CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE REPORT

pursuant to Art. 123-*bis* of the TUF

Name of issuer: SABAF S.p.A.
Website: www.sabaf.it
Report financial year: 2013
Report approval date: 20 March 2014

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GLOSSARY

Shareholders' Meeting: the Shareholders' Meeting of Sabaf S.p.A.

Code: the Corporate Governance Code of listed companies approved in December 2011 by the Corporate Governance Committee and recommended by Borsa Italiana S.p.A., ABI, Ania, Assogestioni, Assonime and Confindustria.

Civil Code/c.c.: the Italian Civil Code.

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

Transparency Directive: European Union Directive 2004/109/EC regarding the harmonisation of certain disclosure obligations imposed on issuers whose securities are listed for trading on a regulated European market, implemented in the Italian legal system through Legislative Decree 195/2007.

Issuer: Sabaf S.p.A, i.e. the issuer of listed shares to which the Report refers.

Financial year: the 2013 financial year to which the Report refers.

Group: the Sabaf Group (Sabaf S.p.A. and its subsidiaries).

Company: Sabaf S.p.A., hereinafter also referred to as Sabaf.

Stock Exchange Regulatory Instructions: Instructions on the Regulations of Markets organised and managed by Borsa Italiana S.p.A.

Savings law: Law no. 262 of 28 December 2005.

Manual: the updated version of the Corporate Governance Manual approved by the Board of Directors and adopted by Sabaf S.p.A., which includes the new rules of the Corporate Governance Code of December 2011.

Stock Exchange Regulations: the Regulations of Markets organised and managed by Borsa Italiana S.p.A.

Consob Issuers' Regulations: the Issuers' Regulations published by CONSOB pursuant to Resolution no. 11971 of 1999 (as amended) on issuers.

Consob Markets' Regulations: the Regulations published by CONSOB pursuant to Resolution no. 16191 of 2007 (as amended) on markets.

Consob Related Party Regulations: The Regulations issued by Consob pursuant to resolution no. 17221 of 12 March 2010 (as amended) on related-party transactions.

Report: the Report on Corporate Governance and Ownership Structure that companies must prepare pursuant to Article 123-*bis* of the TUF.

By-laws: the bylaws of Sabaf S.p.A.

TUF: Legislative Decree no. 58 of 24 February 1998 (Consolidated Law on Finance).

1. DESCRIPTION OF ISSUER

The entrepreneurial model of Sabaf S.p.A. is clearly expressed in its corporate "vision": *to 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.*

The adopted corporate governance model is based, in the first place, on the decision to achieve strict separation of the interests and choices of the key shareholder (the Saleri family) from the interests and choices of the Company and Group, consequently entrusting corporate management to managers other than the key shareholder.

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

As a further step along this path, Sabaf's management believes that ethics founded on the centrality of the individual and respect of common values, set at the head of the creation of value, are able to help take decisions that are in line with the corporate culture and significantly contribute to assuring the Company's sustainable long-term growth. To this end, Sabaf has created and published a Charter of Values (available in the "Sustainability" section of the website, www.sabaf.it), considered to be the governance tool through which the Board of Directors renders explicit the Company's values, standards of conduct, and commitments in respect of all stakeholders – shareholders, employees, customers, suppliers, financiers, the public administration, the community and the environment. In the last few months of 2013 the document was also revised by the Company to bring it further in line with the Group's strategic policies, the current governance model and to support the Group's increasing focus on issues such as ensuring environment and transparent and correct relations with all stakeholders..
The updated version of the Charter of Values was submitted to the Board of Directors on 11 February 2014 for approval.

The Sabaf Management and Control Model

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

- a Board of Directors in charge of company administration and management of Company operations;
- the Board of Statutory Auditors in charge of supervising:

- compliance with the law and Articles of Incorporation as well as the best management practices in the performance of business activities;
- the adequacy of the Company's organisational structure, internal control system, and administrative/accounting system;
- the procedures for effective implementation of the corporate governance rules envisaged by the Code;
- risk management;
- the regulatory audit of the accounts and the independence of the auditing firm;

- Shareholders' Meetings (ordinary and extraordinary) called to pass resolutions pursuant to the laws in force and the Company's bylaws (refer to these for details).

2. INFORMATION ON OWNERSHIP STRUCTURE

(pursuant to art. 123-*bis* (1) TUF) at 20 03 2013

a) Structure of share capital (pursuant to Art. 123-*bis* (1)(a) TUF)

The share capital totals Euro 11,533,450, which is fully subscribed and paid up, is represented by 11,533,450 ordinary shares with a par value of Euro 1.00 each.

As of the date of this report, there are no stock option plans outstanding.

b) Restrictions on the transfer of financial instruments (pursuant to Article 123-*bis* (1)(b) TUF)

There are no restrictions on the transfer of shares.

c) Significant shareholdings (pursuant to Article 123-*bis* (1)(c) TUF)

On the basis of the disclosures made pursuant to Art. 120 TUF and the other information available to the Company, the owners of more than 2% of the share capital are listed as follows:

Table 1 – SIGNIFICANT SHAREHOLDINGS

SIGNIFICANT SHAREHOLDINGS			
Reporting party	Direct shareholder	% of ordinary shares	% of voting shares
Saleri Giuseppe	Giuseppe Saleri SAPA (Ownership)	50.72%	50.72%
Delta Lloyd Asset Management NV	Delta Lloyd Asset Management NV (Asset management)	15.01%	15.01%
Pendoli Anna	Pendoli Anna (Usufruct, through Sirefid S.p.A. – Società Italiana di Revisione e Fiduciaria)	3.90%	3.90%
FIL Limited	FIL Limited (Asset management)	2.99%	2.99%
FMR LLC	FMR LLC (Asset management)	3.27%	3.27%

d) Financial instruments granting special rights (pursuant to Art. 123-*bis* (1)(d) TUF)

No shares granting special rights of control have been issued.

e) Employee shareholders: Mechanism for the exercise of voting rights (pursuant to Art. 123-bis (1)(e) TUF)

No special mechanisms for the exercise of voting rights by employee shareholders are envisaged.

f) Restrictions on voting rights (pursuant to Article 123-bis (1)(f) TUF)

There are no restrictions on voting shares.

g) Shareholders' agreements (pursuant to Article 123-*bis* (1)(g) TUF)

A shareholders' agreement (renewed until 8 January 2016) is in place at Giuseppe Saleri S.a.p.A., the controlling company of Sabaf S.p.A. This agreement was entered into by Cinzia Saleri, born in Brescia on 18 December 1961, Gianbattista Saleri, born in Brescia on 13 November 1963, Ettore Saleri, born in Brescia on 24 April 1973, Giuseppe Saleri, born in Lumezzane on 21 August 1931, Flavio Gnecchi, born in Brescia on 15 March 1956 and Mario Mazzoleni, born in Milan on 24 January 1957. It was notified, filed and published in accordance with the law and governs the entire shareholdings held by each of them in Giuseppe Saleri S.a.p.A., representing 100% of the share capital.

The main purpose of this shareholders' agreement is to co-ordinate the management of the equity investment in Sabaf S.p.A.

h) Change of control clauses (pursuant to Art. 123-bis (1)(h) TUF)

Sabaf S.p.A. and its subsidiaries are not party to agreements that become enforceable, are amended or extinguished if control of the contracting company changes.

i) Delegations of authority for recapitalisation and authorisations for buyback of treasury stock (pursuant to Art. 123-bis (1)(m) TUF)

Sabaf S.p.A. does not have any authorisations to increase its share capital.

The Company has an authorisation to purchase treasury shares, resolved by the ordinary shareholders' meeting on 30 April 2013 and valid for 18 months, with the aim of:

- in accordance with Company strategy, using treasury shares as part of the transactions related to business plans or agreements with strategic partners or in the framework of investment transactions, or other extraordinary financial transactions that imply assignation or utilisation of treasury shares;
- offering shareholders an additional tool to liquidate their investments;
- carrying out operations to support market liquidity.

The same meeting passed a resolution making own shares available on a revolving basis and establishing the limits and conditions. Details on this resolution are provided in the minutes of the meeting, available on the Company's website www.sabaf.it, in the "Meetings" section.

In 2013 Sabaf S.p.A purchased 97,857 own shares at the average price of €9.092 per share (€890,000) and sold €358,000 at the price of €11.10 (€3,974,000).
At 31 December 2013, the Company held a total of 507 own shares, equal to 0.004% of the share capital, reported in the financial statements as an adjustment to shareholders' equity at a unit value of €9.006.

l) Management and co-ordination (pursuant to Art. 2497 and ff. of the Italian Civil Code)

Although Sabaf S.p.A. is controlled by the company Giuseppe Saleri S.a.p.A., the Board of Directors holds that the Company is not subject to management and co-ordination by the parent company, since the Board of Directors of Sabaf S.p.A. enjoys full operating autonomy and does not have to justify its actions to the parent company, except at the annual Shareholders' Meeting held to approve the statutory financial statements and, obviously, in the event of violation of the law and/or the Bylaws. Furthermore, the parent company's Bylaws explicitly state that it does not manage and co-ordinate the operations of Sabaf S.p.A.

