

**Board of Statutory Auditors' Report to the SABAF S.p.A. Shareholders' Meeting**  
**pursuant to article 2429, paragraph 2, of the Civil Code and article 153 of**  
**Legislative Decree 58/1998**

Shareholders,

We hereby report to you on the supervisory activities carried out during 2015.

This report is prepared pursuant to article 2429, paragraph 2, of the Civil Code and article 153 of Legislative Decree 58/1998, taking into account Consob recommendations, the codes of conduct for boards of statutory auditors issued by the Italian Association of Chartered Accountants and the guidelines contained in the Corporate Governance Code of Borsa Italiana S.p.A., to which your Company adheres.

We recall that the current Board of Statutory Auditors was nominated at the Shareholders' Meeting held on 5 May 2015 and that, therefore, it began its supervisory activities as of that date.

The activities performed are reported below.

**1. Supervision of compliance with the law and Articles of Incorporation and adherence to principles of proper management**

Since its nomination on 31 December 2015, the Board of Statutory Auditors has met four times, with all members attending on each occasion. The Board has also attended six meetings of the Board of Directors, three meetings of the Control and Risks Committee and one meeting between the Company's Control Bodies (Board of Statutory Auditors, Control and Risks Committee, Supervisory Body, Financial Reporting Officer, Chief Internal Auditor, Independent Auditor),

In turn, during the period between 1 January 2015 and 5 May 2015, the preceding Board of Statutory Auditors attended two meetings of the Board of Directors, one meeting of the

Control and Risks Committee, one meeting between the Company's Control Bodies, and the Shareholders' Meeting held on 5 May 2015.

During the meetings of the Board of Directors, the Board of Statutory Auditors received information on general performance, the business outlook, and the most significant business, financial and equity transactions performed by the Company and its subsidiaries.

In this regard we note that in 2015:

- we did not identify or receive information of atypical and/or unusual transactions with third parties, related parties or within the group. This was also confirmed by the Directors in their Report on Operations;
- no significant transactions have been carried out that would require mention in this report;
- intragroup and other related-party transactions were ordinary in nature and of minor importance compared with Group activity as a whole, as described in note 37 of the Separate Financial Statements and the corresponding note in the Consolidated Financial Statements, to which the reader is referred. The Board of Statutory Auditors believes that the conditions under which these transactions were carried out are legitimate and aligned with the Company's interests.

The Board of Statutory Auditors has expressed its favourable opinion, in the following cases:

- division among the Directors of the fees decided by the Shareholders' Meeting;
- allocation of special fees to certain Executive Directors;
- appointment of the Financial Reporting Officer;
- appointment of the Internal Audit Manager, allocation of adequate resources to

perform his/her duties and determination of remuneration in accordance with company policies;

- work plan prepared by the Internal Audit Manager,

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In conclusion, on the basis of the activity performed, no violations of the law and/or Articles of Incorporation were found, or any manifestly imprudent or risky transactions, or transactions with potential conflicts of interest or such that could compromise the company's assets.

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

The Board of Statutory Auditors ensured the existence of an adequate **organisational structure** in relation to the size of the business.

In this regard we recall that the Company has for a long time adopted an Organisational Model in accordance with the provisions of Legislative Decree 231/2001. In the event of organisational and/or regulatory changes, this model is periodically updated. The model is currently being adapted to recent regulatory changes introduced by lawmakers.

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

The information obtained does not show any critical issues with regard to the proper implementation of the organisational model that would require mention in this report.

The Board of Statutory Auditors considers the **internal control system** to be adequate and acknowledges that it has no observations to make to the Shareholders' Meeting.

The information sources on which the Board of Statutory Auditors has based its assessment are:

- periodic meetings with the Company appointed to perform the Internal Audit function and with the representative of said function. During these meetings, the Board of Statutory Auditors has been able to assess the activities undertaken and their results. In this regard, we note that the said Company also performs the Internal Audit function for key subsidiaries;
- periodic meetings with the Independent Auditor;
- the report of the Internal Audit Manager on the control system, which was examined during the meeting of the Control and Risks Committee held on 2 February 2016;
- attendance at the meetings of the Control and Risks Committee;
- the Control and Risks Committee's report to the Board of Directors on the adequacy and effective functioning of the organisation of the internal control and risk management system;
- meetings with the Financial Reporting Officer;
- examination of corporate procedures, including those under the scope of the Organisational Model adopted by Sabaf (and by the subsidiary Faringosi Hinges S.r.l.) under Legislative Decree 231/2001 and those established by the Financial Reporting Officer, pursuant to Law 262/2005.

