SABAF®

We burn for technology and safety.

INTRODUCTION TO THE ANNUAL REPORT AND CONSOLIDATED DISCLOSURE OF NON-FINANCIAL INFORMATION

Year 2018

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INTRODUCTION TO THE ANNUAL REPORT

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

One of the first international-level companies to embrace the trend of integrated reporting, Sabaf intends to continue on the path it has undertaken, inspired by the recommendations contained in the international Framework on sustainability reporting of the International Integrated Reporting Council (IIRC), aware that integrated, complete, and transparent reporting can benefit both the companies themselves, through better understanding of the articulation of strategy and greater internal cohesion, and the community of investors, who will more clearly grasp the linkage between strategy, governance, and corporate performance.

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

Sabaf also adopts a virtuous approach with regard to compliance with the new regulatory obligations on non-financial reporting. On 30 December 2016, Legislative Decree 254 came into force, which, in implementation of Directive 2014/95/EU on Non-financial and diversity information, requires relevant public interest entities (EIPRs) to communicate non-financial and diversity information starting with the 2017 financial statements. As a public-interest entity, Sabaf prepared for the second year the consolidated disclosure of non-financial information presenting the chief policies practiced by the company, the management models, the risks, the activities performed by the Group during 2018, and the related performance indicators as pertains to the issues expressly referred to by Legislative Decree no. 254/2016 (environmental, social, personnel-related, respect for human rights, struggle against corruption) and to the extent needed to ensure understanding of the company's activity, its trend, its results, and the impacts it produces.

The Group's commitment was also confirmed by the "Oscar di Bilancio" award for the fourth time (previously in 2004, 2013 and 2017), a historic contest promoted and organised by the Italian Public Relations Federation (FERPI), which for over fifty years has been awarding prizes to the most virtuous businesses in financial reporting and in dealing with all stakeholders. In the 2018 edition, Sabaf won the Oscar in the category of Small Listed Companies on the grounds of "having created financial statements that stand out for their ability to effectively and comprehensively represent the economic data of the company's performance together with a description of the company's programme and philosophy. The initial dashboard is extremely effective and guides the reading of the document allowing you to understand the information in a concise and clear way, thanks to the help of graphs and tables for the aggregation of economic and non-economic data. The presence of tables comparing data over a three-year period is also important: it reinforces the understanding of company data and its trend. The decision to direct the graphics of the document towards the concept of "growth" that accompanies the reading of the concept represented in the company data is innovative and original.

Key performance indicators in summary (KPI)[1]

Economic capital		2018	2017	2016
Sales Revenues	€/000	150,642	150,223	130,978
EBITDA	€/000	29,959	30,955	25,365
EBIT	€/000	16,409	18,117	12,530
Pre-tax profit	€/000	20,960	17,804	12,446
Net Profit	€/000	15,614	14,835	9,009
Working capital	€/000	58,307	50,753	46,084
Invested capital	€/000	172,870	140,588	135,835
Shareholders' equity	€/000	119,346	115,055	112,309
Net financial debt	€/000	53,524	25,533	23,458
ROCE (return on capital employed)	%	9.5	12.9	9.2
Dividends paid out	€/000	6,071	5,386	5,467

Human capital		2018	2017	2016
Average age of personnel (sum of employee age/total employees at 31/12)	Years	39.7	39.0	38.6
Level of education (number of graduates/total employees at 31/12)	%	59.6	57.3	57.2
Leaving turnover (employees resigned and dismissed/total employees at 31/12)				
men	%	11.1	13.3	15.4
women	%	9.1	10.4	8.5
Hours of training per employee (hours of training/average employees)	hours	22.3	19.8	15.7
Investments in training/turnover	%	0.33	0.28	0.23
Hours of strike for internal causes	number	0	0	0
Total employees	number	760	756	736
men	%	66.6	65.6	65.5
women	%	33.4	34.4	34.5
Illness rate (hours of illness/total hours worked)	%	2.76	2.50	3.28
Injury frequency rate (number of injuries (excluding injuries while travelling to/from work) x 1,000,000/total hours worked)		23.49	14.68	9.21
Injury lost day rate (days of absence (excluding injuries while travelling to/from work) x 1,000/total hours worked)		0.17	0.13	0.04
Jobs created (lost)	number	4	2	-23

1 In September 2018, Okida joined the Sabaf Group. The KPIs listed in this section include Okida only for data relating to economic capital.

Relational capital		2018	2017	2016
Value of goods and services outsourced:				
· brass moulding and aluminium die-casting	€/000	2,762	2,761	2,635
· other processing	€/000	6,798	6,506	5,172
Customer waste (charges from customers and credit notes to customers for returns/turnover)	%	0.09	0.09	0.09
Average turnover by customer (total turnover/number of customers)	€/000	353	366	382
Percentage of turnover from new customers (turnover from new customers/turnover)	%	0.97	0.76	1.01
Percentage of top 10 customers	%	45	46	47
Percentage of top 20 customers	%	65	65	67
Customer complaints	number	398	335	395
Turnover from certified suppliers (turnover from certified suppliers/purchases)	%	71.7	70.9	68.1
Number of analysts who follow the security continuously	number	2	1	1
Lawsuits filed against Group companies	number	3	4	4
Turnover percentage of suppliers in the province of Brescia	%	30.8	30.4	36.2

Productive capital		2018	2017	2016
Fixed assets	€/000	120,950	93,802	93,967
Total Net Investments	€/000	11,467	13,944	11,762
IT Budget (investments + current expenditure)/turnover	%	0.9	1.1	1.0
Real investment/turnover	%	7.5	9.1	8.8
Quantities sold of Light alloy valves on Total valves and thermostats	%	90.1	87.8	80.8
Quantities sold of high energy efficiency Burners on total Burners	%	21.9	19.7	14.5

Environmental capital		2018	2017	2016
Materials used				
· brass	t	789	540	697
· aluminium alloys	t	7,831	8,070	6,703
· steel	t	7,861	7,631	7,250
Waste				
· similar to urban	t	186	189	152
□ hazardous waste	t	2,434	2,095	2,210
□ non-hazardous waste	t	6,008	6,201	5,453
Natural gas consumption	m^3 x 1000	3,918	4,059	3,432
Electricity consumption	MWh	30,225	30,841	27,189
CO_2 emissions	t	18,520	20,078	17,111
Environmental current expenditure/turnover at 31/12	%	0.44	0.39	0.43
Environmental investments/turnover at 31/12	%	0.18	0.02	0.53
Tot waste/value of production	Kg/€	0.22	0.21	0.21

Intellectual capital		2018	2017	2016
Capitalised investments in research and development	€/000	340	337	231
Hours dedicated to the development of new products/hours worked	%	1.3	1.4	1.5
Hours dedicated to process engineering/hours worked (hours dedicated to orders for the construction of new machines for new products or to increase production capacity/total hours worked)	%	2.5	2.5	2.3
Investments in intangible assets/turnover	%	0.4	0.6	0.4
Current expenditure on quality/turnover	%	0.17	0.20	0.24
Investments on quality/turnover	%	0.06	0.12	0.10
Values of waste/turnover (production waste/turnover)	%	0.60	0.74	0.87
Impact of quality costs/turnover (production waste + charges and returns from customers/turnover)	%	0.69	0.83	0.96
Number of samples for customers	number	1,244	1,245	1,154
Number of codes provided to the first 10 customers	number	1,939	1,620	2,303

Products and markets

Historically, the Sabaf Group is one of the world's leading manufacturers of components for household gas cooking appliances, with a market share of about 40% in Europe and over 10% worldwide.
In recent years, the Group expanded its product range to include hinges for various types of household appliances (ovens, dishwashers and washing machines) and, with the acquisition of Okida in September 2018, electronic components (electronic control boards, timers, display units and power units for ovens, hoods, refrigerators, freezers and vacuum cleaners).
The range of hinges and burners also includes products for the professional sector.

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

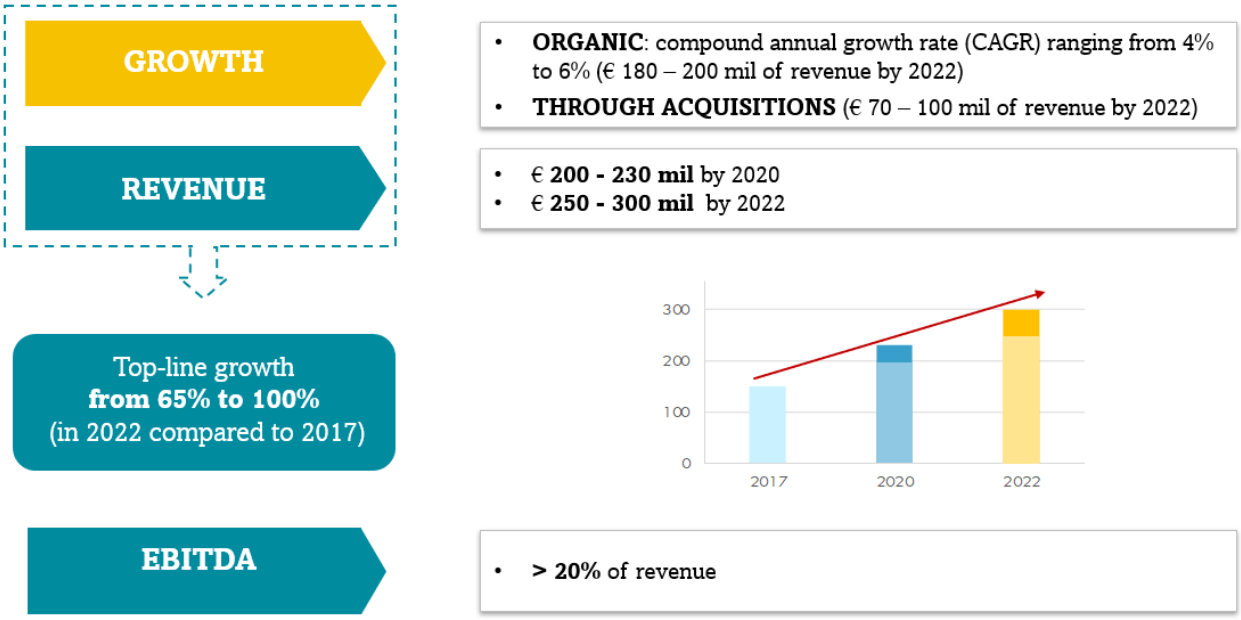
The 2018-2022 Business plan

On 13 February 2018, the BoD of Sabaf S.p.A. approved the 2018-2022 Business Plan.
The underlying objective of the Plan is to undertake a renewed path of growth, both organic and through acquisitions: an acquisition policy that can also increase the product range in sectors adjacent to the current ones, taking full advantage of the potential of the Sabaf Group.

As a whole, the Business Plan defines a revenue target ranging from € 250 to € 300 million, accompanied by a gross profitability (EBITDA%) of more than 20% and supported by an investment plan of up to € 230 million.

With regard to the organic component, the Plan set an annual growth target for revenue ranging from 4% to 6%, with the aim of achieving a turnover target of € 180-200 million in 2022.

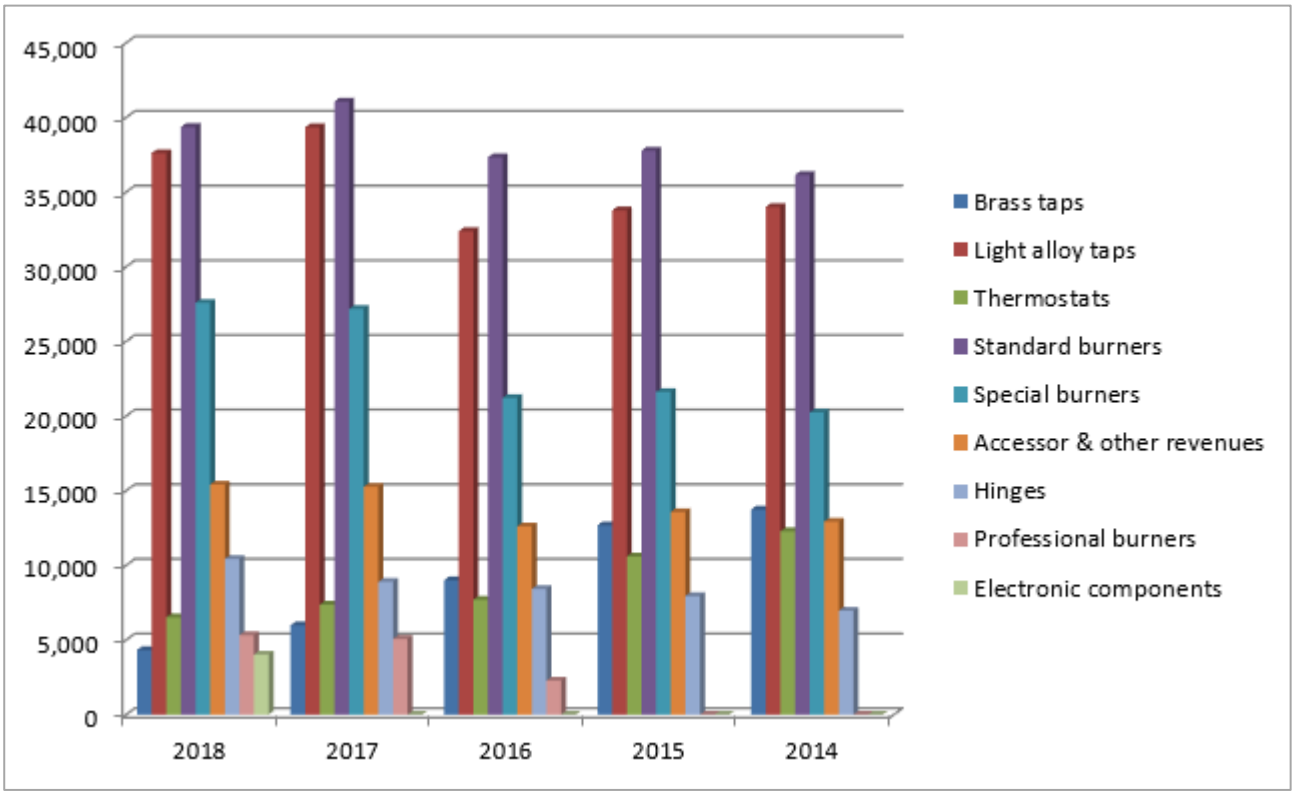
The Group also assesses growth opportunities through acquisitions, which, based on the objectives of the Business Plan, could generate additional revenues ranging from € 70 to € 100 million at the end of the five-year period.



The product range

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

Sales by product family



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

In recent years, sales of thermostats have been affected by a physiological drop in their use in ovens and by the difficulties of the main end market (North Africa).

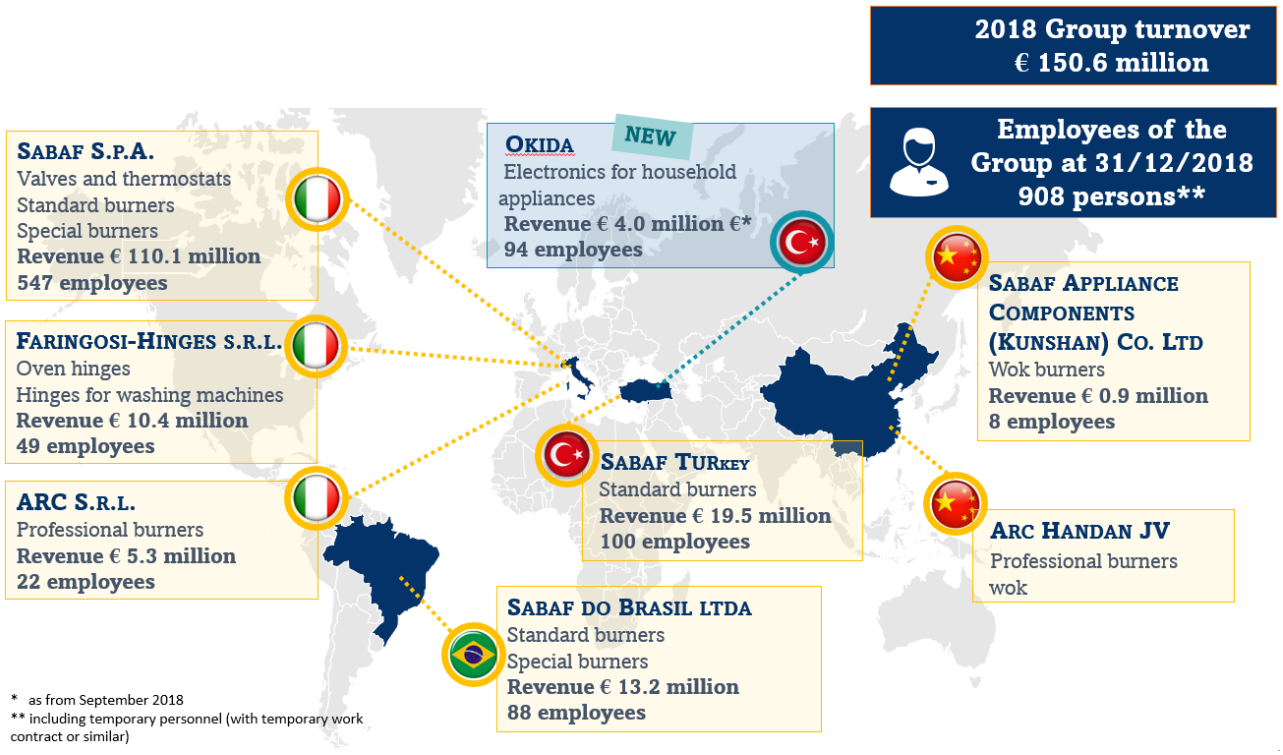
Standard burners are the most popular products, also produced in Turkey and Brazil.

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

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

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

The industrial footprint



The reference markets

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

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

Countries and customers[2]

	2018	2017
Countries	56	59
Customers[3]	400	339

2 Data processed considering also Okida. The Sabaf Group's share of international sales (excluding Italy and Western Europe) rose from 61.7% in 2013 to 70.8% in 2018.
3 With sales over € 1,000

In line with the followed commercial policies, most of the active commercial relations are characterised by relations consolidated over the long term. There are 32 customers with annual sales of more than € 1 million (as in 2017). The distribution by class of turnover is as follows:

	2018	**2017**
> € 5,000,000	7	7
from € 1,000,001 to € 5,000,000	25	25
from € 500,001 to € 1,000,000	20	16
from € 100,001 to € 500,000	64	52
< € 100,000	351	310

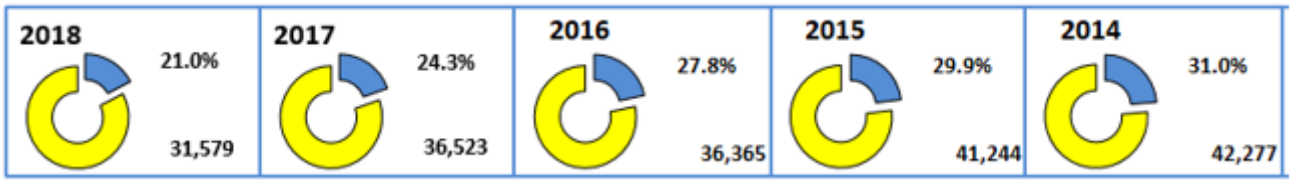
In addition to the management structure at the Ospitaletto headquarters, the commercial network is based on the subsidiaries in Brazil, Turkey, the USA and China. There are 9 agency relationships, mainly relating to non-European markets.

Sabaf's international development: challenges and opportunities

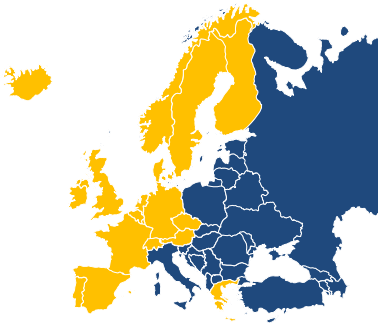
	Analysis of the scenario	Performance data[4]

Italy

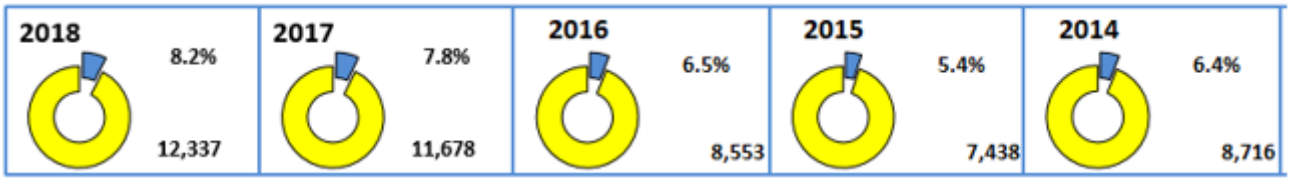
In the last ten years, the production of household appliances in Italy has been strongly reduced: some players left the sector and others relocated part of their activities to Turkey and Eastern Europe. There are still manufacturers focused mainly on the up-market or on special products, strongly dedicated to exports, which continue to show excellent results.
The importance of the Italian market for Sabaf is consequently lower than in the past. The majority (estimated at approximately 80%) of Sabaf's sales in Italy are destined for household appliances exported by our customers.



Western Europe



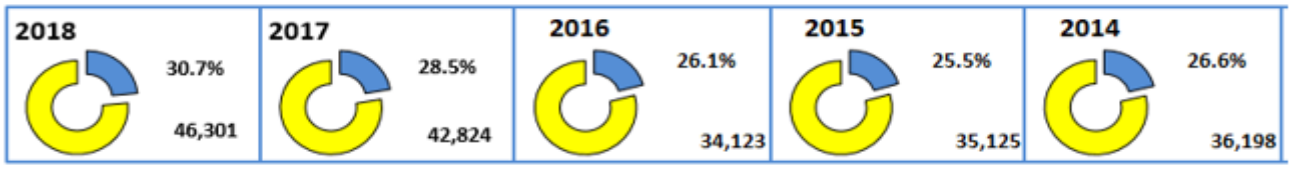
The same trend that characterised Italy was also seen in the other Western European countries: in Western Europe, up-market products remain high, where Sabaf is significantly increasing its share



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

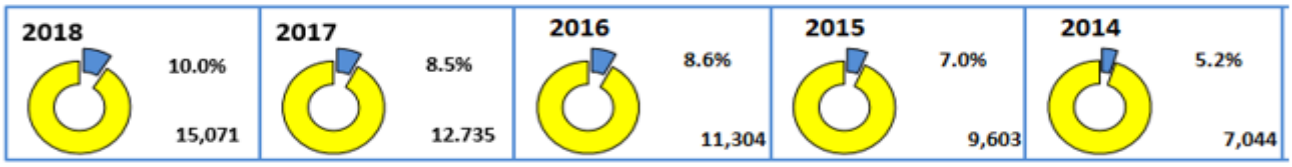
Eastern Europe and Turkey

Turkey is now the state where the largest number of household appliances are produced. In this context, the opening of a production plant in Turkey and the acquisition of Okida Elektronik (September 2018) are key elements in support of the growth strategy.
Sabaf estimates that about 75% of sales in Turkey are exported by our customers (mainly in Europe); however, the Turkish domestic market is of increasing importance: the average age of the population, the number of new households and the increase in income are converging indicators of a growing demand for durable goods. Contingent factors such as the currency crisis of 2018 can lead to temporary reversals of this trend.
The Group's strategy is to further develop its activities in Turkey in the coming years.
The Group is also active in other Eastern European markets, where it intends to conclude new partnership agreements with customers and strengthen those already in place.



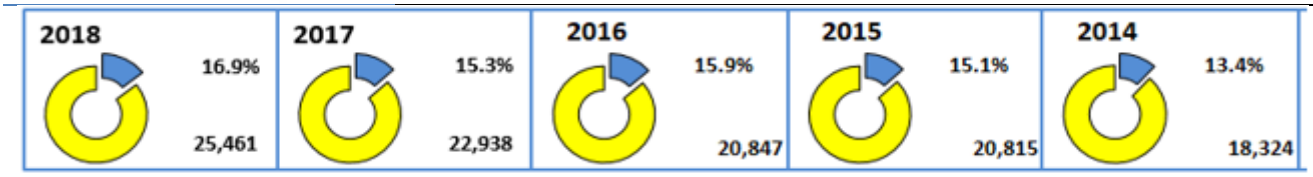
North America and Mexico

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



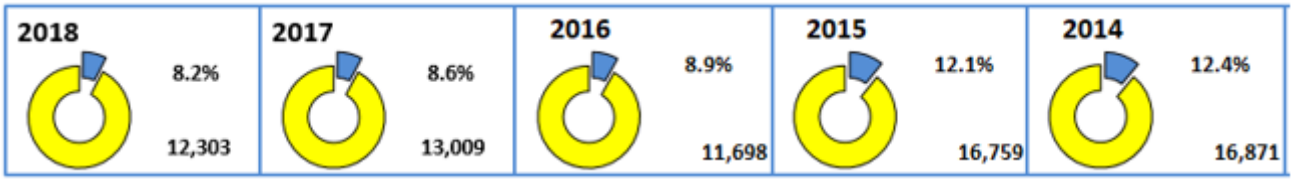
South America

For future development, Sabaf can count on a **consolidated production presence** (a factory in Brazil has been operating since 2001).
The Sabaf Group believes that the development potential of this area is still extremely interesting, considering the significant size of the market and the demographic growth trends.
The product range for the local market was recently expanded, with the production of special burners in Brazil, also to meet the specific nature of demand.
Other markets of great interest to the Group are those in the Andean area.



