

SABAF S.p.A.

Board of Statutory Auditor's Report to the Sabaf S.p.A. Shareholders' Meeting pursuant to article 153 of Legislative Decree 58/1998 – article 2429, paragraph 2 of the Italian Civil Code

Dear Shareholders,

The Board of Statutory Auditors of Sabaf S.p.A. ("Sabaf" or "the Company" or "the Parent Company") hereby reports to you on the supervision carried out and the results thereof, pursuant to article 2429 of the Italian Civil Code and article 153 of Legislative Decree 58/1998 (the "Consolidated Law on Finance" or "TUF"), and taking into account Consob recommendations for companies listed on regulated markets.

This report is divided into the following sections:

1. supervision in fiscal year 2014;
2. significant business, financial and capital transactions, atypical and/or unusual transactions, and related party transactions;
3. organisational structure, administrative and accounting system and internal control system;
4. corporate governance;
5. conclusions relating to the supervision conducted and to the financial statements for the year ended 31 December 2014.

1. Supervision in fiscal year 2014

During the year ended 31 December 2014, the Board of Statutory Auditors performed the supervision required by law, taking into account Consob recommendations on controls relating to listed companies and based on the codes of conduct for boards of statutory auditors recommended by the Italian Association of Chartered Accountants.

In terms of the work carried out, the Board of Statutory Auditors reports that:

- a) it held five board meetings, each attended by all members in office, except for one justified absence of a member at the 5 May 2014 meeting;
- b) it also conducted supervision activities at meetings of the Board of Directors, which in the year in question held seven meetings, all attended by the Board of Statutory Auditors;
- c) it attended the four meetings of the Control and Risks Committee;
- d) it attended two meetings between supervisory bodies (Independent Auditor, Control and Risks Committee, Supervisory Body), in the presence of the financial reporting officer and chief internal auditor;
- e) it attended the Shareholders' Meeting held on 29 April 2014, where it reported on its activities;
- f) it remained in constant communication with the corresponding bodies of the subsidiary companies; no anomalies were reported during the meetings;
- g) in 2014, the Board of Statutory Auditors conducted an in-depth exchange of information and data with the Independent Auditor relating to the performance of their respective duties;
- h) over the year, the Board of Statutory Auditors held regular meetings with both the staff of Protiviti S.r.l. ("Protiviti"), the company to which the internal audit function is outsourced, and the chief internal auditor;
- i) it requested and obtained the documents and information considered relevant by executive directors and managers from other company departments where necessary.

During meetings of the Board of Directors, the Board of Statutory Auditors was informed of the management activities carried out and, where relevant, the most significant business, financial and capital transactions performed by the Company or its subsidiaries in 2014.

The Board of Statutory Auditors attended Board of Directors meetings, at which, in relation to the transactions decided upon, based on the information acquired, it did not note any violations of the law or the articles of association, nor any manifestly risky or imprudent transactions, potentially causing a conflict of interests, or liable to jeopardise the Company's assets.

As part of its supervision activities, and during meetings and discussions with managers from Deloitte & Touche S.p.A. (the "Independent Auditor"), the Board of Statutory Auditors confirms that no reprehensible actions were detected, nor any actions otherwise worthy of mention.

With specific reference to the work of the Independent Auditor, the Board of Statutory Auditors examined the review procedures adopted, or being adopted, in relation to the work plan it presented. The Board of Statutory Auditors also received the technical information requested concerning the accounting standards adopted, in addition to the reporting criteria for the most significant business, financial and capital transactions.

The Board of Statutory Auditors checked the procedure adopted by the Board of Directors regarding the impairment test conducted on the shareholding in Faringosi Hinges S.r.l., noting that the Company commissioned an external expert, belonging to the Association of Chartered Accountants of Brescia, to check the value of the goodwill recorded in the consolidated financial statements and of the controlling interest recorded in the separate financial statements. This check methodologically analysed the documents provided by Sabaf and Faringosi. The test did not reveal any impairment in the controlling interest in Faringosi Hinges S.r.l.. This was likewise the case for the value of goodwill allocated to the Hinges CGU.

The Board reports that no reports or complaints were received or submitted within the meaning of article 2408 of the Italian Civil Code.

Sabaf S.p.A. manages and coordinates the following companies:

- Faringosi Hinges S.r.l.;
- Sabaf Immobiliare S.r.l..

Both companies have duly satisfied the obligations prescribed by the Italian Civil Code concerning management and coordination.