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Note that:

- as regards the information required by Art. 123-bis (1)(i) ("*agreements between companies and directors... which envisage indemnities in the event of resignation or dismissal without just cause, or if their employment contract terminates as the result of a takeover bid*"), the Company has not envisaged this type of agreements;
- the information required pursuant to Article 123-bis (1)(l) ("*rules applying to the appointment and replacement of directors...and to amendments to the Bylaws if different from those applied as a supplementary measure*") are illustrated in the section of the Report dedicated to the Board of Directors (Section 4.1 Appointment and replacement).

3. COMPLIANCE (pursuant to Art. 123-*bis* (2)(a) TUF)

In 2006, Sabaf S.p.A. adopted the Corporate Governance Code (the complete text is available on Borsa Italiana's website - www.borsaitaliana.it).

The Board of Directors of Sabaf S.p.A. confirmed the Company's adoption of the Code also by adopting a Corporate Governance Manual that sets forth the principles, rules, and operating procedures enabling the Company to comply with the Code's recommendations.
This Manual, adopted by Board resolution of 19 December 2006, has been updated several times over the years, in order to reflect changes in laws and regulations regarding corporate governance, as well as best practices adopted by the Company. The latest version of the text, approved by the Board of Directors at the meeting held on 25 September 2012, available on the Company website www.sabaf.it, in the "Investor Relations - Corporate Governance" section, implements the amendments deriving from the 2011 Corporate Governance Code.

The Sabaf S.p.A. Corporate Governance Manual contains certain operating guidelines, which approved by the Board of Directors and updated to September 2013[1]. These guidelines were issued to ensure that the management and control bodies of Sabaf properly carried out their duties.
More specifically, the Guidelines govern:

- the self-evaluation of the Board of Directors;
- the management, coordination and control of Group subsidiaries;

[1] In 2013, at the request of the Internal Control and Risk Committee and the Board of Statutory Auditors, the Company updated the operating guidelines on the Group's "*Management, coordination and control*", attached to the Corporate Governance Manual, to bring the document in line with recent organisational changes and the extension of the scope of consolidation and the subsidiaries covered by the ERP (SAP) system. The new version of the document was approved by the Board of Directors on 24 September 2013.

- the means of compliance with disclosure obligations to unions, pursuant to Article 150 TUF;
- the assessment of the Group internal control system;
- the process of periodically identifying and measuring Group risks;
- the management of significant operations in which directors have an interest.
- the assignment of professional mandates to the statutory auditing firm.

Furthermore, pursuant to article 6 of the Corporate Governance Code, the general remuneration policy of directors and managers with strategic responsibilities, approved by the Board of Directors on 22 December 2011, was updated on 20 March 2013, on the basis of a proposal by the Remuneration and Nomination Committee, with renard to the annual variable component given to the Chief Executive Officer and other executives with strategic responsibilities.[2].

Finally, upon proposal by the Remuneration and Nomination Committee, on 25 September 2012 the Board approved the 2012-2014 long-term incentive plan for managers with strategic responsibilities.

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Sabaf. S.p.A. and its subsidiaries are not subject to the laws of countries outside Italy that might have an impact on the corporate governance structure.

4. BOARD OF DIRECTORS

4.1. APPOINTMENT AND REPLACEMENT (pursuant to Article 123-*bis* (1)(l) TUF)

According to the Company Bylaws, directors hold office for the period established at the time of their appointment, but in any case for not more than three years, and may be re-elected.

The Bylaws establish that:

- appointment to the office of director is conditional on possession of the requirements laid down by the legislation and other applicable provisions. At least two members of the Board of Directors must satisfy the requirements of independence set out in the laws and regulations applicable to the statutory auditors of companies listed in Italian regulated markets;

[2] The change relates to the increase in the limit of the variable component from 25% of the fixed annual gross salary for 2012 to 50% from 2013.

- the notice of call of the Shareholders' Meeting required to vote on the appointment of directors shall specify the minimum shareholding required for submission of lists;
- for the purpose of allocating the directors to be elected, no account will be taken of lists which do not obtain a percentage of the votes amounting to at least half the percentage required by the Company Bylaws for submission of lists.

For details on the mechanisms used to ensure the election of: (i) at least one director nominated by minorities pursuant to Art. 147-*ter*, paragraph 3 of the TUF and (ii) the minimum number of independent directors pursuant to Art. 147-*ter*, paragraph 4 of the TUF, please refer to the Company Bylaws, available on the Company's website: www.sabaf.it, in the "Investor Relations – Corporate Governance" section.

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The Board of Directors is vested with the widest powers of ordinary and extraordinary management. Thus it is vested with all the powers required to achieve the company objects, excluding only those that the law or the Bylaws reserve to the Shareholders' Meeting. Without prejudice to the limits imposed by the law, the Board of Directors may also resolve on the following matters:

- the setting up or closing of branch offices;
- the transfer of the registered office within the territory of Italy;
- merger in the cases provided for by articles 2505 and 2505-*bis* of the Civil Code, also as recalled due to splitting of Art. 2506-*ter* of the Civil Code;
- reduction in share capital if a shareholder withdraws;
- amendments to the Bylaws in accordance with laws and regulations.

However, the Board of Directors may resolve at any time to remit the resolutions envisaged hereinabove to the purview of the Shareholders' Meeting.

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At the moment the Board of Directors does it consider it necessary to adopt a succession plan for the executive directors.

4.2. COMPOSITION (pursuant to Art. 123-bis (2)(d) TUF)

The current Board of Directors consists of the following thirteen (13) members: Giuseppe Saleri (Chairman), Gianbattista Saleri, Ettore Saleri e Cinzia Saleri (Deputy Chairpersons), Alberto Bartoli (Chief Executive Officer) and eight non-executive directors (Leonardo Cossu, Salvatore Bragantini, Giuseppe Cavalli, Fausto Gardoni, Renato Camodeca, Rizza Riccardo, Nicla Picchi and Maria Chiara Franceschetti).

In accordance with article 2385 of the Civil Code and due to recent professional and institutional commitments, the director Gregorio Gitti, appointed by the shareholders' meeting on 8 May 2012, , handed in his resignation by letter dated 5 April 2013 and with effect from 30 April 2013.

In accordance with the Bylaws, on 7 May 2013 the Board co-opted Maria Chiara Franceschetti for the position of director of the Company until the next shareholders' meeting held to approve the 2013 draft financial statements.

The main positions of the serving directors are indicated below:

- *Giuseppe, Gianbattista, Ettore and Cinzia Saleri,* who are members of the family that controls the Company;
- *Alberto Bartoli*, at Sabaf since 1994, Chief Executive Officer since May 2012 and previous Finance Director;
- *Leonardo Cossu*, who is a professional accountant;
- Salvatore Bragantini is an economist and former commissioner of CONSOB;
- *Giuseppe Cavalli,* who has held important positions in other companies such as Merloni Elettrodomestici/Indesit Company and Merloni Termosanitari;
- *Fausto Gardoni*, who has previously held positions at other leading industrial companies;
- *Renato Camodec* is a university professor in economics;
- *Riccardo Rizza*, who is a professional accountant;
- *Nicla Picchi*, partner of the Brescia-based "Picchi & Associati" law practice and also President of the Supervisory Body of Sabaf S.p.A. and its subsidiary Faringosi-Hinges s.r.l.
- *Maria Chiara Franceschetti* is an executive director of the listed company Gefran S.p.A.

The full curricula vitae of all the directors are available for examination on the Company's website www.sabaf.it, in the "Investor Relations - Corporate Governance" section.

No changes were made to the Committees appointed by the Board, during the year and up to the date of this report.

Table 2 – STRUCTURE OF THE BOARD OF DIRECTORS AND ITS COMMITTEES

Board of Directors											Internal Control and Risk Committee		Remuneration and Nominations Committee	
Position	Members	In office since	In office until	List (M/m) *	Exec	Non-exec	Indep. pursuant to code	Indep. pursuant to the TUF	(%) **	Number of other positions	****	**	****	**
Chairman	Giuseppe Saleri	08/05/2012	2015	M	X				100%	1				
Chief Executive Director	Alberto Bartoli	08/05/2012	2015	M	X				100%	1				
Deputy Chairman	Gianbattista Saleri	08/05/2012	2015	M	X				88%	3				
Deputy Chairman	Ettore Saleri	08/05/2012	2015	M	X				100%	1				
Deputy Chairman	Cinzia Saleri	08/05/2012	2015	M	X				75%	1				
Director	Leonardo Cossu	08/05/2012	2015	M		X	X	X	88%	6	X	100%	X	100%
Director	Maria Chiara Franceschetti	07/05/2013	Apr 14	M		X	X	X	100%	2				
Director	Nicla Picchi	08/05/2012	2015	M		X	X	X	88%	1	X	100%		
Director	Riccardo Rizza	08/05/2012	2015	m		X	X	X	88%	0				
Director	Giuseppe Cavalli	08/05/2012	2015	M		X	X	X	88%	1			X	100%
Director	Salvatore Bragantini	08/05/2012	2015	M		X	X	X	88%	4	X	75%		
Director	Fausto Gardoni	08/05/2012	2015	M		X	X	X	100%	1			X	100%
Lead Independent Director	Renato Camodeca	08/05/2012	2015	M		X	X	X	88%	1	X	75%		
DIRECTORS WHO VACATED THEIR SEAT DURING THE FINANCIAL YEAR														
Director	Gregorio Gitti	08/05/2012	Apr 13	M		X	X	X	33%	10				

Indicate the quorum required for submitting lists for the last appointment: *2.5% of the share capital with voting rights in the ordinary shareholders' meeting*			
Number of meetings during the year:	*Board of Directors:* 8	*Internal Control and Risk Committee: 4*	*Remuneration and Nominations Committee: 4*

NOTES

* This column indicates M/m depending on whether the member was elected from the list voted by the majority (M) or by a minority (m).