Middle East and Africa

Sabaf has a long-standing presence and reputation in the Middle East and Africa. The social, political and economic difficulties of the area inevitably condition the performance on these markets.
The Group also considers the Middle East and Africa among the most promising markets in the medium term, also in view of demographic trends and the growing rate of urbanisation.

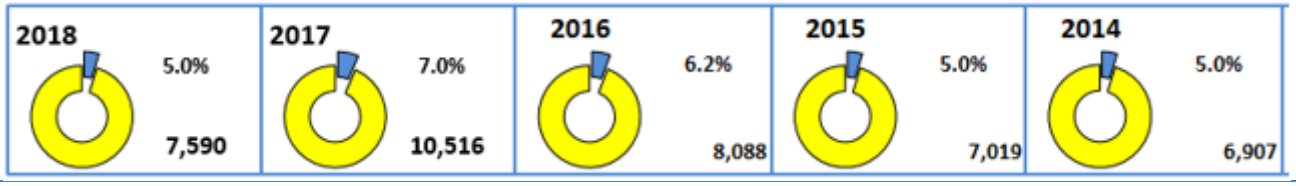


Asia and Oceania

China, with its production of about 26 million hobs per year, is the most important market in the world.
The Group, aware that it offers high quality products that are increasingly competitive compared to those supplied by local competitors, aims to establish long-term partnerships with the main Chinese hob manufacturers.

Another market with great potential is the Indian market, for which Sabaf developed a range of dedicated burners.

The results achieved on these two markets are still marginal but growth in these areas remains a strategic priority for the Group.



CONSOLIDATED DISCLOSURE OF NON-FINANCIAL INFORMATION

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

Methodological note

Preparation criteria

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

The Sabaf Group identified the new GRI Sustainability Reporting Standards (hereinafter also referred to as "GRI Standards") defined by the Global Reporting Initiative (GRI) in 2016 as the "reference standard" for fulfilling the obligations of Legislative Decree 254/2016, as the most widely recognised and internationally disseminated Guidelines. Starting with the current financial year, Sabaf made the transition from GRI G4 Guidelines to GRI Standards. This Disclosure is prepared according to the “in accordance - core” reporting option. The process of defining the contents and determining the relevant aspects, also in relation to the areas envisaged by the Decree, was based on the principles envisaged by GRI Standards (materiality, stakeholder inclusiveness, sustainability context, completeness, comparability, accuracy, timeliness, clarity, reliability and balance). To help readers find the information in the document, the GRI Content Index is at the bottom of the disclosure.

This Disclosure was approved by the Board of Directors on 26 March 2019 and will be prepared annually. In accordance with one of the options envisaged by Art. 5 of Legislative Decree 254/2016, it constitutes a separate report from the Report on operations.

Reporting boundary

The reporting boundary of qualitative and quantitative data and information contained in the Consolidated Non-Financial Disclosure of the Sabaf Group refers to the performance of the Sabaf Group (hereinafter also referred to as "Group" or "Sabaf") for the year ended 31 December 2018 with reference to companies consolidated on a line-by-line basis, with the exception of:

- Okida Elektronik, a company over which the Group acquired control in September 2018. This company is included in the reporting boundary of the consolidated financial statements as from 4 September 2018 but was not included in the reporting boundary of the Disclosure because, despite the data collection integrating process has been initiated, at the date of preparation, not all the information required is yet available. Note also that the extension of the reporting boundary to Okida would not have had a significant impact, given the size of the Company (11% of the total number of Group employees) and the date from which it became part of the Group;
- Sabaf Immobiliare s.r.l., a company without employees active in the management of industrial buildings of Ospitaletto, rented to the parent company Sabaf S.p.A., and owner of some housing units for sale;
- Sabaf Appliance Components Trading Ltd, companies whose liquidation process is being completed.

Reporting process

The preparation of the Group's consolidated disclosure of non-financial information was based on a structured reporting process that involved all Italian and foreign structures, departments and companies responsible for the relevant areas and the related data and information that are the subject matter of the Group's non-financial reporting. They were asked to contribute to the

identification and evaluation of significant projects/initiatives to be described in the document and to data collection, analysis and consolidation phase, each for its own area of competence. In particular, the data and information included in this Disclosure derive from the company information system used for the management and accounting of the Group and from a non-financial reporting system (data collection sheets) specifically implemented to meet the requirements of Legislative Decree 254/2016 and GRI Standards. In order to ensure the reliability of the information contained in the Disclosure, directly measurable quantities have been included, limiting the use of estimates as much as possible. Calculations are based on the best information available or on sample surveys. The estimated quantities are clearly indicated as such. The economic and financial data and information are derived from the Consolidated Financial Statements at 31 December 2018.

Letter from the Chief Executive Officer to stakeholders

Dear shareholders and stakeholders,

In 2018, Sabaf once again achieved excellent results, in line with the company's historical trends.
Results achieved thanks to the Group's solid competitive position and the launch of the 2018-2022 business plan. A plan presented a year ago, which envisages a path of growth both organic and through acquisitions, through an acquisition policy that can also increase the product range in sectors adjacent to the current ones.
The first step in this strategy of development and diversification of the product range was, in recent months, the acquisition of Okida Elektronik, whose performance not only helps to strengthen the Group's already interesting growth prospects but also boosts its innovative capacity.
In terms of production, remember that in 2018, Sabaf reached the goal of 500 million burners: a result that confirms our leadership in the field of components for gas cookers.
A continuous technological and innovative development that in recent weeks was characterised by the strengthening of the Group's technical and commercial relationships with major global players, the most important of which are historical partners of Sabaf. With them we further strengthen our relationship of mutual trust, based on respect, quality of service and - precisely - innovation. These are customers who have decided to increase supplies from Sabaf through new projects that will be implemented in the next two to three years.
They are the prerequisite and guarantee necessary for organic growth and strengthening of our historical business.
These projects will lead to significant increases in our sales in the profitable North American market. A market that, for some years now, has shown double-digit growth rates with renewed attention from manufacturers of household appliances in the selection of their supplier partners.

After all, last year, two of our long-standing European customers, Candy and Gorenje, were acquired by major Chinese players, while one of our first customers underwent significant downturns in the European market, as well as a contraction in demand in the Turkish and Middle Eastern markets.

These are all signs of confirmation of an increasingly complex global market that requires capacity for continuous change and permanent adaptation to the demand requirements.
In other words, our future requires flexibility and dynamism, understood not only as mental, collective and individual attitudes, but also as the adaptation of processes to the specific demands of the market and its particular characteristics. This involves expanding the range of our products, but also overcoming our technical and structural limitations in order to create customised and complex solutions.
The customer increasingly demands quick and tailor-made responses, which forces us to learn to live within a continuous innovation. Therefore, ad hoc solutions and customised products are needed in order to meet the changing demands of the market: their design capacity implies less rigid, faster processes and a general orientation towards change for which everyone must feel responsible and invested with for what of direct concern. The competitive bar rises, and only those who can adapt - namely the most flexible, fast and dynamic - can build a solid and successful future.

Today's big numbers are the sum of many different orders: it is no longer enough to start the machines and have the products in the catalogue; they need to provide customers with tailor-made solutions. It is a process that also involves individual responsibilities and attitudes at the heart of which people remain fundamental. We continue to give them priority, but we also ask each of them to adapt to permanent changes. A commitment to which Sabaf intends to give due recognition with training, incentive and enhancement systems.

Change, but in the awareness of our past and of a history that has allowed us to become a leading Group in the sector: therefore, we will continue, as we have always done, to invest in quality and innovation.

We also know that the growing markets coincide more and more with those of distant countries, where the demographic and economic development are higher than in our country: North and South America, India, China. We will take advantage of all the opportunities, possibly even setting up foreign production units to complement those already existing in Turkey, Brazil and China. Production in Italy remains predominant and central, related to a competitiveness that must be sought every day through efficiency, quality, production excellence, the lowering of the break-even point. Within a Country where it is certainly not easy to do business.
All this with a view to long-term sustainability, which has always been part of our business philosophy.

Finally, I would like to point out that in 2018 Sabaf won again the "Oscar di bilancio" in the category of "Small Listed Companies". It is an award that we had already received in 2004, 2013 and 2017: we know that transparent and comprehensive communication makes investor relations easier, but also helps to create good internal cohesion.

"Born to burn" is the slogan of our new advertising campaign launched in early 2019. We hope that our passion will also burn the stages of further growth.
We must overcome doubts and fears and have the courage and curiosity to explore new opportunities in order to be able to capture the richness that the new can bring.

The Group has the characteristics, the strengths and the people to do so.

Pietro Iotti

Business model, strategic approach and sustainable creation of value

Strategic approach and creation of value

Sustainable value creation

For the Sabaf Group, respect for business ethics and socially responsible behaviour are the fundamental elements of its business model. Accordingly, the Group developed a strategy and a governance model that can guarantee sustainable growth over time.
The Sabaf Group is aware that sustainable growth depends on the degree of harmony and the sharing of values with its stakeholders: compliance with common values increases mutual trust, encourages the development of common knowledge, and therefore contributes to the containment of transaction costs and control costs; in essence, it benefits the Group and all its stakeholders.

Values, vision and mission

Sabaf takes the Person as its original value and therefore as the fundamental criterion of every choice: this results in an entrepreneurial vision that ensures dignity and freedom to the Person within shared rules of behaviour. The centricity of the Person represents a universal value, i.e. a hyper-standard applicable without differences in time and space. In compliance with this universal value, the Sabaf Group operates by promoting cultural diversity through the criterion of equity in space and time. Such a moral commitment implies an a priori renunciation of all choices that do not respect the physical, cultural and moral integrity of the Person, even if such decisions can be efficient, economically convenient and legally acceptable. Respecting the value of the Person means that, first of all, the dimension of the category of Being in relation to Doing and Having is the overriding consideration, and therefore implies the protection and enhancement of the "essential" manifestations expressing the fullness of the Person.

The Charter of Values of Sabaf

The Charter of Values is the governance tool through which the Sabaf Group clearly explains the Company's values, standards of behaviour and commitments in relations with its stakeholders – shareholders, employees, customers, suppliers, lenders, the Public Administration, the community and the environment.
The spirit of the Charter is to reconcile the principles of economic management with ethics based on the centricity of Man, as an essential condition for the sustainable growth of business in the long term. Sustainable growth, intended as the ability to combine at the same time:

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

The Charter aims to give a vision of ethics, focusing mainly on positive and just actions to be taken and not only on incorrect behaviour to be avoided. This vision is the basis for a positive use of freedom by decision-makers, where ethical references guide decisions in a manner consistent with

the Group's culture of social responsibility. The Sabaf Group aims to develop a process based on people being given a sense of responsibility within shared rules of behaviour with which to voluntarily comply.
According to this approach, it is still imperative to comply absolutely with the law and regulations in force in Italy and in the other countries where the Group operates, as well as with all the internal regulations of the Group and the values declared in the Charter.

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

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

Topic envisaged by Legislative Decree 254/2016	Reference policies
Environment	
Basic principles - Raise staff awareness and train the personnel to promote environmental awareness - Minimise direct and indirect environmental impacts - Adopt a precautionary approach to environmental impacts - Encourage the development and diffusion of environmentally friendly technologies and products - Define environmental objectives and improvement programmes - Search for the right balance between economic objectives and environmental sustainability	- Charter of Values - Manual of the Integrated Management System of Health and Safety, Environment and Energy in compliance with ISO 14001, ISO 50001 and OHSAS 18001 standards
Human rights	
Basic principles - Adopt socially responsible behaviour - Promote respect for the fundamental human rights of workers in all countries where the Group operates - Avoid all forms of discrimination and favouritism in respect of employment and occupation - Enhance and respect diversity	- Charter of Values - Manual of the Social Responsibility Management System in compliance with SA8000 Standard
Personnel	
Basic principles - Encourage continuous learning, professional growth and knowledge sharing - Provide clear and transparent information on the tasks to be carried out and the position held - Encourage teamwork and the dissemination of creativity in order to allow the full expression of individual skills - Adopt criteria of merit and competence in employment relationships - Encourage the involvement and satisfaction of all the personnel	- Charter of Values - Manual of the Social Responsibility Management System in compliance with SA8000 Standard
Personnel / Health and safety	
Basic principles - Reach working standards that guarantee health and maximum safety, also through the modernisation and continuous improvement of workplaces - Minimise any form of exposure to risks at work - Disseminate the culture of risk prevention through systematic and effective training - Promote the protection not only of oneself, but also of colleagues and third parties - Encourage the diffusion of products with security systems	- Charter of Values - Manual of the Integrated Management System of Health and Safety, Environment and Energy in compliance with ISO 14001, ISO 50001 and OHSAS 18001 standards
Anti-corruption	
Basic principles - Raise awareness among all those who work for Sabaf so that they behave correctly and transparently in the performance of their activities - Comply with local anti-corruption regulations	- Group Anti-Corruption Policy - Organisation, management and control Model pursuant to Legislative Decree 231/2001
Social / Supply chain	
Basic principles - Ensure absolute impartiality in the choice of suppliers - Establish long-term relationships based on fairness in negotiations, integrity and contractual fairness	- Charter of Values

The Charter of Values and the Anti-Corruption Policy are applied and disseminated in all Group companies.

Sabaf S.p.A. adopts a Social Responsibility Management System certified and compliant with the SA8000 standard and an integrated management system of Health and Safety, Environment and Energy certified and compliant with ISO 14001, ISO 50001 and OHSAS 18001 standards.
Farginosi Hinges s.r.l. adopts a Health and Safety management system certified and compliant with OHSAS 18001 standard.
In any case, the ISO 14001, OSHAS 18001, ISO 50001 and SA8000 standards are sources of reference and inspiration for the entire Group.

The Organisation, Management and Control Mode pursuant to Legislative Decree 231/2001 is adopted by Sabaf S.p.A. and Faringosi Hinges s.r.l.

Vision

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

Mission

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

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

Business model

Strategic pillars of Sabaf's Business Model

In line with its shared values and mission, Sabaf believes that there is a successful industrial and cultural model to be consolidated both through organic growth and growth through acquisitions.
The distinctive features of the Sabaf model are set below:

Innovation
Innovation represents one of the essential elements of Sabaf's industrial model and one of its main strategic levers. Thanks to continuous innovation, the Group has managed to achieve excellent results, identifying technological and production solutions that are among the most advanced and effective currently available and establishing a virtuous circle of continuous improvement of processes and products, until acquiring technological competence with characteristics that are difficult to match for competitors. The know-how acquired over the years in the development and internal production of machinery, tools and presses, which is integrated synergistically with the know-how in the development and production of our products, represents the critical success factor of the Group. With the acquisition of Okida, Sabaf has also acquired a strong electronic know-how that, together with the traditional and strong mechanical skills, can further expand the business spaces for the Group.
The investments in innovation allowed the Group to become a world leader in a highly specialised sector and to achieve high levels of technological development, specialisation and production flexibility over time. The production sites in Italy and abroad are designed to guarantee products according to the highest levels of technology available today and represent a cutting-edge model both for environmental protection and safety of the employees.

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

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

Success on international markets and partnerships with multinational groups
Sabaf pursues its growth through its success in international markets by trying to replicate its industrial model in emerging countries and adapting it to the local culture.
In line with its reference values and mission, the Group is seeking to bring know-how and cutting-edge technologies to these countries, operating in full respect of human rights and the environment and in compliance with the United Nations Code of Conduct for Transnational Corporations. This choice is driven by the awareness that only by operating in a socially responsible way it is possible to ensure long-term development of industrial experience in emerging markets.

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

Widening the range of components and development through acquisitions

The continuous expansion of the range aims to increase customer loyalty through the widest satisfaction of market requirements. The possibility of offering a complete range of components is an additional distinguishing feature for Sabaf compared to its competitors. In order to sustain a dynamic growth path, the Group intends to extend its product range to other components for household appliances. This expansion is pursued both through internal research and through growth through acquisitions, assessing opportunities for partnerships and acquisitions of other companies. Examples of this are the acquisition of a controlling share in A.R.C. s.r.l. in 2016 and 100% in Okida in 2018, through which Sabaf entered the professional burners and electronic components for household appliance sectors.

Enhancement of intangible assets and of its intellectual capital

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

Business model*

Economic capital:

- Net financial debt € 53,524,000
- Shareholders' Equity € 119,347,000
- Invested capital € 172,870,000
- Market capitalisation at 31 December /Shareholders' Equity 1.44

Economic capital:

- Sales revenue +0.3%
- EBITDA as a percentage of sales 19.9%

Human capital:

- Employees 760
- Advanced education: employees with a degree or diploma 59.6%
- Training hours by employee22.3
- Investments in training on turnover 0.33%

Human capital:

- No. of new employees 90
- Leaving turnover 10%
- Strike hours on hours worked 0.07%
- Injury frequency rate 23.5
- Injury lost day rate 0.17

Business approach:

1. Innovation, enhancement of internal resources and continuous learning
2. Internationalisation
3. Quality, internal and external safety, eco-compatibility
4. Sustainability

Relational capital:

- Turnover from the top 10 customers 45%
- No. of Customers 371
- Purchases from suppliers in the province of Brescia 30.8%

Relational capital:

- Average turnover by customer €353,000
- Customer complaints 398
- Lawsuits filed against Group companies 3
- No. of samples for customers 1,244

Productive capital:

- Production sites 6
- Real investment on turnover 7.5%
- Value of property, plant and equipment € 75,168,000

Productive capital:

- Burners sold No. of Parts 34,657,000
- High efficiency burners 21.9%
- Valves and thermostats sold No. of Parts 19,393,000
- Light alloy valves and thermostats sold 90.6%

Distinctive features:

Internal and verticalised production of:

- components and products
- machinery, tools and presses

based on specific know-how

Environmental capital:

- Brass 789t
- Aluminium alloys7,831t
- Steel 7,861t
- Electricity consumed 30,255MWh
- Natural gas consumed 3,918,000m^3
- Water used 139,840m^3

Environmental capital:

- Waste to value of production 0.22
- CO2 emissions 18,520t

Products:

- Valves and thermostats
- Burners
- Hinges
- Accessories
- Electronic components

Intellectual capital:

- Hours dedicated to the development of new products 1.3%
- Hours dedicated to process engineering 2.5%

Intellectual capital:

- No. of Patents 48
- No. of codes provided to the first 10 customers1,939
- Impact of quality current expenditure on turnover 0.17%

*data includes Okida only as far as economic capital is concerned.

Generated and distributed economic value

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

(thousands of Euro)	2018	2017	Change
Economic value generated by the Group	**160,054**	**155,408**	**4,646**
Revenue	150,642	150,223	419
Other income	3,298	3,325	(27)
Financial income	373	214	159
Value adjustments	1,600	1,474	126
Bad debt provision	(421)	(93)	(328)
Exchange rate differences	5,384	274	5,110
Income/expenses from the sale of property, plant and equipment and intangible assets	28	(12)	40
Value adjustments to property, plant and equipment and intangible assets	(850)	0	(850)
Profits/losses from equity investments	0	3	(3)
Economic value distributed by the Group	**137,515**	**133,063**	**4,452**
Remuneration of suppliers	90,219	88,636	1,583
of which for environmental expenses	667	580	87
Remuneration of employees	34,840	35,328	(488)
Remuneration of lenders	1,206	804	402
Remuneration of shareholders[5]	6,071	5,386	685
Remuneration of the Public Administration[6]	5,163	2,888	2,275
External perks	16	21	(5)
Economic value retained by the Group	**22,539**	**22,345**	**194**
Depreciations and amortisation	12,728	12,826	(98)
Provisions	155	26	129
Use of provisions	(71)	(36)	(35)
Reserves	9,727	9,529	198

5 The amount is estimated on the basis of the proposed dividend
6 Includes deferred taxes

Sabaf 4.0

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

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

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

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

Sabaf and the lean philosophy

Japanese model, lean production, total quality. These are the formulas by which the manufacturing industry tries to keep up with the times, with the global challenges that make the market uncertain and competitive advantages not acquired forever. **Sabaf has been committed to the philosophy of continuous improvement for some time and applies, both in the factory and in the office, many techniques typical of lean manufacturing and lean office.** This is a necessary way not to lose market share in a reality made complicated by the difficult economic moment, not only for the household appliances sector. We also know that continuous improvement is an objective that must concern everyone, at all levels. If we want to keep up with the times, everyone must **make every effort to do excellently what they already know how to do well.** Everyone is invited to bring out their own skills and to share their experience and knowledge with others.

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

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

The acquisition of Okida

On 4 September 2018, the Turkish company Okida Elektronik joined the Sabaf Group. The acquisition was carried out through the Turkish subsidiary Sabaf Turkey for 70% and directly by Sabaf S.p.A. for the remaining 30%.

Okida was founded in Istanbul in 1987 by Mr. Gurol Oktug and is a leader in Turkey in the design, manufacture and sale of electronic control boards, timers, display and power units for ovens, hoods, vacuum cleaners, refrigerators and freezers.

The acquisition of Okida represented the first step towards the implementation of the 2018-2022 Business Plan, in line with the strategy of expanding the product range in components for household appliances and the acquisition of e-skills.

Over the years, the Company has been characterised by a constant growth and a profitability stable at levels of excellence. In 2018, Okida achieved sales of € 11.1 million, of which 40% directly abroad. At 31 December 2018, the Company had 94 employees (59 men and 35 women), 15 of whom were in Research and Development. The average age of the personnel is 35 years old.

Governance of Social Responsibility and Stakeholder Engagement

Social responsibility in business processes

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

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

The precautionary approach

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

Stakeholder engagement

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

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

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

Stakeholder	Stakeholder engagement initiatives undertaken
Employees	▪ Employee satisfaction survey and climate analysis ▪ Meetings with employees ▪ Meetings with trade unions
Customers	▪ Customer Satisfaction Survey
Suppliers	▪ Questionnaire ▪ Regular meetings
Shareholders	▪ Questionnaire dedicated to financial analysts and investment fund managers ▪ Meetings with ethical fund managers
Community and Public Administration	▪ Multi-stakeholder meetings ▪ Dialogue with universities
Lenders	▪ Regular dialogue
Competitors	-

In 2018, in addition to the stakeholder engagement activities that take place on an ongoing basis, employee satisfaction and corporate climate was analysed in Sabaf S.p.A.

Sabaf complies with the Code of Conduct of CECED

Sabaf complied with the code of conduct of CECED (The European Committee of Manufacturers of Domestic Equipment), an association representing over 280 companies in the household appliances industry.

The **CECED Code of Conduct** confirms the commitment of the European household appliance industry to **ethical** and **fair** behaviour. The Code aims to promote fair and sustainable standards in **working conditions** and **environmental protection** to support **fair competition** in **global markets**. The producers complying with the Code commit themselves **voluntarily** to implement decent working conditions, which include compliance with common standards regarding **minimum age**, **working hours**, **hygiene and safety conditions**, respect for **freedom of association** and **collective bargaining**, as well as respect for **environmental standards**. The signatory companies also undertake to **raise awareness** among their **suppliers** of the principles of the Code of Conduct and encourage them to pursue them. They also require that the same principles be proposed to the whole supply chain through the latter.

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

Sabaf complies with the Global Compact
In April 2004, Sabaf complied formally with the Global Compact, the United Nations initiative for companies that commit to upholding and promoting the ten universally accepted principles of human rights, labour rights, environmental protection and anti-corruption. With the publication of the 2018 Annual Report, we renew our commitment to making the Global Compact and its principles an integral part of our strategy, culture and day-to-day operations, and we also commit to explicitly declare our commitment to all employees, partners, customers and the general public.
The consolidated disclosure of non-financial information sets out in detail the actions taken by the Sabaf Group in support of the ten principles.

The 10 principles of the Global Compact
Human rights
Principle I
Businesses should support and respect the protection of internationally proclaimed human rights; and
Principle II
make sure that they are not - even if indirectly - complicit in human rights abuses.
Labour
Principle III
Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining
Principle IV
The elimination of all forms of forced and compulsory labour.
Principle V
The effective abolition of child labour.
Principle VI
The elimination of discrimination in respect of employment and occupation

Environment
Principle VII
Businesses should support a precautionary approach to environmental challenges and
Principle VIII
undertake initiatives to promote greater environmental responsibility; and
Principle IX
encourage the development and diffusion of environmentally friendly technologies.

