

# **REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE**

Pursuant to Article 123-*bis* of the TUF

Name of issuer: SABAF S.p.A.  
Website: [www.sabaf.it](http://www.sabaf.it)  
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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 July 2015 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.

**Issuer:** Sabaf S.p.A, i.e. the issuer of transferable securities to which the Report refers.

**Financial year:** the company financial year 2015 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 for Regulation of Markets organised and managed by Borsa Italiana S.p.A.

**Law 262/2005:** Savings Law 262 of 28 December 2005

**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 11971 of 1999 (as amended) on issuers.

**CONSOB Markets' Regulation:** the Regulations published by CONSOB pursuant to Resolution 16191 of 2007 (as amended) on markets.

**Consob Related Party Regulations:** the Regulations issued by Consob pursuant to resolution 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.

**Bylaws:** the bylaws of Sabaf S.p.A.

**TUF:** Legislative Decree 58 of 24 February 1998 (Consolidated Law on Finance).

## 1. ISSUER PROFILE

Sabaf's entrepreneurial model is rendered explicit in its corporate vision, i.e. 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 Corporate Governance Model adopted is based, initially, on the decision to strictly separate the interests and choices of the reference shareholder – the Saleri family – from those of the Company and the Group, and therefore assign corporate management to managers who are distinct from the reference 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 practices 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 for 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. For this purpose, Sabaf has prepared and published the Charter of Values, prepared in accordance with the existing national and international regulatory principles, guidelines and documents with regard to human rights of corporate social responsibility and corporate governance. The document is considered to be the governance tool through which the Board of Directors clearly explains the Company's values, standards of conduct, and commitments in respect of all the stakeholders – shareholders, employees, customers, suppliers, financiers, the public administration, the community and the environment.

The Charter of Values was approved by the Board of Directors on 11 February 2014 and is available on the website [www.sabaf.it](http://www.sabaf.it) under the section "Sustainability".

In line with the Company's vision and in accordance with the Charter of Values, the strategic and operational decisions implemented by the Sabaf Group are intended to ensure sustainable development, by balancing business and financial requirements with social and environmental needs.

### *Sabaf administration 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 and adherence to principles of proper management in the performance of corporate activities;
  - the adequacy of the Company's organisational structure, internal control and risk management system, and administrative/accounting system;

- the procedures for effective implementation of the corporate governance rules envisaged in 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 STRUCTURES

(pursuant to Art. 123-*bis* (1) TUF) **AT 22 03 2016**

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

The share capital totals €11,533,450 and is represented by 11,533,450 ordinary shares with a par value of €1.00 each.

The Company has not issued other financial instruments that grant the right to subscribed new issue shares. As of the date of this report, there are no stock option plans outstanding.

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

There are no restrictions on the transfer of financial instruments.

### c) Significant shareholdings (pursuant to Art. 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**

<i><b>SIGNIFICANT SHAREHOLDINGS</b></i>			
<b>Declarant</b>	<b>Direct shareholder</b>	<b>% share of ordinary share capital</b>	<b>% share of voting share capital</b>
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%
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 financial instruments which confer special rights have been issued.

**e) Employee stock plans: mechanism for the exercise of voting rights** (pursuant to Art. 123-*bis* (1)(e) TUF)

No mechanisms for the exercise of voting rights by employee shareholders exist.

**f) Restrictions on voting rights** (pursuant to Art. 123-*bis* (1)(f) TUF)

There are no restrictions on voting rights.

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

A shareholders' agreement (renewed in the initial weeks of 2016, until 8 January 2019) is in effect at Giuseppe Saleri S.a.p.a., the controlling company of Sabaf S.p.A. This agreement was made 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 Gneccchi, 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 one in Giuseppe Saleri S.a.p.A., representing 100% of the share capital.

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

In addition, on 21 January 2016, an agreement was made between Giuseppe Saleri S.a.p.A., the controlling company of Sabaf S.p.A., and Quaestio Capital Management S.G.R. S.p.A., on behalf of the Italian Growth Fund, a sub-fund of the Quamvis SCA Sicav-FIS fund ("Quaestio") for the sale of 2,306,690 Sabaf S.p.A. ordinary shares, representing 20% of the Company's share capital. For this transaction, the parties also entered into a shareholders' agreement, which was notified, filed and published in accordance with the law and will become effective when the transaction is executed, expected to take place by 31 March 2016. The agreement establishes that:

- at the Sabaf Shareholders' Meeting called to approve the financial statements for the year ended as at 31 December 2015, the agenda will include a proposal to appoint a director designated by Quaestio, after increasing the number of members on the board of directors from the current 11 (eleven) to 12 (twelve), and that the parties will vote in favour of such proposals;
- at one of the next shareholders' meetings of Sabaf which will be held between the transaction execution date and the end of the term of the current board of directors, an amendment to the Bylaws will be proposed establishing that two directors, instead of one, will be taken from minority lists not associated with the list submitted by Giuseppe Saleri S.a.p.A., and that the parties will vote in favour of such proposal;

- Quaestio commits not to dispose of the shares acquired as a result of the transaction until 31 December 2017.

**h) Change of control clauses** (pursuant to Art. 123-*bis* (1)(h) TUF) **and statutory provisions for IPOs** (pursuant to Arts. 104 (1-*ter*) and 104-*bis* (1))

Sabaf S.p.A.'s subsidiaries did not sign any agreements that take effect, are amended or are invalidated by the change of control of the contracting company.

The Company's Bylaws do not make provision for exemptions with regard to IPOs on the passivity rule pursuant to Art. 104, paragraph 1-*ter* of the TUF or the application of the neutralisation rules pursuant to Art. 104-*bis*, paragraph 1 of the TUF.

**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. has no delegations in place for share capital increases.

There is authorisation for the purchase of treasury shares, approved by the Ordinary Shareholders' Meeting on 5 May 2015, valid for 18 months, which has the objective 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 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 Shareholders' Meeting approved the possibility of organising the treasury shares on a rolling basis, establishing limits and conditions. For details of the above resolution, see the Shareholders' Meeting minutes available on the company website [www.sabaf.it](http://www.sabaf.it), under the section "Investors - Shareholders' Meetings".

Under the plan to acquire treasury shares launched on 14 September 2015, Sabaf S.p.A. acquired a total of 61,571 Company shares in 2015. At 31 December 2015, the Company holds 62,078 treasury shares equal to 0.538% of the share capital.

**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. Also note that the Bylaws of the parent company explain that it does not exercise management and coordination activities with regard to Sabaf S.p.A.

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Note that:

- as regards the information required by Article 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 agreement;
- 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, the Company adopted the Corporate Governance Code (the complete text is available on Borsa Italiana's website - [www.borsaitaliana.it](http://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. This manual sets forth the principles, rules, and operating procedures that will enable the Company to comply with the Code's recommendations.

This Corporate Governance 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, is available on the Company website, at [www.sabaf.it](http://www.sabaf.it) in the "Investors - Corporate Governance" section.

The Sabaf S.p.A. Corporate Governance Manual contains certain operating guidelines, which were approved by the Board of Directors. 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;
- the means of compliance with disclosure obligations to unions, pursuant to Article 150 TUF;
- the evaluation of the Group internal control and risk management 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.

