encouraging moments of discussion in order to identify legitimate expectations, increase loyalty towards the Company, manage risks and identify new opportunities.

Identifying the stakeholders is an essential starting point for defining the socio-environmental reporting processes. The "map of stakeholders" provides a summary representation of Sabaf's main interlocutors, identified based upon the peculiar aspects of the business, the characteristic aspects of the market and the intensity of the relationships with the latter.

The Annual Report represents the preferred communication tool for the presentation of significant performances achieved in the year in the economic, social and environmental field.

Set out below are the initiatives of involvement with respect to each stakeholder which are carried out periodically (generally on a two or three yearly basis). The significant issues emerging from those activities are set out in the section Social and Environmental Sustainability.



Employees	Customers	Suppliers	Shareholders	Society and Institutions	Stakeholder
EMPLOYEE SATISFACTION SURVEYS AND COMPANY CLIMATE ANALYSIS ..... MEETINGS WITH EMPLOYEES ..... PANEL MEETINGS WITH TRADE UNION ORGANISATIONS	CUSTOMER SATISFACTION SURVEY	QUESTIONNAIRE ..... PERIODIC MEETINGS	QUESTIONNAIRE DEDICATED TO FINANCIAL ANALYSTS AND INVESTMENT FUND MANAGERS ..... MEETINGS WITH ETHICAL FUNDS MANAGERS	MULTI-STAKEHOLDER PANELS ..... DIALOGUE WITH UNIVERSITIES	Stakeholder engagement initiatives undertaken