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

Materiality analysis

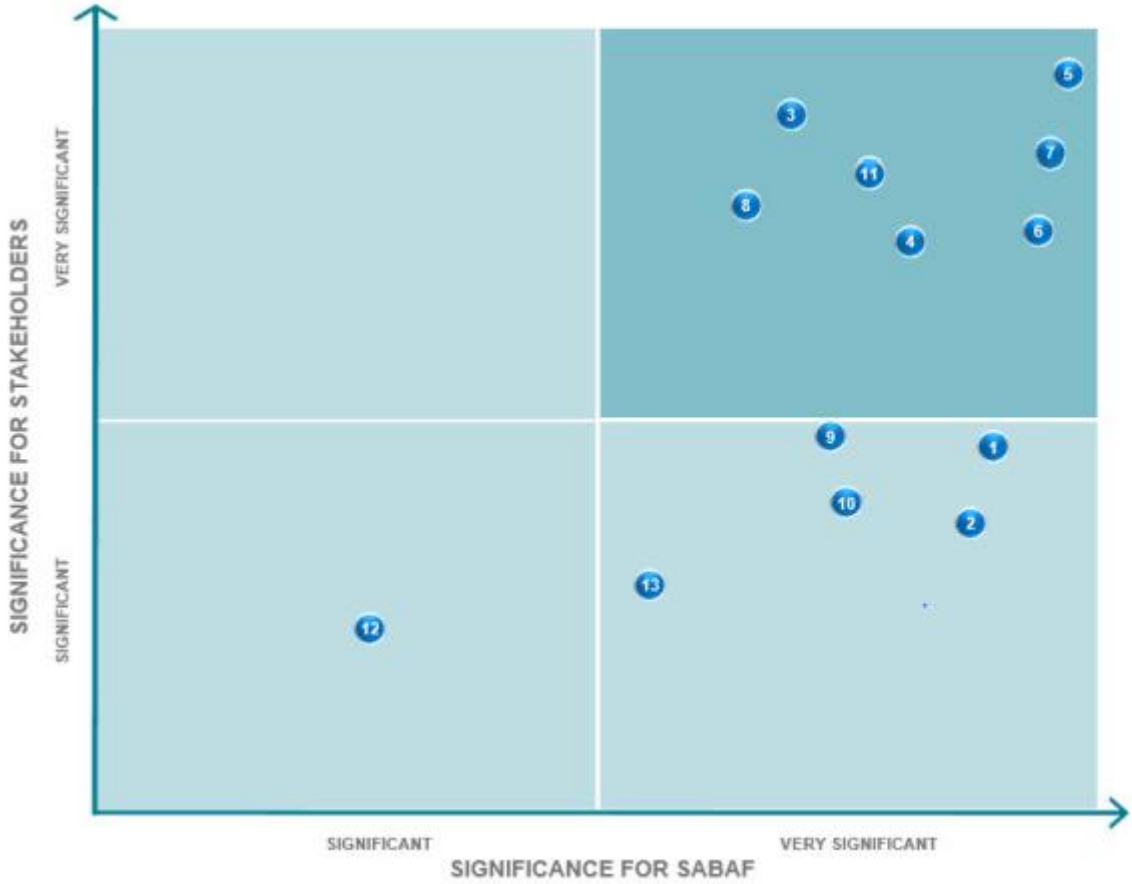
The GRI Standards require that the contents of the Consolidated disclosure of non-financial information be defined on the basis of a materiality analysis. In compliance with the requests of GRI Standards, Sabaf has started since 2014 a process of identifying the (relevant) material aspects to be reported, i.e. those aspects:

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

From this perspective, materiality takes into consideration not only the point of view of the organisation but also that of stakeholders.
The most relevant aspects were updated in 2017 and confirmed in 2018, taking into account the business priorities and the development of the external scenario.

It is noted that in defining material aspects, the following topics are considered preconditions for operating and are therefore considered very important for both Sabaf and its stakeholders:
a) creation and distribution of sustainable value over time (Economic Performance GRI 201);
b) a transparent and effective governance system to support business (Governance structure GRI 102-18);
c) constant attention to compliance with the law in the performance of its activities[7] (Anti-Corruption GRI 205 e Environmental Compliance GRI 307).

Materiality matrix[8]



7 This includes the fight against corruption, which is an essential aspect of managing the Group's business and therefore included in the preconditions, and is discussed in this document in the section "Corporate Governance, Risk Management and Compliance".
8 Only the topics considered relevant by the organisation and subject matter of reporting are represented

Material aspects

ID	Material aspect	Importance of the aspect for Sabaf	Link to the Aspects of GRI Standards	Internal impacts	External impacts (*)
1	Personnel training	Training activities with the aim of guaranteeing the continuous professional growth of employees	Training and education GRI 404	Sabaf	
2	Industrial relations	Relations between Sabaf and the internal trade union representatives, based on the principles of transparency and mutual correctness	- Freedom of Association and Collective Bargaining GRI 407 - Labour Management Relations GRI 402	Sabaf	Trade unions
3	Remuneration and incentive policy	Definition of fixed and variable components of remuneration for employees Incentive system based on the achievement of pre-established targets in order to pursue company targets	- Market presence GRI 202 - Training and education GRI 404	Sabaf	Trade unions
4	Emissions into the atmosphere, waste and management of environmental impacts	Definition of monitoring and reduction activities of emissions of polluting substances into the atmosphere and of waste generated by the production processes of Sabaf	- Energy GRI 302 - Emissions GRI 305 - Effluents and waste GRI 306	Sabaf	Suppliers
5	Research and innovation of products and processes also with reference to safety and environmental performance	Identification of new technological and production solutions (also with a special attention to safety and environmental performance) that allow the Group to strengthen its leadership in the industrial sector to which it belongs	Customer Health and Safety GRI 416	Sabaf	Customers
6	Partnership with multinational groups	Sabaf's opening to strategic collaborations with the main players in the sector	(**)	Sabaf	
7	Organic growth and growth through acquisitions	Boost the Group's expansion, both through organic growth and through acquisitions, maintaining the excellence of its economic results and preserving its financial solidity.	Employment GRI 401	Sabaf	
8	Customer satisfaction and customer support	Ability to respond effectively to customer expectations, at all stages of the relationship (from design to after-sales service)	(**)	Sabaf	
9	Production quality and efficiency	Search for better product or process performance and solutions in terms of environmental impact Designing new eco-efficient products	Please refer to aspects 4 and 5	Sabaf	
10	Management of relations with suppliers, supplier assessment and contractual conditions	Sabaf's commitment to defining a relation with the supply chain based on the principles of fairness in negotiations, integrity and contractual fairness Sharing corporate values with suppliers Sabaf defines minimum criteria for the creation of a lasting relationship with suppliers, based on the principles of social responsibility	Supplier Social Assessment GRI 414	Sabaf	Suppliers
11	Health and safety of personnel and contractors	Management, in compliance with the regulations on occupational health and safety, of topics related to the health and safety of	Occupational Health and Safety GRI 403	Sabaf	Suppliers

		workers: training, prevention, monitoring, improvement objectives.			
12	Diversity and equal opportunities	Commitment to ensuring equal opportunities for women and protected categories.	Diversity and Equal Opportunity GRI 405	Sabaf	
13	Protection of Human and Workers' Rights	Protection of human rights as provided for in the "Universal Declaration of Human Rights" and the principles laid down in the conventions of the International Labour Organisation. Socially responsible management of work processes and working conditions in the supply chain according to the requirements of the SA8000 standard.	- Non-discrimination GRI 406) - Supplier Social Assessment GRI 414	Sabaf	Suppliers

(*) Reporting is not extended to the external boundary
(**) With regard to these aspects (not directly related to a Material Topic envisaged by the GRI Standards Guidelines), Sabaf indicates in the document the adopted management approach

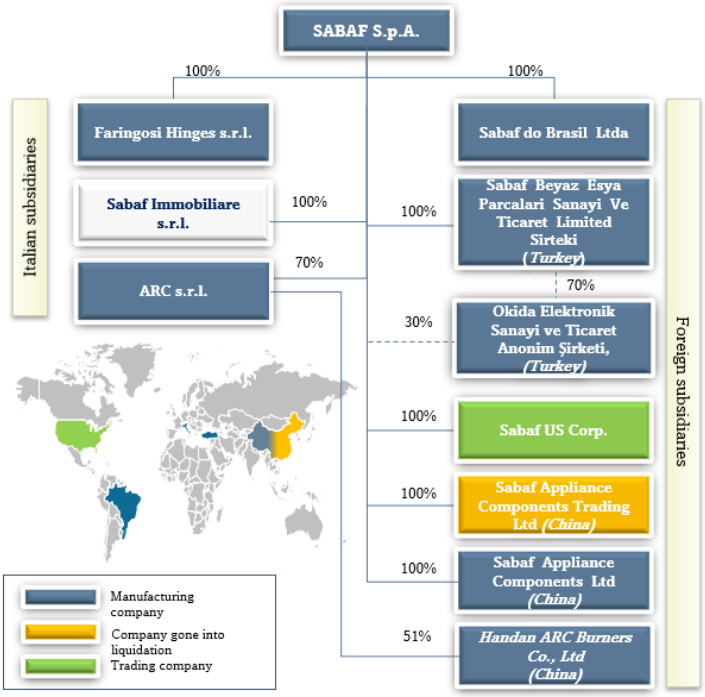
Corporate Governance, Risk Management and Compliance

Corporate Governance

Overview

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

The purpose of this section of the file is to highlight the choices made by Sabaf and the peculiarities of its governance system, revised in the light of the new features introduced by the Corporate Governance Code. Where possible, a comparison with other listed companies is also provided, using the information collected by Assonime in its document Notes and Studies "Corporate Governance in Italy: self-discipline, remuneration and compliance-or-explain", published in January 2019 and concerning the Corporate Governance reports for the 2017 financial year of 225 listed Italian companies, available at 15 July 2018, 91% of which (i.e. 205 companies) has formally chosen to comply with the Corporate Governance Code. The benchmark used below takes into account, where available, a panel of "non-financial" companies only.
Finally, a further comparison is provided on the composition and operation of the Board of Directors, using the data provided by the 2018 Italia Board Index Observatory, published by Spencer Stuart, which analyses the characteristics and operation of the Boards of Directors of the top 100 listed Italian (industrial and financial) companies in order of capitalisation as of February 2018, as well as providing a comparison with the main European and non-European countries.
The information below is a summary but does not replace the "Report on corporate governance and ownership structure" prepared by the Issuer pursuant to Art. 123-bis of the TUF for 2018 and available on the Company's website: www.sabaf.it, under the section Investors/Corporate Governance.



The Group operates through manufacturing and commercial companies in Italy and abroad, wholly or partially controlled by the Parent Company.

Specifically:

a) Production activity is carried out by:
- the Parent Company Sabaf S.p.A., valves and burners,
- the Italian company FaringosiHinges, hinges for household appliances,
- the subsidiary in Brazil, burners,
- the subsidiary in Turkey, burners,
- the subsidiary Sabaf Appliance Components in China, burners (production started in 2015),
- the subsidiary ARC s.r.l., professional burners (acquired in 2016) and that controls ARC Handan, a joint venture set up to develop the production and sales of professional burners in China
- the subsidiary Okida (acquired in 2018), electronic control boards, timers, display and power units for ovens , hoods, vacuum cleaners, refrigerators and freezers.

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

c) The subsidiary Sabaf Appliance Components Trading (China) is going into liquidation.

d) The company Sabaf Immobiliare is engaged in the management of the real estate assets.

The Governance Structure

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

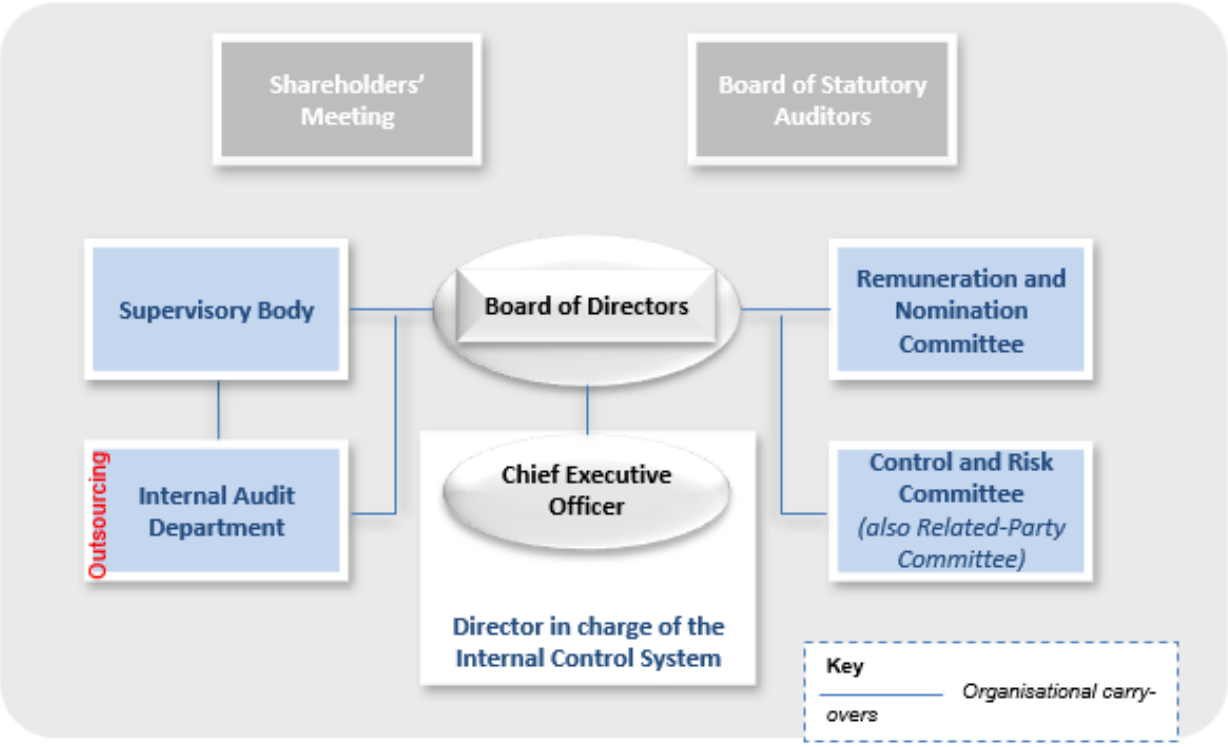
- ***Shareholders' Meetings*** (ordinary and extraordinary) called to pass resolutions pursuant to the laws in force and the Company's Bylaws;
- ***Board of Statutory Auditors***, in charge of supervising: *(i)* compliance with the law and Articles of Incorporation and adherence to principles of proper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

This model is supplemented, in accordance with the provisions of the Corporate Governance Code the Company complied with, by:
a) the Committees set up by the Board of Directors within its members, each one with proposal and advisory functions on specific matters and without decision-making powers, such as:

- ***Control and Risk Committee*** that also takes on the functions of the Related-Party Committee;
- ***Remuneration and Nomination Committee*** that takes on the functions envisaged by the Remuneration Committee and integrates them with those relating to the appointment and composition of the control bodies indicated by the Code;

b) the ***Internal Audit department*** in charge of checking the operation and adequacy of the internal control and risk management system.
Finally, the Group's administration and control model is completed by the presence of the ***Supervisory Body***, set up following the adoption of the organisation, management and control model pursuant to Legislative Decree 231/2001, adopted by Sabaf since 2006.

The Governance Structure



Board of Directors

The Board of Directors currently in office is composed of 9 members including: (i) 3 executive directors, (ii) 2 non-executive director and (iii) 4 non-executive and independent directors.

	OFFICE	MEMBERS
Executive Directors	Chairman	Giuseppe Saleri
	Chief Executive Officer	Pietro Iotti
	Executive Director	Gianluca Beschi
Non-Executive Directors	Vice Chairman	Nicla Picchi
	Director	Daniela Toscani
	Director	Stefania Triva
	Director	Renato Camodeca*
	Director	Alessandro Potestà
	Director	Claudio Bulgarelli

Composition of the Board of Directors

Independent Directors pursuant to TUF and Code

Lead Independent Director

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

**Renato Camodeca resigned on 23 January 2019. The BoD appointed by co-optation Carlo Scarpa.*

Giuseppe Saleri
Chairman
Founder of Sabaf, of which he acquired full ownership in 1993. Promoter of listing on the stock exchange in 1998.

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

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

Daniela Toscani
Director
Degree in business finance, she has gained many professional experiences in the field of finance and held positions of increasing responsibility in many financial and industrial companies; she joined the BoD of Sabaf in 2018.

Gianluca Beschi
Executive Director
Certified public accountant, at Sabaf since 1997 as Investor Relations Manager and Head of Management Control. He has been holding the position of Director of Administration, Finance and Control since 2012.

SABAF
We burn for technology and safety.

Claudio Bulgarelli
Director
Degree in Mechanical Engineering, entrepreneur, chairman of Fintel srl , joined the BoD of Sabaf in 2018.

Renato Camodeca
Director
He is a university professor of economics, a former member of the Boards of Statutory Auditors and of the Supervisory Boards of listed and unlisted companies.

Stefania Triva
Director
Entrepreneur, since 2014 she has been holding the position of Chairman and CEO of Copan Italia S.p.A., she joined the BoD of Sabaf in 2018.

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

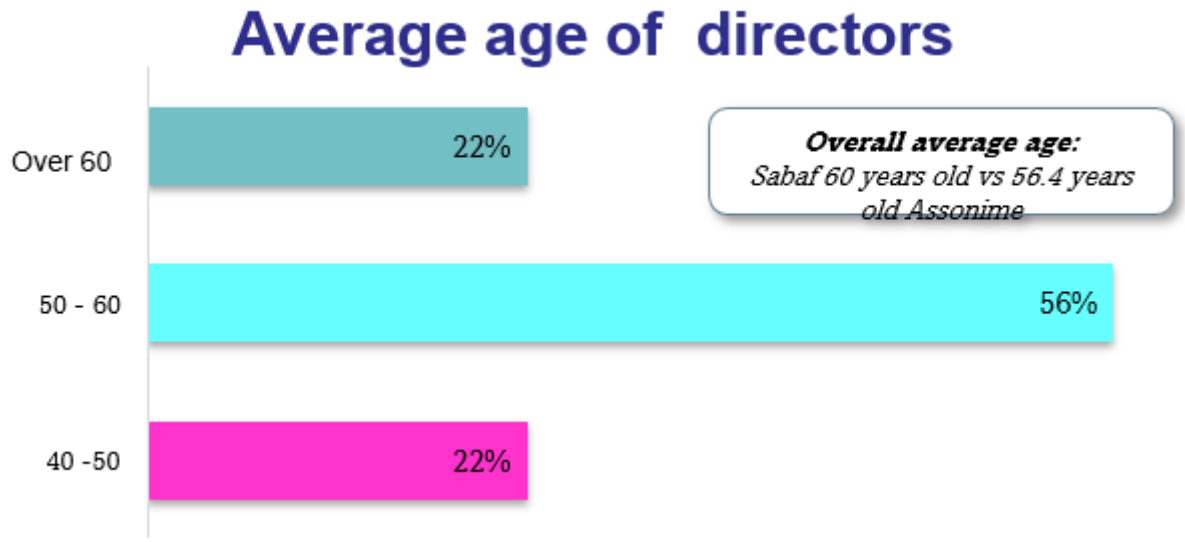
Policy on the composition of corporate bodies

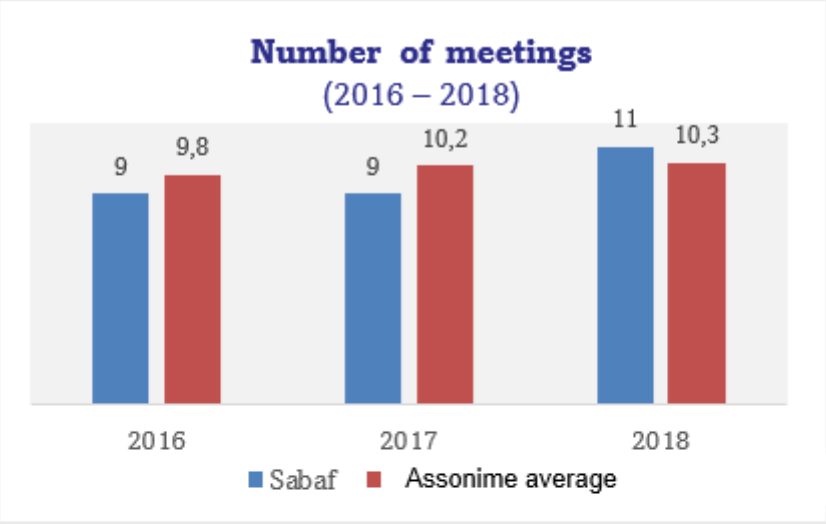
On 26 March 2018, the Board of Directors of Sabaf S.p.A. adopted a Policy on the composition of the Corporate Bodies
This Policy sets out the Company's guidelines on the characteristics considered functional to ensuring an optimal composition of the corporate bodies (Board of Directors and Board of Statutory Auditors), with the aim of guiding the names put forward by the Shareholders when renewing the Corporate Bodies, so that the benefits that can derive from a balanced composition of the Board and Board of Statutory Auditors inspired by criteria of diversity are taken into consideration.

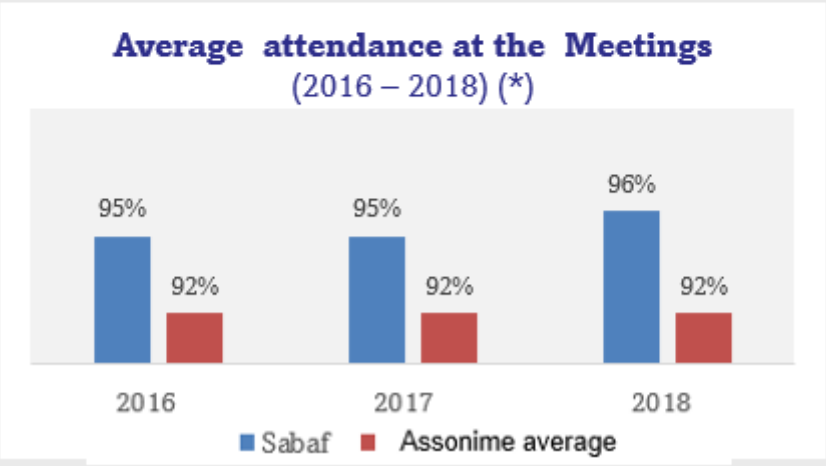
The Policy sets out the following characteristics for the composition of each of the two bodies:

- Independence
- Training and professional experience
- Gender
- Age and seniority in office
- Numbers

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







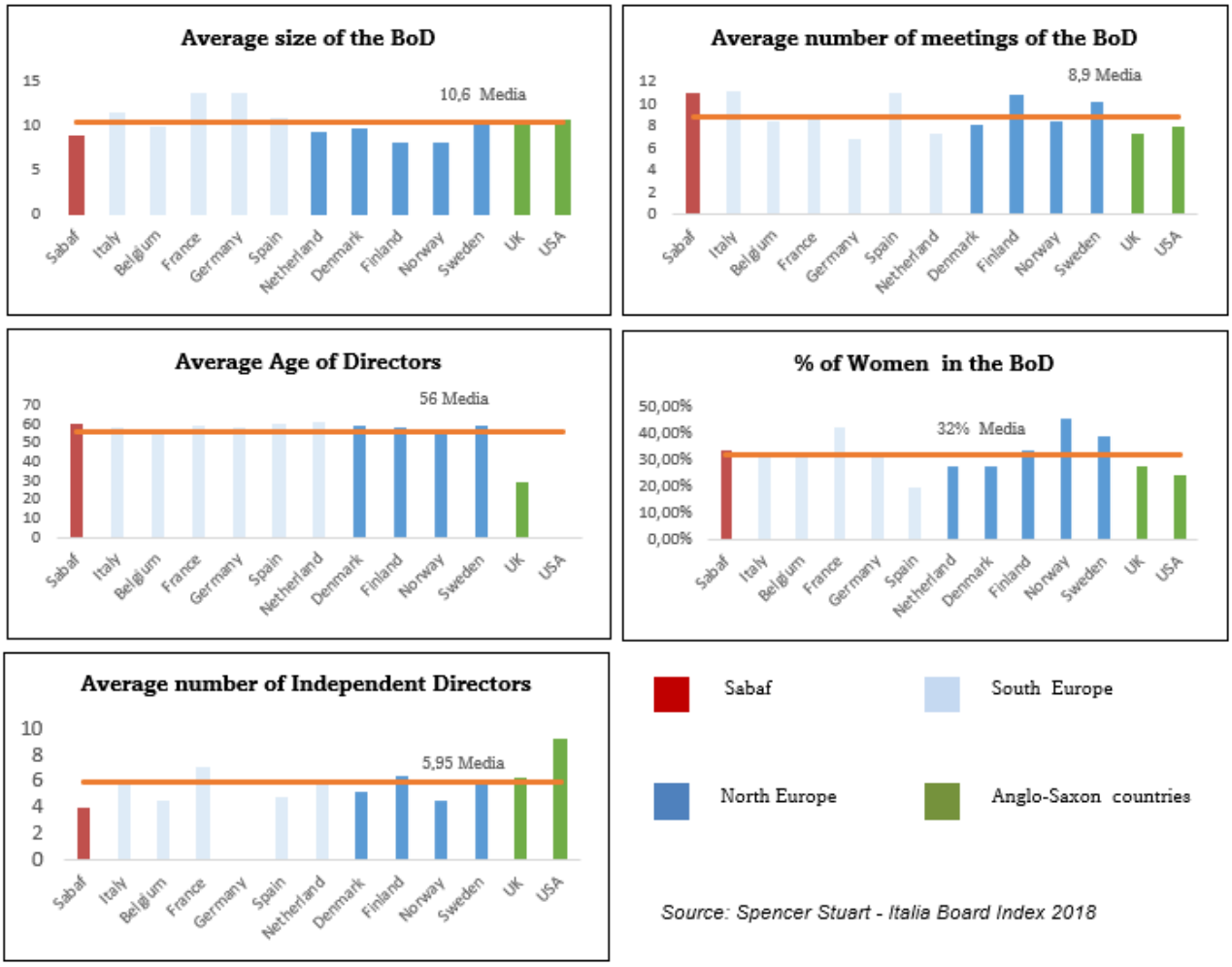
(*) Assonimepanel including financial companies

Observations

56% of the members of the Board in office are between 50 and 60 years old; the average age is slightly higher than the average of the Assonime sample (60 vs 56.4 years old).