The Board of Directors also has an integrated reporting tool, the Annual Report, which is available on the Company's website at: [www.sabaf.it](http://www.sabaf.it), under the section "Investors - Annual and Interim Reports", which presents the Company's economic, social and environmental performance. The Annual Report contains the following 8 (eight) sections:



- Sections 1 - *Business Model and strategic approach*, 2 - *International operations and core markets* and 4 - *Social and environmental sustainability*, constitute the sustainability report, prepared in accordance with the G4 Sustainability Reporting Guidelines defined by the GRI (Global Reporting Initiative);
- *Section 3 - Corporate governance, Risk management, Compliance and General remuneration policy* provides significant information on the corporate governance structure and the company risk management system;
- *Sections 5 - Report on operations, 6 - Consolidated financial statements and 7 - Separate financial statements* constitute the Annual Financial Report;
- *Section 8* contains the *Report on Remuneration*, prepared pursuant to Article 123-ter of the Consolidated Law on Finance (TUF).

Lastly, please note that this report on corporate governance and ownership structure is made available on the Company website at: [www.sabaf.it](http://www.sabaf.it) under the section "Investors - Corporate Governance".

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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 Art. 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 fulfilment of the requirements laid down by the legislation and other applicable provisions. At least two members of the Board of Directors must satisfy the requisites of independence set out in the laws and regulations applicable to the statutory auditors of companies listed in Italian regulated markets.
- the call notice of the Shareholders' Meeting called to resolve on the appointment of directors indicates the minimum investment share for the presentation of the lists equal to at least 2.5% of the share capital with voting rights for shareholders' resolutions for the appointment of members of the administration bodies, or a different investment share calculated in accordance with Article 144-*quater* of the Consob Issuers' Regulations.
- 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.
- based on the requirements of Article 147-ter, paragraph 1-ter, of the TUF, each list which has three or more candidates must have a number of candidates belonging to the less represented gender which ensures, under the scope of said list, that the balance between the genders is complied with to at least the minimum required under the law pro tempore in force.

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](http://www.sabaf.it), under the section "Investors – Corporate Governance".

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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:

- setting up or closing company branches;
- transferring the registered office in Italy;
- mergers in the cases envisaged by Articles 2505 and 2505-*bis* of the Civil Code, also as recalled due to splitting of Article 2506-*ter* of the Civil Code;
- reducing the share capital if a shareholder withdraws;
- updating the Bylaws to comply with regulatory provisions.

The Board of Directors can, in any case, decide at any time to remit the above resolutions to the competence of the Shareholders' Meeting.

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At the moment, the Board of Directors has not deemed it necessary to adopt a plan for the succession of executive directors.

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

During the year 2015, the terms of office of the Board of Directors and Board of Statutory Auditors appointed by ordinary shareholders' meeting resolution of 8 May 2012 for the years 2012-2014 came to an end.

On 5 May 2015, the Sabaf Group Shareholders' Meeting decided that the Board of Directors would have 11 (eleven) members and that its term of office would be 3 (three) years (2015-2017). On the basis of voting at the shareholders' meeting, the Board of Directors appointed for the years 2015-2017 has the following members: Giuseppe Pietro Saleri (Chairman), Ettore Saleri, Cinzia Saleri and Roberta Forzanini (Vice Chairmen), Alberto Bartoli (Chief Executive Officer), Gianluca Beschi (executive director), Renato Camodeca, Giuseppe Cavalli, Fausto Gardoni, Nicla Picchi and Anna Pendoli (non-executive directors).

Please note that at its meeting held on 10 February 2015, the Board of Directors confirmed that the non-executive directors in office for the years 2012-2014 (Salvatore Bragantini, Renato Camodeca, Giuseppe Cavalli, Leonardo Cossu, Fausto Gardoni, Maria Chiara Franceschetti, Nicla Picchi and Riccardo Rizza) continued to fulfil the independence requisites set forth by the TUF and the Corporate Governance Code of listed companies.

In addition, following the appointment of the new Board of Directors and Board of Statutory Auditors, at its meeting held on 5 May 2015, the Board of Directors confirmed, more with respect to substance than form, that the non-executive directors (Renato Camodeca, Giuseppe Cavalli, Fausto Gardoni, Nicla Picchi and Anna Pendoli) met the independence requisites set forth by the TUF and the Corporate Governance Code of listed companies, and appointed Renato Camodeca as Lead Independent Director.

In its current composition, the Board of Directors of Sabaf meets the legal requirements regarding "Gender equality in the composition of boards of administration and control", as defined by the Consob regulation adopted through resolution 18098 of 8 February 2012 and Art. 147-ter, paragraph 1-ter of the TUF.

The main qualifications of the directors in office are listed below:

- *Giuseppe, Ettore, Cinzia Saleri and Roberta Forzanini* are members of the family that controls the Company;
- *Alberto Bartoli*, who has been at Sabaf since 1994, CEO since May 2012 and Finance Director before that;
- *Gianluca Beschi*, who has been at Sabaf since 1997, Administration, Finance and Control Director, as well as Investor Relator;
- *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 Camodeca*, university lecturer in economics;
- *Nicla Picchi*, partner of the Brescia-based "Picchi & Associati" law practice, President of the Supervisory Body of Sabaf S.p.A. and its subsidiary Faringosi-Hinges s.r.l.;
- *Anna Pendoli*, who carries out the profession of real estate broker.

The full CVs of all the directors are available for examination on the Company's website [www.sabaf.it](http://www.sabaf.it), in the "Investors - Corporate Governance" section.

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

Board of Directors													Internal Control and Risk Committee		Remuneration and Nomination Committee	
Office	Members	Year of birth	Date of first appointment <sup>4</sup>	In office since	In office until	List (M/m) <sup>5</sup>	Exec.	Non-exec.	Indep. pursuant to Code	Indep. pursuant to TUF	Number of other offices <sup>6</sup>	7	7	8	7	8
Chairman	Giuseppe Saleri	21/08/1931	1993	05/05/2015	2017	M	X				1	100%				
Chief Executive Officer <sup>1,2</sup>	Alberto Bartoli	06/06/1960	1997	05/05/2015	2017	M	X				0	100%				
Vice Chairman	Ettore Saleri	24/04/1973	2006	05/05/2015	2017	M	X				1	100%				
Vice Chairman	Cinzia Saleri	18/12/1961	2012	05/05/2015	2017	M	X				2	100%				
Vice Chairman	Roberta Forzanini	03/09/1964	2015	05/05/2015	2017	M	X				0	83%				
Director	Gianluca Beschi	11/12/1968	2015	05/05/2015	2017	M	X				0	100%				
Director	Nicla Picchi	12/07/1960	2012	05/05/2015	2017	M		X	X	X	2	75%	60%	P		
Director	Giuseppe Cavalli	07/11/1960	2009	05/05/2015	2017	M		X	X	X	2	88%	75%	M	86%	M
Director	Fausto Gardoni	17/12/1942	2009	05/05/2015	2017	M		X	X	X	0	88%			100%	P
Director	Anna Pendoli	25/12/1974	2015	05/05/2015	2017	m		X	X	X	0	100%				
Director <sup>3</sup>	Renato Camodeca	28/11/1966	2012	05/05/2015	2017	M		X	X	X	1	88%	100%	M	100%	M