Sabaf S.p.A. is controlled by Giuseppe Saleri S.a.p.A., which is not responsible for management and coordination, as mentioned and explained in the Report on Operations approved by the Board of Directors at its meeting on 3 March 2015.

2. Significant business, financial and capital transactions, atypical and/or unusual transactions, and related party transactions

In relation to the most significant business, financial and capital transactions carried out by the Company and the Group over the year, the Board of Statutory Auditors reports the following:

- a) Distribution of company reserves in the form of an extraordinary dividend.
On 23 September 2014, the Board of Directors proposed the distribution of company reserves in the form of an extraordinary dividend. The aim of this proposal was to partially rebalance the financial structure to reduce the average cost of capital. The proposed operation does not affect the Company's financial balance, since the Company and the Group have access to significant means of self-financing. Available reserves total €4,026,585.00. The Shareholders' Meeting held on 28 October 2014 approved the Board of Directors' proposal to distribute an extraordinary dividend of €1.00 for every share held.
- b) On 13 May 2014, the Board of Directors gave Chief Executive Officer Bartoli a mandate to buy and sell own shares under the following terms: maximum quantity that may be purchased: 2% of the share capital; maximum purchase price: €3.00. The Board of Statutory Auditors reports that as of 31 December 2014, no shares had been purchased.

In general, based on the supervision carried out, the Board of Statutory Auditors considers that, in the performance of the aforementioned transactions, the law, the articles of association and the principles of sound management were followed in the areas within its purview.

The Board of Statutory Auditors also found that the aforementioned transactions were not manifestly imprudent or risky, potentially causing a conflict of interests, contrary to the resolutions adopted by the Shareholders' Meeting or otherwise liable to jeopardise the Company's assets; finally, based on the information received, the Board has found that said transactions were consistent with the principles of economic rationality, without this constituting any opinion on the merits of directors' management decisions.

The Board of Statutory Auditors has not identified nor received information from the Independent Auditor or the chief internal auditor about atypical and/or unusual transactions as defined in the Consob Communication of 6 April 2001, carried out with third parties, related parties or within the Group. In the Report on Operations, approved by the Board of Directors at its meeting on 23 March 2015, the directors indicated that Group companies did not engage in any atypical and/or unusual transactions in 2014.

In their Report on Operations at 31 December 2014, the directors also gave an account of related party transactions. Details of the nature and amount of these transactions can be found in the notes to the annual financial statements and consolidated financial statements.

Related party transactions are of minor importance compared with Group activity as a whole; they also seem consistent with and beneficial to the interests of the Company.

Taking this into account, the information supplied on related-party transactions seems adequate.

3. Organisational structure, administrative and accounting system and internal control system

The Board of Statutory Auditors verified the existence of an adequate organisational structure in relation to the size and structure of the business and the objectives pursued, in compliance with the legislation in force.

In particular, the Board of Statutory Auditors identified the existence of adequate procedures, as well as the presence of a system of delegated powers and proxies consistent with the responsibilities assigned.

The Company has adopted an organisational model in accordance with the provisions of legislative decree 231/2001. This model is periodically updated. In 2014, the Company updated its model in relation to environmental offences.

The Company has also adopted a Code of Ethics, and has demonstrated its commitment to health, safety and the environment.

The Board of Statutory Auditors verified the suitability of the internal control system and the administrative and accounting system, in addition to its ability to give a true and fair view of the business, through: *a)* examining the chief internal auditor's report on Sabaf's internal control system; *b)* examining the periodic internal audit reports, outsourced to Protiviti; *c)* obtaining information from the heads of the various corporate functions; *d)* examining company documents; *e)* analysing the results of the work conducted by the Independent Auditor; *f)* liaising with the supervisory bodies of subsidiaries; *g)* attending all Control and Risk Committee meetings; *h)* exchanging information with the Remuneration Committee.

Specifically, the Board of Statutory Auditors acknowledges that the chief internal auditor is actively and constantly involved in monitoring the internal control system, reporting to the Board of Directors and submitting frequent and regular reports to the Control and Risk Committee and Board of Statutory Auditors, to which he also submits the annual work programme.

Based on the work carried out, the Board believes Sabaf's internal control system to be adequate and, in its capacity as the Internal Control and Audit Committee, acknowledges that it has no observations to make to the Shareholders' Meeting.

The annual report on corporate governance and ownership structure contains, in accordance with article 123-*bis* of the TUF, detailed information about the features of the risk management and internal control system in relation to the financial reporting process.

The main risk factors to which the Group is exposed, together with the measures adopted by the Company in order to address them, are suitably classified and described in detail in the notes to the financial statements and in the Report on Operations.