In 2018, the Board of Sabaf met on 11 occasions (slightly above the Assonime average), with an average attendance rate of 96%. In general, the attendance of the Sabaf directors at the Board meetings in the last three years is greater than that of the Assonime panel.

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



The comparison was carried out using the data provided by the 2018 Italia Board Index Observatory, published by Spencer Stuart, which analyses the characteristics and operation of the Boards of Directors of the top 100 listed Italian (industrial and financial) companies in order of capitalisation as of February 2018, as well as providing a comparison with the main European and non-European countries.

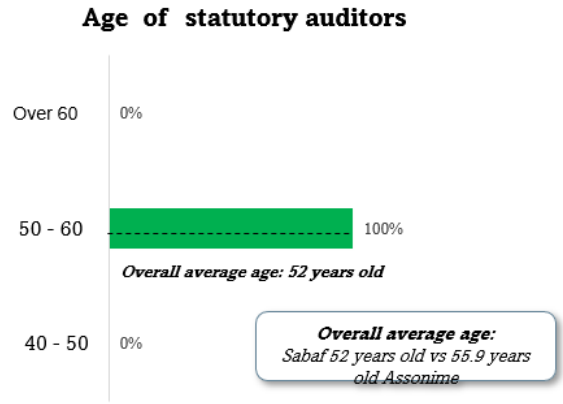
During the financial year, the Board of Directors carried out its assessment of the size, membership (including professional competences, managerial skills and seniority) and operation of the Board of Directors and its Committees, opting for the self-assessment of individual directors, coordinated by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

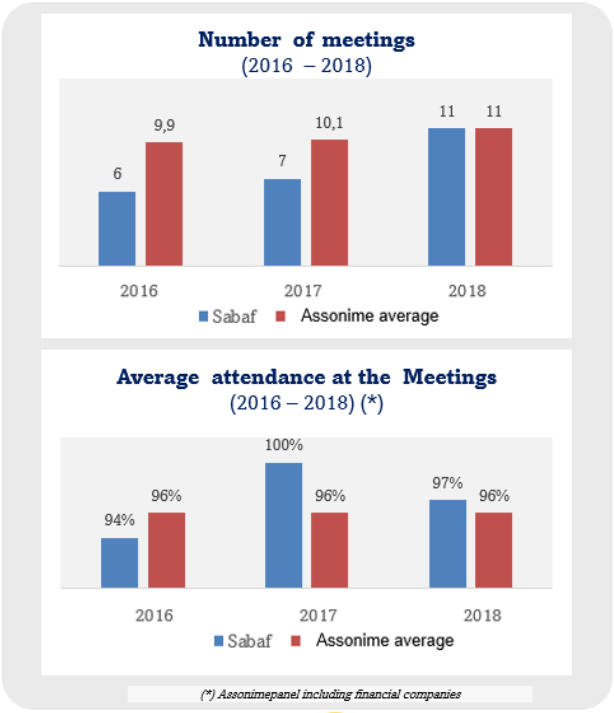
The results of the assessment were generally positive and were discussed at the Board of Directors' meeting of 23 January 2019.

Board of Statutory Auditors

The Board of Statutory Auditors, appointed by the Shareholders' Meeting on 8 9May 2018 for the period 2018 to 2020, is composed of 3 members with an average age of 52 years old (lower than the Assonime average, 55.9 years old). All members of the Board of Statutory Auditors are between 50 and 60 years old.
The Chairman of the Board of Statutory Auditors is the expression of the minority list.

OFFICE	MEMBERS
Chairman	Alessandra Tronconi
Standing Auditor	Mauro Vivenzi
Standing Auditor	Luisa Anselmi





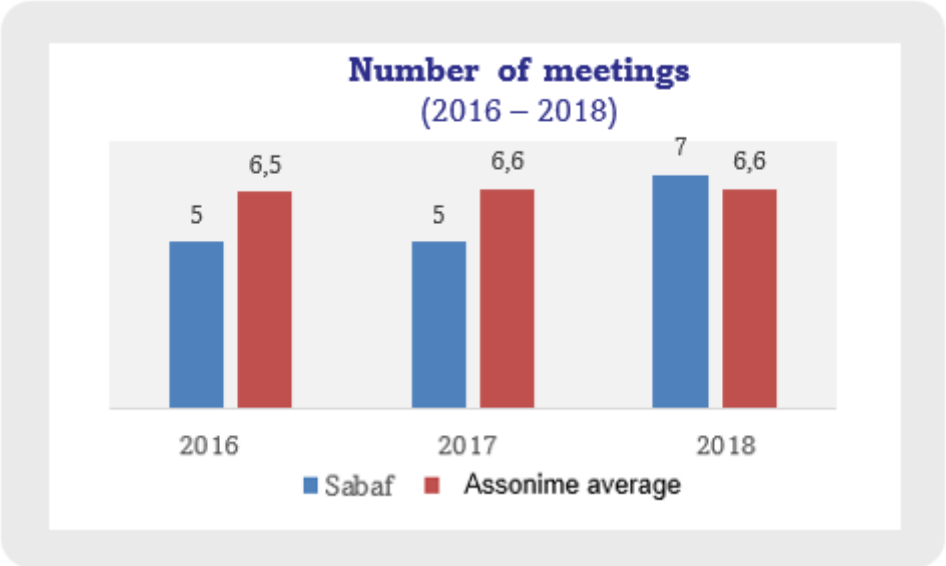
Observations
In line with the average of the Assonime sample, the Board of Statutory Auditors of Sabaf met 11 times in 2018.
The average attendance of members at meetings was 97% in the period 2016 to 2018 (97% in 2018), in line or higher than that of other listed companies of the research.
In general, the commitment of the Board of Statutory Auditors of Sabaf is achieved not only by carrying out checks and attending the periodic meetings required by law, but also by involving all members in the meetings of the Board of Directors and of the Control and Risk Committee, in the half-yearly collective meetings with the Control Bodies and individual meetings with the independent auditors.

9 The *Curriculum Vitae* of each statutory auditor is available on the Company's website

Control and Risk Committee

The Control and Risk Committee currently in office, set up within the Board, is composed of 3 members, in line with the vast majority of cases in the Assonime sample (3 members, 76% in cases). In line with the choice made by about 57% of the Assonime panel, the CRC of Sabaf is made up exclusively of independent directors.
The Committee was also assigned the functions pertaining to the Related-Party Committee.

OFFICE	MEMBERS
Chairman	Nicla Picchi
Member	Daniela Toscani
Member	Renato Camodeca

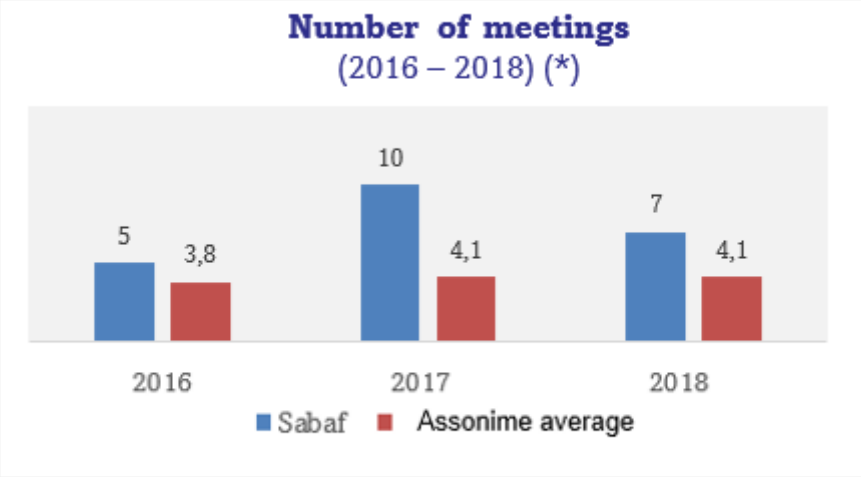


Observations
In 2018, the Committee met on 7 occasions (Assonime average: 7.7 meetings), in line with the average of the Assonime panel.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee, set up within the Board, comprises three non-executive members, the majority of them independent (in line with the choice made by 43% of the Assonime panel), with the knowledge and experience in accounting, finance and remuneration policies that is deemed adequate by the Board of Directors.

OFFICE	MEMBERS
Chairman	Renato Camodeca
Member	Stefania Triva
Member	Alessandro Potestà



(*) Assonime panel referred only to the Remuneration Committee

Observations
In the last three years, the Committee met a number of times higher than the Assonime average. In particular, in the last financial year the Committee met 7 times with the aim of, among other things, analysing the final results of the managerial incentive plan (MBO) for 2017 and preparing the plan for 2018, analysing the final results of the long-term incentive plan (LTI) for the three-year period 2015 to 2017 and preparing the regulations relating to the long-term incentive plan through the assignment of free shares ("Stock Grant Plan").

Governance of sustainability

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

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

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

Within the SA 8000 Certified System, Sabaf S.p.A., in addition to having identified a Head of Social Responsibility Management System, created a Social Performance Team (SPT) made up of Representatives of the Social Responsibility Department and some Workers' Representatives for Social Responsibility, to whom the following tasks are also assigned:

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

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

Internal Audit and Supervisory Body

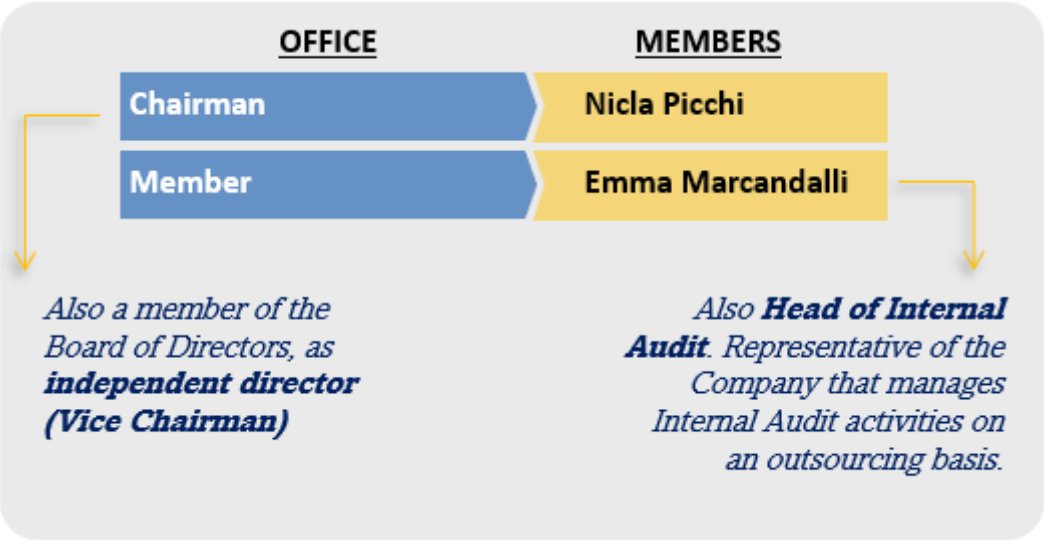
Internal Audit

On 8 May 2018, the Board of Directors, subject to the favourable opinion of the Control and Risk Committee, as well as after hearing the Board of Statutory Auditors, renewed the engagement of an independent external company, Protiviti s.r.l., to carry out the functions of the Internal Audit Department for the period from 2018 to 2020. It then identified Emma Marcandalli, the company's Managing Director, as Head of that department. This choice is related to the greater skills and efficiency that an external subject specialised in internal control issues can guarantee, also taking into account the size of the Sabaf Group.

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

Supervisory Body

The appointment of the Supervisory Body was renewed on 8 May 2018 by the Board of Directors of Sabaf for the period 2018 to 2020; it is composed of a non-executive and independent member and an external member.

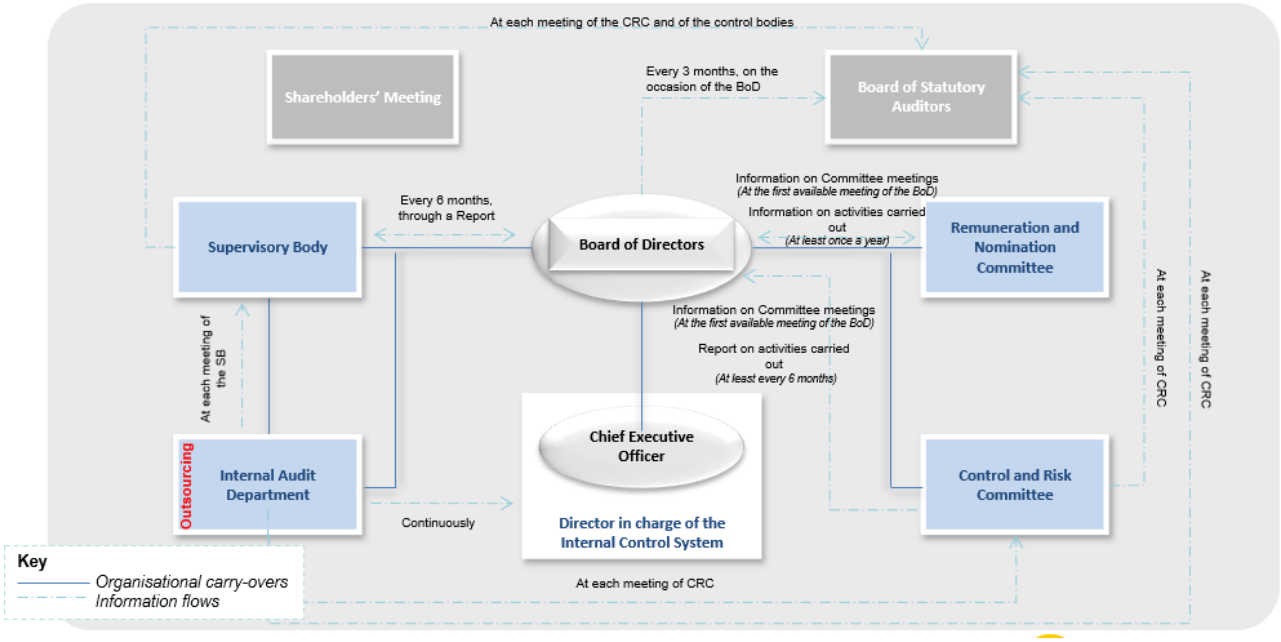


During 2018, the Supervisory Body of Sabaf met 5 times, asking the Company's management to attend the meetings in order to carry out in-depth analysis on specific aspects.

Information flows

The administration and control model of Sabaf operates through a **network of periodic and systematic information** flows between the various corporate bodies.
Each body, according to the timing and methods defined by the Articles of Association, the Governance Model and other internal documents, reports to the functionally superior body on the activities carried out in the reference period and those planned for the following period, any observations noted and suggested actions.

Information flows within the governance structure

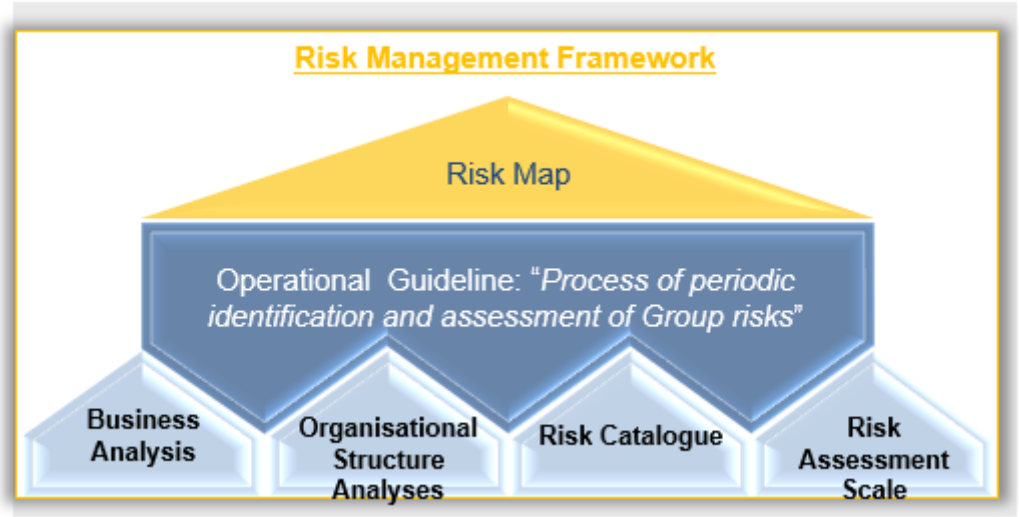


Risk Management

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

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

The risk management process includes all the material aspects identified by the Group as part of the materiality analysis carried out in accordance with the provisions of the GRI Standards.



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

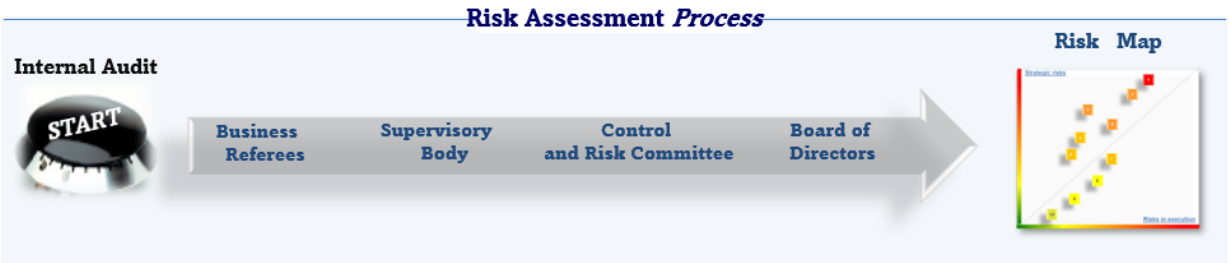
ASSESSMENT SCALES		1	2	3	4
IMPACT	Economic-financial losses	*<€ 0.2 mil*	*€ 0.2 -€ 0.5 mil*	*€ 0.5 -€ 1.2 mil*	*>€ 1.2 mil*
	HSE	Limited damage to health / safety / environment	Moderate damage to health / safety / environment	Serious damage to health / safety / environment	Very serious damage to health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

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

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

In the last quarter of 2018, the Internal Audit Department began the periodic risk assessment process for the identification and assessment of Group risks, with the broad involvement of certain Parent Company department heads, also in their capacity as representatives for the Subsidiaries, each for their respective areas.

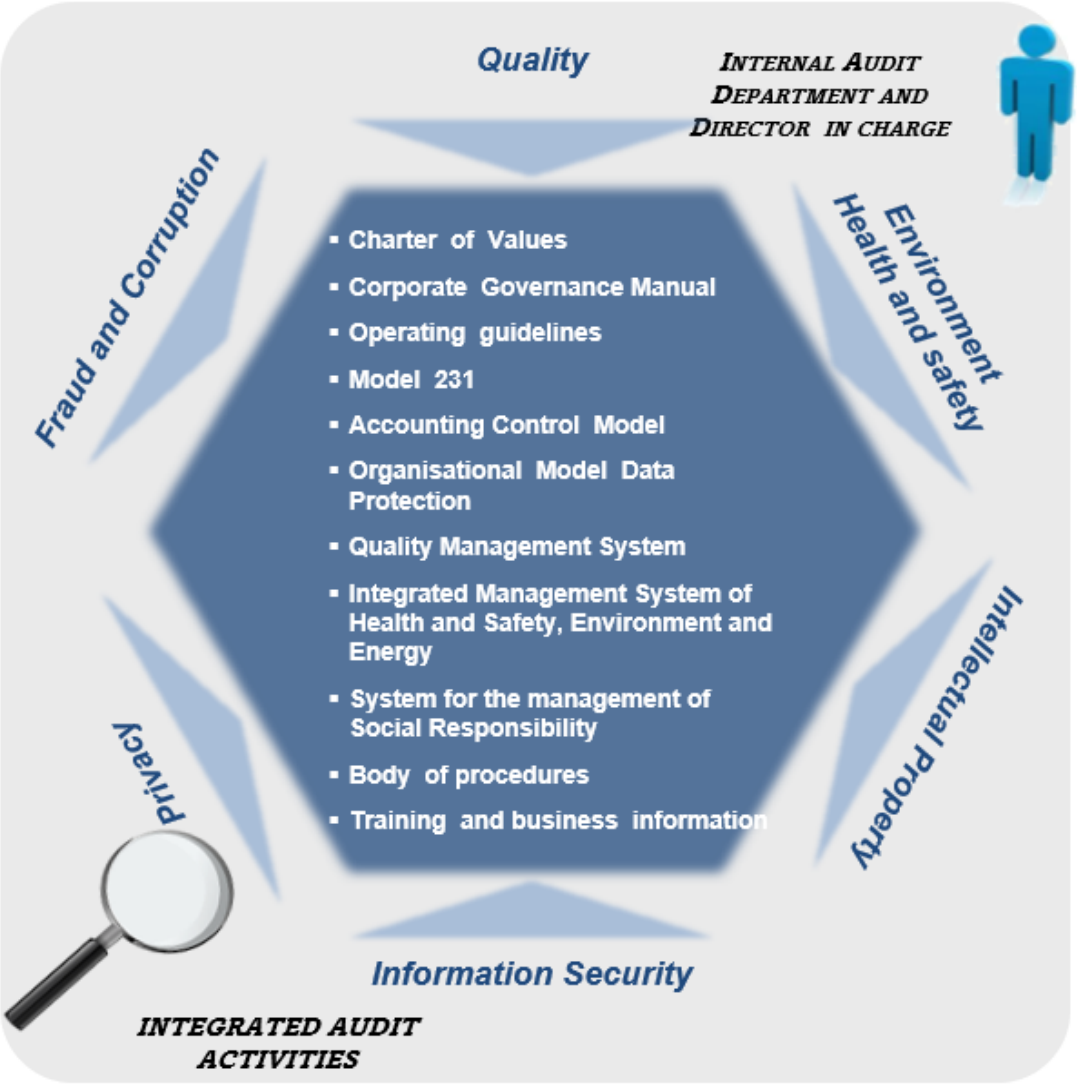
Along the assessment process, which also involves all the control bodies, the risks take shape and are positioned on the map.



Compliance:

Integrated Compliance

Internal control system



The risk management activity carried out by Sabaf also takes into account compliance requirements in order to achieve the company's objectives.
The internal control system is based on the following elements:

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

In particular, Sabaf prepares an integrated and *risk-based Audit Plan, broken down according to specific control objectives (operational risks,* compliance risks with Law 262/2005, Legislative Decree 231/2001, GDPS, security of company information systems, etc.).
The execution of the interventions is assigned, in outsourcing, to a single structure, the Internal Audit, in turn responsible for reporting the results of the activities carried out to the competent control bodies.

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

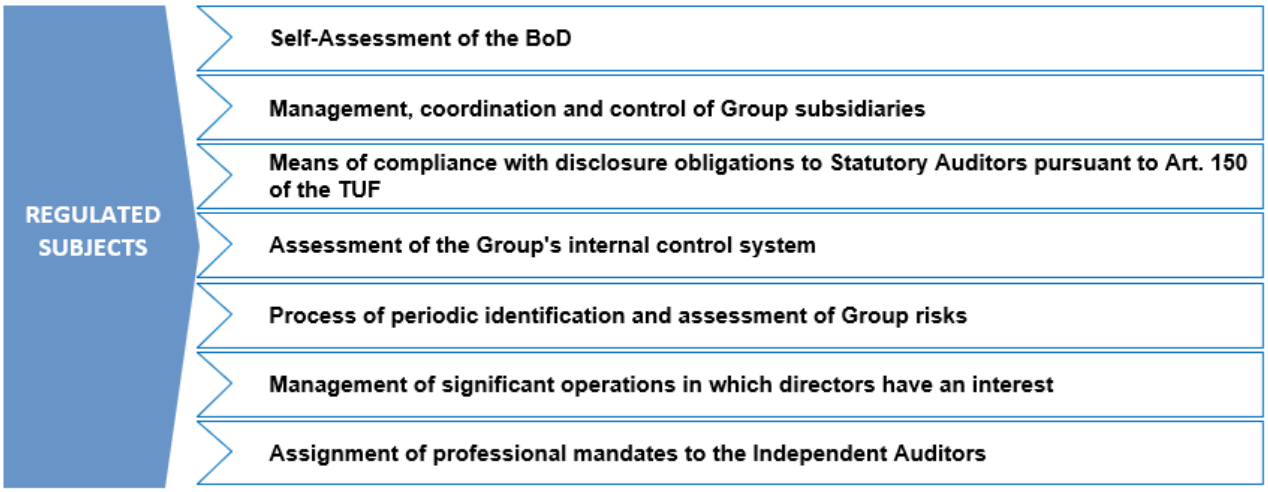
Integrated compliance and the Corporate Governance Manual

Following compliance with the Corporate Governance Code for listed companies and in order to internalise the good governance practices sponsored in this document in its processes, Sabaf adopted a [10] Corporate Governance Manual that regulates principles, rules and operating procedures.