 **SABAF®**

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# CHAPTER 2

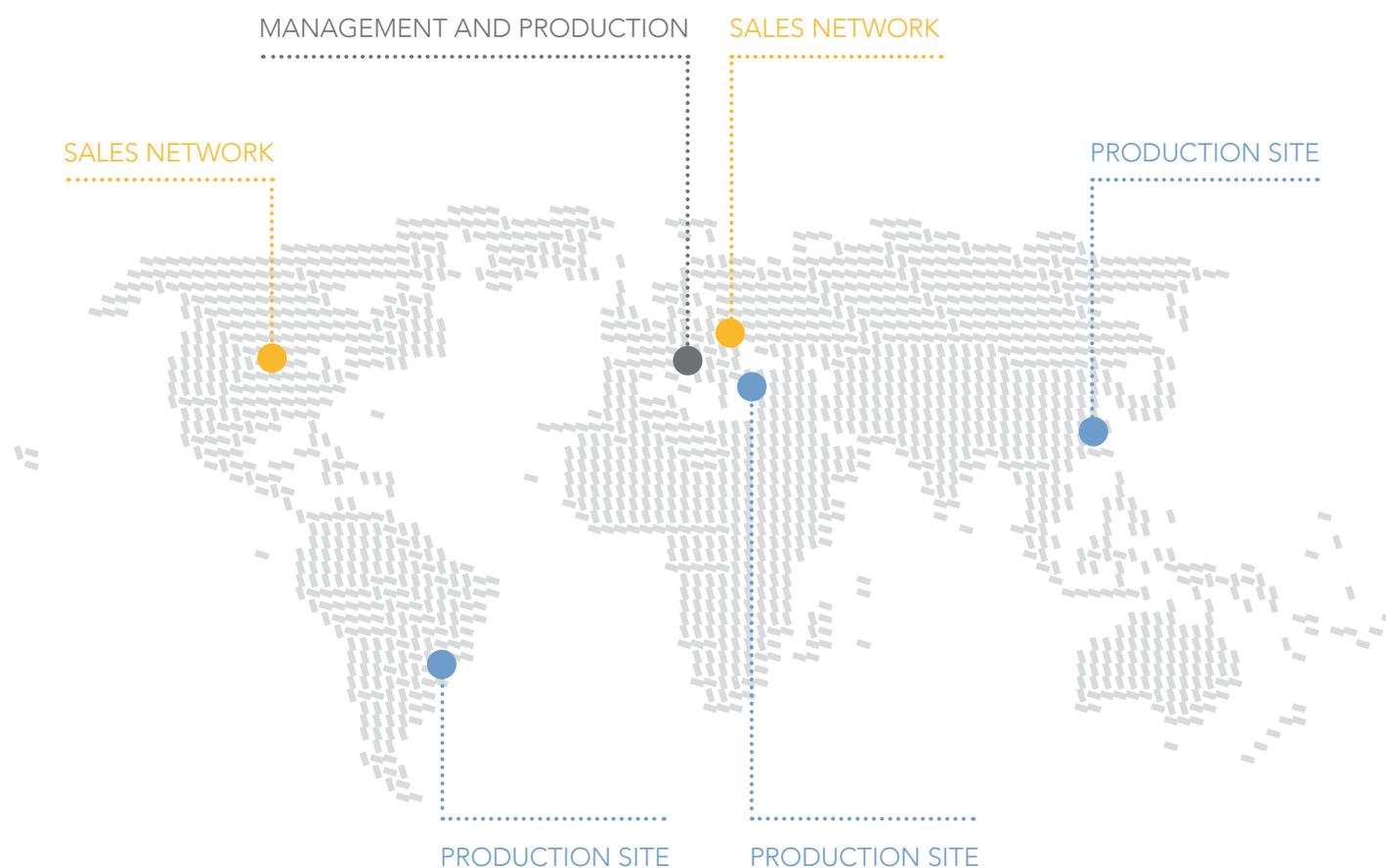
INTERNATIONAL  
DIMENSION AND  
RELEVANT MARKETS

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## INTERNATIONAL PRESENCE

The Sabaf Group is one of the world's main producers of components for gas cooker domestic appliances, with a market share of approximately 50% in Europe and over 10% globally. The relevant market is represented by manufacturers of domestic appliances and, in particular, kitchens, worktops and ovens. Most of its sales consist of the supply of original equipment, while sales of components for spare parts are negligible.

Market share of **>>** approximately 50% in Europe and over 10% globally



### Main production lines

#### Taps and thermostats

They are components that regulate the flow of gas to covered or uncovered burners (of the oven or grill); thermostats are characterised by the presence of a temperature control device to constantly maintain the chosen temperature.

#### Burners

They are components that, by mixing the gas with air and combustion of the gases used, produce one or more ring burners.

#### Hinges

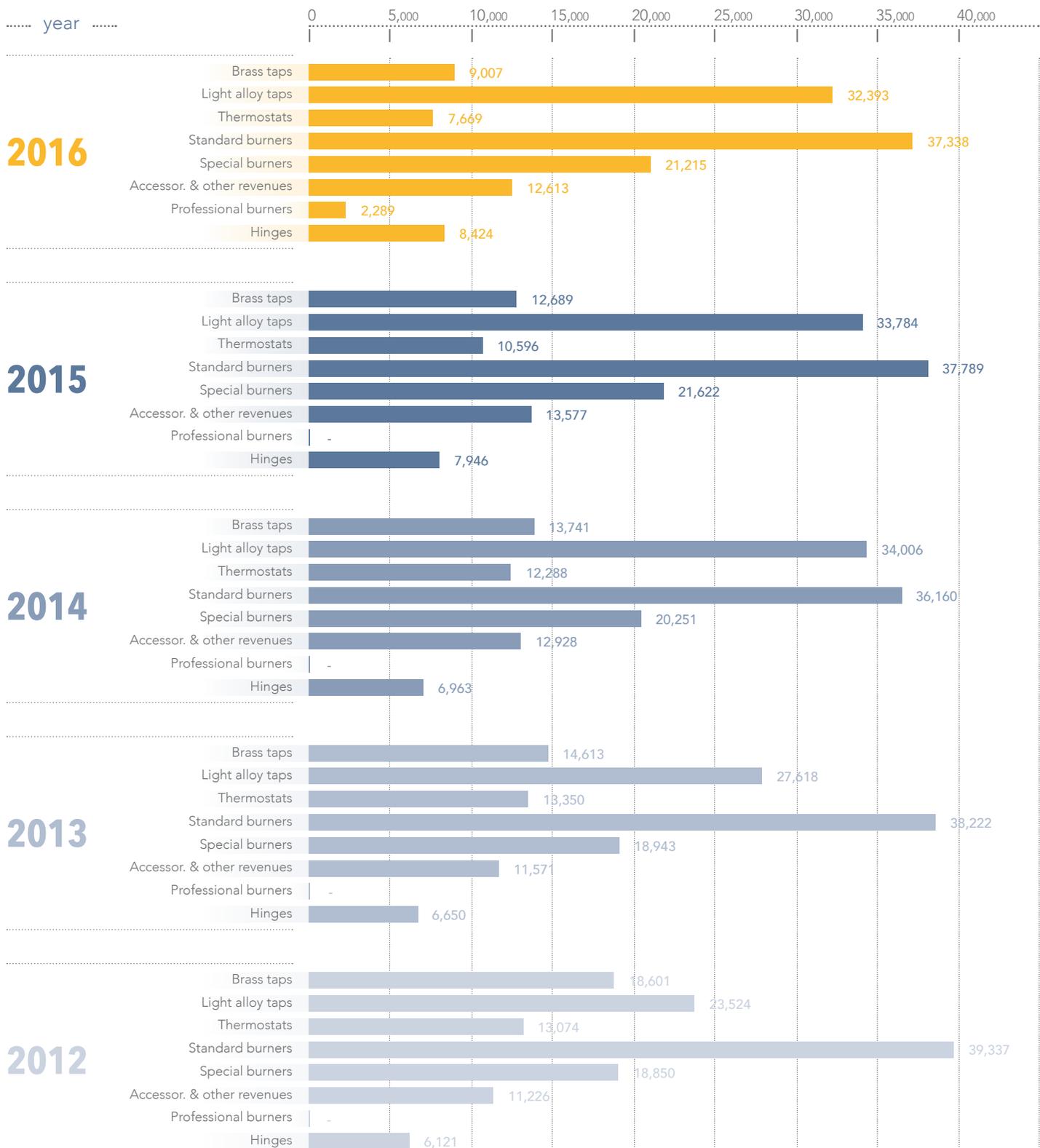
They are components that allow for the movement and balance when opening and closing the door of the oven, washing machine or dishwasher.