** This column indicates the percentage of members attending the meetings of the BoD and of the Committees respectively (no. of members attending/no. of meetings held during the term of office of the member concerned).

*** This column indicates the number of positions as director or statutory auditor held by the concerned subject at other companies listed in regulated markets, also overseas, in financial, banking, insurance companies or very large companies.

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Maximum number of positions held at other companies

To ensure that the position of director is held by subjects that can devote the necessary time to diligently perform their duties, by resolution passed on 28 April 2006 renewed in 2009 and as provided in the Corporate Governance Manual (updated version at September 2012), the Board of Directors defined the maximum number of positions as director or statutory auditor that each director may hold, in its opinion, at companies listed on regulated markets (also overseas), as well as at financial, banking, insurance or other large companies, also taking account of the fact that they may also be members of the various Committees established within the same Board.

Specifically:

- executive directors: a maximum of three offices, not counting the positions held within the Group;
- non-executive directors: a maximum of seven offices, not counting the positions held at the financial companies envisaged in Art. 113 of the Italian Consolidated Banking Act ("Testo Unico Bancario").

The present Board of Directors confirmed compliance with the aforementioned criteria for 2013.

Below we disclose the offices held by Sabaf directors as directors or statutory auditors of other listed companies, financial, banking and/or insurance companies, and/or large companies.

- *Giuseppe Saleri* is the Chairman of Giuseppe Saleri S.a.p.A., the financial company that controls Sabaf S.p.A.;
- *Gianbattista Saleri* is the Chairman of Immobiliare Arco S.r.l. and a director of the companies West Energy S.p.A. and Getto S.r.l.;
- *Ettore Saleri* is the Chairman of Santa Radegonda s.r.l.;
- *Cinzia Saleri* is the Chairman of Getto S.r.l.;
- *Alberto Bartoli* is the Chairman of the Management Board of West Energy S.p.A.;
- *Leonardo Cossu* is a Director in Aso Sigerurgica S.p.A., the Chairman of the Board of Statutory Auditors of A2A Ciclo Idrico S.p.A. and Credito Lombardo Veneto S.p.A.; he is also a statutory auditor of Italmobiliare S.p.A., Ambrosi S.p.A. and Fingefran S.r.l.;
- *Giuseppe Cavalli* is General Manager of Alfa Acciai S.p.A.;
- *Salvatore Bragantini* is a non-executive director of SEA S.p.A., Extrabanca S.p.A., PerMicro S.p.A. and Interpump S.p.A.;
- *Fausto Gardoni* is the Chairman of Fondazione P. Richiedei.
- *Renato Camodeca* is a statutory auditor of MetalWork S.p.A.;
- *Nicla Picchi* is a non-executive director of Unipol Sai S.p.A.;

- *Maria Chiara Franceschetti* is an executive director of Gefran S.p.A. and the Chairman of Fingefran S.r.l.

Induction Programme

The Chairman of the Board ensures that, after their appointment and during their term of office, the directors and the statutory auditors take part to initiatives aimed at providing them with adequate knowledge of the activity sector in which the company operates, the company dynamics and their evolution as well as the relevant regulatory framework.

4.3. DUTIES OF THE BOARD OF DIRECTORS (pursuant to Article 123-bis (2)(d) TUF)

In the 2013 financial year the Board of Directors held eight meetings On average, the meetings lasted two hours and twenty minutes. Seven meetings are planned for 2014, of which two have already been held, on 11 February and 20 March, the date of this report.

In order to enable the Board of Directors to carry out its duties with an adequate level of organisation and to carry out a preliminary in-depth examination of the items on the agenda, the Lead Independent Director helps the Chairman ensure that, given the date set for the Board meeting, the documentation concerning the items on the agenda is communicated to the Directors with reasonable notice, via email and protected by password (usually three or more days' notice)[3].

The meetings of the Board of Directors are always attended by the members of the Board of Statutory Auditors as well as the Administration, Finance and Control Director, and the managers of Sabaf and other group companies, in charge of the relevant corporate functions concerned by the topics dealt with, invited by the Chairman, also upon request by one or more directors and with the consent of those attending, to provide the necessary in-depth analyses in relation to the items on the agenda.

The Board of Directors is responsible for the examination and approval of the long-term plans and the budgets of the Company and the Group, as well as for periodically monitoring their implementation through the information supplied by the Managing Director in his quarterly reports. Having regard to the above, the Board has examined and evaluated the risks underlying such plans and budgets.
The Board is also responsible for defining the Company's corporate governance system and the structure of the Group headed by Sabaf.

For 2013, in compliance with the Guideline on the subject, the Board assessed the overall adequacy of the general organisational, administrative and accounting structure of the Company and its key subsidiaries, as established by the Internal Control and Risk

[3] Unless unforeseen circumstances or urgent situations require a shorter notice period.

Committee, with particular reference to the internal control and risk management system. More specifically, the process involved all the corporate players in charge of planning, implementing and/or monitoring the Group's internal control and risk management system by collecting information to support the assessment.

The Board of Directors assessed general operating performance, focusing in particular on the information provided by the Chief Executive Officer, and comparing actual with budgeted results on a quarterly basis.

The Corporate Governance Manual envisages that the Board of Directors is responsible for examining and approving in advance any ordinary or extraordinary transactions of Sabaf and its subsidiaries that might have a material impact on its assets, liabilities, operating result and financial position, especially if entailing a potential conflict of interest.
Guidelines implementing the Manual define the general rules for determining what are considered material transactions, with these being construed as:

- the transactions reserved to the purview of Sabaf's Board of Directors pursuant to the Bylaws, such as:
  - setting-up or closing of branch offices;
  - transfer of the registered office within the territory of Italy;
  - merger in the cases provided for by articles 2505 and 2505-*bis* of the Civil Code, also as recalled due to splitting of Article 2506-*ter* of the Civil Code;
  - reduction in share capital if a shareholder withdraws;
- the purchase and sale of equity investments, real estate and treasury stock;
- issuance of financial instruments;
- taking out of loans, requests for bank credit lines and granting of personal guarantees;
- the hiring and designation of third parties as executives, their dismissal and definition of economic and other relations with them;
- any other transaction that, separately considered, exceeds the limits set for the Chief Executive Officers of Sabaf.

The Corporate Governance Manual also provides that the Board of Directors be vested with the power to examine and approve any ordinary and extraordinary transactions of Sabaf and its subsidiaries, in which one or more directors have a personal interest or could be bearers of someone else's interest. Accordingly, Guidelines implementing the Manual regulate the operating procedures that can facilitate the identification and adequate management of these situations.

Finally, as provided for by CONSOB resolution 17221 of 12 March 2010[4] on related-party transactions, and in compliance with the "Procedure regulating related-party

[4] Regulation containing provisions on related-party transactions, adopted by CONSOB with resolution 17221 of 12 March 2010, amended with resolution 17389 of 23 June 2010.

transactions" which came into force in January 2011 and subsequently updated in 2012, the Board of Directors assessed the transactions with related parties carried out in 2013.
No related-party transaction carried out in the year was considered to be of major significance.

During the financial year, the Board of Directors carried out its annual review of the size, membership (including professional competences, managerial skills and seniority) and activities of the Board of Directors and its Committees. After having considered various approaches for evaluation, the Sabaf Board of Directors decided that the individual directors would evaluate themselves, by filling out and returning specific questionnaires. It then discussed the results at the 12 November 2013 Board meeting.
The Lead Independent Director (Renato Camodeca) is responsible for co-ordinating the annual assessment and for defining the topics to be discussed at the self-assessment.
The results of the assessment were, as a whole, positive.

The Shareholders' Meeting has not authorised general and preventive departures from the non-competition clause set out in Art. 2390 of the Civil Code.

4.4. OFFICERS WITH DELEGATIONS OF EXECUTIVE AUTHORITY

Chief Executive Officer

The Chief Executive Officer (CEO), Alberto Bartoli, is responsible for running the Company according to the strategic guidelines defined by the Board of Directors. The CEO co-ordinates all corporate functions, assuring a swift decision-making process, together with efficient and transparent management. The CEO is vested with ample delegated powers concerning all operational areas of the Company, with separate powers of signature, within the limit of €1 million per individual transaction.