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

The Manual includes some operating guidelines, also approved by the Board of Directors and updated from September 2018, prepared for the purpose of the correct carrying-out of the activities pertaining to Sabaf's management and control bodies.

Operating guidelines



10 The latest version of the document in accordance with the provisions of the Corporate Governance Code, approved by the Board of Directors on 25 September 2018, is available on the Company website, at www.sabaf.it under the Investors - Corporate Governance section.

Integrated compliance and Legislative Decree 231/2001

In 2006, Sabaf S.p.A. adopted the **Organisation, Management and Control Model, as suggested by Legislative Decree 231/2001**[11], aimed at preventing the commission of specific types of offences by employees and/or collaborators in the interest or for the benefit of the Company.
In the following years, the Company, under the supervision of the Supervisory Body, promptly responded to the need to adapt the Model and the control structure to the regulatory changes that had occurred from time to time.
The Company entrusts the Supervisory Body with the task of assessing the adequacy of the Model itself, i.e. its real capacity to prevent offences as well as to supervise the operation and correct observance of the adopted protocols.
In 2008, the subsidiary Faringosi Hinges s.r.l. also adopted Model 231 and appointed the SB, ensuring, in line with the parent company, its proper updating and effective operation.

Activities carried out in 2018

SUPERVISORY BODY

- **Systematic** verifications on the **effectiveness and operations of the Model**, both through checks carried out by Internal Audit and through conversations with personnel involved in sensitive activities.
- **Investigation activities** regarding the occupational health and safety management processes.
- **Information** and **training** for employees concerning specific protocols regulated by the Model.
- In-depth analyses preparatory to the **review and updating of the Model.**

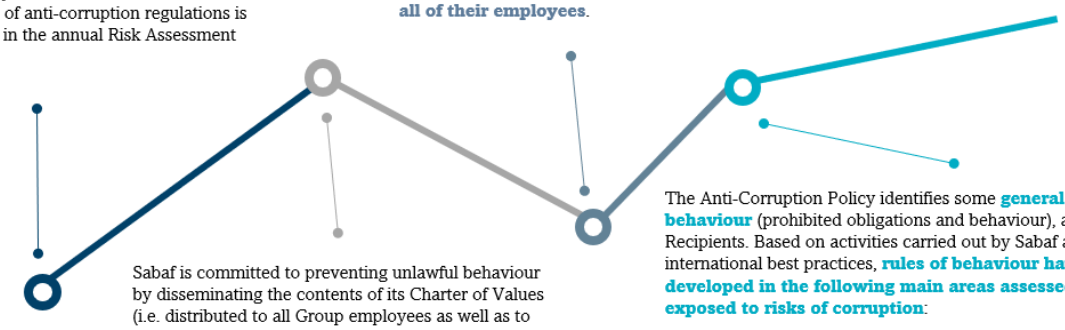
11 The latest version of the document, approved by the Board of Directors on 25 September 2018, available on the Company website, at www.sabaf.it under the Investors - Corporate Governance section

Integrated compliance and Anti-corruption

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

As further confirmation of its commitment to fight against unlawful behaviour, during 2018, Sabaf adopted a **Group Anti-Corruption Policy**. The provisions and guidelines set out in the Policy are intended to **promote the highest ethical standards in all business relationships** in line with national and international best practices.
The Anti-Corruption Policy **applies globally to Sabaf, to the Group's subsidiaries and to all of their employees**.

Risk analysis and assessment in case of violation of anti-corruption regulations is included in the annual Risk Assessment process.



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

The Anti-Corruption Policy identifies some **general principles of behaviour** (prohibited obligations and behaviour), applicable to all Recipients. Based on activities carried out by Sabaf and inspired by international best practices, **rules of behaviour have been developed in the following main areas assessed as potentially exposed to risks of corruption**:

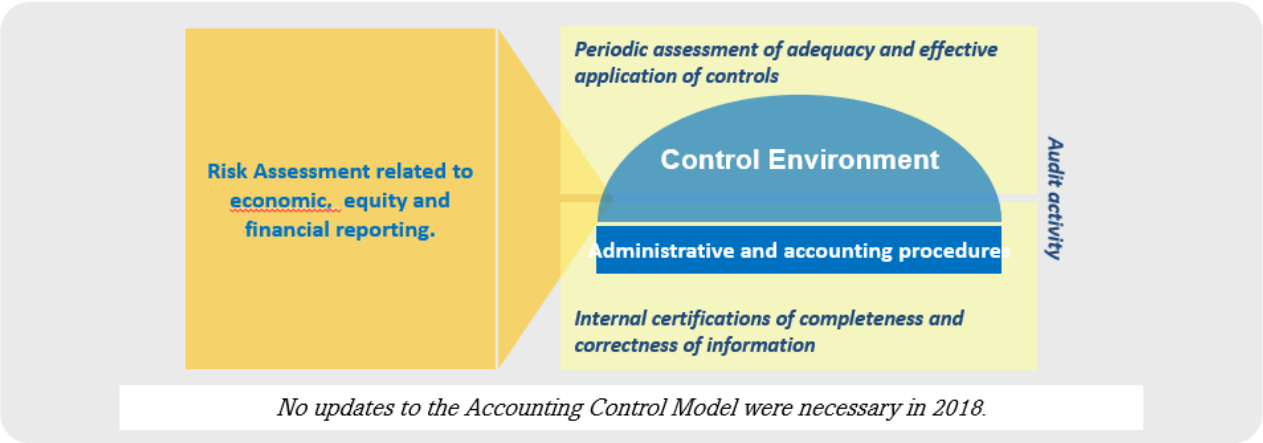
- ✓ Trade relations with intermediaries and agents
- ✓ Trade relations with customers, suppliers and other third parties
- ✓ Relations with trade unions and political organisations
- ✓ Human resource management
- ✓ Management of gifts and presents, entertainment expenses, donations and sponsorships
- ✓ Accounting and financial procedures and controls

In 2018, no episodes of corruption have been recorded.

Integrated Compliance and Law 262/2005

Sabaf considers the Internal Control and Risk Management System for financial information an integral part of its risk management system.
In this regard, Sabaf has integrated the activities relating to the management of the internal control system on financial reporting into its Audit and Compliance process since 2008.
The Group defined its own **Accounting Control Model**, approved for the first time by the Board of Directors on 12 February 2008, subsequently revised and updated.

Elements characterising the accounting control model



No updates to the Accounting Control Model were necessary in 2018.

Sabaf and employees

Risks

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

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

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

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

In order to deal with these potential risks, the Group adopted certified systems for managing social responsibility (compliant with SA8000 standard) for the parent company Sabaf S.p.A. and managing occupational health and safety (compliant with OHSAS 18001 standard) for Sabaf S.p.A. and Faringosi Hinges s.r.l., extending their principles and policies to all Group companies, in order to ensure increasingly coordinated and uniform management of aspects relating to relations with employees.
In this perspective, at the end of 2018, the Group's workforce included the position of Global Group HR Director.

Sabaf also implements structured policies in the following areas:
- selection and recruitment of personnel;
- training;
- internal communication;
- remuneration and incentive systems;
- company welfare;
- industrial relations.

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

Personnel management policy

The Social Responsibility and Health and Safety Management System

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

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

- promote respect for the fundamental human rights of workers in all countries where the Group operates, as identified in the principles established in the SA8000 standard, in the Global Compact and in the Code of Conduct of Ceced, relating to child labour, forced and compulsory labour, occupational health and safety, freedom of association and right to collective bargaining, discrimination, disciplinary procedures, working hours and remuneration criteria;
- carry out their activities by creating a group of motivated people who can operate in a work environment that encourages and rewards fairness and respect for others;
- produce profits without ever losing sight of the respect for the rights of its workers;
- identify and analyse potential hazards and risks in business processes, in order to make workplaces safer and more comfortable;
- avoid any form of discrimination and favouritism during the recruitment phase of personnel, whose selection must be made on the basis of the applicants' profiles meeting the company's requirements;
- value and respect diversity, avoiding any form of discrimination in career advancement on the grounds of gender, sexual orientation, age, nationality, state of health, political opinions, race and religious beliefs at all stages of the employment relationship;
- adopt criteria of merit and competence in employment relationships, based also on the achievement of collective and personal objectives;
- avoid all forms of mobbing of workers;
- enhance the contribution of human capital in decision-making processes, encouraging continuous learning, professional growth and knowledge sharing;
- provide clear and transparent information on the tasks to be carried out and the position held, the performance of the Group and market developments;
- establish a responsible and constructive dialogue with trade unions, fostering a climate of mutual trust in compliance with the principles of fairness and transparency, respecting their roles.

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

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

Sabaf S.p.A. and the SA8000 Standard

Sabaf S.p.A. has been using a Social Responsibility Management System certified and compliant with the SA8000 standard since March 2009. On 21 May 2018, the Company obtained the renewal of the Certification from IMQ.

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

To Sabaf S.p.A. workers through specific training sessions. Understanding the importance of adopting a Social Responsibility System is also facilitated by sharing information material on company electronic noticeboards, on the HR PORTAL workers' portal, on the network and on the company website.

To the trade unions: through awareness and the convinced involvement of trade union workers' representatives is fundamental for the full implementation of the System.

To suppliers, sub-suppliers and sub-contractors, through the signing of a commitment to comply with the requirements of the Standard, an integral part of contracts. Audits are also carried out on suppliers.

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

To the institutions, through the commitment to carry out its activities in order to overcome mere compliance with the law.

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

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

During 2018, no episodes of discrimination were observed at Group level.

Through the process envisaged by the SA8000 standard, with regard to Sabaf S.p.A., no transactions/activities with a high risk of recourse to child labour and forced or compulsory labour or with a high risk of violation of the right of workers to exercise their freedom of association and collective bargaining were identified.
With regard to this last aspect of risks related to suppliers, the SA8000 process involves carrying out a risk analysis and providing a questionnaire for suppliers that include the issue of freedom of association and collective bargaining (for further information, refer to the chapter "The SA8000 standard and suppliers”).

With regards to the other Group companies, there are no structured assessment tools.

The people of the Sabaf Group

The Sabaf Group had 760 employees at 31 December 2018 compared to 756 at the end of 2017 (+0.53%).

	31/12/2018			31/12/2017			31/12/2016		
	M	**W**	**T**	**M**	**W**	**T**	**M**	**W**	**T**
Sabaf S.p.A. (Ospitaletto, Brescia - Italy)	329	174	503	337	177	514	353	180	533
Faringosi Hinges S.r.l. (Bareggio, Milan - Italy)	22	21	43	22	21	43	21	21	42
A.R.C. s.r.l.[12] (Campodarsego, Padua - Italy)	15	4	19	14	4	18	-	-	-
Sabaf do Brasil (Jundiaí - São Paulo - Brazil)	70	17	87	61	16	77	49	17	66
Sabaf Turkey (Manisa - Turkey)	64	36	100	56	40	96	52	34	86
Sabaf Appliance Components (Kunshan) Co., Ltd. (Kunshan, Jiangsu Province – China)	6	2	8	6	2	8	7	2	9
Group total	**506**	**254**	**760**	**496**	**260**	**756**	**482**	**254**	**736**

As regards the types of contract adopted, there are 734 employees with permanent contracts (97.1%) and 26 with fixed-term contracts and in cross training or apprenticeship (3.4%).

Sabaf S.p.A.

	31/12/2018			31/12/2017			31/12/2016		
	M	W	TOT	M	W	TOT	M	W	TOT
Permanent	326	171	497	335	177	512	350	180	530
Cross training or apprenticeship	2	1	3	1	0	1	3	0	3
Fixed term	1	2	3	1	0	1	0	0	0

Faringosi Hinges S.r.l.

	31/12/2018			31/12/2017			31/12/2016		
	M	W	TOT	M	W	TOT	M	W	TOT
Permanent	22	21	43	22	21	43	21	21	42
Cross training or apprenticeship	0	0	0	0	0	0	0	0	0
Fixed term	0	0	0	0	0	0	0	0	0

12 Figures consolidated starting from 2017

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

	31/12/2018			31/12/2017			31/12/2016		
	M	W	TOT	M	W	TOT	M	W	TOT
Permanent	15	4	19	14	4	18	N/A	N/A	N/A
Cross training or apprenticeship	0	0	0	0	0	0	N/A	N/A	N/A
Fixed term	0	0	0	0	0	0	N/A	N/A	N/A

Sabaf do Brasil

	31/12/2018			31/12/2017			31/12/2016		
	M	W	TOT	M	W	TOT	M	W	TOT
Permanent	70	17	87	58	16	74	49	17	66
Cross training or apprenticeship	0	0	0	0	0	0	0	0	0
Fixed term	0	0	0	3	0	3	0	0	0

Sabaf Turkey

	31/12/2018			31/12/2017			31/12/2016		
	M	W	TOT	M	W	TOT	M	W	TOT
Permanent	51	32	83	41	29	70	43	31	74
Cross training or apprenticeship	0	0	0	0	0	0	0	0	0
Fixed term	13	4	17	15	11	26	9	3	12

Sabaf China

	31/12/2018			31/12/2017			31/12/2016		
	M	W	TOT	M	W	TOT	M	W	TOT
Permanent	3	2	5	3	2	5	1	2	3
Cross training or apprenticeship	0	0	0	0	0	0	0	0	0
Fixed term	3	0	3	3	0	3	6	0	6

Group total

	31/12/2018			31/12/2017			31/12/2016		
	M	W	TOT	M	W	TOT	M	W	TOT
Permanent	**487**	**247**	**734**	**473**	**249**	**722**	**464**	**251**	**715**
Cross training or apprenticeship	**2**	**1**	**3**	**1**	**0**	**1**	**3**	**0**	**3**
Fixed term	**17**	**6**	**23**	**22**	**11**	**33**	**15**	**3**	**18**
	506	**254**	**760**	**496**	**260**	**756**	**482**	**254**	**736**

Temporary personnel (with temporary work contract or similar)

TEMPORARY PERSONNEL	2018	2018	2018	2017	2017	2017
	M	W	TOT	M	W	TOT
ANNUAL AVERAGE	**46**	**15**	**61**	**46**	**14**	**60**

In 2018, 9 former temporary workers were hired by the companies of the Sabaf Group (4 in 2017).
In 2018, Sabaf S.p.A. and A.R.C. s.r.l. hosted all-in-all 15 young people in internships (5 in 2017), including 7 students attending secondary school.
In this way, they are offered a first direct contact with the world of work: in this way, they can see the technical knowledge acquired in the classroom applied "on the job".

Breakdown of personnel by age

	31/12/2018	31/12/2017
< 30 years old	13.9%	16.0%
31 – 40 years old	39.9%	40.5%
41 – 50 years old	31.8%	30.7%
over 50 years old	14.4%	12.8%
Total	**100%**	**100%**

The low average age of Group employees (39.7 years old) confirms the strategy of hiring young workers, giving priority to training and internal growth rather than acquiring skills from outside, also in consideration of the specific nature of Sabaf's industrial model.
The minimum age for Group personnel is 22 years old for Italy, 21 years old for Turkey, 18 years old for Brazil and 29 years old for China.

Breakdown of the personnel by length of service

	31/12/2018	31/12/2017
< 5 years	26.7%	24.5%
6 – 10 years	12.9%	18.9%
11 – 20 years	46.7%	45.1%
over 20 years	13.7%	11.5%
Total	**100%**	**100%**

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

Breakdown by department

	2018			2017		
AREA	**M**	**W**	**TOT**	**M**	**W**	**TOT**
Production	289	158	447	301	172	473
Quality	51	31	82	42	32	74
Research and development	65	1	66	66	2	68
Logistics	33	7	40	26	0	26
Administration	9	27	36	10	25	35
Sales	10	12	22	8	12	20
Services	31	10	41	17	11	28
Purchases	8	5	13	8	4	12
Other	10	3	13	18	2	20
TOTAL	**506**	**254**	**760**	**496**	**260**	**756**

Recruitment policy

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

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

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

Breakdown by qualification

QUALIFICATION	2018				2017			
	MEN	WOMEN	TOTAL		MEN	WOMEN	TOTAL	
Degree	74	33	107	14.1%	64	29	93	12.3%
High school leaving diploma	257	89	346	45.5%	248	92	340	45.0%
Middle school leaving certificate	174	131	305	40.1%	180	134	314	41.5%
Elementary school leaving certificate	1	1	2	0.3%	4	5	9	1.2%
TOTAL	**506**	**254**	**760**	**100%**	**496**	**260**	**756**	**100%**

Change in personnel in 2018

Sabaf S.p.A.

	31/12/17	New employees		Leaving employees		Promotions	31/12/18
		M	W	M	W		
Managers	10	0	1	0	1	0	10
White collars and Middle Managers	110	6	4	4	1	2	117
Blue collars and equivalent	394	0	0	10	6	-2	376
Total	**514**	**6**	**5**	**14**	**8**	**0**	**503**

Faringosi Hinges S.r.l.

	31/12/17	New employees		Leaving employees		Promotions	31/12/18
		M	W	M	W		
Managers	1	0	0	0	0	0	1
White collars and Middle Managers	13	0	0	0	0	0	13
Blue collars and equivalent	29	0	0	0	0	0	29
Total	**43**	**0**	**0**	**0**	**0**	**0**	**43**

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

	31/12/17	New employees		Leaving employees		Promotions	31/12/18
		M	W	M	W		
Managers	0	0	0	0	0	0	0
White collars and Middle Managers	4	0	0	1	0	0	3
Blue collars and equivalent	14	2	0	0	0	0	16
Total	**18**	**2**	**0**	**1**	**0**	**0**	**19**

Sabaf do Brasil

	31/12/17	New employees		Leaving employees		Promotions	31/12/18
		M	W	M	W		
Managers	0	0	0	0	0	0	0
White collars and Middle Managers	10	0	0	0	0	0	10
Blue collars and equivalent	67	30	2	21	1	0	77
Total	**77**	**30**	**2**	**21**	**1**	**0**	**87**

Sabaf Turkey

	31/12/17	New employees		Leaving employees		Promotions	31/12/18
		M	W	M	W		
Managers	3	0	0	0	0	0	3
White collars and Middle Managers	15	4	1	1	2	0	17
Blue collars and equivalent	78	28	12	23	15	0	80
Total	**96**	**32**	**13**	**24**	**17**	**0**	**100**

Sabaf China

	31/12/17	New employees		Leaving employees		Promotions	31/12/18
		M	W	M	W		
Managers	1	0	0	0	0	0	1
White collars and Middle Managers	6	0	0	0	0	0	6
Blue collars and equivalent	1	0	0	0	0	0	1
Total	**8**	**0**	**0**	**0**	**0**	0	**8**

Group total

	31/12/17	New employees		Leaving employees		Promotions	31/12/18
		M	W	M	W		
Managers	15	0	1	0	1	0	15
White collars and Middle Managers	158	10	5	6	3	2	166
Blue collars and equivalent	583	60	14	54	22	-2	579
Total	**756**	**70**	**20**	**60**	**26**	**0**	**760**

New employees by age group and gender

Description	**2018**			**2017**		
	M	W	**Total**	M	W	**Total**
up to 20 years old	2	0	**2**	5	2	**7**
from 21 to 30 years old	22	11	**33**	32	13	**45**
from 31 to 40 years old	41	8	**49**	24	13	**37**
from 41 to 50 years old	4	0	**4**	7	2	**9**
over 50 years old	1	1	**2**	2	1	**3**
Total	70	20	**90**	70	31	**101**

Resigned during the year by age group and gender

Description	2018			2017		
	M	W	**Total**	M	W	**Total**
up to 20 years old	3	0	**3**	2	2	**4**
from 21 to 30 years old	31	7	**38**	23	7	**30**
from 31 to 40 years old	17	13	**30**	24	17	**41**
from 41 to 50 years old	6	2	**8**	12	1	**13**
over 50 years old	3	4	**7**	9	2	**11**
Total	60	26	**86**	70	29	**99**

Reasons for terminating employment in 2018

Description	Managers - White collars and Middle Managers	Blue Collars	Total
Resignations	8	27	**35**
Retirement	1	4	**5**
Termination of the contract	0	2	**2**
Dismissal	2	33	**35**
Failure to pass the probationary period	0	9	**9**
Total	**11**	**75**	**86**

Leaving turnover rate by geographical area, age group and gender[13]

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

Description	2018			2017		
	M	**W**	**Total**	**M**	**W**	**Total**
< 30 years old	0.54%	0.00%	**0.35%**	0.54%	0.00%	**0.35%**
from 31 to 40 years old	1.63%	1.52%	**1.59%**	2.68%	0.99%	**2.09%**
from 41 to 50 years old	1.09%	0.51%	**0.88%**	1.61%	0.00%	**1.04%**
over 50 years old	0.27%	0.51%	**0.35%**	1.07%	0.00%	**0.70%**
Total	**3.54%**	**2.53%**	**3.19%**	**5.90%**	**0.99%**	**4.18%**

Brazil

Description	2018			2017		
	M	**W**	**Total**	**M**	**W**	**Total**
< 30 years old	17.14%	0.00%	**13.79%**	9.84%	18.75%	**11.69%**
from 31 to 40 years old	7.14%	5.88%	**6.90%**	6.56%	12.50%	**7.79%**
from 41 to 50 years old	2.86%	0.00%	**2.30%**	3.28%	0.00%	**2.60%**
over 50 years old	0.00%	0.00%	**0.00%**	1.64%	0.00%	**1.30%**
Total	**27.14%**	**5.88%**	**22.99%**	**21.32%**	**31.25%**	**23.38%**

13 The calculation of the turnover rate considers the employees at 31 December 2018 as the denominator. Retirement and fixed term contracts are excluded for the purposes of the calculation.

Turkey

Description	2018			2017		
	M	W	Total	M	W	Total
< 30 years old	28.13%	19.44%	**25.00%**	30.36%	15.00%	**23.96%**
from 31 to 40 years old	9.38%	25.00%	**15.00%**	17.86%	32.50%	**23.96%**
from 41 to 50 years old	0.00%	2.78%	**1.00%**	5.36%	2.50%	**4.17%**
over 50 years old	0.00%	0.00%	**0.00%**	0.00%	0.00%	**0.00%**
Total	**37.50%**	**47.22%**	**41.00%**	**53.58%**	**50.00%**	**52.09%**

China

Description	2018			2017		
	M	W	Total	M	W	Total
< 30 years old	0.00%	0.00%	**0.00%**	0.00%	0.00%	**0.00%**
from 31 to 40 years old	0.00%	0.00%	**0.00%**	0.00%	0.00%	**0.00%**
from 41 to 50 years old	0.00%	0.00%	**0.00%**	16.67%	0.00%	**12.50%**
over 50 years old	0.00%	0.00%	**0.00%**	0.00%	0.00%	**0.00%**
Total	**0.00%**	**0.00%**	**0.00%**	**16.67%**	**0.00%**	**12.50%**

Group total

Description	2018			2017		
	M	W	Total	M	W	Total
< 30 years old	6.32%	2.76%	**5.13%**	5.04%	3.46%	**4.50%**
from 31 to 40 years old	3.36%	5.12%	**3.95%**	4.84%	6.54%	**5.42%**
from 41 to 50 years old	1.19%	0.79%	**1.05%**	2.42%	0.38%	**1.72%**
over 50 years old	0.20%	0.39%	**0.26%**	1.01%	0.00%	**0.66%**
Total	**11.07%**	**9.06%**	**10.39%**	**13.31%**	**10.38%**	**12.30%**

In 2018, turnover was further reduced compared to 2017 and remained at satisfactory levels.
At Sabaf Turkey, the Group is experiencing the greatest difficulties in personnel retention, partly because it operates in an area, Manisa, which is experiencing strong industrial development and where new employment opportunities are constantly being offered. The policies on personnel implemented have nevertheless led to a higher level of retention development in Turkey.

