

**Report of the Board of Statutory Auditors to the Shareholders' Meeting of  
SABAF S.p.A. in accordance with Art. 2429, 2nd paragraph of the Italian Civil  
Code and Art. 153 of Italian Legislative Decree no. 58/1998**

Dear Shareholders,

We hereby report to you on the supervisory activity performed during the 2017 financial year.

This report is prepared in accordance with Art. 2429, 2nd paragraph of the Italian Civil Code and Art. 153 of Italian Legislative Decree no. 58/1998, in light of the CONSOB recommendations, the Rules of Behaviour of the Board of Statutory Auditors of listed companies issued by CNDCEC and the indications contained in the Corporate Governance Code of Borsa Italiana, which applies to your Company.

We note below the activity carried out.

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

During the 2017 financial year, the Board of Statutory Auditors met on seven occasions and attended nine meetings of the Board of Directors, five meetings of the Control and Risk Committee, two meetings of the Company's Control Bodies (Board of Statutory Auditors, Control and Risk Committee, Supervisory Body, Financial Reporting Officer, Head of the Internal Audit Function, Independent Auditing Company) and a meeting of the Remuneration and Nomination Committee.

During the Board of Directors' meetings, the Board of Statutory Auditors obtained information on the general management performance, on its outlook, as well as on the most significant economic, financial and capital operations performed by the Company and by its subsidiaries.

In that regard, it is noted that, during 2017:

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

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

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

The Board of Statutory Auditors supervised the existence of an adequate **organisational structure** in relation to the company's dimensions.

In that regard, it is noted that the Company has for some time now adopted an Organisation Model compliant with the provisions of Italian Legislative Decree 231/2001, which is regularly updated.

During the financial year, the Board of Statutory Auditors maintained a constant information flow with the Supervisory Body.

The information acquired has not identified any critical issues with regard to the correct implementation of the organisation model that must be highlighted in this report.

With reference to the adequacy of the **internal control system**, the Board of Statutory Auditors expresses its positive assessment and acknowledges that there are no findings to be reported to the Shareholders' Meeting.

The sources of information on which the Board of Statutory Auditors was able to base its assessment are as follows:

- periodic meetings with the Company assigned the Internal Audit Function and with the Representative of that Function. During those meetings, the Board of Statutory Auditors had the opportunity to assess the activity carried out and its results. In that regard, it is noted that the Company itself performs the Internal Audit Function also with reference to the strategic subsidiaries;
- periodic meetings with the Independent Auditing Company;
- the report of the Head of the Internal Audit Function on the Internal Control and Risk Management System, examined during the meeting of the Control and Risk Committee held on 6 February 2018;
- attendance at meetings of the Control and Risk Committee;

- the report of the Control and Risk Committee to the Board of Directors on the activities carried out;
- meetings with the Financial Reporting Officer;
- examination of the company procedures, therein including those provided within the Organisation Model adopted by Sabaf (and by the subsidiary Faringosi Hinges S.r.l.) in application of Italian Legislative Decree 231/2001 and those established by the Financial Reporting Officer in charge of preparing the corporate accounting documents, in accordance with Italian Law 262/2005.

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

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

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

Based upon the gathered information, no findings have emerged.

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

- the adequacy and effective application of the administrative and accounting procedures for preparing the financial statements;
- the conformity of the financial statements to the international accounting

standards and their correspondence to the records of the accounting ledgers and deeds as well as their suitability to provide a true and accurate representation of the Company's financial position, the results of the operations and of the cash flows.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company prepared the 2017 financial statements in accordance with

international accounting standards (IAS/IFRS).

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

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

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

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

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

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

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

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

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

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

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

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

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

## **5. Methods of concrete implementation of the corporate governance rules**

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

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



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

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

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

## **6. Supervisory activity on relationships with Subsidiaries and parent companies**

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

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

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

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

## **7. Supervisory activity over operations with related parties**

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

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

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

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

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

We remind you that, in accordance with the provisions of the Decree, this Statement "to the extent necessary to ensure understanding of the company's activities, performance, results and impact, covers environmental, social and personnel issues, respect for human rights and the fight against active and passive corruption, which

are relevant considering the Group's activities and characteristics”.

We acknowledge that the Independent Auditing Company KPMG S.p.a., in charge pursuant to Art. 3, paragraph 10, of the Decree, today issued the certificate provided for therein, confirming that, on the basis of the work carried out, no elements have been brought to the attention of the auditor that would suggest that the Consolidated Non-Financial Statement has not been drawn up in all significant aspects in compliance with the requirements of articles 3 and 4 of the decree and the adopted reference standards (GRI – G4).

The Board of Statutory Auditors supervised compliance with the provisions of Legislative Decree 254/2016 and has no observations to make on this subject in this report.

### **Conclusions**

During the supervisory activity carried out during the financial year, no omissions, censurable facts, irregularities or circumstances that require reporting to the Supervisory Authority or a mention herein were identified.

It is also acknowledged that the Board of Statutory Auditors has not received reports in accordance with Art. 2408 of the Italian Civil Code, nor has it become aware of cases and/or lawsuits to be noted in this report.

With regard to the above, the Board of Statutory Auditors expresses a favourable opinion on the approval of the separate financial statements and the proposal for the allocation of net income for the year made by the Board of Directors.

Ospitaletto, 13 April 2018

Antonio Passantino	Chairman of the Board of Statutory Auditors
Enrico Broli	Statutory Auditor
Luisa Anselmi	Statutory Auditor