----- DIRECTORS NO LONGER IN OFFICE DURING THE YEAR UNDER REVIEW -----																
Vice Chairman	Gianbattista Saleri	13/11/1963	1994	08/05/2012	2015	M	X				3	50%				
Director	Leonardo Cossu	23/05/1958	1994	08/05/2012	2015	M		X	X	X	8	100%	100%	P	50%	M
Director	Maria Chiara Franceschetti	22/07/1969	2013	07/05/2013	2015	M		X	X	X	2	100%				
Director	Riccardo Rizza	22/03/1965	2012	08/05/2012	2015	m		X	X	X	0	100%				
Director	Salvatore Bragantini	17/09/1943	2006	08/05/2012	2015	M		X	X	X	4	100%	100%	M		

<b>Indicate the quorum required for the presentation of the lists for the latest appointment:</b> <i>2.5% of the share capital with voting rights at the Ordinary Shareholders' Meeting</i>			
<b>Number of meetings held during the year under review:</b>	<b>BOD:</b> 8	<b>ICRC:</b> 5	<b>RNC:</b> 7

## NOTES

<sup>1</sup> Director in charge of the Internal Control and Risk Management System.

<sup>2</sup> Chief Executive Officer or CEO.

<sup>3</sup> Lead Independent Director (LID).

<sup>4</sup> The date each director was first appointed refers to the date on which the director was appointed for the first time by the Board of Directors of the issuer.

<sup>5</sup> List from which each director is taken ("M": majority list; "m": minority list; "CdA": list presented by the Board of Directors).

<sup>6</sup> 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.

<sup>7</sup> Attendance of directors at Board of Directors and committee meetings, respectively

<sup>8</sup> Qualification of the director within the Committee: "P": chairman; "M": member.

## **Maximum number of positions held in 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 at the meeting of 12 May 2015, and as provided in the Corporate Governance Manual 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 of Directors.

Specifically:

- for executive directors, the maximum number of positions is 3, not including the offices held under the scope of 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 Board of Directors confirmed compliance with the above-mentioned criteria for the directors in office for the period 2012-2014 at its meeting held on 23 March 2015, and for directors in office in 2015-2017 at its meeting held on 22 March 2016.

Below we disclose the offices held by the current 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.p.A., the financial company that controls Sabaf S.p.A.;
- *Ettore Saleri* is a director of Getto S.r.l. ;
- *Cinzia Saleri* is the Chairman of Getto S.r.l.;
- *Nicla Picchi* is a non-executive director of Unipol Sai S.p.A. and Saipem S.p.A.;
- *Giuseppe Cavalli* is the General Director of Alfa Acciai S.p.A. and managing director of Acciaierie di Sicilia;
- *Renato Camodeca* is a standing auditor of MetalWork S.p.A.

## **Induction Programme**

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

In 2015, the Company continued with the induction programme so as to offer the opportunity to members of the Board of Directors and the Board of Statutory Auditors to improve their knowledge of the issuer and its subsidiaries.

In particular, at the Internal Control and Risk Committee meeting of 12 May 2015, the Head of Internal Audit illustrated the operating mechanisms and the main information flows from and to Internal Audit for the benefit of the administration and control bodies, including the methods for analysing the Internal Control and Risk Management System, taking care to

present the results of the audit and risk assessment activities carried out in the course of the previous year.

Subsequently, at its meeting of 26 June 2015, the Board of Statutory Auditors met with the company management and visited the production departments of the Company's Italian office in order to learn about the main production cycles and processing phases, as well as understand the organisation of the company's production system.

Lastly, at the Board of Directors meeting of 22 September 2015, a training session was held by the Supervisory Body regarding the Organisation, Management and Control Model pursuant to Legislative Decree 231/2001 as a whole.

Please note that the induction sessions were held during regularly minuted meetings.

#### **4.3. ROLE OF THE BOARD OF DIRECTORS** (pursuant to Art. 123-*bis* (2)(d) TUF)

The Board of Directors met eight times during the 2015 financial year. The meetings lasted an average of two and a quarter hours. Seven meetings have been planned for 2016, of which two have already been held, on 11 February and 22 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)<sup>1</sup>.

During the year, the introductory preliminary documentation for the board meetings, including the risk assessment document and the audit plan for 2016, was sent to the Directors by email usually three or more days in advance.

The meetings of the Board of Directors, coordinated and presided over by the Chairman, are always attended by the members of the Board of Statutory Auditors as well as the Administration, Finance and Control Director, as well as the Official Corporate Financial Reporting Manager 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 Director's meetings are regularly minuted.

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 Chief Executive Officer in his quarterly reports. In this regard, the Board of Directors viewed and evaluated the risks underlying these plans and the budget and assessed the compatible level of risk, also with reference to the risks that may assume significance in terms of medium-/long-term sustainability.

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<sup>1</sup> With the exception of the evaluation of cases in which unforeseen situations of necessity or urgency require the prior information to be limited. In these cases, the Chairman ensures that adequate examinations are conducted during the board meetings.

The Board of Directors is also responsible for the definition of the Company's corporate governance system as well as the structure of the Group pertaining to Sabaf.

For 2015, in compliance with the Guideline on the subject, the Board of Directors 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 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 the information supporting the evaluation.

The Board of Directors assessed the general business performance, taking into account in particular the information received from the Chief Executive Officer, and quarterly comparing the results achieved with those planned.

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.

An application guideline of the Corporate Governance Manual defines the general criteria for identifying transactions of importance, namely:

- transactions reserved to the Board of Directors of Sabaf pursuant to the Bylaws, namely:
  - setting-up or closing of branch offices;
  - transfer of the registered office within the territory of Italy;
  - mergers in the cases envisaged by Articles 2505 and 2505-*bis* of the Civil Code, also as recalled due to splitting of Article 2506-*ter* of the Civil Code;
  - reducing the share capital if a shareholder withdraws;
- the purchasing or sale of investments, properties and treasury shares;
- the issue of financial instruments;
- the undertaking of unsecured loans, requests to open bank facilities and the release of sureties;
- the undertaking and allocation to third parties of the status of executives, their dismissal, as well as the definition of relations, including economic ones, with executives;
- 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, after obtaining the opinion of the Internal Control and Risk Committee. For this purpose, an application guideline of the Corporate Governance Manual governs the operating methods suitable to facilitate the identification and adequate management of these situations.

Finally, as provided for by CONSOB resolution 17221 of 12 March 2010 on related-party transactions, and in compliance with the "Procedure regulating related-party transactions" which came into force in January 2011 and was subsequently updated in 2012 and 2015, the Board of Directors assessed the transactions with related parties carried out in the course of the year.



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, as defined under the guideline attached to the Corporate Governance Manual "Evaluation of the Board of Directors" that the individual directors would evaluate themselves, by filling out and returning specific questionnaires. It then discussed the results at the 15 December 2015 Board meeting. The Company does not therefore consider it necessary to avail itself of external consultants.