Chairman and Deputy Chairmen of the Board of Directors

The Chairman of the Board of Directors, Giuseppe Saleri, is the controlling shareholder of Sabaf S.p.A.; the Chairmen Gianbattista Saleri, Ettore Saleri and Cinzia Saleri the two sons and daughter of the Chairman.

The Chairman and Deputy Chairmen are vested with broad powers, with separate signature rights, within the limit of €500,000 per individual transaction. This authority has been delegated to the Chairman and Deputy Chairmen to assure more streamlined management and is specifically designed to ensure that there are never any management "hiatuses" if the CEO is unable to exercise his functions.

Executive Committee (pursuant to Art. 123-bis (2)(d) TUF)

None.

Reports to the Board of Directors

Every quarter the CEO reports to the Board of Directors on the activities he performs in fulfilment of his assigned duties. These reports are governed by guidelines set out in the Manual. They envisage that the CEO prepares periodic written reports summarising the following activities and transactions carried out by Sabaf and its subsidiaries:

- their activities during the period;
- transactions having a material impact on the business strategy, operating results, assets, liabilities and financial position of the Group;
- transactions involving a potential conflict of interest;
- related-party transactions;
- transactions that were atypical, unusual or completed at non-standard conditions;
- all other activities or transactions that are deemed worthy of reporting.

4.5. OTHER DIRECTORS WITH EXECUTIVE AUTHORITY

The current composition of the Board of Directors does not envisage executive directors other than the already mentioned Chief Executive Officer (Alberto Bartoli), the Chairman (Giuseppe Saleri) and the Deputy Chairmen (Gianbattista Saleri, Ettore Saleri and Cinzia Saleri) mentioned in the previous paragraphs.

4.6. INDEPENDENT DIRECTORS

With the abstention of those concerned, the Board of Directors assesses whether the independent directors meet the independence requisites as soon as they are appointed and, subsequently, once a year, paying more attention to substance than to form.

This assessment was carried out on 12 February 2013: on this occasion the statements by the independent directors were handed in and the Board of Directors verified the existence of the independence requisites pursuant to the Civil Code ad the TUF for the directors Salvatore Bragantini, Giuseppe Cavalli, Gregorio Gitti, Nicla Picchi, Renato Camodeca, Riccardo Rizza and Leonardo Cossu.
Moreover, when Maria Chiara Franceschetti was appointed on 7 May 2013, who took over from the outgoing Gregorio Gitti, the Board checked that the necessary independence requisites were met.

For the purpose of assessing independence, the Company referred to the criteria set out in Article 3 of the Corporate Governance Code, incorporated within the Corporate Governance Manual, and further requirements set out by the Regulation of Borsa Italiana markets for the STAR segment.

At its meeting on 29 May 2013, the Board of Statutory Auditors checked and certified proper implementation of the criteria and procedures adopted by the Board of Directors to determine the independence of the directors who qualify as such.

In 2013, the independent directors meet without the other directors. This meeting was held on 17 December 2013 and the main items on its agenda included the rules of operation for the Board of Directors and the current interaction between executive and non-executive directors and company management. The Board of Directors was promptly informed of the results of this meeting, which were recorded in minutes.

At the meetings of the Internal Control and Risk Committee and meetings with the Supervisory Bodies, the Independent Directors were able to assess the completeness and timeliness of the information provided to them before every meeting of the Board of Directors and to identify and discuss beforehand any issues that could emerge.

4.7. LEAD INDEPENDENT DIRECTOR

Since the Chairman of the Board of Directors is the person in charge of Sabaf, the Board of Directors meeting held on 8 May 2012 designated Renato Camodeca as Lead Independent Director. The Lead Independent Director holds this office for the entire term of the Board of Directors and is the principal point of contact and co-ordination for the requests and contributions made by non-executive directors, and in particular independent directors.

During the financial year, the Lead Independent Director has collaborated with the Chairman to ensure that the Directors received complete and prompt information on the adoption of resolutions by the Board of Directors and the exercise of its powers of direction, co-ordination, and supervision of Company and Group activities.

The Lead Independent Director has also co-ordinated the Board of Directors self-assessment process.

5. HANDLING OF CONFIDENTIAL INFORMATION

The CEO manages the processing of confidential information in accordance with a specific procedure, adopted by the Board, for internal management and external disclosure of documents and information concerning the Company. Special attention is devoted to the management of inside information, as defined in Article 181 of the Consolidated Law on Finance (i.e. information that has not been made public and, if it were made public, would be likely to have a significant effect on the price of relevant listed financial instruments).

The aim of this procedure is to ensure that the company handles confidential information carefully, safely and privately, and discloses any insider information in a symmetrical, non-selective, prompt, complete and adequate manner.
Corporate officers are obliged to maintain the confidentiality of information and documents obtained in the performance of their duties and to comply with the procedure referred to in this section.

6. INTERNAL BOARD COMMITTEES (pursuant to Art. 123-bis (2)(d) TUF)

The Board of Directors can set up one or more Committees within the Board, such Committees being responsible for making proposals or providing consultancy on specific topics and having no decision-making powers.
In accordance with the provisions of the Code, Sabaf's Board of Directors sets up within itself a Remuneration and Nomination Committee (chapter 7) and Internal Control and Risk Committee (chapter 9). The Board will periodically (at least once a year) review the choice made.

The Board of Directors has assigned the functions previously carried out by the Related-Party Committee to the Internal Control and Risk Committee, especially the duty to support the Board, through reasoned opinion, with the initial adoption and subsequent amendments and integrations to the new "Procedure regulating related party transactions" reviewed when implementing the regulatory changes ordered by CONSOB in 2010.
In 2013 the Internal Control and Risk Committee met four times, one of which dealt with minor related-party transactions.

No further committees responsible for making proposals and providing advice have been established other than the ones envisaged in the Code.

7. REMUNERATION AND NOMINATION COMMITTEE

Composition and duties of the Remuneration and Nomination Committee (pursuant Art. 123-*bis,* (2)(d) TUF)

The Board of Directors has set up within itself a Remuneration and Nomination Committee, comprising three non-executive and independent members, with the knowledge and experience in accounting, finance and remuneration policies that is required of a Board of Directors. The Committee members are identified in Table 2 in section 4.2. above.

In 2013, the Committee met four times – with an average duration of approximately two hours – to prepare a management incentive plan (MBO 2013), the details of which can be found in the 2013 Remuneration Report published in the 2013 Annual Report available on the Company's website: www.sabaf.it, in the "Investor Relations - Documentazione online" section.

The Committee also considering introducing – in 2014 – a non-competition agreement for certain employees in case they leave the Company and established its terms and conditions.

In the period covered by this report, the Committee had full access to the information necessary to carry out its duties.

The Committee meetings are regularly minuted.

Directors must not take part to Committee meetings dealing with proposals to be submitted to the Board concerning their remuneration.

Duties of the Remuneration and Nomination Committee

The Company's Corporate Governance Manual assigns the following duties to the Remuneration and Nomination Committee:

- to support the Board with defining the remuneration policy of directors and managers with strategic responsibilities;
- to periodically assess the adequacy, overall consistency and actual application of the remuneration policy of directors and managers with strategic responsibilities, also based on the information provided by the Chief Executive Officer, as well as formulate related proposals to the Board of Directors;
- to formulate, in the absence of any directors concerned, proposals to the Board of Directors or express opinions on the remuneration of executive and other directors holding particular positions, as well as on the setting of objectives relating to the variable part of such remuneration;
- to monitor the application of decisions adopted by the Board itself, verifying, in particular, that the performance objectives have actually been achieved;
- to express opinions to the Board of Directors on the size and composition of the board and express recommendations on the professional subjects that are considered important for the Board, as well as on the topics stated hereinafter (referred to in articles 1.C.3 and 1.C.4. of the Corporate Governance Code):
    - to provide guidance on the max. number of engagements as director or statutory auditor with companies deemed compatible with the effective performance of the engagement as Company director, taking account of the participation by directors to the Committees set up with the Board itself,
    - possible departures from the non-competition clause dealt with in Art. 2390 of the Civil Code, examining each critical issue in depth;
- to recommend candidates to the Board of Directors when co-opting members when independent directors need to be replaced;
- to support the Board when adopting a succession plan for executive directors, if any.

The Board of Directors has established a €25,000 expense account so that the Remuneration and Nomination Committee could fulfil its duties. The account was partially used in 2013 to conduct a benchmark study of the remuneration of the Company's management compared with the market.

8. DIRECTORS' REMUNERATION

The remuneration of (i) members of the Board of Directors, (ii) members of the Board of Statutory Auditors and (iii) executives with strategic responsibilities are set in accordance with the general remuneration policy approved by the Board of Directors on 22 December 2011 and updated on 20 Marcy 2013, which establishes the remuneration criteria and guidelines.
For more details on the above policy, see the complete text available on the Company's website: www.sabaf.it, in the "Investor Relations – Corporate Governance" section.

See also the Remuneration Report for specific information relating to 2013.