Entry turnover rate by geographical area, age group and gender[14]

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

Description	2018			2017		
	M	W	Total	M	W	Total
< 30 years old	1.09%	1.01%	**1.06%**	0.27	0.00%	**0.17%**
from 31 to 40 years old	0.55%	1.01%	**0.71%**	1.61%	0.00%	**1.04%**
from 41 to 50 years old	0.27%	0.00%	**0.18%**	0.54%	0.00%	**0.35%**
over 50 years old	0.27%	0.50%	**0.35%**	0.54%	0.50%	**0.52%**
Total	**2.19%**	**2.51%**	**2.30%**	**2.95%**	**0.50%**	**2.09%**

14 The calculation of the turnover rate considers the employees at 31 December 2018 as the denominator

Brazil

Description	2018			2017		
	M	W	Total	M	W	Total
< 30 years old	2.86%	5.88%	**3.45%**	26.23%	25.00%	**25.97%**
from 31 to 40 years old	38.57%	5.88%	**32.18%**	11.48%	0.00%	**9.09%**
from 41 to 50 years old	1.43%	0.00%	**1.15%**	3.28%	0.00%	**2.60%**
over 50 years old	0.00%	0.00%	**0.00%**	0.00%	0.00%	**0.00%**
Total	**42.86%**	**11.76%**	**36.78%**	**40.98%**	**25.00%**	**37.66%**

Turkey

Description	2018			2017		
	M	W	Total	M	W	Total
< 30 years old	28.13%	22.22%	**26.00%**	35.71%	27.50%	**32.29%**
from 31 to 40 years old	18.75%	13.89%	**17.00%**	19.64%	32.50%	**25.00%**
from 41 to 50 years old	3.13%	0.00%	**2.00%**	5.36%	5.00%	**5.21%**
over 50 years old	0.00%	0.00%	**0.00%**	0.00%	0.00%	**0.00%**
Total	**50.00%**	**36.11%**	**45.00%**	**60.71%**	**65.00%**	**62.50%**

China

Description	2018			2017		
	M	W	Total	M	W	Total
< 30 years old	0.00%	0.00%	**0.00%**	0.00%	0.00%	**0.00%**
from 31 to 40 years old	0.00%	0.00%	**0.00%**	0.00%	0.00%	**0.00%**
from 41 to 50 years old	0.00%	0.00%	**0.00%**	0.00%	0.00%	**0.00%**
over 50 years old	0.00%	0.00%	**0.00%**	0.00%	0.00%	**0.00%**
Total	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**

Group total

Description	2018			2017		
	M	W	Total	M	W	Total
< 30 years old	4.74%	4.33%	**4.61%**	7.46%	5.77%	**6.88%**
from 31 to 40 years old	8.10%	3.15%	**6.45%**	4.84%	5.00%	**4.89%**
from 41 to 50 years old	0.79%	0.00%	**0.53%**	1.41%	0.77%	**1.19%**
over 50 years old	0.20%	0.39%	**0.26%**	0.40%	0.38%	**0.40%**
Total	**13.83%**	**7.87%**	**11.84%**	**14.11%**	**11.92%**	**13.36%**

Personnel training

Within the Sabaf Group, the professional growth of employees is supported by continuous training. The Group Human Resources Department, having consulted the relevant heads and gathered the training requirements, prepares an annual training plan on the basis of which the specific courses to be carried out are planned.

	2018			2017		
	men	women	total	men	women	total
Training for new employees, apprentices, training contracts	4,363	1,299	5,662	5,173	1,538	6,711
Information systems	51	55	105	309	26	335
Technical Training	2,070	649	2,719	467	69	536
Quality, safety, environment, energy and social responsibility	3,649	1,040	4,689	2,905	540	3,445
Administration and organisation	724	554	1,278	1,246	389	1,635
Foreign languages	1,339	420	1,759	328	152	480
Lean Philosophy/Production/Office	16	0	16	1,522	364	1,886
Other	240	496	736	-	-	-
Total hours of training received	**12,452**	**4,513**	**16,963**	**11,950**	**3,078**	**15,028**
Hours of training provided by internal trainers	7,239	1,915	9,154	4,501	1,282	5,783
Total	**19,691**	**6,428**	**26,119**	**16,451**	**4,360**	**20,811**

The hours provided by internal trainers also include training given to employees with temporary work contract (equal to 6,571 hours in 2018).

HOURS OF TRAINING PER CAPITA RECEIVED BY CATEGORY	**2018**			**2017**		
	M	W	TOT	M	W	TOT
Blue Collars	23.7	15.2	20.8	20.5	8.8	16.5
White collars and Middle Managers	29.8	24.4	27.9	36.1	22.2	31.1
Managers	16.2	51.5	18.5	28.7	50	30.1
TOTAL	**24.8**	**17.5**	**22.3**	**23.9**	**11.9**	**19.8**

In 2018, the total cost incurred for training activities of Group personnel was approximately € 497,000 (approximately € 428,000 in 2017). In addition, there are training costs for temporary personnel, which in 2018 were around € 134,000 (around € 75,000 in 2017).

Internal Communication

With the aim of developing a dialogue and continuous involvement between the company and its collaborators, Sabaf organises meetings and sharing sessions in which the results of projects to improve quality, efficiency and productivity are presented, as well as current initiatives in the "industry 4.0" sector.
For example, in 2018, Sabaf S.p.A. organised two meetings in which a total of 256 employees took part; Sabaf Turkey organised two meetings in which all personnel took part.

The HR representatives provide assistance to all Group employees on matters relating to the employment relationship.

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

The focus on internal communication uses, among other things, advanced tools that can reach all employees, such as wireless network and bulletin boards.

Systematic meetings in the various departments promote communication and involvement of personnel.

Diversity and equal opportunities

Sabaf is constantly committed to ensuring equal opportunities for women employees, who currently represent 33.4% of the workforce (34.4% in 2017).
The Group, in accordance with the organisational and production requirements, is attentive to the family requirements of its employees. To date, most of the demands for reduced working time made by workers have been met. In 2018, there were a total of 48 part-time contracts (6 female employees, 40 female workers, 1 male employee and 1 male worker), equal to 6.3% of the total (44 contracts in 2017: 5 female employees, 38 female workers, 1 male worker; 34 contracts in 2016: 2 female employees, 31 female workers and 1 male worker).
31 disabled people, 17 of whom are part-time, work in the Group's Italian companies. There are 7 agreements with a business co-operative for the placement of personnel belonging to protected categories.

Percentage distribution of employment by gender

	2018		2017	
	Number	%	Number	%
Men	506	66.6	496	65.6
Women	254	33.4	260	34.4
TOTAL	**760**	**100**	**756**	**100**

Breakdown by category and gender

		2018			2017		
		Men (%)	**Women (%)**	**Total (%)**	**Men (%)**	**Women (%)**	**Total (%)**
Managers	< 30 years old	0	0	0	0	0	0
	from 31 to 40 years old	0	0	0	0	0	0
	from 41 to 50 years old	1	0	1	1	0	1
	over 50 years old	1	0	1	1	0	1
	Total	**2**	**0**	**2**	**2**	**0**	**2**
White collars and Middle Managers	< 30 years old	2	2	4	1	2	3
	from 31 to 40 years old	5	3	8	5	3	8
	from 41 to 50 years old	5	2	7	5	2	7
	over 50 years old	2	1	3	2	1	3
	Total	14	8	22	**13**	**8**	**21**
Blue-collars and equivalent	< 30 years old	8	2	10	10	3	13
	from 31 to 40 years old	21	11	32	20	12	32
	from 41 to 50 years old	14	10	24	14	9	23
	over 50 years old	8	2	10	7	2	9
	Total	**51**	**25**	**76**	**51**	**27**	**77**
Total	< 30 years old	10	4	14	12	4	16
	from 31 to 40 years old	26	14	40	25	15	40
	from 41 to 50 years old	20	12	32	19	12	31
	over 50 years old	11	3	14	10	3	13
	Total	**67**	**33**	**100**	**66**	**34**	**100**

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

Non-EU workers[15]

	2018	2017	BENCHMARK[16]
Non-EU workers	19	24	
Percentage over total workers	3.3%	4.1%	3.10%

At 31 December 2018, the Group's Italian companies included employees of 11 different nationalities.

Working hours and hours of absence

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

Overtime

	2018		2017		BENCHMARK[17]	
	White Collars	Blue Collars	White Collars	Blue Collars	White Collars	Blue Collars
Average number of employees who have worked overtime per month	148	396	137	390	-	-
Number of overtime hours	16,598	37,016	12,946	31,622	-	-
Number of hours per capita per year[18]	100	64	82	54	54	66

Total hours of absence

	2018 M	2018 W	2018 tot	2017 M	2017 W	2017 tot	BENCHMARK [19]
Total hours of absence per year	27,938	43,409	71,347	29,274	42,621	71,895	-
Average hours of absence per capita	54.8	170.6	93.4	57.8	163.4	93.7	99.3

Absenteeism rate (hours of absence over hours worked)

	2018 M	2018 W	2018 tot	2017 M	2017 W	2017 tot
Italy	3.2%	8.5%	4.9%	3.5%	9.0%	5.3%
Brazil	1.3%	6.4%	2.3%	0.0%	1.3%	0.3%
Turkey	1.7%	11.3%	5.4%	1.9%	9.0%	4.8%
China	0.5%	0%	0.4%	0.3%	0.1%	0.3%
Group total	**2.7%**	**8.8%**	**4.7%**	**2.8%**	**8.4%**	**4.6%**

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

16 FEDERMECCANICA, *L'industria metalmeccanica in cifre (June 2018) – Lavoratori extracomunitari (2014)* http://www.federmeccanica.it

17 FEDERMECCANICA, *L'industria metalmeccanica in cifre (June 2018) – Ore pro-capite di lavoro straordinario (2016),* http://www.federmeccanica.it

18 in relation to the average number of employees

19 Processing by FEDERMECCANICA, *L'industria metalmeccanica in cifre (June 2018) – Ore pro-capite di assenza dal lavoro (2016),* http://www.federmeccanica.it

Hours of sick leave

	2018 M	2018 W	2018 tot	2017 M	2017 W	2017 tot	BENCHMARK [20]
Total annual hours of illness	21,033	21,104	42,137	19,019	19,679	38,697	
Percentage of hours of illness over hours worked	2.0%	4.3%	2.8%	1.8%	3.9%	2.5%	
Hours of sick leave per capita	41.3	82.9	55.2	37.6	75.4	50.5	44.3

Hours of maternity/paternity leave

	2018 M	2018 W	2018 tot	2017 M	2017 W	2017 tot	BENCHMARK [21]
Total annual hours of maternity/paternity leave	4,813.0	21,706.5	26,519.5	7,941.5	22,345.6	30,287.1	
Percentage of maternity hours over hours worked	0.5%	4.4%	1.7%	0.8%	4.4%	2.0%	
Hours of maternity leave per capita	9.4	85.3	34.7	15.7	85.7	39.5	16.3

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

Parental leaves

	2018			2017			
Type of leave	**M**	**F**	**Total**	**M**	**F**	**Total**	**% of workers in the workforce after 12 months**
Compulsory maternity leave	0	19	19	0	15	15	80%
Early Maternity leave	0	8	8	0	9	9	78%
Voluntary maternity/paternity leave	10	18	28	12	22	34	65%
Breastfeeding	2	8	10	1	11	12	100%
Care for disabled family members (Law 104)	19	9	28	21	10	31	94%

Other leaves

Blood donation	7	1	8	12	2	14	71%
Leave of absence	2	2	4	6	4	10	70%
Extraordinary Leave	7	5	12	6	2	8	38%

20 FEDERMECCANICA, *L'industria metalmeccanica in cifre (June 2018) – Ore pro-capite di assenza dal lavoro (2016)*, http://www.federmeccanica.it.

21 FEDERMECCANICA, *L'industria metalmeccanica in cifre (June 2018) – Ore pro-capite di assenza dal lavoro (2016)*, http://www.federmeccanica.it

Remuneration, incentive and enhancement systems

All Group companies apply local national contracts, supplemented with any best deals.

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

- contractual minimum
- company welfare from National Collective Labour Agreement
- productivity or personal bonuses per level,
- production bonus per level,
- fixed performance bonus (part of which includes part of the previous variable bonus) for all levels,
- variable performance bonus that is the same for all levels.

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

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

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

Long-term incentive
A long-term incentive plan (stock grant plan) was introduced in 2018, which envisages the free allocation of shares to parties (directors and employees) who hold or will hold key positions for Sabaf S.p.A. and its subsidiaries.
The Plan aims to promote and pursue the involvement of the beneficiaries whose activities are considered relevant for the implementation of the contents and the achievement of the objectives set out in the 2018 - 2022 Business Plan, foster loyalty development and motivation of managers, by increasing their entrepreneurial approach as well as align the interests of management with those of the Company's shareholders more closely, with a view to encouraging the achievement of significant results in the economic and asset growth of the Company and of the Group.

Management By Objectives (MBO)
A Group-wide incentive system linked to collective and individual objectives (MBOs) is in place, involving the Chief Executive Officer, executives with strategic responsibilities and managers. In 2018, this incentive system involved 41 employees of the Group (38 men and 3 women). Further details on the MBO mechanisms are described in the Remuneration Report.

The "premio produciamo qualità (PPQ)" (literally, "We produce quality prize")
With the aim of rewarding the contribution of personnel to the achievement of company objectives, in 2016 Sabaf S.p.A. introduced an incentive system related to quality objectives (reduction of waste and rework), production efficiency and precision in carrying out projects.
In 2018, improvement targets in these areas were set for 116 people involved in relevant business processes.

	White Collars	Blue Collars	Total
Men	38	67	105
Women	4	7	11
Total	42	74	116

The initiative was very well received by the employees: in addition to being a tool for steering towards challenging objectives (393 objectives were assigned, achieved or exceeded in 65% of cases), the PPQ stimulated teamwork and favoured the sharing of short- and medium-long term development plans at all company levels.

Variable Performance Bonus (PDRV)
The supplementary company contract of Sabaf S.p.A. envisages a variable performance bonus for all employees, also based on quality and productivity indicators.
From 2018, the PDRV can be enjoyed in the form of company welfare.

Personnel Participation Bonus (PDP)
In 2018, Sabaf S.p.A. introduced a Personnel Participation Bonus (PDP) for all its employees who, through effective participation, help to achieve the company's objectives.
This bonus is paid in the form of company welfare.

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

Ratio of minimum monthly salary laid down by collective labour agreements to minimum salary paid by Group companies[22]

2017	Minimum salary under collective labour agreement		Minimum salary paid		Minimum % increase	
Values in euro	M	W	M	W	M	W
Sabaf S.p.A.	1,590	1,590	1,814	2,172	14%	37%
Faringosi Hinges S.r.l.	1,590	1,590	1,771	1,771	11%	11%
A.R.C. s.r.l.	1,434	1,434	1,462	1,434	2%	0%
Turkey	308	308	352	352	14%	14%
Brazil	358	358	414	414	15%	15%
China	265	265	356	1,145	34%	332%[23]

2018	Minimum salary under collective labour agreement		Minimum salary paid		Minimum % increase	
Values in euro	M	W	M	W	M	W
Sabaf S.p.A.	1,605	1,605	1,664	1,884	4%	17%
Faringosi Hinges S.r.l.	1,605	1,605	1,785	1,785	11%	11%
A.R.C. s.r.l.	1,605	1,605	1,644	1,705	2%	6%
Turkey	254	254	290	290	14%	14%
Brazil	313	313	353	353	13%	13%
China	259	259	348	1,145	34%	341%

The Group has procedures in place to systematically check the correct hiring and regular contribution of suppliers and contract workers.

Ratio of maximum to average salaries of Group companies

	2018	**2017**
Italy	8.4	9.6
Turkey	13.7	11.5
Brazil	7.0	6.0
China	7.0	7.5

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

	2018	**2017**
White-collars, middle managers and managers	71%	67%
Blue Collars	77%	74%

22 Values converted into euro at the annual average exchange rate

23 Data modified compared to consolidated disclosure of non-financial information 2017 due to a publication error

Occupational health and safety and working environment

Risks

The health & safety risks to which Sabaf and contractors' personnel are exposed are essentially linked to the processes at the Group's production sites:

- risks with high associated damage (falls from a height, work in confined spaces);
- other risks, with particular relevance in terms of accidents, related to melting tasks (burn, exposure to high temperatures).

The Group is also exposed to the risk of failure to adopt measures to bring its procedures and operations into line with current health and safety regulations.

Risk management

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

Also aspects relating to health and safety at work are also addressed using a risk-based approach.

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

- **Effective training**: all training courses related to health and safety are planned and managed by internal personnel and/or external trainers, with a propensity to teach and with strong experience in the reference sector (first aid, fire-fighting, work at height, etc.). Job-specific training courses have been designed with a propensity to experience, in order to make training meetings more effective.

- **Cutting-edge plants**: continuous investment in increasingly modern and technologically advanced machinery reduced the levels of risk related to ergonomics and manual handling of loads and improved the systems to protect against physical risks.

- **Organisation**: the strong involvement and constant training of department heads and their awareness of obligations and responsibilities led to a clear improvement in all aspects of Health and Safety.

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

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

The management system for the health and safety of workers of Faringosi Hinges s.r.l. has been certified according to OHSAS 18001 since February 2012. The system was re-certified by the TUV NORD in February 2018, certifying the conformity of the system with the reference standards; in fact, no non-conformity has emerged, but only suggestions for improvement.

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

With regard to production sites abroad, the Group monitors legislative compliance through specific audits. It has also implemented a shared management system for the implementation of actions related to health and safety in the workplace.
Although the Management Systems have not been certified by an Accredited Body, Management Systems have been implemented in foreign factories in line with Group policies.

NUMBER AND DURATION OF INJURIES

	2018 M	2018 W	2018 tot	2017 M	2017 W	2017 tot	BENCH. [24]
Injuries at work - Group	**27**	**2**	**29**	**12**	**6**	**18**	
Italy	8	1	9	6	3	9	
Brazil	3	0	3	0	0	0	
China	0	0	0	0	0	0	
Turkey	16	1	17	6	3	9	
Injuries while travelling to/from work - Group	**1**	**1**	**2**	**3**	**0**	**3**	
Italy	0	0	0	3	0	3	
Brazil	1	1	2	0	0	0	
China	0	0	0	0	0	0	
Turkey	0	0	0	0	0	0	
Total hours of absence due to injuries - Group	**1,633.9**	**137.0**	**1,770.9**	**1,720.3**	**168.5**	**1,888.8**	
Italy	1,096.0	24.0	1,120	1,348.5	108.5	1,457.0	
Brazil	110.0	59.0	169.0	0.0	0.0	0.0	
China	0.0	0.0	0.0	0.0	0.0	0.0	
Turkey	427.9	54.0	481.9	371.8	60.0	431.8	
Hours of absence from work due to injury per capita[25]	**3.21**	**0.54**	**2.32**	**3.42**	**0.66**	**2.48**	**5.3**

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

	2018 M	2018 W	2018 tot	2017 M	2017 W	2017 tot
Group	**30.83**	**5.58**	**23.49**	**14.33**	**15.44**	**14.68**
Italy	13.28	3.83	10.42	9.46	10.93	9.91
Brazil	23.09	0	20.13	0	0	0
China	0	0	0	0	0	0
Turkey	121.16	13.38	82.21	52.01	44.16	49.10

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

	2018 M	2018 W	2018 tot	2017 M	2017 W	2017 tot
Group	**0.24**	**0.02**	**0.17**	**0.16**	**0.06**	**0.13**
Italy	0.25	0.01	0.17	0.14	0.06	0.12
Brazil	0.08	0	0.07	0	0	0
China	0	0	0	0	0	0
Turkey	0.37	0.08	0.27	0.42	0.12	0.31

24 FEDERMECCANICA, *L'industria metalmeccanica in cifre (June 2018) – Ore pro-capite di assenza dal lavoro (2016)* , http://www.federmeccanica.it
25 The calculation is based on the average annual personnel .

During 2018, there were no particularly serious accidents for Group employees and the per capita hours of absence from work due to accidents remained well below the reference benchmark. Indicators in Turkey deteriorated, partly as a result of the start of new productions. Corrective action has been taken in good time to combat this phenomenon (training and awareness-raising on the use of personal protective equipment).
No cases of occupational disease were reported at Group level in 2018.

In compliance with the laws in force, Group companies prepared and implemented health supervisory plans for employees, with health inspections aimed at the specific risks of the work activities carried out. In particular, 2,872 health inspections were carried out in 2018 (3,108 in 2017).

CURRENT EXPENDITURE FOR LABOUR PROTECTION
(amounts in €000)

	2018	**2017**
Plant, equipment and materials	48	42
Personal protective equipment	118	119
External training	24	16
Advisory services	62	99
Working environment analysis	18	17
Health inspections (including pre-recruitment checks)	44	40
Software and database	4	3
TOTAL	**318**	**336**

INVESTMENTS IN LABOUR PROTECTION
(amounts in €000)

	2018	**2017**
Plant, equipment and materials	488	34
TOTAL	**488**	**34**

The commitment to improve risk levels related to manual handling of loads and repetitive movements thanks to an increasingly greater automation of operations continued also in 2018. Special equipment for transport and storage was also studied, light detectors were installed on forklifts and the internal road network of the factories was improved (with new road signs and road markings).
The significant economic investment made in 2018, in the superfinishing process, has allowed a significant reduction in the level of risk of repetitive movements to be borne by area personnel.

Jointly with the 2018 corporate climate analysis, a survey on the perception of work-related stress was carried out in Sabaf S.p.A., taking advantage of the large sample of interviewees. The following dimensions were analysed:
- workload, organisation and working environment;
- control/independence of workers;
- management support;
- support from colleagues;
- relations and promotion of positive behaviour;
- role and awareness of one's position in the organisation;
- management and communication of change in the business context.

The summary results express **positive values for 57%, neutral values for 25% and critical values for 18%.**
Among the positive results, those relating to attention to the person, awareness of the meaning of one's role and the expectations of the organisation towards its activities stand out.

At Sabaf S.p.A., a study was carried out on the seismic vulnerability of buildings, which allowed the risk assessment to be revised. During 2019, the pathways to be followed during evacuation operations will be reviewed.

A web platform has been implemented to manage the interferential risks related to the contracting and sub-contracting work for the Ospitaletto site, allowing the immediate registration of contractors and accesses (about 15,000 in 2018).

Sabaf, a health-promoting workplace

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

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

- improving work organisation and the working environment
- encouraging personnel to participate in healthy activities
- promoting healthy choices
- encouraging personal growth

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

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

Improvement measures taken in 2017

FOOD

FIGHT AGAINST SMOKING

SAFE AND SUSTAINABLE MOBILITY

WELL-BEING AND RECONCILING LIFE AND WORK

Improvement measures taken in 2018

FITNESS TRAINING

FIGHT AGAINST ADDICTIONS

Use of dangerous substances

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

Industrial relations

Sabaf complies with the labour laws of the various countries and the conventions of International Labour Organisation (ILO) on Workers' Rights (freedom of association and collective bargaining, consultation, right to strike, etc.), systematically promoting dialogue between the parties and seeking an adequate level of agreement and sharing of company strategies by the personnel.

In case of organisational changes, with regard to the minimum notice period, the Group complies with the provisions of the law and the reference contracts of the various countries.

In January 2018, the second level company agreement of Sabaf S.p.A. was renewed, valid until June 2021. The key points of this agreement are set below:

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

The internal trade union representatives present in Sabaf S.p.A. are FIOM, FIM and UILM and in Faringosi Hinges s.r.l. FIM
During the year, regular meetings between Management and the Unitary Union Representative Body took place.
In Group companies, 120 employees, or 15.8% of the total, were registered at December 2018 (136 employees, or 18%, were registered in 2017).

Hours of participation in trade union activities during 2018 amounted to 0.27% of the hours worked.

PARTICIPATION IN TRADE UNION ACTIVITIES			
	2018	**2017**	**BENCHMARK** [26]
MEETING			
No. of hours	1,242	1,806	
Percentage over hours worked	0.08	0.12	
No. of hours per capita	1.6	2.7	
LEAVE FOR TRADE UNION DUTIES			
No. of hours	1,853	1,689	
Percentage over hours worked	0.12	0.11	
No. of hours per capita	2.4	2.5	
STRIKE			
No. of hours	996	1,006	
Percentage over hours worked	0.07	0.10	
No. of hours per capita	1.3	1.5	
TOTAL			
No. of hours	4,091	4,501	
Percentage over hours worked	0.27	0.29	
No. of hours per capita	5.36	6.71	7.4

26 FEDERMECCANICA, *L'industria metalmeccanica in cifre (June 2018) – Ore pro – capite di assenza dal lavoro (2016),* http://www.federmeccanica.it

In 2018, a total of 7 hours of strike were called out in Sabaf S.p.A. in connection with national problems.

During the last three months of the year, Sabaf S.p.A. used now and then the temporary unemployment fund.
No strikes were called out and no social safety valves were used in Faringosi Hinges, A.R.C., Sabaf do Brasil, Sabaf Turkey and Sabaf China.