#### Accessories

The Group also manufactures and markets a wide range of accessories, which supplement the offer of the main product lines.

## Sales by product line

€/000



TOTAL

130,978

138,003

136,337

130,967

130,733

# SABAF'S INTERNATIONAL DEVELOPMENT: CHALLENGES AND OPPORTUNITIES

## Sales by geographical area

€/000

SCENARIO ANALYSIS

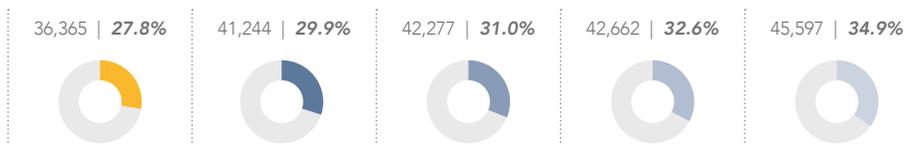
PERFORMANCE DATA

### Italy



The crisis of recent years has significantly transformed the domestic appliances sector in Italy. Today, the best Italian manufacturers of cooking appliances are focused on high-end or special products, highly suited to exports and they continue to record excellent results. Sabaf offers to Italian customers a very high quality and a differentiated range of components, helping them to

promote the "made in Italy" on the international markets. The largest share (estimated at around 80%) of Sabaf's sales in Italy is in fact for domestic appliances exported by our customers. Only a marginal share is for the market of Italian consumers, which continues to suffer from the crisis of the property sector and from negative demographic dynamics.

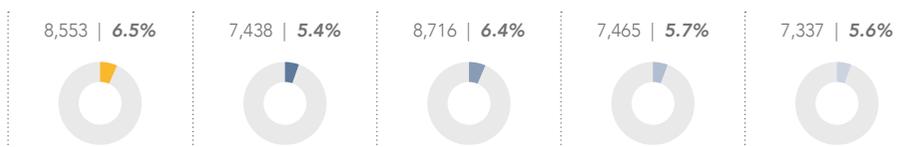


### Western Europe



Also in Western Europe, the production of domestic goods has significantly decreased in recent years: some manufacturers have ceased their activities, others have outsourced (mainly to Poland and Turkey).

The high-end productions remain in Western Europe, where Sabaf aims to significantly increase its share.

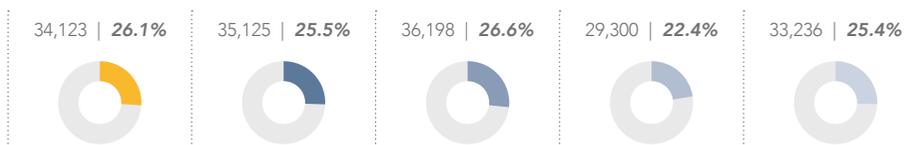


### Eastern Europe and Turkey



Turkey is now the European country in which the highest number of domestic appliances is produced. In this context, the opening of a production plant in Turkey and the development of new commercial relationships is a key element to support the strategy of growth. The Turkish domestic market is prospectively of increasing importance: the average age of the population, the number of new

families and the rising incomes are converging indicators in signalling a lasting and growing demand for durable goods. The Group's strategy involves further developing its activities in Turkey in the coming years. The Group is active also on the other Eastern European markets, where it intends to enter into new partnership agreements with customers and to strengthen those already in existence.



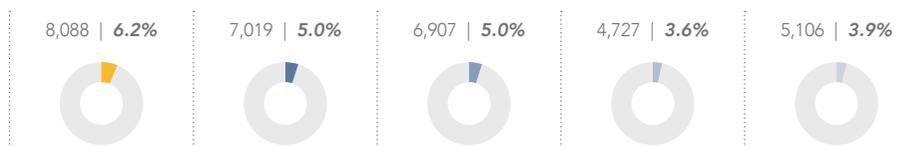
## Asia and Oceania



China, with its production of approximately 26 million cooker tops per year, is the world's most important market. After many years of just a commercial presence, in 2015 Sabaf launched production in China of a special burner, which guarantees to built-in work surfaces efficiency higher than 63%. The Group, aware that offering increasingly competitive high quality products compa-

red to those supplied by local competitors, aims to forge long-term partnerships with the main manufacturers of Chinese cooker tops.