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 evaluation were generally positive.

The Board of Directors did not express any opinions on the managers and professionals whose presence the Board of Directors deemed appropriate during the board meetings.

In 2015, the Shareholders' Meeting did not authorise any exemptions, generally or in advance, to the prohibition on competition required by Article 2390 of the Italian Civil Code.

#### **4.4. DELEGATED BODIES**

##### **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 coordinates all corporate functions, guaranteeing a rapid decision-making process and ensuring efficient and transparent management. The CEO has wide-ranging powers with regard to all areas of operation of the company, and is the sole signatory for up to one million euros per transaction.

##### **Chairman and Vice 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 Vice Chairmen, Ettore and Cinzia Saleri, are the children of the Chairman, and Roberta Forzanini is the spouse of Gianbattista Saleri, son of the Chairman.

The Chairman and Vice 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 Vice 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)**

Taking into consideration the characteristics, dimensions and organisational structure of the Issuer, the Board of Directors has not - at the current time - identified the need to set up an Executive Committee.

## **Information for the Board of Directors**

The CEO reports quarterly to the Board of Directors on the activities conducted in exercising the powers conferred on him. These information flows are governed by guidelines set out in the Corporate Governance Manual. They envisage that the CEO prepares a written report regularly summarising the following activities and transactions carried out by Sabaf and its subsidiaries:

- activities conducted in the period,
- transactions with strategic, economic, capital or financial significance for the Group,
- transactions in potential conflict,
- related-party transactions,
- atypical or unusual transactions or those concluded in non-standard conditions,
- any other activity or transaction that he deems it appropriate to communicate.

### **4.5. OTHER EXECUTIVE DIRECTORS**

The current composition of the Board of Directors envisages 1 (one) executive director, who is Gianluca Beschi, Administration, Finance and Control Director, in addition to the Chief Executive Officer (Alberto Bartoli), the Chairman (Giuseppe Saleri) and the Vice Chairmen (Ettore and Cinzia Saleri and Roberta Forzanini) 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.

With regard to the independent directors in office for the years 2012-2014, this assessment was carried out on 10 February 2015: on this occasion the representations of the independent directors were handed in and the Board of Directors verified the fulfilment of the independence requisites pursuant to the Civil Code and the TUF for directors Salvatore Bragantini, Giuseppe Cavalli, Fausto Gardoni, Nicla Picchi, Renato Camodeca, Riccardo Rizza, Leonardo Cossu<sup>2</sup> and Maria Chiara Franceschetti.

When the administration and control bodies were appointed for the years 2015-2017, by shareholders' meeting resolution of 5 May 2015, on the same date the Board of Directors confirmed that the independence requisites pursuant to the Code and the TUF were fulfilled by the following directors: Renato Camodeca, Giuseppe Cavalli, Fausto Gardoni, Nicla Picchi and Anna Pendoli. Subsequently, on 11 February 2016, the Board of Directors confirmed that the independence requisites pursuant to the Code and the TUF continued to be fulfilled by the directors classified as independent.

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.

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<sup>2</sup> As he has been on the Sabaf S.p.A. Board of Directors for more than nine years, the Board assessed the independence of Director Leonardo Cossu considering his actual independence of judgement shown in previous terms, therefore more with regard to substance than to form.

At its meeting on 26 June 2015, and subsequently on 22 February 2016, the Board of Statutory Auditors checked and certified the 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 2015, the independent directors met without the other directors. This meeting took place on 15 December 2015 and among the items on the agenda were the operating methods of the Board of Directors and the existing interaction between executive and non-executive directors and company management. The Board of Directors was promptly informed of the results of this meeting, formalised in an official report.

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 at least three days before every meeting of the Board of Directors and to identify and discuss beforehand any issues that may have emerged.

#### **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*. When the new administration and control bodies were appointed in 2015, the Board of Directors again appointed Renato Camodeca as Lead Independent Director at the board meeting held on 5 May 2015.

This person will remain in office for the entire term of the Board of Directors and is a point of reference and coordination for the applications and contributions of non-executive directors, with special reference to 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 CORPORATE INFORMATION**

The CEO manages the processing of confidential information in accordance with a specific procedure, adopted by the Board of Directors, for internal management and external disclosure of documents and information concerning the Company. Special attention is paid to the management of privileged information, as defined by Article 181 of the TUF (in other words not yet made public and which could, if divulged, considerably affect the price of related listed 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.

Following the appointment of the new administration and control bodies (see section 4), at its meeting held on 5 May 2015 the Sabaf Board of Directors established the Remuneration and Nomination (section 7) and Internal Control and Risk (section 9) board committees, in keeping with the provisions of the Corporate Governance Code.

Taking into consideration the characteristics, dimensions and organisational structure of the Issuer, the Board of Directors has - at the current time - deemed it necessary to attribute the functions of the Nomination Committee to the Remuneration Committee thereby establishing the Remuneration and Nomination Committee, composed of 3 members from the independent directors in accordance with the most stringent criteria of the Remuneration Committee.

The Remuneration and Nomination Committee, established in compliance with the conditions laid down by the Corporate Governance Code, met seven times in 2015. The minutes of these meetings are available.

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 of Directors, through reasoned opinion, with any amendments and supplements to the "Procedure regulating related-party transactions". In 2015, the Internal Control and Risk Committee met five times. The minutes of these meetings are available.

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 to 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 and finance and remuneration policies that is deemed adequate by the Board of Directors. The Committee members are identified in Table 2 in section 4.2. above.

Other directors, employees and experts, as well as the Chairman of the Board of Statutory Auditors and other statutory auditors, may be invited to participate in an advisory capacity in Committee meetings on a case-by-case basis.

In 2015 the Committee met seven times, with each meeting lasting, on average, around an hour and forty minutes. The CEO, the Administration, Finance and Control Director and the Personnel Director took part in the meetings.

During the meetings, the Committee developed the managerial incentive plan (MBO 2015) and the long-term incentive plan based on the 2015-2017 three-year business plan approved by the Board of Directors on 16 December 2014, both in line with the Remuneration Policy. For details, please refer to the 2015 Report on Remuneration available on the Company website at: [www.sabaf.it](http://www.sabaf.it), under the section "Investors - Corporate Governance" and also included in the 2015 Annual Report available on the Company website, at: [www.sabaf.it](http://www.sabaf.it)

At its meeting held on 5 May 2015, the Committee submitted a proposal to the Board of Directors to divide the annual remuneration of the directors in compliance with the amount decided upon by the Shareholders' Meeting of 5 May, and confirmed the opinion on the maximum number of offices of directors and statutory auditors in line with the Corporate Governance Code and the Corporate Governance Manual.

In 2015, the Committee submitted a proposal to amend the General Remuneration Policy in order to introduce a non-competition agreement for the CEO should he leave office, also defining its terms and conditions, and to assign company cars as one of the non-monetary benefits provided to executives. The Committee did not avail itself of consulting services in carrying out its duties.