Business climate analysis

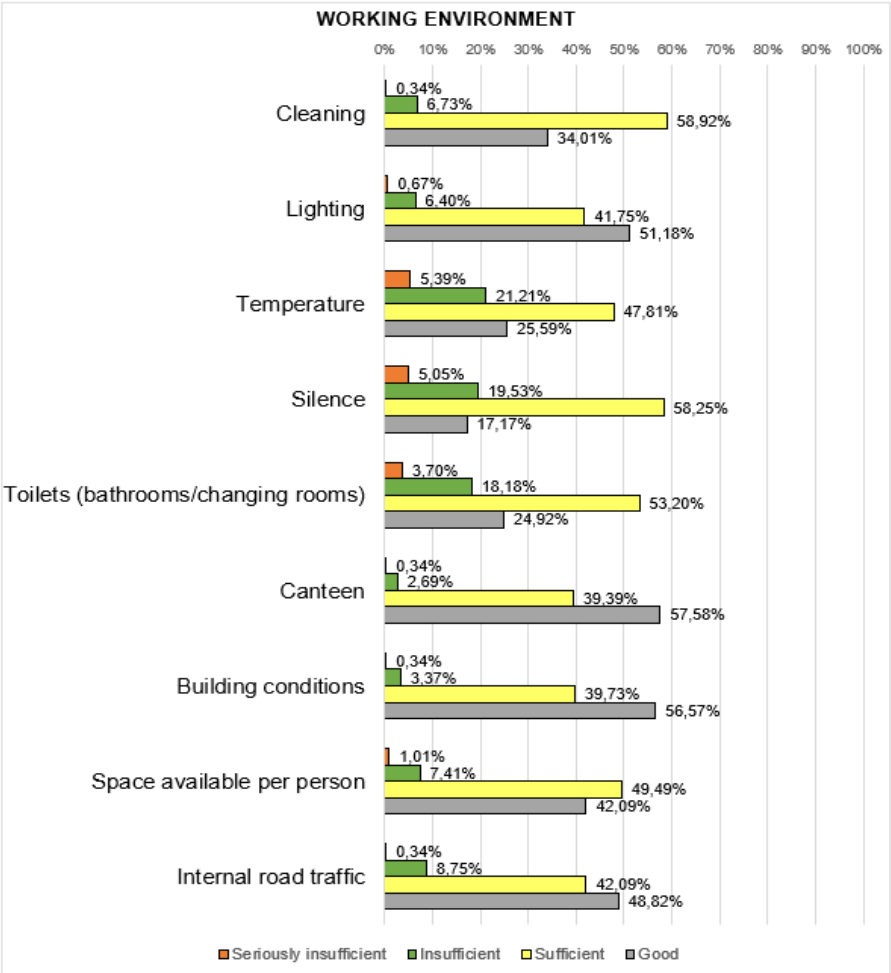
The 2018 corporate climate survey project at Sabaf S.p.A. continued the knowledge and listening activities that began in 2012 and continued in 2015, with the aim of maintaining a level of knowledge of the perceptions and needs experienced by people belonging to the company.

The analysis was carried out on a sample of 299 employees (59% of workers) using a questionnaire filled in anonymously and digitally in the company, as part of dedicated sessions, with the support of a consulting firm specialised in human resources.
The results were shared with the workers' representatives and disseminated in the company.

Thematic areas:

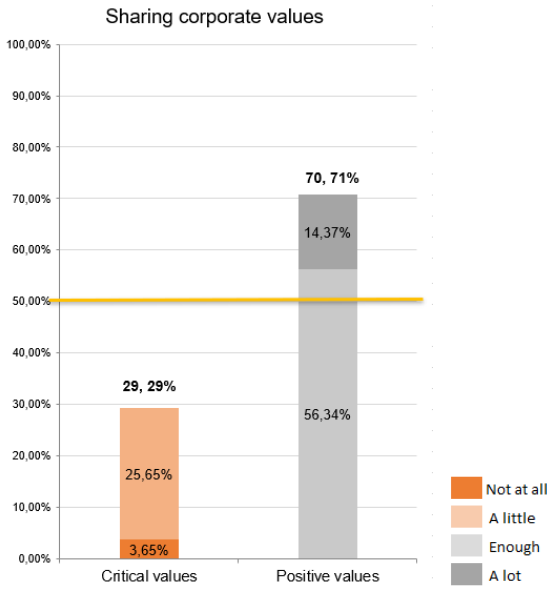
Characteristics of the working environment

With regard to the working environment, there is generally a positive perception with choices alternating between "good" and "sufficient".



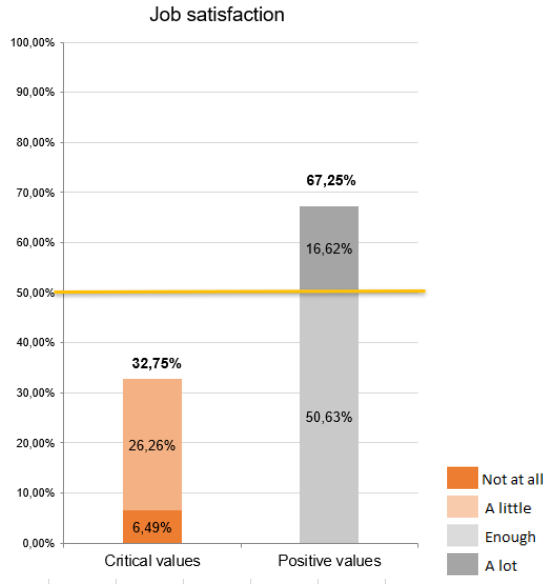
Sharing corporate values

The result at this dimension is to be considered all-in-all satisfactory with 70.71% of responses with a positive value.
Business objectives are perceived as fairly clear, values communicated and generally shared. There is satisfaction with what the Company does and with the attention it pays to the needs of its workers.



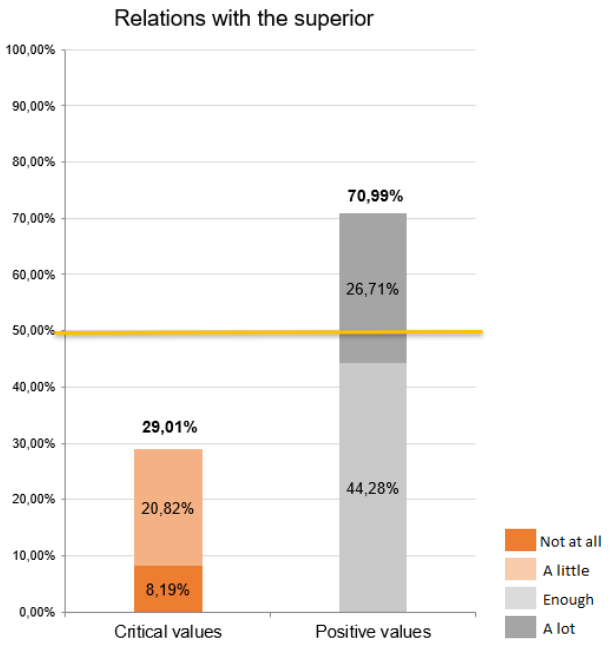
Job satisfaction

All-in-all, the result at this dimension must also be considered quite satisfactory with 67.25% of responses with a positive value. Roles and responsibilities seem relatively clear and defined, and there is a strong sense of belonging.



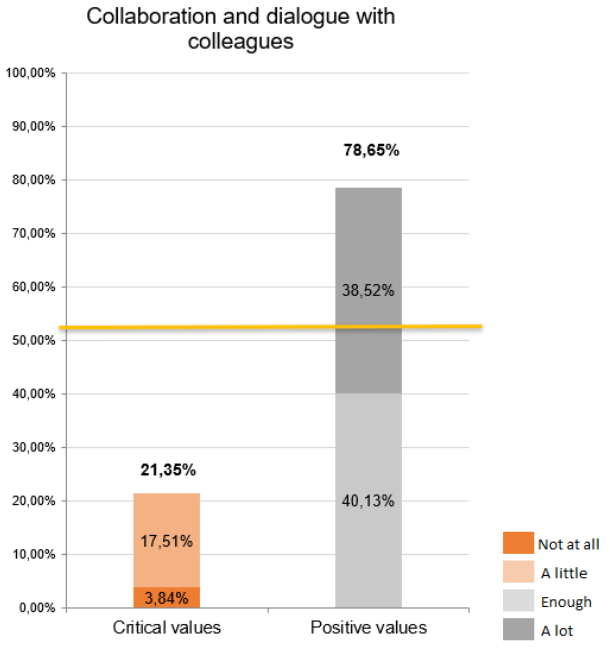
Relation with the Head

The 70.99% of the sample has an overall satisfactory perception of the relationships with their head, having provided positive responses.
In particular, the behaviour of the heads is considered consistent with the values declared by the company.



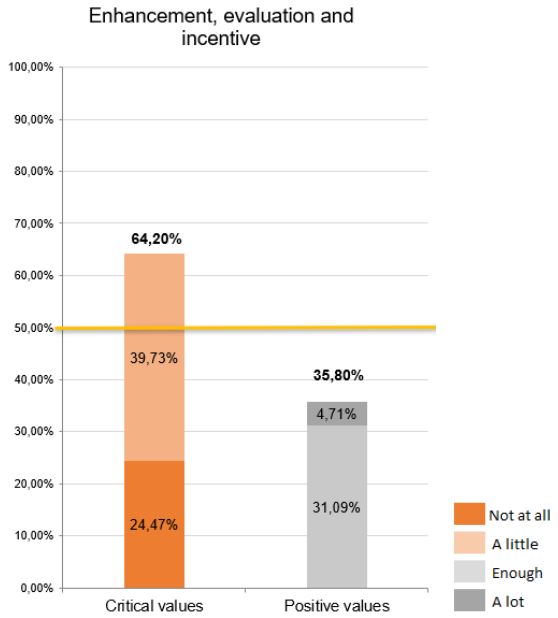
Collaboration and dialogue with colleagues

The 78.65% of the sample has an overall satisfactory perception of the relationships with their colleagues, having provided positive responses.



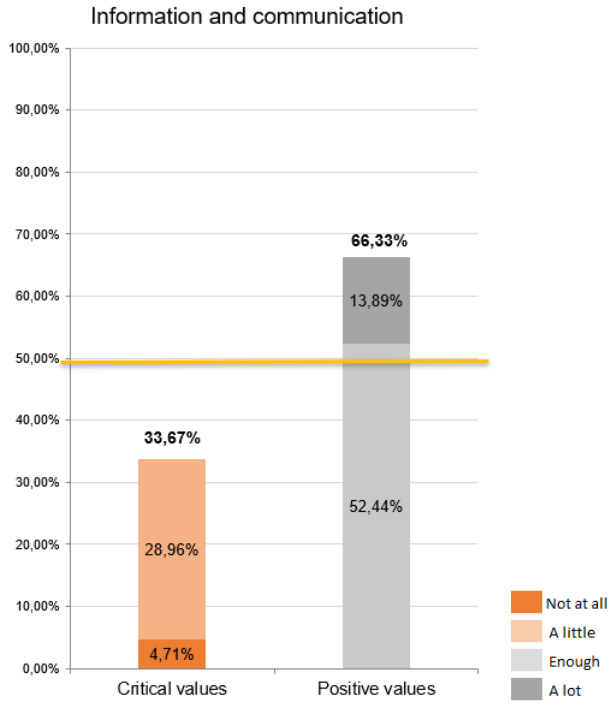
Enhancement, evaluation and incentive

Within this dimension, critical elements prevail with 64.20% of the sample identifying this as an area for improvement.



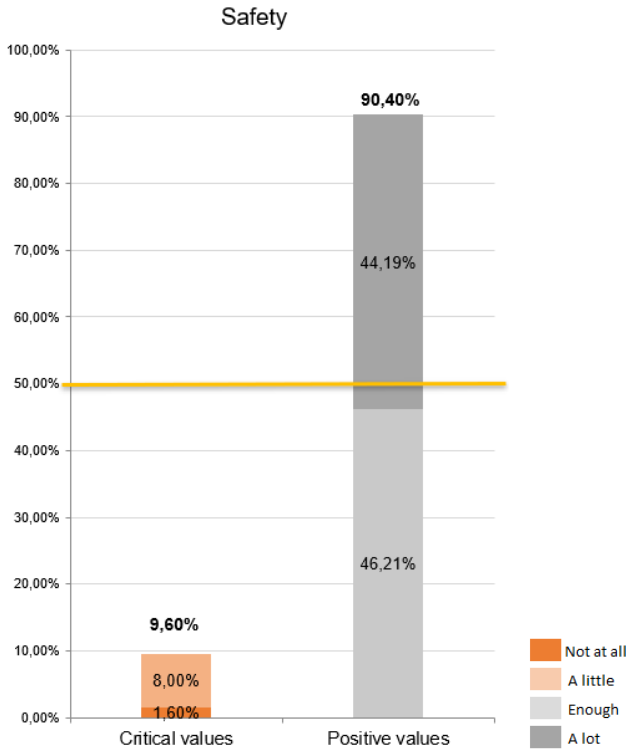
Information and communication

Within this dimension, the perception is satisfactory with 66.33% of positive responses.



Safety

A very positive fact is certainly the perception of security in the company. Workers consider Sabaf S.p.A. to be a company that is very attentive to internal health and safety (90.40% give a positive assessment of the interventions dedicated to this area).



Disciplinary measures and disputes

The Group makes use of all the instruments provided for in the contract for compliance with the company rules and social life.

At 31 December 2018, 9 disputes were pending (2 with Group employees and 7 with former collaborators).

Sabaf and environment

Risks

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

Risks of external context(environmental sustainability), concerning the protection of the environment and the territory, through the reduction of environmental impacts and the containment of the use of natural and energy resources. These impacts are considered from the product design stage, through the different stages of its implementation and from a perspective that considers the whole life cycle of the product.

Strategic risks, including collaboration with strategic service providers with potential environmental risk (waste collection, cleaning services, maintenances).

Legal and compliance risks, related to compliance with law requirements (authorisations and compliance obligations) and requests of local institutions.

The following paragraph describes the management methods for these risks.

Health and safety, environmental and energy policy

Programme and goals

The Group is committed to the following objectives:

- the prevention of pollution and rationalisation of the use of energy through the continuous improvement of its processes and products;
- the efficiency in the use of natural and energy resources during production, with a special reference to water and energy consumption;
- the reduction of the quantity of waste produced and the improvement of its quality in terms of hazardousness and recoverability.

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

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

Since 2003, the Environmental Management System of the Ospitaletto production site (which covers approximately 75% of the Group's total production) has been certified in compliance with ISO 14001. CSQ carried out the monitoring inspection in April 2018, confirming the adequacy of the system to the new ISO 14001:2015 Standard.

In 2015, the Energy Management System implemented at the premises of Ospitaletto was certified in compliance with the ISO 50001 standard. In November 2018, the first three-year period ended and CSQ, during the audit carried out for the re-certification, proposed the renewal of the certificate, concluding the verification with positive results.

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

Dialogue with environmental associations and institutions

The Group has long promoted the dissemination of information about the lower environmental impact of using gas in cooking instead of electricity: in fact, the use of combustible gas for heat production allows higher efficiency than those obtainable with electric cooking appliances. Moreover, cooking is increasingly characterised, all over the world, by the demand for high power and many cooking points to prepare meals quickly. Electrically powered hobs cause peak energy consumption to increase, typically around meal times, further increasing the demand for electricity.

Process innovation and environmental sustainability

Metal washing

In the production process of valves, it is essential to wash metals in several stages. Since 2013, Sabaf S.p.A. has been using a washing system based on a modified alcohol, a solvent that is redistillable (and therefore recyclable) due to its properties. The environmental impact and operating costs of this solvent have been substantially eliminated, as well as the emission level and production of special waste.
This efficient and sustainable technology has also been used since 2016 at the Sabaf do Brasil site, while it has recently been installed (2018) in Turkey.

Marking of products

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

Light alloy valves

The production of aluminium alloy valves has several advantages compared to the production of brass valves: elimination of the hot moulding phase of brass, lower lead content in the product, lower weight and consequent reduction in consumption for packaging and transport. In 2018, the process of replacing brass valves with light alloy valves continued, representing almost 90% of the valves produced.

High efficiency burners

For many years, Sabaf has been at the forefront of the market with burners that are characterised by yields significantly higher than standard. Following the launch of the III, AE and AEO Series, in 2012, Sabaf introduced a new family of high efficiency burners, the HE burners, capable of achieving an efficiency of up to 68%. HE burners are also characterised by almost total interchangeability with Series II burners. Over the last few years, the range of DCC special burners was completed: they are characterised by an energy efficiency of over 60%, the highest available on the market today for multiple flame ring burners. Moreover, DCC burners with a brass flame-spreader ring and efficiency of more than 65% were produced specifically for the Chinese market, the top of what is currently available on that market.
High efficiency burners represent more than 20% of the total burners produced.

Environmental impact

Materials used and recyclability of products

Sabaf's main product lines - valves, thermostats and burners for gas cooking appliances for domestic use - are characterised by high energy efficiency and optimal use of natural resources.
Sabaf products can be easily recycled because they are made almost entirely of brass, aluminium alloys, copper and steel.
All Group companies have separate waste collection.

MATERIALS USED	2018 consumption (t)	2017 consumption (t)
Brass	789	540
Aluminium alloys	7,831	8,070
Zamak	33	91
Steel	7,861	7,631
Cast Iron	137	39

100% of brass and about 65% of aluminium alloys used are produced by scrap recycling; 35% of aluminium alloys and 100% of steel are produced from ore.
The lower consumption of brass is linked to the gradual replacement of brass valves with aluminium alloy valves. Sabaf products fully comply with the requirements of Directive 2002/95/EC (RoHS Directive) that aims to limit the use of hazardous substances such as lead in the production of electrical and electronic equipment, a category that includes all household appliances including gas cooking appliances (which are equipped with electronic ignition). Moreover, Sabaf products fully comply with the requirements of **Directive 2000/53/EC** (End of Life Vehicles), i.e. the heavy metal content (lead, mercury, cadmium, hexavalent chromium) is below the limits imposed by the Directive.
With regard to the REACH Regulation (Regulation no. 1907/2006 of 18/12/2006), Sabaf is a downstream user of substances and preparations. The products supplied by Sabaf are classified as articles that do not give rise to the intentional emission of substances during normal use, therefore there is no registration of the substances contained in them. Sabaf contacted its suppliers to ensure that they fully comply with REACH Regulation and to obtain confirmation that they meet their obligations to pre-register and register the substances or preparations they use. Moreover, Sabaf constantly monitors the legislative changes relating to REACH Regulation, in order to identify and manage any new requirements in this area.

Energy sources[27]

ELECTRICITY	2018 consumption (MWh)	2017 consumption (MWh)	2016 consumption (MWh)
Total	30,225	30,841	27,189
NATURAL GAS	**2018 consumption (m^3 x 1000)**	**2017 consumption (m^3 x 1000)**	**2016 consumption (m^3 x 1000)**
Total	3,918	4,059	3,432
DIESEL	**2018 consumption (l x 1,000)**	**2017 consumption (l x 1,000)**	**2016 consumption (l x 1,000)**
Total	21	5.5	0
TOTAL CONSUMPTION	**2018 consumption GJ**	**2017 consumption GJ**	**2016 consumption GJ**
Total	249,866	272,329	234,094

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

Indicator: Energy intensity

ENERGY INTENSITY	2018 consumption	2017 consumption	2016 consumption
KWh on turnover	0.460	0.489	0.483

Energy diagnosis of the energy management system

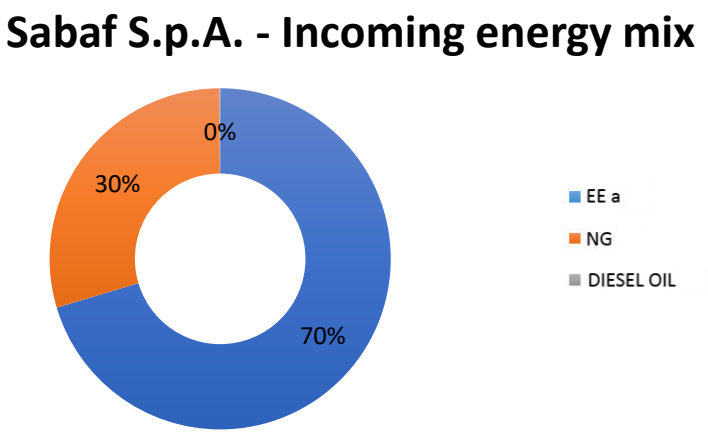
During 2015, Sabaf S.p.A. and Faringosi Hinges s.r.l. carried out an energy audit, aimed at obtaining an in-depth knowledge of the energy consumption profile of their activities and identifying and quantifying energy saving opportunities.

Main energy sources used

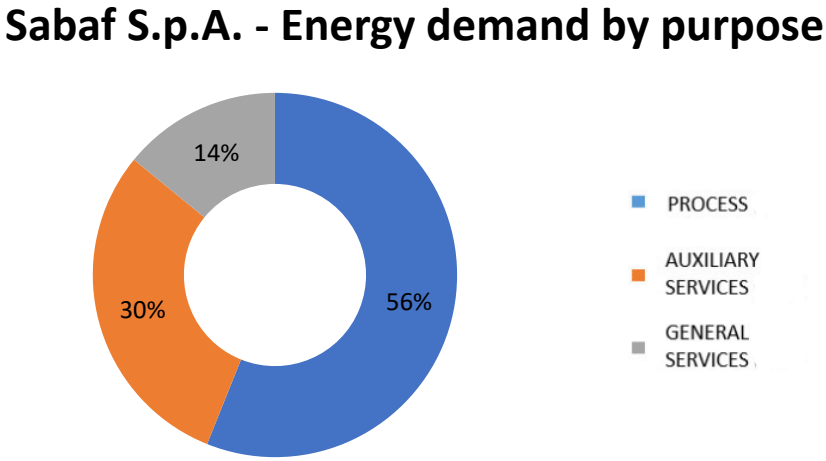
The main sources used are:

- electricity, for all the equipment with electric power supply present, whether functional or not to the production process, which covers 70% of the total energy requirement;
- natural gas, related to the operation of both production plants (foundry furnaces, washing burners, enamel kilns) and service plants (heating), which covers 30% of total energy requirements.

27 The factors used to calculate 2017 consumption were published by the Department for Business, Energy & Industrial Strategy (BEIS) in 2015. The updated factors published by the Department for Environment, Food and Rural Affairs (DEFRA) in 2018 were used for 2018 consumption.
Following the completion of the data collection system, the consumption of diesel for 2018 also includes the consumption of the company fleet owned by the Group and the consumption of diesel relating to Sabaf S.p.A. In 2017, only the consumption of diesel oil of ARC s.r.l. was considered.



Energy demand analysis by purpose



The production processes that absorb the highest energy consumption are foundry (30% of the total), compressed air production (19% of the total) and enamelling (8% of the total).
The energy requirement of auxiliary services is mainly attributable to the management of the wastewater from the foundry and the enamelling (5% of the total).
The energy requirement of general services is largely attributable to heating and lighting.

2019 Objectives

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

Water

WATER	2018 consumption (m^3)	2017 consumption (m^3)
From municipal water supply	110,655	81,472
From well	29,185	31,329
TOTAL	**139,840**	**112,801**

All the water used in the production processes by Group companies is destined for disposal or internal recycling for reuse in company processes: as a consequence, there is no industrial waste water. The water used in the die-casting and enamelling processes in Italy, recovered through a rainwater collection system or taken from the well, at the end of the production processes, is treated in concentration plants that have significantly reduced the quantities of water required and waste produced. The commitment to optimise water-using processes and improve water management related to the cooling of the company's die-casting circuit continues.
For 2019, the Group has set itself the objective of implementing at its Brazilian production site a system for recovering industrial water from the process of enamelling covers, which will allow a significant reduction in the use of water resources.

Waste

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

WASTE (tons)

	2018	% incidence	2017	% incidence
Similar to urban	**186**	**2.2**	**189**	**2.2**
Non-hazardous (disposal)	1,722	20.0	1,810	21.3
Non-hazardous (recycling)	4,286	49.6	4,391	51.8
Tot. non hazardous	**6,008**	**69.6**	**6,201**	**73.1**
Hazardous (disposal)	992	11.5	952	11.2
Hazardous (recycling)	1,442	16.7	1,143	13.5
Tot. hazardous	**2,434**	**28.2**	**2,095**	**24.7**
TOTAL	**8,628**	**100**	**8,485**	**100**
Value of production	**38,913**		**39,602**	
Tot waste/val. of product.	**0.22**		**0.21**	
Tot. Hazard. waste/val of product.	**0.06**		**0.05**	

During 2018, the incidence of waste on the value of production remained in line with 2017. The company's commitment focused on reducing the production of hazardous special waste, investing in the search for raw materials and substances, at the input stage, already not hazardous originally. For 2019, the Group has the objective of modifying the technology for managing wastewater from the process of enamelling covers at the Ospitaletto production site. Currently, the waste generated is liquid, with an annual volume of about 500 tonnes and an energy consumption equal to 3% of the total company requirements. The transition from an evaporator to a chemical-physical treatment will cancel out the energy impact and reduce the volume of waste, in this case solid waste, related to the enamelling process to 10 tonnes per year.

No significant spills occurred in 2018.

Emissions into the atmosphere

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

- Three production processes are carried out at Sabaf S.p.A:
  1- the production of the components that make up the burners (nozzle holder sumps and flame spreaders) involves the casting and subsequent die-casting of the aluminium alloy, sandblasting of the pieces, a series of mechanical processes with removal of material, washing of some components, assembly and testing. This production process results in the emission of negligible amounts of oily mists, as well as dust and carbon dioxide;
  2- the production of burner covers, where steel is used as raw material, which is submitted to blanking and minting. The semi-finished covers are then used for washing, sandblasting, application and firing of enamel, a process that generates the emission of dust;
  3- the production of valves and thermostats, in which mainly aluminium alloy, brass bars and moulded bodies and, to a much lesser extent, steel bars are used as raw materials. The production cycle is divided into the following phases: mechanical machining with removal of material of bars and moulded parts, washing of semi-finished products and components obtained in this way, finishing of the coupling surface of bodies and masks with a diamond tool, assembly and final inspection of the finished product. This process generates negligible oily mists.

- In Faringosi Hinges s.r.l., steel is used as the main raw material for the production of hinges, and is subjected to a series of mechanical processing and assembly that do not involve any significant emissions.