9. INTERNAL CONTROL AND RISK COMMITTEE

The Board of Directors has set up its own Internal Control and Risk Committee.

Composition and duties of the Internal Control and Risk Committee (pursuant Article 123-*bis,* (2)(d) TUF)

In 2013, the Committee held four meetings, with an average duration of around one and a half hours. Four meetings are scheduled for 2014, including one already held on 28 January.

The Internal Control and Risk Committee is comprised of non-executive and independent directors pursuant to the requisites provided for by the Corporate Governance Code. All the members of the Committee have adequate experience in accounting, financial and legal matters, as confirmed by the Board of Directors upon their appointment.

On invitation by the Committee, the Control and Risk Committee meetings were attended by: the Internal Audit Manager, Protiviti consulting firm as provider of Internal Control services, that also acts as Company Secretary; the Board of Statutory Auditors and the Financial Controller as the Financial Reporting Officer.

Duties of the Internal Control and Risk Committee

The Internal Control and Risk Committee was assigned the following duties:

- to support, through adequate preliminary activity, the assessments and decisions of the Board on the internal control and risk management system, as well as those relating to the approval of periodical financial reports;
- to assess, together with the Financial Reporting Officer as well as the independent auditors and the Board of Statutory Auditors, whether uniform accounting standards

and policies are properly applied in the preparation of the consolidated financial statements;

- to express opinions on specific aspects concerning the identification of the main risks to which the company is exposed;
- to examine the periodical reports on the assessment of the internal control and risk management system and those of major importance prepared by the Internal Audit Function;
- to monitor the autonomy, adequacy, effectiveness and efficiency of the Internal Audit Function;
- to ask, where deemed fit, the Internal Audit Function to carry out verifications of specific operating areas, informing at the same time also the Chairman of the Board of Statutory Auditors;
- to express opinions on transactions in which a director might have an interest, either on his own account or that of others, submitted to the attention of the Committee by the Board of Directors;
- to examine related-party transactions, expressing to the management body responsible for decisions relating thereto a reasoned opinion on the interest of the Company on concluding them, as well as the suitability and fairness of the related conditions;
- to report to the Board of Directors on its activity and the adequacy of the internal control and risk management system at least every six months, upon approval of the annual accounts and half-yearly reports.

As stated earlier on, the Committee, also representative of the Related-Party Committee, is responsible for supporting through reasoned opinions the Board of Directors with the initial adoption and subsequent amendments and integrations of the "Procedure regulating related-party transactions" implementing Consob Regulation no. 17221 of 12 March 2010.

Note that the Board of Statutory Auditors is responsible for monitoring the effectiveness of the statutory auditing process, also in accordance with the duties attributed thereto by the laws in force (Legislative Decree 39/2010).

In 2013 the Committee:

- assessed, together with the Financial Reporting Officer and the auditors, the proper application of accounting standards particularly as regards the valuation of receivables, inventories, equity investments and goodwill;
- gave its opinion on whether uniform accounting standards and policies are properly applied in the preparation of the consolidated financial statements;
- Gave its opinion on the updating of the Guidelines on the Group's *"Management, Coordination and Control"*, attached to the Manual, to bring the document in line with recent organisational changes and the extension of the scope of consolidation and the subsidiaries covered by the ERP (SAP) system;

- reviewed the results of risk assessments carried out at end-2013 and validated the consequent Audit Plan for 2014;
- analysed the results of internal audits conducted during the year;
- analysed and gave their opinion, as Related-Party Committee, on the related-party transactions in 2013, involving (i) the MBO 2013 allocation plan for the Chief Executive Officer and Management and (ii) the signing of National Tax Consolidation Agreements for 2013-2015 which the companies Sabaf S.p.A., Faringosi Hinges S.r.l., Sabaf Immobiliare S.r.l. and Giuseppe Saleri S.a.p.A. (as Consolidating Company)[5] have opted for in order to benefit from a more favourable tax regime than that otherwise applicable[fn].

  [6]

Minutes of the Internal Control and Risk Committee meetings were regularly kept.

In the performance of its activity, the Internal Control and Risk Committee can access the corporate records and functions needed to discharge its duties, as well as avail itself of outside consultants in accordance with the terms and conditions established by the Board of Directors.

The Internal Control and Risk Committee has an expense account of €30,000 allocated by the Board of Directors to cover the costs of fulfilling its duties. This expense account was not used in 2013.

10. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The Board of Directors has defined the guidelines for the internal control system and risk management in the Corporate Governance Manual. Their purpose is to ensure that the principal risks faced by the Issuer and its subsidiaries are properly identified and measured, managed and monitored as well as considered to be compatible with the Group's strategic objectives.

The internal control and risk management system is applied to the Company and its subsidiaries of strategic importance (i.e.: Faringosi Hinges S.r.l., Sabaf do Brasil Ltda and Sabaf Turkey), identified as such by the Sabaf Board of Directors, in relation to their actual strategic importance.

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[5] The Company Giuseppe Saleri S.a.p.A. is the majority shareholder of Sabaf S.p.A., with a 50.72% stake (55.3% on the date the national tax consolidation agreement was signed), and as such can be identified as the related party of Sabaf S.p.A.

[6] Pursuant to Section II, Chapter II of Title II, articles 117-119 of the TUIR (Presidential Decree 917/1986 as amended). The transaction was approved by the Board of Directors on 7 May 2013, after consulting with the Control and Risk Committee.

The internal control system is the set of rules, procedures and organisational structures aimed at identifying, measuring, managing and monitoring the main risks, in terms of:

- adequate controls of business risks;
- effective and efficient company operating processes;
- protection of corporate assets;
- complete, reliable and prompt accounting and management information;
- compliance of corporate conduct with laws, regulations, directives and corporate procedures.

The fundamental components of Sabaf's internal control and risk management system are based on:

- the organisation of the internal control system, consisting in the set of participants assigned different roles and responsibilities (as specified hereunder);
- the procedures and mechanisms for materially implementing the principles of control, as reflected in the documentation that is constantly produced and updated by the Company in defining the rules of conduct and the delegation of duties and responsibilities. These include:
  - the Charter of Values;
  - the measures regarding the corporate and organisational structure and associated delegations of authority;
  - the mechanisms for the segregation of functions in the organisation (which are also reflected in the company information systems), designed to avoid excessive concentration of decision-making/authorisation, implementation/execution, accounting and audit/control powers and functions in the organisation;
  - the policies for development and professional growth of human resources;
  - the systems for defining business objectives and auditing and monitoring business performance;
  - the operating and financial reporting systems, as well as internal and external communication systems;
  - the set of company procedures, including those envisaged in the Organisation, Operation and Control Model adopted by Sabaf pursuant to Legislative Decree 231/2001 and those established pursuant to Law 262/2005 which deals with the administrative and accounting procedures for preparing financial statements;
- the processes of continuous auditing and monitoring carried out at the various levels of the organisation, both within the scope of business processes and through independent structures.

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In 2013 Sabaf carried out its annual process of identifying and measuring main corporate risks, in order to update the previous risk assessment and prepare a risk-based Audit Plan for 2014.

The assessment included the Italian and foreign subsidiaries, through the involvement of the Parent Company management as responsible for subsidiaries' operations.

In compliance with the guidelines relating to the identification and valuation of risks, for every risk identified, the potential effects (in terms of impact and probability of occurrence according to a qualitative and quantitative scale) were assessed, the related causes analysed and mitigation strategies and systems in place were evaluated.

For more details on the main risks revealed by the analysis, see the third chapter of the Annual Report, available on the Company's website at www.sabaf.it.

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Overall, the internal control and risk management system was found to be adequate in the 2013 financial year following the analysis of the following aspects:

Significant events impacting the Organisation, Operation and Control Model

- Legal developments in terms of governance matters;
- Amendments to the Corporate Governance Manual;
- Risk Assessment,
- Changes to the Bylaws and the Shareholders' Meeting Regulation;
- Changes in the composition of the Board of Directors and Board of Statutory Auditors and organisational structure;
- Changes in delegations of authority and powers of attorney;
- Compliance with Law 262/05 dealing with accounting and corporate documentation;
- Information systems;
- Extension of the scope of application of the ERP system;
- Transactions in derivative financial instruments;
- Transactions in treasury stock;
- Related-party transactions,
- Intercompany transactions and transactions involving potential conflicts of interest;
- Internal dealing transactions;
- Monitoring of the internal control and risk management systems of subsidiaries;
- Principal pending litigations;
- situation of non-performing loans.

Results of audits carried out by internal and external auditors:

- Reports by the statutory auditing firm,
- Results of audits by the Board of Statutory Auditors,
- Results of monitoring by the Supervisory Committee,
- Results of monitoring by Internal Audit,
- Results of independent audits of the quality, environment and social responsibility management systems,
- Meetings between the Control Bodies,
- Reports by the Prevention and Protection Service and environmental control body,
- Reports by the Financial Reporting Officer.

On the basis of the information and evidence collected, the Board of Directors believes that the internal control and risk management system implemented in 2013 is substantially adequate in terms of the size and characteristics of the Group and overall fit to achieve the business objectives.