In this regard, at the proposal of the Remuneration and Nomination Committee, the Board of Directors approved the amendments to the General Remuneration Policy at its meeting held on 4 August 2015, thereby approving the assignment of company cars to certain executives and approving the execution of a non-competition agreement with the CEO, the terms of which were outlined by the Remuneration and Nomination Committee.

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;
- monitoring the application of decisions adopted by the Board of Directors itself, checking in particular the effective achievement of performance objectives;
- 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 of Directors as well as on the topics stated hereinafter (referred to in Arts. 1.C.3 and 1.C.4. of the Corporate Governance Code):
  - opinion with regard to the maximum number of offices of director or statutory auditor can be considered compatible with the effective discharge of the duties of a director of the Company, taking into account the participation of directors in the Committees established within the actual Board of Directors,
  - any exemptions to the prohibition of competition required by Article 2390 of the Italian Civil Code, specifically each problematic case,
- to put forward candidates to the Board of Directors for the office of director in cases of co-option, when independent directors have to be replaced;
- to support the Board of Directors in the possible adoption of a plan of succession for executive directors.

The Board of Directors set up an expenses fund of €25,000 available to the Remuneration and Nomination Committee to carry out their duties. The fund was not used in 2015.

## **8. REMUNERATION OF DIRECTORS**

The remuneration of (i) members of the Board of Directors, (ii) members of the Board of Statutory Auditors and (iii) directors with strategic responsibilities are defined in line with the "General Remuneration Policy", approved by the Board of Directors on 22 December 2011 and later updated on 20 March 2013 and 4 August 2015. For more information about the above Policy, and for more details of the specific information relating to 2015, please see the full text of same, available on the Company's website: [www.sabaf.it](http://www.sabaf.it), under the section "*Investors – Corporate Governance*".

## 9. INTERNAL CONTROL AND RISK COMMITTEE

The Board of Directors established an Internal Control and Risk Committee.

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

In 2015 the Committee met five times, with each meeting lasting, on average, around an hour and a half. Five meetings are scheduled for 2016, one of which has already been held on 2 February.

The Internal Control and Risk Committee is composed of three non-executive and independent members pursuant to the requirements of the Corporate Governance Code. The members have experience in finance and accounting considered adequate by the Board of Directors at the time of appointment.

The following took part in the Internal Control and Risk Committee meetings on the invitation of the Committee: the Head of Internal Audit, the consulting firm Protiviti as provider of Internal Control Services, which also provides secretarial services, the Board of Statutory Auditors, the Director of Administration, Finance and Control as the Official Corporate Financial Reporting Manager, and the Director in charge of the Internal Control and Risk Management System.

The Internal Control and Risk Committee meetings were minuted.

### **Functions attributed to the Internal Control and Risk Committee**

The following tasks were entrusted to the Internal Control and Risk Committee:

- supporting, with adequate preliminary activity, the evaluations and decisions of the Board of Directors relating to the internal control and risk management system, as well as those relating to the approval of regular financial reports;
- evaluating, together with the Official Corporate Financial Reporting Manager and with the advice of the Independent Auditors and the Board of Statutory Auditors, the correct application of the accounting standards adopted and their homogeneity for the purposes of preparing the Consolidated Financial Statements;
- expressing opinions on specific aspects pertaining to the identification of the main corporate risks;
- examining periodic reports evaluating the internal control and risk management system and those of particular significance prepared by Internal Audit;
- monitoring the autonomy, adequacy, effectiveness and efficiency of the Internal Audit Department;
- asking Internal Audit, when necessary, to audit specific operating areas, and in this case also inform the Chairman of the Board of Statutory Auditors;
- expressing opinions with regard to transactions in which a director has a personal interest or could be a bearer of someone else's interest, submitted for the attention of the Committee by the Board of Directors;
- examining related-party transactions, expressing a reasoned opinion in the interest of the Company to the deliberative body, as well as on the suitability and essential correctness of the related conditions;

- reporting to the Board of Directors at least every six months, at the time of approval of the annual and half-year financial reports, on the activities carried out as well as on the adequacy of the internal control and risk management system;
- supporting the Board of Directors following the favourable opinion, and having obtained the opinion of the Board of Statutory Auditors, with regard to the appointment, termination and remuneration of the Head of Internal Audit;
- supporting the evaluations and decisions of the Board of Directors, with adequate preliminary investigations, relating to the management of risks deriving from detrimental events of which the Board of Directors has become aware.

As indicated previously, the Committee, also representative of the Related-Party Committee, is responsible for supporting the Board of Directors, through reasoned opinions, in the initial adoption and subsequent amendments and supplements of the "Procedure regulating related-party transactions" in implementation of Consob Regulation 17221 of 12 March 2010.

Note that the supervision of the effectiveness of the statutory audit process is required of the Board of Statutory Auditors, also by virtue of the functions assigned to them by the existing regulations (Legislative Decree 39/2010).

In 2015, the Committee:

- evaluated, together with the Official Corporate Financial Reporting Manager and the auditors, the correct application of the accounting standards, specifically as far as the evaluation of receivables, inventories and investments were concerned and it expressed its judgment on the correct application and homogeneity of the accounting standards for the purpose of preparing the 2014 consolidated financial statements,
- analysed the results of the risk assessment conducted at the end of 2015 and the consequent 2016 Audit Plan,
- analysed the results of the Internal Audit operations conducted during the year,
- amended the "Procedure regulating related-party transactions", submitting the draft of the new text to the Board of Directors for approval during the board meeting held on 22 September 2015,
- carried out several preliminary investigation activities to support the Board of Directors in conducting evaluations about the possible introduction of the institution of loyalty shares; it found no negative elements with respect to the Board of Directors' formulation of the proposal to introduce loyalty shares.

Please note that, in the absence of elements deemed adverse by the Board of Directors, in 2015 the Committee did not carry out specific preliminary investigation activities.

Pending the update of the Procedure regulating related-party transactions, the Internal Control and Risk Committee, as well as the Related-Party Committee, expressed no opinions on the execution of related-party transactions of minor significance carried out in 2015.

The Internal Control and Risk Committee meetings were minuted.

In performing its functions, the Internal Control and Risk Committee has access to the information and company departments necessary to fulfil its duties, and may also use external consultants, within the terms established by the Board of Directors.



The Internal Control and Risk Committee has an expenses fund of €30,000 at its disposal, established by the Board of Directors to carry out its duties. This fund was not used in 2015.

## **10. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM**

In the *Corporate Governance* Manual the Board of Directors has defined the guidelines for the internal control and risk management system so that the main risks relating to the Issuer and its subsidiaries are correctly identified, measured, managed and monitored, as well as compatible with the strategic objectives of the Group.

The internal control and risk management system applies to Companies and subsidiaries of strategic importance (Faringosi Hinges, Sabaf do Brasil and Sabaf Turchia), identified as such by the Board of Directors of Sabaf, in relation to their effective strategic importance.