### **3. Supervisory activities on the suitability of the administrative and accounting system and the audit process**

The Board of Statutory Auditors has monitored the suitability of the **administrative and accounting system** and its ability to give a true and fair view of the business, by:

- obtaining information from the Financial Reporting Officer.
- examining administrative procedures;
- holding periodic meetings with the Company appointed to perform the Internal

Audit function and with the representative of said function;

- holding meetings with the Independent Auditor and examining its reports.

On the basis of the information collected, no significant issues were detected.

We also note that the Board of Directors, with the approval of the Board of Statutory Auditors, appointed the Financial Reporting Officer subject to checks that he/she meets the professional requirements.

The Chief Executive Officer and Financial Reporting Officer have attested to the following in a specific report annexed to the 2015 Financial Statements:

- the suitability and effective application of the administrative and accounting procedures for drafting the financial statements;
- its compliance with international accounting standards and true reflection of accounting ledgers and records, and its suitability to provide a true and correct representation of the Company's operating results, financial position and cash flows.

An equivalent declaration was also made in reference to the consolidated financial statements.

As regards **statutory auditing**, we note that this task was assigned by decision of the shareholders' meeting of 28 April 2009 to Deloitte & Touche S.p.A. for the period 2009/2017.

During the year, the Board of Statutory Auditors held periodic meetings with the Independent Auditor, in which no significant information was received that needs to be reported herein.

The audit procedures adopted in relation to the work plan submitted by the Independent Auditor were examined.

We have also received the required technical information in relation to the accounting standards applied, as well as the criteria used for the representation in the accounts of the transactions with the biggest impact on income, equity and financial position.

We also note that, on 30 March 2016, the Independent Auditor submitted the report referred to in article 19, paragraph 3, of Legislative Decree 39/2010. The report does not show any significant issues found during the audit process, or any significant shortcomings in the internal control system in relation to the financial reporting process.

Pursuant to article 17, paragraph 9, of Legislative Decree 39/2010, the Independent Auditor has confirmed its independence to the Board of Statutory Auditors and notified the total fees for audit and other services performed by it and by other parties within its network for the Company and its subsidiaries, as reported in the annexes to the separate and consolidated financial statements.

The Board of Statutory Auditors confirms that in the year to date no critical issues have been found in relation to the independence of the Independent Auditor.

Finally, it is noted that the supervisory activities described in this paragraph and the previous paragraph have enabled the Board of Statutory Auditors to perform its duties as the Committee for Internal Control and Statutory Auditing pursuant to article 19 of Legislative Decree 39/2010, in which regard it has no observations to report.

#### **4. Proposals on the separate and consolidated financial statements, their approval and matters within the remit of the Board of Statutory Auditors**

The Company has prepared the 2015 financial statements in accordance with international accounting standards (IAS/IFRS). These financial statements have been audited by Deloitte & Touche SpA, which issued its report on 30 March 2016 without any remarks or requests for specific disclosures. The financial statement, including the report

on operations, was made available to us by the deadline set by law and we have no particular observations to report.

The Company has also prepared the 2015 consolidated financial statements of the Sabaf SpA group. These financial statements have also been audited by Deloitte & Touche SpA, which issued its report on 30 March 2016 without any remarks or requests for specific disclosures.

We also note that, in the reports referenced above, the Independent Auditor expressed a positive judgement of the consistency of the information contained in the Report On Operations and the information referred to in article 123-bis, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) of Legislative Decree 58/98, as included in the Report on Corporate Governance and Ownership Structures, for both the separate and consolidated financial statements.

Within the limits of the Board of Statutory Auditors' remit, we have checked the general format of the separate and consolidated financial statements, verifying their conformity with the law and relevant standards.