This conclusion, which refers to the entire Internal Control and Risk Management System, reflects the limits inherent in all Internal Control Systems. Although it is well-conceived and functions efficiently, the Internal Control System can guarantee the realisation of corporate objectives only with "reasonable certainty."

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INTERNAL CONTROL SYSTEM ON FINANCIAL REPORTING

Sabaf considers the internal control system on financial reporting to be an integral part of its own risk management system.

Consequently, since 2008 Sabaf has integrated the activities associated with the management of its internal control system on financial reporting with its Internal Audit and Compliance process by (i) preparing an individual Audit Plan, whose test plan is shared and broken down according to specific control objectives (e.g. operating control, compliance with Law 262/2005 and Legislative Decree 231/2001, and the security and profiling of corporate information systems) and (ii) assigning the execution of measures to a single structure responsible for reporting on results to the delegated supervisory bodies.

Furthermore, each year the Company carries out a risk assessment at Group level, by integrating it for the specific aspects connected with individual compliance measures, including those connected with Law 262/2005.

Especially with regard to the internal control system on financial reporting, the Group has defined its own Audit Control Model, which defines the rules followed by the Group in order to:

- align itself with applicable provisions governing the preparation of corporate accounting documents and all documents and reports connected with the Company's operating, asset, liability and financial disclosures to the market;
- describe the components of the Control Model adopted by the Company;
- define the responsibilities of the Financial Reporting Officer and the other parties involved in the process;
- establish a certification process (both within Sabaf and the subsidiaries).

In 2013 no updates were necessary to the Accounting Control Model or to company procedures supporting Sabaf's financial reporting process.

The Model is complemented by instruments and internal rules (including, for example, the system of delegations of authority and powers of attorney, reporting instructions, supporting information systems, visits to the facilities of Group companies), whereby the Parent company guarantees the efficient exchange of data with the subsidiaries.

The Accounting Control Model is based on the following key elements:

- general environmental controls;
- process of identifying the principal risks associated with operating, asset, liability and financial disclosures and the associated controls, according to a top-down approach, focused on the principal areas of risk;
- the system of corporate procedures of relevance to preparation and disclosure of operating, asset, liability and financial disclosures (administrative and accounting procedures);
- periodic assessments of the adequacy and actual application of the controls made;
- internal certifications (at the Group) that are periodically focused on guaranteeing the completeness and fairness of the information generated by the processes that it governs and/or under its responsibility and disclosing the changes made to the managed processes,

and envisages the involvement of a large number of participants, including the following principal ones:

- Board of Directors;
- Chief Executive Officer;
- the Financial Reporting Officer;
- Investor Relations Officer;
- Heads of the key functions/functions involved;
- Information System Manager; Chief Executive Officers and heads of the management structures of subsidiaries.

Sabaf updates its Model to reflect changes in its operations and/or organisation, in relation to the results of risk assessment and periodic audit activities, as well as other changes in the systems and processes that might be made to the structure.

The Group Accounting Control Model envisages an annual, formalised and structured process - carried out by the Financial Reporting Officer, assisted by the Chief Internal Auditor – to identify the principal corporate processes concerned by Law "262" and the principal Group entities that originate them or participate in them.

In line with best practices, the identification and assessment of processes and organisational units takes account of both qualitative principles (linked to the visibility of the Financial Reporting Officer and his organisation over the individual processes and the related degree of control; the intrinsic riskiness of the underlying process; the complexity of making calculations and the subjectivity of estimates) and quantitative principles (linked to the materiality of the values generated by the individual processes on financial reporting).

The 2013 assessment defined the significant processes, which were subjected during the year to accurate audits with regard to specific control objectives (*existence, completeness and accuracy, assessment, rights and obligations, presentation and disclosure*).

The results of the verifications performed on the single processes are reported by the Internal Audit Function to the Financial Reporting Officer and the Internal Control and Risk Management Committee, as well as to those attending the meetings with the Supervisory Bodies, informed on the results of the verifications at the planned meetings.

In 2013, this report was submitted to the Internal Control and Risk Committee at the meeting held on 28 January 2014 and, at the same time as this report, to the Board of Directors.

Any deficiencies/actions for improvement identified on occasion of the audit and reporting actions described hereinabove envisage the immediate identification of the actions to be taken, as well as periodic monitoring of their resolution.

10.1 MANAGER IN CHARGE OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The Board of Directors designated the CEO Alberto Bartoli as the director with executive responsibility for monitoring the operation of the internal control and risk management system.

Within the scope of the responsibilities delegated to him by the Board of Directors, the **Chief Executive Officer** executed the policy and implementation guidelines of the internal control and risk management system defined by the Board. This involved:

- taking care of the planning, development and management of the internal control and risk management system, constantly verifying its adequacy and effectiveness;
- updating the internal control and risk management system according to changes in operating conditions and the statutory and regulatory framework;
- taking care of the identification of the main business risks, to be regularly submitted to the examination of the Board of Directors, taking account of the characteristics of the activities carried out by Sabaf and its subsidiaries;
- asking, where deemed fit, the Internal Audit function to perform verifications on specific areas and on the compliance with internal rules and procedures in performing business transactions, informing at the same time the Chairman of the Board of Directors, the Chairman of the Internal Control and Risk Committee and the Chairman of the Board of Statutory Auditors;
- promptly informing the Internal Control and Risk Committee on any problems and critical issues arisen in the performance of its activity or in respect of which it was informed, so that the Committee can undertake adequate initiatives.

10.2. INTERNAL AUDIT MANAGER

On 8 May 2012, the Board of Directors, subject to the favourable opinion of the Internal Control and Risk Committee and having heard the Board of Statutory Auditors, engaged Protiviti s.r.l., an external company, to carry out the internal audit activity for the 2012-2014 three-year period, appointing Emma Marcandalli, Managing Director of the company, as the Manager in charge. The decision is based on the greater skills and efficiency that an external consultant specialised in internal control can guarantee, taking account of the size of Sabaf.

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

In the financial year under review, starting from its appointment, the Internal Audit Manager:

- has had direct access to all information useful for the performance of his assigned duties;
- has reported to the Internal Control and Risk Committee on its operations (three times after his appointment) and to the Board of Statutory Auditors;
- has also reported on his activities to the director with executive authority for monitoring the functioning of the internal control and risk management system.

The expense account of €25,000 available to the Chief Internal Auditor for the performance of his duties was not used in 2013.

In particular, in 2013 the Internal Audit Manager has:

- assisted the CEO and department heads in planning, managing and monitoring the internal control and risk management system;
- planned the verification activities on the adequacy and operation of the internal control and risk management system implemented according to a risk-based approach; the Audit Plan ensuing was approved by the Board of Directors on 17 December 2013;
- verified, as part of the Audit Plan, the reliability of the information systems including the accounting systems;
- reported on the results of all the audits carried out by sending the audit reports to the members of the Internal Control and Risk Committee and the Board of Statutory Auditors;
- periodically reported on its activity, risk management methods as well as compliance with the plans defined to mitigate such risks; provided an assessment – by areas/processes audited – on the adequacy of the internal control and risk management system and communicated them to the Chairmen of the Board of Statutory Auditors and of the Internal Control and Risk Committee, as well as to the officer in charge of the internal control and risk management system;
- promptly prepared reports on especially relevant events.

Internal Audit activities were outsourced to an independent company that provides internal control activities, Protiviti S.r.l., insofar as the Company does not have the human resources and professional expertise necessary to perform this function.

10.3. ORGANISATION MODEL pursuant to Legislative Decree 231/2001

in 2006 Sabaf S.p.A. adopted the Organisation, Operation and Control Model pursuant to Legislative Decree 231/2001. The Model is designed to prevent the possibility that criminal offences set out in the Decree are committed. This decree envisages the administrative liability of the Company in case certain types of criminal offences are committed by employees or outside staff in the Company's interest.

By adopting the Model, Sabaf S.p.A. set itself the objective of acquiring a series of general rules of conduct and protocols that, in accordance with the system of assigning functions and delegating authority, as well as internal procedures, would address the purposes and obligations imposed by the Decree 231/2001 in terms of prevention, control and implementation of the Model and the levying of penalties.

The Organisation, Operation and Control Model consists of a **General Part,** which describes its basic principles and the aims that Sabaf S.p.A. wishes to achieve by adopting it, and a series of **Special Parts** that identify and regulate the specific conduct to be maintained in areas that are more likely to be exposed to the risk of different types of administrative offences being committed.
In defining the Model, Sabaf S.p.A. analysed the business activities, the decision-making and implementation processes in individual business units and the internal control systems.

Based on the results of the analyses and the activity areas identified as being potentially at risk, Sabaf S.p.A. deemed it fit to regulate the processes by reference to the following types of offences and illegal acts dealt with by the Legislative Decree: articles 24 and 25 (offences against the Public Administration), art. 25-*ter* (corporate offences, including the crimes of "induced bribery" and "private bribery"), art. 26-*sexies* (market abuse), art. 25-*septies* (manslaughter and grievous bodily harm or permanent disability committed by violating the Health & Safety at Work laws), art. 25-*bis* (crimes relating to distinctive tools and signs), art. 25-*undecies* (environmental crimes) and art. 25-*duodecies* (employment of foreign manpower with irregular papers).