The internal control and risk management system is the collection of rules, procedures and organisational structures designed to allow for the identification, measurement, management and monitoring of the main risks, in terms of:

- adequate control of corporate risks,
- effectiveness and efficiency of corporate operating processes,
- safeguarding capital integrity,
- completeness, reliability and promptness of accounting and management information,
- conformity of corporate behaviour to 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 and risk management system, created by the collection of players involved to whom different roles and responsibilities are assigned (as specified later on),
- the methods and mechanisms for the practical implementation of control principles, reflected in the documentation constantly produced and updated by the Company to define the rules of behaviour, the division of tasks and the delegation of responsibilities. The following are included under this scope:
  - the Charter of Values,
  - the arrangements involving the corporate and organisational structure and the powers granted,
  - the segregation mechanisms of the functions under the scope of the organisation (also reflected in the corporate information systems), aimed at preventing excessive concentration within the organisation of decision-making/authorisation, implementation/executive, accounting and verification/control powers and functions,
  - the development and professional growth policies for personnel,
  - the systems for defining corporate targets and for verifying and monitoring corporate performance,
  - the management and economic-financial reporting systems, as well internal and external communication systems,
  - the body of corporate procedures, including those under the scope of the Organisational Model adopted by Sabaf to implement Legislative Decree 231/2001 and those established pursuant to Law 262/2005 on the subject of administrative-accounting

- procedures for the preparation of the financial statements,
- the continuous monitoring and verification procedures conducted at various levels of the organisation, both under the scope of corporate processes and through independent structures.

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In 2015, Sabaf carried out the annual process of identifying and assessing the main corporate risks, aimed at updating the previous risk assessment and preparing the risk based Audit Plan for 2016, approved by the Board of Directors with the favourable opinion of the Internal Control and Risk Committee having consulted with the Board of Statutory Auditors in the meeting of 15 December 2015.

In conformity with the requirements of the Guidelines relating to the risk identification and assessment process attached to the *Corporate Governance* Manual, the Group risk identification and assessment process requires the involvement of certain Parent Company department heads, also in their capacity as representatives for the Subsidiaries, each for their respective areas, and taking into consideration the risks that may assume significance in terms of medium-/long-term sustainability.

In line with the Guidelines, the potential effects are assessed for each risk measured (in terms of impact and probability of happening according to qualitative/quantitative scales), analysing the causes and evaluating the existing strategies and mitigation systems

For more information about the main risks that emerged from the analysis conducted, see chapter three of the Annual Report, available on the Company's website at [www.sabaf.it](http://www.sabaf.it).

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For 2015 the assessment of the overall adequacy of the internal control and risk management system was expressed on the basis of the analysis of the following aspects:

*Significant events with an impact on the corporate governance and control model:*

- Regulatory developments regarding governance,
- Amendments to the Corporate Governance Manual,
- Amendments to the Group Charter of Values,
- Risk Assessment*,
- Amendments to the Bylaws and Shareholders' Meeting Regulations,
- Changes in the composition of the administration and control bodies and the organisational structure,
- Changes in the powers and powers of attorney,
- Compliance with Law 262/05 on accounting and corporate documentation,
- Information systems,
- Transactions in derivative financial instruments,
- Treasury share transactions,
- Related-party transactions,
- Intragroup transactions and transactions in potential conflict,
- Internal dealing transactions,
- Monitoring internal control and risk management systems of subsidiaries,
- Main existing disputes,
- Situation of non-performing loans.

*Results of audit activities conducted by internal and external control bodies:*

- Information from the independent auditors,
- Results of audit activities by the Board of Statutory Auditors,
- Results of monitoring activities conducted by the Supervisory Body,
- Results of monitoring activities conducted by the Internal Audit department,
- Results of audits conducted by third parties on quality, environment and social responsibility management systems,
- Meetings between Control Bodies,
- Information from the Prevention and Protection Service and environmental protection,
- Information from the Official Corporate Financial Reporting Manager.

Based on the information and evidence collected, and after consulting with the Internal Control and Risk Committee, the Board of Directors believes that the internal control and risk management system in place in 2015 is adequate and effective in relation to the dimensions and characteristics of the Group and suitable overall for achieving the company targets.

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### **The Internal Control and Risk Management System**

Sabaf considers the internal control and risk management system for financial information an integral part of its risk management system.

In this regard, as far back as 2008, Sabaf integrated the activities relating to the management of the internal control and risk management system on financial reporting in its Internal Audit and compliance process (i) preparing a single Audit Plan, with a shared programme of tests, organised according to specific control objectives (e.g. operational, compliance with Law 262/2005 and Legislative Decree 231/2001, security and profiling of corporate information systems) and (ii) assigning the execution of the interventions to a single structure, responsible for reporting the outcomes to the competent control bodies.

In addition to this, the Company carries out an annual risk assessment at Group level, supplementing it for specific aspects relating to individual areas of compliance, including the one related to Law 262/2005.

With special reference to the internal control and risk management system on financial reporting, the Group defined its own Accounting Control Model which defines the rules that the Group follows for the purpose of:

- aligning itself with the regulations on preparing corporate accounting documents, as well as all deeds and communications of an economic, capital or financial nature disclosed to the market,
- describing the components of the Control Model adopted by the Company,
- indicating the responsibilities of the Official Corporate Financial Reporting Manager and other players involved in the process,
- establishing a certification process (for both Sabaf and the subsidiaries),
- guaranteeing dependability, accuracy, reliability and timeliness of the financial information.

Note that in 2015 the Accounting Control Model did not require any updating. With reference to Sabaf S.p.A.'s administrative-accounting procedures, there were minimal changes to

the administrative-accounting procedures for aligning them with existing corporate practices, which the Official Corporate Financial Reporting Manager reported to the Board of Directors at the meeting of 22 September 2015.

The internal instructions and standards are added to the Model (including, by way of example, the powers and powers of attorney system, the reporting instructions, the supporting information systems, the visits to Group company offices) through which the Parent Company guarantees an efficient exchange of data with the Subsidiaries.

The Accounting Control Model relies on the following key elements:

- general control environment,
- identification process of the main risks associated with economic, capital and financial information and the related controls, according to a top down approach which focuses on the main risk areas,
- significant corporate procedures system for the purpose of preparing and disclosing economic, capital and financial information (administrative-accounting procedures),
- regular evaluation of the adequate and effective application of the controls identified,
- internal certification (within the Group) conducted regularly to guarantee the completeness and correctness of the information generated by the processes governed and for information surrounding the changes made to the processes managed,

and this includes the involvement of a large number of players, with some of the main ones listed below:

- Board of Directors,
- Chief Executive Officer,
- Official Corporate Financial Reporting Manager,
- Investor Relator,
- Heads of significant functions/functions involved,
- Director of Information Systems,
- CEOs and heads of management structures of subsidiaries.

Sabaf keeps its Model updated with regard to changes in operations and/or organisation, the results of the risk assessment, regular audit activities, as well as changes to the systems and processes involving the structure.

There is an annual, formalised and structured process under the scope of the Group's Accounting Control Model - which is the responsibility of the Official Corporate Financial Reporting Manager, assisted by the Internal Audit department - aimed at identifying the main corporate processes, significant for the purpose of "262", and the main Group companies that give rise to them/are involved.