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

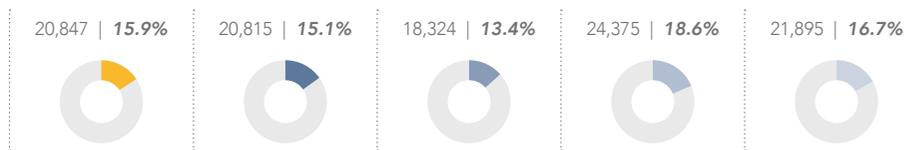


## Central and South America



For its future development Sabaf can rely upon a **presence, including one of production, that is now consolidated** (a plant in Brazil has been operational since 2001). Despite the difficulties suffered by the Brazilian market in recent years, the Sabaf Group believes that the potential

for development in this area is still extremely significant, in view of the large dimensions of the market and the trends of demographic growth. The product range intended for the local market has been significantly expanded, also to satisfy the specific nature of the demand.

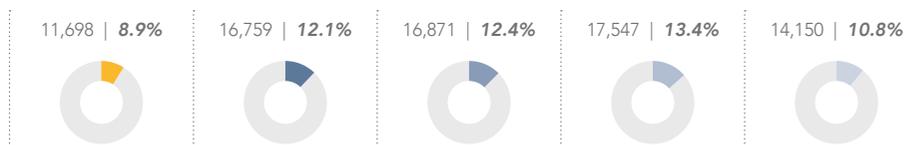


## Middle East and Africa



Sabaf boasts a longstanding presence and reputation in the Middle East and Africa. The socio-political and economic difficulties of the area strongly affected the 2016 performances in this area.

However, the Group continues to consider the Middle East and Africa as being among the most promising markets in the medium-term, also in view of the demographic dynamics and the growing rate of urbanisation.

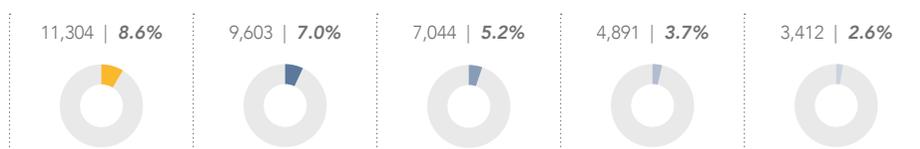


## North America and Mexico



Sabaf's presence in North America is relatively recent, but its sales and market shares have been constantly increasing in recent years. The future plans also involve

the development of products co-designed with the main customers and more direct control of the market, possibly also by way of a production site.



Key

2016

2015

2014

2013

2012

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## TRENDS IN THE SECTOR OF MANUFACTURERS OF COOKING APPLIANCES

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For years in the sector, there has been a clear trend towards the outsourcing of the design and manufacture of components to highly specialist suppliers which, like Sabaf, are active in the main world markets and able to provide a range of products that meets the specific needs of the different markets.

In addition, the trend towards the internationalisation of production has increased, with it being increasingly outsourced to countries with low cost labour in which the saturation levels are lower.

The entry of new players on the international scenario has also determined a situation of excess supply, generating strong competition and evolving into a greater concentration of the sector.

However, that trend is less evident for cooking appliances than other domestic appliances: in the cooking segment, in fact, design and aesthetics, on one side, and the lower investment intensity, on the other, allow even small manufacturers, if they are strongly innovative, to succeed.

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## THE RELEVANT MARKETS

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In Western Europe, which represents about half of the final destination market of Sabaf's products, the saturation level reached by cooking appliances (the share of families that own the domestic appliance) is close to 100%. Purchases of new appliances therefore mainly come from replacement purchases. Moving house, purchasing or renovating a home are often occasions for purchasing a new cooking appliance.

The market performance is therefore directly influenced by the trend of the economy in general and in particular by the levels of available income for families, the confidence of consumers and the trend of real estate activities.

In this context, the sector of domestic appliances has for some years been experiencing a situation of stagnating demand.

In other markets, on the other hand, the saturation level is often lower. The higher rates of development of the economy and the more favourable demographic trend compared to Western Europe determine great opportunities for groups that, like Sabaf, can both collaborate with multinational manufacturers of domestic appliances and support local producers.

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### A heterogeneous context

The sector of manufacturers of gas cooking appliances - Sabaf's relevant market - is characterised by the presence of:

- large multinational groups with established international presence in sales and production, owning strong brands
- manufacturers located in countries with low cost labour aiming both to grasp the opportunities offered by the domestic markets and to develop quickly on a global scale
- manufacturers focused on specific markets, where they boast of leadership positions
- manufacturers (mainly Italian with a strong orientation to exports), which occupy segments in which the level of product differentiation is higher (for example, cooker tops and built-in ovens or largesized freestanding cookers)