On 24 September 2013, the Board of Directors approved the new version of Sabaf's 231 Model, which incorporates the results of the risk assessment carried out during the year with regard to the crimes of "induced bribery" and "private bribery", which were introduced in the Decree in November 2012.

The Model also provides for the compulsory establishment of the Supervisory Committee comprising several members possessing special skills and honourableness requisites pursuant to art. 109 of Legislative Decree no. 385 of 1 September 1993.

The Supervisory Committee (appointed by the Board of Directors of Sabaf S.p.A. on 8 May 2012 for the period 2012-2015) comprises Nicla Picchi, independent director of the Company (Chairman), and Emma Marcandalli, Internal Audit Manager.
An expense account of €20,000 was also established, but not used in 2013.

In the financial year, through the Internal Audit function and in accordance with its own Audit Plan, the Supervisory Committee audited the actual application and knowledge of control and conduct rules.

During the period, the Committee, which met 7 times,:

- systematically audited the effectiveness of the Model by conducting internal audits and interviewing the personnel assigned to sensitive activities;
- updated the Model, in relation to: (i) the introduction of two new protocols with regard to the recent offences of bribery among private individuals under article 25-*ter* of the Decree; (ii) the implementation of the organisational changes occurred in the year with regard to the Environmental Management System; (iii) and other minor changes and updates;

- undertook information initiatives and provided its personnel with training courses on specific protocols covered by the Model;
- proposed and, on 11 February 2014, submitted to the Board of Directors of Sabaf for approval, certain changes to the Group's Charter of Values to bring it further in line with the Group's strategic policies and the current governance model and to support the Group's increasing focus on issues such as ensuring environment and transparent and correct relations with all stakeholders.

The General Part of the Model, in the last version approved by the Board of Directors on 24 September 2013, is available on the Company website: www.sabaf.it, in the "Investor Relations – Corporate Governance" section.

10.4. STATUTORY AUDITING FIRM

The mandate for auditing the Company's accounts for the 2009-2017 period was granted to Deloitte & Touche S.p.A. by the Shareholders' Meeting held on 28 April 2009.

During 2013, this independent auditor met with the other supervisory bodies of Sabaf on two occasions (12 March and 23 July). Both meetings were minuted.

10.5. FINANCIAL REPORTING OFFICER

On 8 may 2012, the Board of Directors designated Gianluca Beschi, the Financial Controller, as the Financial Reporting Officer.

The Bylaws establish that the Financial Reporting Officer must satisfy legal requirements and – in any event – have specific expertise in a) accounting and financial reporting and b) management and control of the associated procedures, as well as c) at least three years of qualified experience in administration and control, or carrying out executive or consulting functions at listed and/or associated groups of companies, or of companies, entities and enterprises of significant size and importance, also by reference to the preparation and auditing of accounts and corporate documents. The Board of Directors appoints and dismisses the Financial Reporting Officer after receiving the mandatory yet non-binding opinion of the Board of Statutory Auditors.

The Board of Directors has provided the Financial Reporting Officer with the following resources and authority, so that he can:

- have direct contact with the independent statutory auditor, the Internal Control and Risk Committee and the Board of Statutory Auditors;

- obtain, control and verify information and news, at all equivalent or higher hierarchical levels, including lower hierarchical levels that do not depend on the executive himself; the same powers may also be exercised vis-à-vis the subsidiaries and corporate hierarchies of the consolidated companies;
- have authority to propose/assess all procedures adopted inside the Company;
- develop and implement adequate administrative and accounting procedures to prepare the financial statements and the consolidated accounts, as well as any other financial information;
- acquire control and management tools, including information systems (both hardware and software) within the annual spending limit of €25,000;
- assign duties, responsibilities and deadlines for the collection and verification of information;
- avail himself of specialised external advisors to deal with particular issues, by engaging professionals within the annual spending limit of €25,000;
- use the Internal Audit department to comply with Law 262/2005;
- participate in conferences, training courses and continuing education seminars;
- use internal communication channels that ensure adequate intercompany information flows;
- summon Company personnel, at his discretion, to update, train and make employee aware of their obligations.
- issue a written statement certifying that any records and communications made by the Company to the market concerning accounting information, including interim reports of the same Company, agree with the documents, book and accounting entries of the Company.
- declare through an *ad hoc* report, prepared using a sample prescribed by Consob Regulation, attached to the annual, half-yearly financial statements as well as the consolidated accounts:
    - the adequacy and actual application of the procedures set out in the points above during the period to which the documents refer,
    - that the documents have been prepared in accordance with the international accounting standards recognised by the European Community in accordance with EC regulation 1606/2002 of the European Parliament and Council, of 19 July 2002;
    - correspond to the results of the accounting entries and ledgers;
    - are appropriate to provide a true and fair picture of the income statement, balance sheet, and cash flow of the issuer and the companies included in the consolidation;
    - as regards annual financial statements and the consolidated accounts, the report includes a reliable analysis of the performance and results of operations, the situation at the issuer, and the companies included in the area of consolidation,

along with a description of the key risks and uncertainties to which they are exposed.

- as regards the abridged half-yearly report, that the interim report on operations contains a reliable analysis of the information pursuant to paragraph 4 of Art. 154-*ter* of the TUF;
- attend meetings of the Board of Directors of the Company having on the agenda the examination of the Company's economic and financial data;

- promptly report to the Chief Executive Officer, the Board of Directors, also through the Internal Control and Risk Committee on any significant aspects which, if not amended, would need to be disclosed in the statement prescribed by Art. 154-*bis* of the TUF;
- report, at least once a year, to the Board of Directors either directly or through the Internal Control and Risk Committee and the Board of Statutory Auditors.

The Company has defined the roles and responsibilities of the persons who are, on various grounds, involved in the process of preparing and auditing Group financial disclosures and the characteristics and operating procedures for management of the administrative and accounting control system.

10.6. COORDINATION BETWEEN THE SUBJECTS INVOLVED IN THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

Sabaf promotes meetings and information exchanges between the various bodies responsible for verifying and monitoring the organisational, administrative, accounting, internal control and risk management systems of the Company and its strategic subsidiaries.

More specifically, except for legal regulations concerning statutory auditors[7], a meeting of the following bodies is held at least 10 days before the approval by the Board of Directors of Sabaf's half-yearly financial statements (separate and consolidated accounts) and Notes:

- Internal Control and Risk Committee;
- Board of Statutory Auditors;
- Supervisory Committee pursuant to Legislative Decree 231/2001;

[7]The reference to the following articles of the TUF: article 150(3) (*The Board of Statutory Auditors and the independent auditor or the audit firm promptly relevant exchange data and information for their duties*) and article 150(4) (*Those responsible for internal control also report to the Board of Statutory Auditors, on their own initiative or at the request even of just one of the statutory auditors*); article 151(1) (*The statutory auditors may, also individually and at any time, carry out inspections and checks, and ask the directors for information, also with regard to subsidiary companies, on the performance of company operations or on certain business affairs, or directly request the same information from the governing or supervisory bodies of the subsidiaries*) and article 151(2) (*The Board of Statutory Auditors may exchange information with the corresponding bodies of the subsidiary companies, concerning the administration and control systems and the general performance of company activities.[omissis]*).

- Internal Audit Manager;
- The Financial Reporting Officer;
- Statutory auditors;

and, at this meeting, information is exchanged on the main results and/or critical issues revealed by the verifications performed, with regard to the organisational, administrative, accounting, internal control and risk management structure. The meetings are minuted.

In addition to the periodical meetings referred to above, the ongoing and prompt exchanges of information between the aforementioned supervisory bodies is guaranteed by:

- attendance by the Board of Statutory Auditors at Internal Control and Risks Committee meetings;
- regular reports by the Supervisory Committee to the Internal Control and Risk Committee and the Board of Statutory Auditors;
- regular reports by the Internal Audit Manager to the Internal Control and Risk Committee and the Board of Statutory Auditors;
- exchange of information between the Internal Control and Risk Committee, the statutory auditor and the Financial Reporting Officer on the accounting standards applied and the adequacy of the administrative and accounting procedures applied to prepare the financial reports of the Company and the Group.

11. DIRECTORS' INTERESTS AND TRANSACTIONS WITH RELATED PARTIES

In compliance with the "procedure for regulating related-party transactions"[8], approved in 2010 and updated in 2012, the Board of Directors, having heard the opinion of the Control and Risk Commmittee, assessed and approved the execution of related-party transactions pertaining to 2013.
No related-party transaction carried out by the Company was considered to be of major significance.

For more details on the above procedure, see the complete text on the Company's website: www.sabaf.it, in the "Investor Relations – Corporate Governance" section.

Finally, in 2013, the Board of Directors did not examine any transactions in which a director had an interest or which required application of the procedure "Material Transactions and Directors", attached to the Corporate Governance Manual and updated in 2012.

[8] Pursuant to the CONSOB Regulation issued with Resolution 17221 on Related-Party Transactions.