In line with *best practices*, the process of identifying and assessing the processes and organisational units takes into account both qualitative criteria (linked to the visibility of the Official Corporate Financial Reporting Manager and his structure in the individual processes and the degree of control; the intrinsic risk level of the underlying process; the complexity of calculation and subjectivity of the estimates) as well as quantitative criteria (related to the importance of the values generated by the individual *financial reporting* processes).

The 2015 evaluation highlighted the significant processes that were subject during the year to timely audit operations with regard to specific control objectives (*existence, completeness and accuracy, evaluation, rights and obligations, presentation and information*).

The outcomes of the audits into the individual processes are reported by the Internal Audit department to the Official Corporate Financial Reporting Manager and to Internal Control and Risk Committee, as well as to those attending the meetings with the Control Bodies, who are informed of the results of the interventions at the scheduled meetings.

On an annual basis, the Head of Internal Audit notifies the Internal Control and Risk Committee, through a detailed report, of the adequate and effective operation of the internal control and risk management system relating to the areas/processes that were checked. For 2015, this report was presented to the Internal Control and Risk Committee at the meeting on 2 February 2016 and to the Board of Directors at the meeting on 11 February 2016.

Any shortcomings/improvement measures identified during the audits and reported as described above, require the immediate identification of the actions to be taken, as well as regular monitoring of the solution.

### **10.1. DIRECTOR IN CHARGE OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM**

The Board of Directors has identified CEO Alberto Bartoli as the director responsible for supervising the operations of the internal control and risk management system.

Under the scope of the responsibilities entrusted to him by the Board of Directors, the CEO has executed the guidelines of and implemented the internal control and risk management system defined by the Board of Directors:

- taking care of the planning, implementation and management of the internal control and risk management system, constantly checking its adequacy and efficiency,
- updating the internal control and risk management system with regard to the dynamics of the operating conditions and legislative and regulatory scenario,
- being responsible for the identification of the main corporate risks, to be regularly submitted for examination by the Board of Directors, taking into account the characteristics of the activities conducted by Sabaf and its subsidiaries,
- asking, where deemed necessary, the Internal Audit department to conduct checks into specific operational areas and into compliance with internal rules and procedures in the execution of corporate operations, at the same time notifying 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,
- reporting promptly to the Internal Control and Risk Committee with regard to problems and criticalities that have emerged when conducting its activities or of which it has been notified, so that the Committee can undertake the appropriate initiatives.

## 10.2. HEAD OF INTERNAL AUDIT

On 5 May 2015, the Board of Directors, at the proposal of the Director responsible for supervising the operations of the internal control and risk management system, with the favourable opinion of the Internal Control and Risk Committee and having consulted with the Board of Statutory Auditors, renewed the engagement of an independent external company which provides internal control services, Protiviti s.r.l., to carry out the functions of the Internal Audit Department for the years 2015-2017 as well. It then identified Emma Marcandalli, the company's *Managing Director*, as Head of that department. This decision has been made because the professional resources to establish such a function are not available internally and also taking into account the greater skills and efficiency that a specialist outside firm can offer with regard to internal control given the size of Sabaf.

When the engagement was renewed, the Board of Directors established the remuneration of the Head of Internal Audit in compliance with corporate policies and market rates, and laid out her functions in line with the Corporate Governance Code.

The Head of the Internal Audit department is responsible for checking that the internal control and risk management system is working properly, but is not responsible for any operational areas and remains in office for the entire term of the Board of Directors which appointed him/her.

The Head of the Internal Audit department reports to the Board of Directors which approves the Plan and, as well as the appointment, also defines the termination of the engagement.

During the year, the Head of the Internal Audit department:

- had direct access to all information useful for the performance of her duties,
- reported with regard to operations to the Internal Control and Risk Committee and the Board of Statutory Auditors at their meetings,
- also reported with regard to operations to the Director responsible for supervising the operations of the internal control and risk management system,
- helped the CEO and the Heads of Function in the planning and management of the internal control and risk management system,
- planned the auditing activities regarding the adequacy and operation of the internal control and risk management system implemented according to a risk based type approach; the resulting Audit Plan was approved by the Board of Directors on 15 December 2015,
- verified, under the scope of the Audit Plan, the reliability of the information systems including the financial reporting systems,
- reported on the outcome of all the audit operations carried out by sending the audit reports to the members of the Internal Control and Risk Committee and the Board of Statutory Auditors,
- reported regularly on her activities, the procedures for managing risks, as well as compliance with plans defined for their containment; provided an assessment - for the areas/processes subject to her audits - on the suitability of the internal control and risk management system and sent these to the Chairmen of the Board of Statutory Auditors and the Internal Control and Risk Management Committee, as well as the Director in charge of the internal control and risk management system,
- prepared prompt reports on events of particular significance.

Lastly, an expenses fund of €25,000 was made available to the Head of Internal Audit to carry out her tasks, which was not used in 2015.

### **10.3. ORGANISATIONAL MODEL pursuant to Legislative Decree 231/2001**

In 2006 Sabaf S.p.A. adopted the Organisational and Management Model, as suggested by Legislative Decree 231/2001, aimed at preventing the possibility of significant administrative offences and crimes with regard to the Decree which involve the administrative responsibility of the Company in cases where certain types of crime are committed by employees or collaborators in the interest or for the benefit of the Company.

Through the adoption of the Organisational Model, Sabaf S.p.A. set itself the goal of acquiring a set of general principles of behaviour and protocols which, in compliance with the system of assigning functions and powers and existing internal procedures, meets the requirements of the Decree in terms of prevention, control of the implementation of the Model and any imposition of penalties.

The Organisational Model comprises a **General Part** that describes the underlying principles and the aims that Sabaf S.p.A. sets itself through its adoption, and a series of **Special Parts** which identify and regulate specific behaviour in areas identified as potentially at risk for the Company, with regard to different types of offences.

In the definition of the Model, Sabaf S.p.A. analysed corporate activities, training processes and the implementation of decisions within the individual corporate areas, as well as internal control systems.

Based on the results of the analyses and the areas identified as potentially at risk, Sabaf S.p.A. deemed it appropriate to regulate the processes with regard to the following types of crimes and offences under Legislative Decree: Articles 24 and 25 (offences against the Public Administration), Article 25-*ter* (company crimes, including the crimes of "Undue enticement to give or promise profits" and "Corruption between private parties"), Article 26-*sexies* (market abuse), Article 25-*septies* (manslaughter and serious or extremely serious injury through negligence committed in violation of occupational health and safety regulations), Article 25-*bis* (Falsification of instruments and signs of recognition), Article 25-*undecies* (environmental crimes) and Article 25-*duodecies* (employment of illegally staying third-country nationals).

On 23 September 2014, the Board of Directors approved the new version of Model 231 for Sabaf which included the integration of the content of Model 231 with that of the ISO 14001 certified Environmental Management System and the consequent specific information flows.

The Model also includes the mandatory establishment of the Supervisory Body, composed of several people with the members being particularly well qualified and fulfilling the requirement of integrity pursuant to Article 109 of Legislative Decree 385 of 1 September 1993.