With reference to the administrative and accounting system, the Company has complied with the provisions introduced by Law 262/2005 by appointing a financial reporting officer.

The administrative and accounting system as a whole is found to be comprehensive, integrated (including the information procedures) and consistent with the size and organisational structure of the Company and the Group.

Finally, special administrative and accounting procedures have been adopted relating to the periodic closing of the accounts, the preparation of the financial statements and the preparation of reporting packages by subsidiaries.

The financial reporting officer has performed an administrative and accounting assessment of the internal control system, with testing carried out independently by the Internal Audit division.

With reference to the continuous reporting obligations referred to in article 114(1) of the TUF, the Company has issued special instructions to its subsidiaries to comply with the reporting obligations laid down in article 114(2) of that law, within the scope of internal regulations on privileged information.

The annual and consolidated financial statements for the year ended 31 December 2014 contain the information required by article 149-*duodecies* of the Issuers' Regulation.

Having established that the Independent Auditor satisfied independence requirements at the time of its appointment, the Board of Statutory Auditors confirms that during the year and until today's date, no critical issues emerged concerning the independence of the Independent Auditor.

The Board of Statutory Auditors acknowledges that on 4 April 2014, Deloitte & Touche S.p.A. submitted the document pursuant to article 19(3) of Legislative Decree 39/2010, indicating that no fundamental issues had emerged during the audit, nor were there any material deficiencies in terms of financial reporting within the internal control system.

4. Corporate Governance

Detailed information about the procedures used to implement the corporate governance principles approved by Borsa Italiana, as contained in the corresponding code of corporate governance for listed companies, is provided by the directors in the annual report on corporate governance and ownership structure.

The Company has signed up to the corporate governance code of listed companies approved by the corporate governance committee and recommended by Borsa Italiana S.p.A..

The Board of Statutory Auditors acknowledges that the Company has verified the independence of directors classed as "independent"; in this regard, the Board confirms that the criteria and procedures used to determine the independence of directors pursuant to the Corporate Governance Code are correctly applied. The Board of Statutory Auditors has also confirmed that its members continue to satisfy the independence criteria, as required by the Corporate Governance Code.

5. Report of the Board of Statutory Auditors on the Group consolidated financial statements for the year ended 31 December 2014 and conclusions

Sabaf's consolidated financial statements at 31 December 2014 show a consolidated net profit of €8.3 million; the annual financial statements of the Parent Company for the year ended 31 December 2014 show a net profit of €7.9 million.

The draft financial statements, with the accompanying notes and directors' Report on Operations, were approved within the statutory time limit and were prepared in accordance with International Financial Reporting Standards (IFRS) approved by the European Union, which are mandatory for listed companies.

The consolidated statement of financial position at 31 December 2014 shows a negative net financial position of €26.9 million, while the Parent Company closed its financial statements at 31 December 2014 with a negative net financial position of €24.4 million.

Consolidated shareholders' equity at 31 December 2014 was €110.7 million, compared with €118 million in the consolidated financial statements at 31 December 2013; the annual financial statements of the Parent Company report shareholders' equity of €95.9 million, compared with €104.4 million for the year ended 31 December 2013. The values were recalculated following the updating of IAS 19.

Based on these factors, in view of the general position of the Company and the Group, in addition to the directors' forecasts, the Board does not detect the presence of any events or circumstances that might raise doubts over the going-concern assumption applied.

The Independent Auditor, in the report issued on 8 April 2015, expressed an unqualified opinion without requesting additional information on the annual and consolidated financial statements for the year ended 31 December 2014. Furthermore, in its reports, the Independent Auditor also concludes that the Report on Operations, in addition to the information referred to in sections 1(c), (d), (f), (l), and (m) and section 2(b) of article 123-*bis* of Legislative Decree 58/1998, contained in the Report on Corporate Governance and Ownership Structure, is consistent with Sabaf's financial statements for the year ended 31 December 2014.

The annual and consolidated financial statements are accompanied by the declarations of the financial reporting officer and Chief Executive Officer required by article 154-*bis* of the TUF.

Based on the work carried out during the year, the Board of Statutory Auditors found no impediment to the approval of the annual financial statements for the year ended 31 December 2014 or to the recommendations made by the Board of Directors, also with regard to distribution of the dividend.

Ospitaletto, 13 April 2015

The Statutory Auditors

Mr. Alessandro Busi

Mr. Enrico Broli

Mrs. Anna Domenighini