12. APPOINTMENT OF STATUTORY AUDITORS

Statutory Auditors shall not be elected and, if elected, shall be debarred from office, if they do not meet the requirements of professionalism, respectability and independence laid down by current legislation or are in one of the situations of disqualification, incompatibility or debarment laid down by the law. The limits on holding multiple offices established by CONSOB Regulation shall also apply to Statutory Auditors.

The Board of Statutory Auditors is appointed on the basis of lists presented by those holding voting rights in which candidates are listed by means of a sequential number.
The list consists of two sections: one for candidates for office as standing statutory auditors and the other for candidates for office as alternate statutory auditors.

Only those holding voting rights who, alone or together with others, are owners of shares with voting rights accounting for at least 2.5 per cent of capital with voting rights for resolutions relating to the appointment of members of the governing and control bodies, or such other holding as may be established for the submission of lists for the appointment of members of the Board of Directors, may submit lists.
Each holder of voting rights, as well as shareholders forming part of a group as defined by Art. 2359 of the Italian Civil Code, or shareholders who enter into a shareholders' agreement relating to the company's shares, cannot present – not even via third parties or trustee companies – more than one list and cannot vote for several lists.
A candidate may be presented in one list only, failing which s/he shall be disqualified. Outgoing statutory auditors can be re-elected.
The lists presented must be filed with the company's HQ and made available to the public at the company's registered office and on the Company's website, pursuant to the terms and in compliance with the provisions of applicable primary and secondary laws and regulations, and this will be mentioned in the notice of call. The lists shall by accompanied by:

- information about the identity of the holders of voting rights who submitted the lists, stating the total percentage shareholding owned, and a certificate demonstrating the ownership of the said holding;
- a declaration by those holding voting rights other than those who can express the absolute or relative majority at the Shareholders' Meeting or individually or jointly hold a controlling interest or relative majority, certifying that they have no connection with the latter as defined in the applicable legislation, and;
- detailed information about the personal and professional characteristics of the candidates, and a declaration by the candidates that they meet the requirements laid down in the legislation and the Company Bylaws and accept the nomination.

The statutory auditors shall be elected as follows:

- two statutory auditors and an alternate auditor are elected from the list that received the greatest absolute number of votes at the Shareholders' Meeting, and they are chosen according to the progressive order in which they are indicated on the relevant section of the list;
- from the list obtaining the highest number of votes at the Shareholders' meeting, among those submitted and voted on by holders of voting rights not connected with the majority shareholders as defined in applicable legislation, the remaining standing auditors and the other alternate auditor are taken according to the sequential order in which they appear on the list.

In the event of a tie between two or more lists, the oldest candidates shall be elected statutory auditors until all posts have been assigned.

If it is not possible to proceed, either totally or partly, with appointments according to the above procedure, the Shareholders' Meeting decides on the basis of a relative majority.
If the requisites required by regulations and Company Bylaws cease to exist, the statutory auditor concerned lapses from office.
In the case of substitution of a standing statutory auditor, the alternate statutory auditor belonging to the same list as the ex-statutory auditor takes his/her place.

13. STATUTORY AUDITORS (pursuant to Article 231-*bis* (2)(d) TUF)

The Board of Statutory Auditors was appointed by the Shareholders' Meeting of 08 May 2012, for the period 2012 - 2015.

Two lists were filed within the set deadlines, one by the controlling shareholder "Giuseppe Saleri Società in Accomandita per Azioni" and one by the minority shareholder "Nazionale Fiduciaria SpA," together with all the documentation required pursuant to applicable laws and regulations.
The controlling shareholder submitted a list with the following candidates: (i) Enrico Broli and Anna Domenighini, standing statutory auditors; (ii) Paolo Guidetti, alternate statutory auditor.
The list submitted by the minority shareholder included the following candidates: Alessandro Busi, Chairman, and Maurizio Fioretti, Alternate Statutory Auditor.

The list of those unanimously elected, on motion by the Board of Directors, is shown in table 3 below.

The standing members of the Board of Statutory Auditors are chartered accountants. For details about their professional profiles, the curricula vitae are available on the Company's website: www.sabaf.it, in the "Investor Relations – Corporate Governance" section.

The Board of Statutory Auditors met five times in 2013. These meetings had an average duration of two and a half hours. Since the beginning of 2014 up to the date of this Report, the Board of Statutory Auditors has met once, on 3 February.

At its meeting on 29 May 2013, the Board verified that the criteria and procedures, used by the Board of Directors to determine the independence of all its members, were correctly applied. When it carried out these reviews, it applied all the principles envisaged in the Code regarding the independence of directors.

Table 3 – STRUCTURE OF THE BOARD OF STATUTORY AUDITORS

Board of Statutory Auditors							
Position	Components	In office since	In office until	List (M/m)*	Indep. pursuant to code	** (%)	Number of other positions
Chairman	Alessandro Busi	08/05/2012	2015	m	X	100%	7
Statutory Auditor	Enrico Broli	08/05/2012	2015	M	X	100%	20
Statutory Auditor	Anna Domenighini	08/05/2012	2015	M	X	80%	13
Alternate Auditor	PaoloGuidetti	08/05/2012	2015	M	n/a	n/a	n/a
Alternate Auditor	Maurizio Fioretti	08/05/2012	2015	m	n/a	n/a	n/a

Indicate the quorum required for submitting lists for the last appointment: *2.5% of the share capital with voting rights in the ordinary shareholders' meeting*
Number of meetings during the year: 5

NOTES
* This column indicates M/m depending on whether the member was elected from the list voted by the majority (M) or by a minority (m).
** This column indicates the percentage of statutory auditors attending the meetings of the Board (no. of members attending/no. of meetings held during the term of office of the member concerned).
*** This column indicates the number of positions as director or statutory auditor held by the concerned subject pursuant to art.148 *bis* of the TUF. The full list of positions is published by Consob on its website pursuant to art. 144-*quinquiesdecies* of Consob Issuers' Regulation.

The Company Corporate Governance Manual envisages that each statutory auditor promptly and fully informs the other statutory auditors and the Chairman of the Board of Directors if he has a direct interest or an interest on behalf of others in a specific transaction involving Sabaf or its subsidiaries. In 2013 there were no situations where the statutory auditors had to make such disclosure.

In 2013 and in accordance with Article 19 of Legislative Decree 39/2010, the Board of Statutory Auditors:

- monitored the independence of the external statutory auditing company;
- liaised with the Internal Audit department and the Internal Control and Risk Committee, through:
  - half-yearly meetings for the exchange of information amongst the parties with supervisory and auditing functions;
  - invitation of the Financial Reporting Officer to attend the meetings of the Board of Statutory Auditors,
  - attendance of the Statutory Auditors at meetings of the Internal Control and Risks Committee,
  - performing verifications on specific operatig areas and company transactions.

14. SHAREHOLDER RELATIONS

The Company has set up a specific section on its website that is easy to find and access. This section provides information of interest to its shareholders so that they can make informed decisions when exercising their rights.

Gianluca Beschi is Investor Relations Manager. No specific corporate office was set up given the dimensions of the Company and the fact that his functions are performed directly by the Investor Relations Manager.

15. SHAREHOLDERS' MEETINGS (pursuant to Article 123-*bis* (2)(c) TUF)

On 20 March 2013 the Board of Directors of Sabaf approved amendments to the company by-laws to adapt it to new legislation with regard to (i) the exercising of some shareholders' rights at shareholders' meetings of listed companies[9] and to (ii) the balance between genders in the composition of the Board of Directors and Board of Statutory Auditors[10].

The shareholders' meeting regulation, on the other hand, did not undergo any changes from the version updated on 14 December 2010 by the shareholders' meeting.

For more details on the above Regulation and on the Bylaws, see the complete text thereof on the website, at: www.sabaf.it, in the "Investor Relations – Corporate Governance" section.

The Board of Directors reported to the Shareholders' Meeting on its past and scheduled activities, and it undertook to provide shareholders with adequate information so that they could take informed decisions on the matters to be resolved by the Shareholders' Meeting.

In 2013, no significant changes occurred in the market capitalisation or ownership structure of the Company such as would compel the Board of Directors to consider the possibility of proposing to the Shareholders' Meeting that it amend the Bylaws in regard to the percentages established for taking the actions and exercising the prerogatives envisaged for protection of minority shareholders.

16. OTHER CORPORATE GOVERNANCE PRACTICES

There are no other corporate governance practices in addition to those described in the preceding sections of this document.

17. CHANGES SINCE THE END OF THE REPORTING PERIOD

No changes occurred in the corporate governance structure between 31 December 2013 and the date of this report.

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[9] Legislative Decree 91/2012, which came into force on 17 July 2012 to deal with the critical issues arising from the first-time adoption of the rules set out in Legislative Decree no. 27/2010, implementing the Directive 2007/36/EC on the exericing of rights of shareholders of listed companies.

[10] Law 120/2011 "The Balance between genders in the corporate bodies of listed companies", introduced as an amendment to articles 147-*ter* and 149 of the T.U.F.