In particular, we have assessed the results of the impairment test conducted on the value of the equity investment in the subsidiary Faringosi Hinges S.r.l., as described in the separate financial statements, and the amount of goodwill recorded in relation to this equity investment in the consolidated financial statements.

The test, conducted by external professionals specifically appointed on the basis of plans drawn up by the Board of Directors of the subsidiary, led to the recognition of a recoverable value of the investment equal to €11,061 million, which is above its carrying value of €8,447 million.

Based on these measurements, the Board of Directors fully restored the book value of the

investment to its initial historic cost (equal to €10,329 million), posting a writeback of €1,882 million in the income statement of the separate financial statements, corresponding to the residual amount of the impairment losses recognised in previous years.

The Board of Statutory Auditors has no remarks in this regard.

Finally, we note that some derogations have been made with respect to the accounting standards adopted.

## **5. Procedures for effective implementation of the corporate governance rules**

Your Company has complied with the Corporate Governance Code approved by the Corporate Governance Committee for Listed Companies.

In the Annual Report on Corporate Governance and Ownership Structures, prepared in accordance with article 123-bis of Legislative Decree 58/1998, the Board Of Directors acknowledged the Company's adherence to the Corporate Governance Code and noted the methods used in practice to implement the corporate governance rules, in accordance with art. 123-bis, paragraph 2, letter a).

During the year the Board of Statutory Auditors supervised the practical implementation of the corporate governance rules adopted by the Company, and in this regard, considers that they have been effectively and properly applied.

To the extent of our remit, we note as follows:

- The Board of Directors has checked that directors categorised as independent upon their appointment continue to meet the requirements to be considered as such. The Board of Statutory Auditors has checked the proper implementation of the criteria and assessment procedures adopted by the Board;
- we have also checked that the members of the Board of Statutory Auditors meet



the independence requirements, as required by the Corporate Governance Code, both initially (upon appointment) and subsequently (during the meeting held on 22 February 2016), using the same methods as those used by the directors;

- we have complied with the regulations on the management and handling of confidential and sensitive company information.

## **6. Supervision of relations with subsidiaries and parents**

The Board of Statutory Auditors has checked the adequacy of the instructions given by the Company to its subsidiaries, pursuant to article 114, paragraph 2, of Legislative Decree 58/1998.

In this regard we note that the Company – via the CEO, as well as the Administration, Finance and Control Director, and the other executives with strategic responsibilities – continuously monitors the operations of subsidiaries, including by using a shared accounting and management system (SAP) that is accessible at all times to management of the parent company.

The periodic meetings between management and the company appointed to perform the internal audit did not result in any critical issues worthy of mention in this report.

Finally, we note that as of today's date no communications have been received by the Control Bodies of the subsidiaries and/or parents containing observations that must be mentioned in this report.

## **7. Supervision of related-party transactions**

In reference to article 2391-bis of the Italian Civil Code, we acknowledge that the Board of Directors has adopted a procedure governing related-party transactions. The main aim of this procedure is to set out guidelines and rules for identifying related-party transactions and to establish roles, responsibilities and operational procedures to ensure that these

transactions are disclosed with adequate transparency, appropriate procedures and suitable information.

The said procedure was prepared in accordance with the Consob Regulation on Related Parties (no. 17221 of 12 March 2010, as amended) and has recently been updated.

The Board of Statutory Auditors has overseen the effective application of these rules by the Company and has no remarks to report.

## **8. Conclusions**

During the supervisory activities conducted during the year, we did not find any omissions, facts worthy of censure, irregularities or situations that would need to be reported to the Supervisory Authority or mentioned in this report.

We also note that the Board of Statutory Auditors has not received any whistleblowing reports pursuant to article 2408 of the Italian Civil Code, and has not been aware of any facts and/or remarks that should be included in this report.

As regards the annual financial statements, the Board of Statutory Auditors has no objections to the resolution proposals presented by the Board of Directors with reference to the approval of the financial statements or the allocation of profit for the year, and in particular as regards the proposal on the distribution of dividends.

Ospitaletto, 31 March 2016

Mr Antonio Passantino                      Chairman of the Board of Statutory Auditors

Mr. Enrico Broli                              Statutory Auditor

Ms. Luisa Anselmi                            Statutory Auditor