- In A.R.C. s.r.l., where professional burners are produced through mechanical processing and assembly, no significant emissions are recorded.

- The entire burner production process is carried out at Sabaf do Brasil. An analysis of the internal process shows that there are no significant emissions.

- The entire burner production process is carried out at Sabaf Turkey. An analysis of the internal process shows that there are no significant emissions.

- Sabaf China carries out mechanical processing and burner assembly operations. Emissions are completely negligible.

The efficiency level of the purification systems is ensured through their regular maintenance and the regular monitoring of all emissions. Monitoring in 2018 showed that all emissions complied with the limits imposed by the law.

CO_2 EMISSIONS (tons) [28]			
	2018	**2017**	**2016**
Scope 1 (direct emissions)[29]	8,022	8,508	6,949
Scope 2 (indirect emissions) - location based	10,498	11,570	10,162
Scope 2 (indirect emissions) - market based	13,133	N/A	N/A
Total emissions Scope 1+2 (location based)	**18,520**	**20,078**	**17,111**

The use of natural gas to power melting furnaces results in the emission of NOX and SOX into the atmosphere, however these emissions are not significant. Sabaf does not currently contain any substances that damage the atmospheric ozone layer, with the exception of the refrigerant used in some air conditioners (R22), which is managed in compliance with the reference standards.

Environmental investments

ENVIRONMENTAL CURRENT EXPENDITURE
(amounts in €000)

	2018	**2017**
Waste disposal	533	511
Advisory services	58	27
Analysis of emissions	20	18
Training	2	2
Plant, equipment and materials	53	22
Software and database	1	0
TOTAL	**667**	**580**

ENVIRONMENTAL INVESTMENTS
(amounts in €000)

	2018	**2017**
Plant, equipment and materials	268	33
TOTAL	**268**	**33**

In 2018, investments were made in:

- extraordinary maintenance of atmospheric emission plants in the foundry department;
- improvement of waste collection areas within departments, to facilitate a more immediate and correct separation of the various types of waste;
- implementation of a modified alcohol washing at Sabaf Turkey and a plant at Sabaf S.p.A.

28 The factors used for calculating emissions are:
- year 2016: Department for Business, Energy & Industrial Strategy (BEIS) in 2015 - Defra 2016 for emissions related to natural gas consumption;
- year 2017: Department for Business, Energy & Industrial Strategy (BEIS) in 2015 - Defra 2017 for emissions related to natural gas consumption;
- year 2018: Scope 1 fuels and F-GAS: Defra 2018 - Scope 2 Location-based: Terna 2016 - Scope 2 Market-based: AIB 2017, where available, otherwise Terna 2016.

29 the 2017 and 2016 data has been amended from 2017 consolidated disclosure of non-financial information to include information that was not available at the date of the previous statement.

Disputes

In 2018, the Group did not suffer any sanctions related to environmental compliance and no dispute is pending.

Sabaf, the management of product quality and customer relations

Risks

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

Strategic risks, including intellectual property protection (there is a risk that some Group products, even if under patent protection, may be copied by competitors) and collaboration with critical suppliers.

Legal and compliance risks, relating to non-compliance with product regulations: Sabaf operates in international markets that adopt different laws and regulations. The product must therefore comply with the mandatory and voluntary requirements and the organisation must be able to show this consistency to the certification bodies responsible for control.

Quality management policy

The Quality Management System has the aim of enabling the achievement of the following objectives:

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

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

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

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

Company	Year of first certification
Sabaf S.p.A.	1993
Faringosi Hinges	2001
Sabaf do Brasil	2008
Sabaf Turkey	2015

During 2018, the Quality Management System was constantly monitored and maintained to ensure the correct implementation and compliance with the requirements of the ISO 9001 standard. As part of the internal audit plan for 2018, a total of 26 functional areas of offices and production departments were checked at the Ospitaletto factory, 14 at Sabaf do Brasil and 14 at Sabaf Turkey. The results of these checks did not reveal any critical aspects of the system, which therefore fully complies with the standard.

With regard to third party inspections of the Quality Management System, in 2018 CSQ (IMQ Certification Body) carried out the annual inspection at the premises of Ospitaletto and at the factory of Sabaf Turkey, confirming the adequacy of the System and the maintenance of ISO 9001 certification. For the Brazilian factory, the next inspection by the certification body is scheduled for 2019.

Note that, with inspections in 2018, the Company adapted the Quality Management System to the new version of the ISO 9001:2015 Standard.

In September 2018, the TUV NORD certification body carried out the certification audit of the Quality Management System of Faringosi Hinges, in accordance with UNI EN ISO 9001:2015. The intervention ended successfully.

QUALITY CURRENT EXPENDITURE (amounts in €000)	**2018**	**2017**
Product certification	131	106
Certification and quality management system	17	7
Measuring equipment and instruments (purchase)	47	102
Measuring equipment and instruments (calibration)	30	34
Technical standards, software and magazines	3	3
Training	0	3
Tests in external laboratories	36	39
Total	**263**	**294**

INVESTMENTS IN QUALITY (amounts in €000)	**2018**	**2017**
Measuring equipment and instruments (purchase)	90	182
Total	**90**	**182**

Customer Health and Safety

Sabaf protects the health of consumers by checking that the materials that make up its products comply with the international directives in force (such as REACH and RoHs).
To ensure the safe operation of valves, thermostats and burners, Sabaf carries out leak tests on 100% of its production.
Valves and thermostats are also certified by third parties that guarantee compliance with the operating and safety requirements required to be marketed on the world market.
Hinges do not pose a significant risk to consumer safety.

Customer satisfaction

The customer satisfaction survey, carried out every two years, is part of the stakeholder engagement activities that Sabaf undertakes in order to constantly improve the quality of the services offered and to respond to customer expectations.
The latest survey, carried out in February 2017, confirmed the positive opinion of customers by pointing out that the quality of its products and its timeliness, professionalism and competence in technical and commercial assistance are among its strong points.

Customer complaint handling

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

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

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

	Number of well-founded customer complaints
2018	398
2017	335

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

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

Disputes

There is no dispute in place.

Sabaf and supply chain management

Risks

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

Risks of external context. Considering that a significant (although not predominant) portion of purchases takes place on international markets, the Group monitors and manages the risk of instability in supplier Countries.

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

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

Supply chain management policy

The SA8000 standard and suppliers

In 2009, Sabaf S.p.A. obtained the certification of compliance with the requirements of the SA8000 (Social Accountability 8000) Standard and, therefore, the Company requires its suppliers to comply, in all their activities, with the principles of the Standard, as a minimum criterion for establishing a lasting relationship based on the principles of social responsibility. Supply contracts include an ethical clause inspired by the SA8000 standard, which commits suppliers to ensure respect for human and social rights and in particular: avoid the employment of persons below the age established by the standard, provide workers with a safe workplace, protect trade union freedom, comply with the law on working hours, ensure workers that the minimum salary required by law will be complied with.

In 2017, Sabaf S.p.A. complied with the updating of the SA8000:2014 standard and asked all suppliers, bound by contract, to act in the same way and comply with the latest version of the principles. During the year, Sabaf S.p.A. carried out a risk analysis of the supply chain in line with the requirements of SA8000 in order to prepare an action plan and monitor the suppliers considered critical for the purposes of the Standard. The analysis was carried out taking into account the geographical location, the sector to which it belongs, the type of business and the importance of turnover with regard to Sabaf. A questionnaire was sent out to verify understanding of the standard and assess the social responsibility aspects of each supplier. The replies received did not show any non-compliance.
Failure to comply with or to accept the principles of the SA8000 standard may lead to the termination of supply contracts.
If the law in force already requires Sabaf to meet the minimum requirements, the risk is considered to be lower, otherwise periodic audits relating to quality, environment and social responsibility management are carried out. In 2018, class A and B suppliers were analysed to cover 95% of the expenditure. This analysis revealed 20 cases of suppliers considered potentially critical, following which 17 audits were carried out (18 in 2017) from which no critical non-conformities were found but

only observations. In connection with non-critical non-compliances, the suppliers were asked to take appropriate action.

Relations with suppliers and contractual conditions

Relations with suppliers are based on long-term collaboration and on fairness in negotiations, integrity and contractual fairness and the sharing of growth strategies.
To encourage the sharing with suppliers of the values that underpin its business model, Sabaf has distributed the Charter of Values in a widespread manner.
Sabaf guarantees absolute impartiality in the choice of suppliers and undertakes to strictly comply with the agreed payment terms.
Sabaf requires its suppliers to be able to renew themselves technologically, so that the best quality/price ratios can always be proposed, and favours suppliers who have obtained or are obtaining Quality and Environmental System certifications.
In 2018, the turnover of suppliers of the Sabaf Group with a Certified Quality System was equal to 71.7% of the total (70.9% in 2017).

Purchase analysis

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

	Total 2018 purchases (€/000)	% domestic purchases
Sabaf S.p.A.	75,086	76.5
Faringosi Hinges S.r.l.	7,320	98.1
A.R.C. s.r.l.	3,465	85.6
Sabaf Turkey	8,555	88.0
Sabaf do Brasil	8,296	86.1
Sabaf China	598	97.2

TERRITORIAL DISTRIBUTION OF SUPPLIERS (amounts in €/000)				
	2018		**2017**	
	Total purchases	**%**	**Total purchases**	**%**
Province of Brescia	31,962	30.8	31,833	30.4
Italy	37,189	35.8	38,959	37.2
EU	11,611	11.2	11,539	11.0
Brazil	7,142	6.9	6,388	6.1
Turkey	7,593	7.3	7,193	6.9
Other	8,427	8.0	8,692	8.3
Total	**103,924**	**100**	**104,604**	**100**

Most of the purchases outside the European Union come from suppliers located in China. Chinese suppliers signed the clause for compliance with the principles of the SA8000 standard.
For all Group companies, the main machinery used (die-casting machines, processing and assembly transfer) is supplied by Italy to ensure homogeneous production processes in terms of quality and safety.

Breakdown of purchases by type (€/000)

	2018		2017	
	Total purchases	**%**	**Total purchases**	**%**
Raw Materials	17,685	17.0	27,302	26.1
Components	44,762	43.1	32,492	31.1
Capital equipment	11,348	10.9	13,604	13.0
Services and other purchases	30,168	29.0	31,205	29.8
Total	**103,963**	**100**	**104,603**	**100**

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

Disputes

There are no disputes with suppliers.

Sabaf, Public Administration and Community

Relations with the Public Administration

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

Relations with industrial associations

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

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

Relations with universities and the student world

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

Charitable initiatives and perks

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

Disputes

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

Sabaf and shareholders

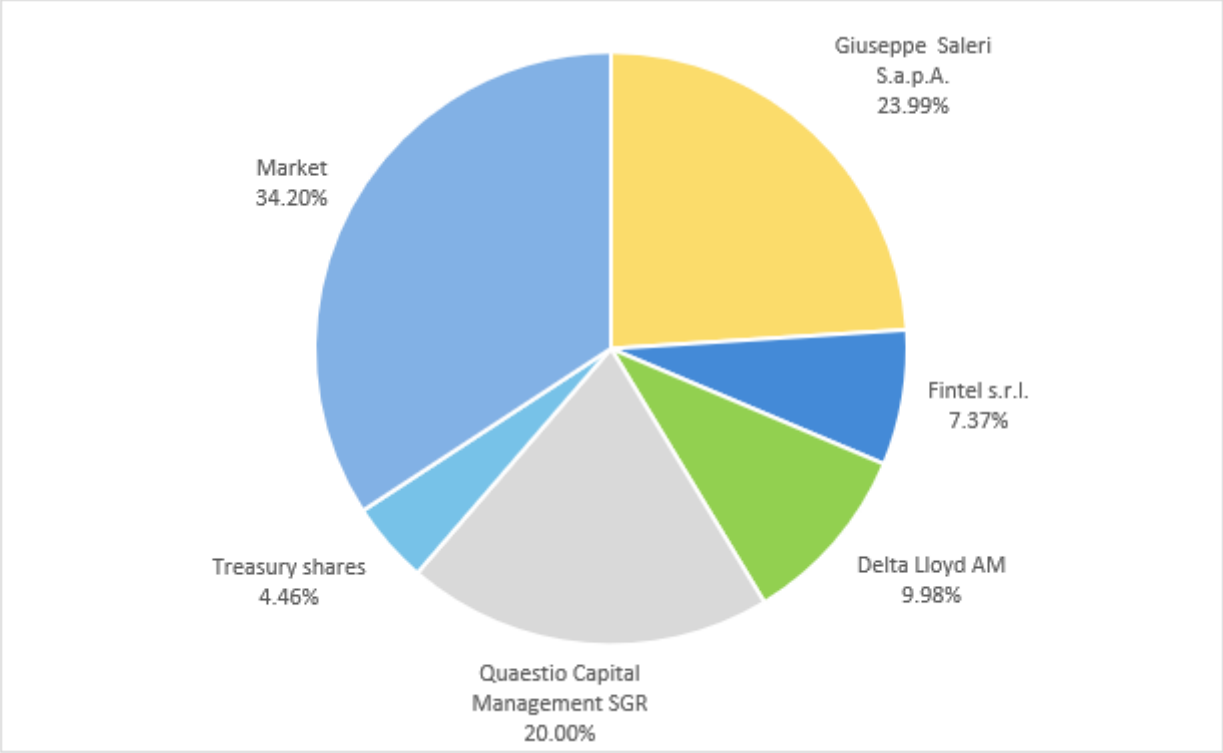
The composition of the share capital

The shareholders entered in the shareholders' register at 5 March 2019 were 1,805, of whom:

> 1,513 own up to 1,000 shares
> 194 own 1,001 to 5,000 shares
> 31 own 5,001 to 10,000 shares
> 67 own over 10,000 shares

29.67% of the share capital is held by shareholders resident abroad.

Body of shareholders



Investor relations and financial analysts

Since its listing on the Stock Exchange (1998), the Company has attributed strategic importance to financial communication. Sabaf's financial communication policy is based on the principles of fairness, transparency and continuity, in the belief that this approach allows investors to correctly evaluate the Company. In this perspective, Sabaf guarantees maximum willingness to engage in dialogue with financial analysts and institutional investors. In 2018, the Company met with institutional investors as part of roadshows organised in Milan and London. Some investors also held meetings with the management at the company headquarters in Ospitaletto, taking the opportunity to visit the production facilities.

Remuneration of shareholders and share performance

In 2018, the Sabaf share recorded the highest official price on 9 January (€ 20.910) and lowest on 2 November (€ 13.027). The average volume traded was 9,381 shares per day, equal to an average value of € 164,508 (€ 346,647 in 2017). The performance of the stock in 2018 was affected by the general weakness of the share prices.

2018 performance of Sabaf shares (price and volumes traded)

Sabaf vs. FTSE Italia STAR index

The dividend policy adopted by Sabaf aims to guarantee a valid remuneration of shareholders also through the annual dividend of € 0.55 per share in 2018.

Socially responsible investments

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

Disputes

There is no dispute with shareholders.

Sabaf and lenders

Relations with credit institutions

The 2018-2022 Business Plan envisages the financing of growth also through greater use of financial debt, which is expected to remain within the parameters of absolute security (net financial debt to EBITDA ratio below 2).
At 31 December 2018, the net financial debt was € 53.5 million, compared with € 25.5 million on 31 December 2017.

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

Disputes

There is no dispute with the lenders.

Sabaf and competitors

Trends in the cooking appliance manufacturer sector

For years, there has been a clear trend in the sector to outsource the design and production of components to highly specialised suppliers who, like Sabaf, are active in the main world markets and are able to provide a range of products that meets the specific requirements of different markets. Furthermore, the trend towards the internationalisation of production is accentuated, with production increasingly relocated to countries with low labour costs and lower saturation levels. The entry of new players on the international scene has also led to a situation of oversupply, which generates strong competitive tensions and is evolving into a greater concentration of the sector. This trend is less evident for cooking appliances than for other household appliances: in the cooking sector, in fact, design and aesthetics on the one hand and the lower intensity of investments on the other allow the success of even small and highly innovative producers.

Main Italian and international competitors

In Italy and Europe, Sabaf estimates to have a market share of more than 40% in each product segment and is the only company to supply the full range of gas cooking components, while its competitors only produce part of the product range.
The main competitors of the Sabaf on the international market are Copreci, Defendi and Robertshaw.
Copreci is a cooperative located in Spain in the Basque Country, part of Mondragon Cooperative Corporation and represents Sabaf's main competitor in terms of valves and thermostats.
Defendi is an Italian company, acquired in 2013 by the German group EGO, and is mainly active in the production of burners in Italy and Brazil.
Robertshaw is the leading producer of gas components for the North American market.

Main Italian and international competitors

	Valves	Thermostats	Burners	Hinges
Sabaf Group	**X**	**X**	**X**	**X**
Copreci (Spain)	X	X		
Defendi Italy (Italy)	X		X	
Robertshaw (USA)	X	X	X	
Somipress (Italy)			X	
CMI (Italy)				X
Nuova Star (Italy)				X

2016 and 2017 economic data of the main Italian competitors (€000)[30]

	2017			2016		
	SALES	**EBIT**	**NET RESULT**	**SALES**	**EBIT**	**NET RESULT**
Sabaf Group	**150,223**	**18,117**	**14,835**	**130,978**	**12,530**	**9,009**
DEFENDI ITALY	56,562	3,516	2,534	54,959	2,316	1,799
SOMIPRESS GROUP	37,797	3,060	1,996	36,972	2,323	1,214
CMI	22,880	560	730	20,516	738	898
NUOVA STAR	33,418	323	189	30,007	174	118

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

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

Disputes

There is a dispute pending against a competitor following an alleged violation of one of our patents. There is also a dispute in place brought by a competitor for alleged infringement of a patent that the Group considers totally groundless.

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Building a better working world

Independent auditors' report on the consolidated disclosure of non-financial information in accordance with Article 3, par. 10, of Legislative Decree 254/2016 and with Article 5 of CONSOB Regulation adopted with Resolution n. 20267 of 18th January 2018 (Translation from the original Italian text)

To the Board of Directors of
Sabaf S.p.A.

We have been appointed to perform a limited assurance engagement pursuant to Article 3, paragraph 10, of Legislative Decree 30 December 2016, n. 254 (hereinafter "Decree") and article 5 of CONSOB Regulation adopted with Resolution 20267/2018, on the consolidated disclosure of non-financial information of Sabaf S.p.A. and its subsidiaries (hereinafter the "Group") for the year ended on 31st December 2018, in accordance with article 4 of the Decree and approved by the Board of Directors on 26th March 2019 (hereinafter "DNF").

Responsibilities of Directors and Board of Statutory Auditors for the DNF

The Directors are responsible for the preparation of the DNF in accordance with the requirements of articles 3 and 4 of the Decree and the "Global Reporting Initiative Sustainability Reporting Standards" defined in 2016 by GRI - Global Reporting Initiative ("GRI Standards") identified by them as a reporting standard.

The Directors are also responsible, within the terms provided by law, for that part of internal control that they consider necessary in order to allow the preparation of the DNF that is free from material misstatements caused by fraud or not intentional behaviors or events.

The Directors are also responsible for identifying the contents of the DNF within the matters mentioned in article 3, par. 1, of the Decree, considering the business and the characteristics of the Group and to the extent deemed necessary to ensure the understanding of the Group's business, its performance, its results and its impact.

The Directors are also responsible for defining the Group's management and organization business model, as well as with reference to the matters identified and reported in the DNF, for the policies applied by the Group and for identifying and managing the risks generated or incurred by the Group.

The Board of Statutory Auditors is responsible, within the terms provided by the law, for overseeing the compliance with the requirements of the Decree.

Auditors' independence and quality control

We are independent in accordance with the ethics and independence principles of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, based on fundamental principles of integrity, objectivity, professional competence and diligence, confidentiality and professional behavior. Our audit firm applies the International Standard on Quality Control 1 (ISQC Italia 1) and, as a result, maintains a quality control system that includes documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable laws and regulations.

EY S.p.A.
Sede Legale: Via Po, 32 - 00198 Roma
Capitale Sociale Euro 2.525.000,00 i.v.
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Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

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Auditors' responsibility

It is our responsibility to express, on the basis of the procedures performed, a conclusion about the compliance of the DNF with the requirements of the Decree and of the GRI Standards. Our work has been performed in accordance with the principle of "International Standard on Assurance Engagements ISAE 3000 (Revised) - Assurance Engagements Other than Audits or Reviews of Historical Financial Information" (hereinafter "ISAE 3000 Revised"), issued by the International Auditing and Assurance Standards Board (IAASB) for limited assurance engagements. This principle requires the planning and execution of work in order to obtain a limited assurance that the DNF is free from material misstatements. Therefore, the extent of work performed in our examination was lower than that required for a full examination according to the ISAE 3000 Revised ("reasonable assurance engagement") and, hence, it does not provide assurance that we have become aware of all significant matters and events that would be identified during a reasonable assurance engagement.

The procedures performed on the DNF were based on our professional judgment and included inquiries, primarily with company's personnel responsible for the preparation of the information included in the DNF, documents analysis, recalculations and other procedures in order to obtain evidences considered appropriate.

In particular, we have performed the following procedures:

1. analysis of the relevant matters in relation to the activities and characteristics of the Group reported in the DNF, in order to assess the reasonableness of the selection process applied in accordance with the provisions of article 3 of the Decree and considering the reporting standard applied;

2. analysis and evaluation of the criteria for identifying the consolidation area, in order to evaluate its compliance with the provisions of the Decree;

3. comparison of the economic and financial data and information included in the DNF with those included in Sabaf Group's consolidated financial statements;

4. understanding of the following aspects:
   - Group's management and organization business model, with reference to the management of the matters indicated in the article 3 of the Decree;
   - policies adopted by the Group related to the matters indicated in the article 3 of the Decree, results achieved and related key performance indicators;
   - main risks, generated or suffered related to the matters indicated in the article 3 of the Decree.

   With regard to these aspects, we obtained the documentation supporting the information contained in the DNF and performed the procedures described in item 5. a) below.

5. understanding of the processes that lead to the generation, detection and management of significant qualitative and quantitative information included in the DNF.

   In particular, we have conducted interviews and discussions with the management and other personnel of Sabaf S.p.A. and we have performed limited documentary evidence procedures, in order to collect information about the processes and procedures that support the collection, aggregation, processing and transmission of non-financial data and information to the management responsible for the preparation of the DNF.

Furthermore, for significant information, considering the Group activities and characteristics:

- at Group level
  a) with reference to the qualitative information included in the DNF, and in particular to the business model, policies implemented and main risks, we carried out inquiries and acquired supporting documentation to verify its consistency with the available evidence;
  b) with reference to quantitative information, we have performed both analytical procedures and limited assurance procedures to ascertain on a sample basis the correct aggregation of data.
- For the site of Ospitaletto of Sabaf S.p.A. that we have selected based on its activity, relevance to the consolidated performance indicators and location, we have carried out a site visit during which we have had discussions with management and have obtained evidence about the appropriate application of the procedures and the calculation methods used to determine the indicators.

Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the DNF of the Sabaf Group for the year ended on 31st December 2018 has not been prepared, in all material aspects, in accordance with the requirements of articles 3 and 4 of the Decree and the GRI Standards.

Other Information

The Group has prepared a social report for the year ended on 31st December 2016; such data are presented for comparative purposes in the DNF. This social report has been subject to voluntary limited assurance procedures in accordance with ISAE 3000 Revised by another auditor, that has expressed an unqualified conclusion.

The DNF for the year ended on 31st December 2017, whose data are presented for comparative purposes, has been subject to limited assurance procedures by another auditor, who expressed a unqualified conclusion on this DNF on 13th April 2018.

Brescia, 12th April 2019

EY S.p.A.
Signed by: Massimo Meloni (Partner)

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

GRI Content Index

GRI Standard	Disclosure		Page (or direct reference)	Omission
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General Discolures				
GRI 102: General Disclosures 2016	ORGANIZATIONAL PROFILE			
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	102-2	Activities, brands, products, and services	pages 7-11	
	102-3	Location of headquarters	Via dei Carpini, 1 25035 Ospitaletto (Brescia)	
	102-4	Location of operations	pages 10-14	
	102-5	Ownership and legal form	pages 36-37; 102	
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	102-9	Supply chain	pages 98-100	
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	102-13	Membership of associations	page 101	

	STRATEGY			
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	ETHICS AND INTEGRITY			
	102-16	Values, principles, standards, and norms of behavior	pages 20-23	
	GOVERNANCE			
	102-18	Governance structure	pages 36-47	
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	STAKEHOLDER ENGAGEMENT			
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	102-41	Collective bargaining agreements	page 71	
	102-42	Identifying and selecting stakeholders	page 30	
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	REPORTING PRACTICE			
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	102-46	Defining report content and topic Boundaries	pages 16-17; 33	
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	102-48	Restatements of information	pages 16-17	
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	102-51	Date of most recent report	Year 2017	
	102-52	Reporting cycle	pages 16-17	
	102-53	Contact point for questions regarding the report	Tel.: +39 030 - 6843001, Fax: +39 030 - 6848249 E-mail: info@sabaf.it	
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	102-55	GRI content index	pages 110 - 117	
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	103-3	Evaluation of the management approach	pages 48-49	
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		local minimum wage		
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