The Supervisory Body (appointed on 8 May 2012 by the Board of Directors of Sabaf S.p.A. for the period 2012-2014, and subsequently re-appointed by the Board of Directors on 5 May 2015 for the period 2015-2017) comprises Nicla Picchi, independent director of the Company (Chairman) and Emma Marcandalli, Head of the Internal Audit Function. An expenses fund of €20,000 was set up and was not used in 2015.

During the financial year, through the Internal Audit function and in line with its Audit Plan, the Supervisory Body carried out checks on the effective application and awareness of the rules of control and conduct. In addition, during the year specific preliminary investigation activities were carried out, regarding which the Supervisory Body reported to the company's administration and control bodies.

The Body met 9 (nine) times during the period and:

- verified the effectiveness of the Model, both through checks conducted by Internal Audit and through conversations with personnel involved in sensitive activities,
- carried out specific investigation activities regarding the occupational health and safety management processes,
- held periodic consultation meetings with Company management in order to analyse certain environmental and occupational health and safety matters, as well as issues subject to audits during the year,
- carried out informational and training exercises aimed at employees with respect to several protocols governed by the Model,
- provided a 231 training session to the Company Directors during the Board of Directors meeting of 22 September 2015, regarding the Organisation, Management and Control Model as a whole,
- in coordination with Human Resources, asked to renew the subscription of the Group Charter of Values again for 2015, the updated version of which was approved on the Board of Directors on 11 February 2014,
- launched in-depth analyses in preparation for the audit of the 231 risk assessment, with the goal of confirming/reviewing the applicability of the 231 offences with respect to the current context in which the company is operating, evaluating the applicability of the new crimes introduced and subsequently updating Sabaf's Model 231 as required,
- carried out investigation and comparison activities regarding the company's current Model 231 with respect to the new version of the Guidelines for the preparation of Organisation, Management and Control Models pursuant to Legislative Decree 231/2001, published by the National Confindustria on 23 July 2014, in order to identify any areas of the Model 231 to be updated.

The latest version of the General Part of the Model, approved by the Board of Directors on 23 September 2014, is available on the Company's website at: [www.sabaf.it](http://www.sabaf.it), under the section "*Investors – Corporate Governance*".

#### **10.4. INDEPENDENT AUDITORS REGULATORY AUDIT**

The Shareholders' Meeting of 28 April 2009 appointed Deloitte & Touche S.p.A. to conduct the regulatory audit for the period 2009-2017.

In 2015, the independent auditors met twice (on 3 February and 28 July) with the other Sabaf Control Bodies. Both of these meetings were minuted.

#### **10.5. OFFICIAL CORPORATE FINANCIAL REPORTING MANAGER**

On 5 May 2015, when the new administration and control bodies were appointed, the Board of Directors selected and confirmed Gianluca Beschi, the Director of Administration, Finance and Control, as the Official Corporate Financial Reporting Manager.



The Bylaws state that the Official Corporate Financial Reporting Manager should fulfil the requirements laid down by law, and - in any events - have special competence with regard to a) accounting and financial information and b) management and control of related procedures, as well as c) at least three years' experience in administration and control activities or management or consulting functions, for listed companies and/or groups of businesses, or companies, organisations or businesses of a significant size, also with regard to the function of preparing corporate and accounting documents. The Board of Directors appoints and revokes the appointment of the Official Corporate Financial Reporting Manager, following the mandatory and non-binding opinion of the Board of Statutory Auditors.

The Board of Directors has invested the following powers in the Official Corporate Financial Reporting Manager:

- having direct contact with the independent auditors, the Internal Control and Risk Committee and the Board of Statutory Auditors,
- acquiring, controlling and verifying information and news, at all equivalent hierarchical levels and above, and also at lower hierarchical levels not dependent on the actual manager; the same powers can also be exercised with regard to subsidiaries and corporate hierarchies of companies subject to consolidation,
- possessing powers of proposal/evaluation over all procedures adopted within the Company,
- preparing adequate administrative and accounting procedures for the creation of the financial statements and the consolidated financial statements, as well as all other communications of a financial nature,
- being equipped with the control and management instruments, including I.T. (both hardware and software) up to a limit of €25,000 per year,
- assigning tasks, responsibilities and deadlines for the collection and verification of the information,
- availing itself of specialist external consulting services to deal with particular subjects, with a limit for these professional services of €25,000 per year,
- using the Internal Audit Function for adjustments to comply with Law 262/2005,
- attending conferences, training courses and seminars for updating purposes,
- arranging internal communication channels that guarantee correct infra-company information,
- calling company personnel, at their discretion, in order to update, train and make them aware of their obligations,
- issuing a written statement that attests to the compliance of the Company's acts and communications divulged to the market and relating to the accounting information of the Company, including interim information, with the entries made in the accounting documents, ledgers and records,
- confirming through a dedicated report made available in accordance with the model established through the Consob regulation, attached to the financial statements, interim financial statements and consolidated financial statements:
  - the adequate and effective application of the procedures in the previous points in the period to which the documents refer,
  - that the documents were prepared in conformity with the applicable international accounting standards recognised in the European Union pursuant to (EC) regulation 1606/2002 of the European Parliament and of the Council of 19 July 2002,

- that the documents correspond to the results of the accounting entries and ledgers,
- that the documents are appropriate to provide a true and fair view of the income statement, balance sheet and cash flow of the Company and the companies included in the consolidation,
- for the financial statements and the consolidated financial statements, that the report on operations includes a credible analysis of the performance and results of operations, the situation of the Company and the companies included in the area of consolidation, along with a description of the key risks and uncertainties to which they are exposed,
- for the interim financial statements, that the report on operations contains a reliable analysis of the information in paragraph 4 of Article 154-ter of the TUF,
- attendance at the meetings of the Company's Board of Directors where the examination of the Company's economic and financial data is on the agenda,
- reporting without delay to the CEO and the Board of Directors, also via the Internal Control and Risk Committee, on any aspects of particular significance that he deems incorrect and, as such, must be declared in the certification required by Article 154-bis of the TUF,
- reporting, at least once a year, to the Board of Directors directly or via the Internal Control and Risk Committee and to the Board of Statutory Auditors.

The Company has defined the roles and responsibilities of various subjects involved in the Group's financial information preparation and control process and the characteristics and management operating methods of the administrative-accounting control system.

## **10.6. COORDINATION BETWEEN PERSONS INVOLVED IN THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM**

Sabaf promotes meetings and exchanges of information between the various bodies with auditing and monitoring functions for the organisational, administrative, accounting, internal control and risk management systems of the Company and subsidiaries of strategic importance.

Specifically, with the exception of the legal provisions with regard to statutory auditors and legally-required independent auditors<sup>3</sup>, a meeting is held at least ten days before the approval by the Board of Directors of the draft financial statements (separate and consolidated) and Sabaf's interim report amongst the following bodies:

- Internal Control and Risk Committee,
- Board of Statutory Auditors,
- Supervisory Body pursuant to Legislative Decree 231/2001,
- Head of Internal Audit,

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<sup>3</sup> The reference is to the following articles of the TUF: Art. 150, paragraph 3 (The Board of Statutory Auditors and the independent auditor or the auditing firm promptly exchange significant data and information to carry out their respective duties) and paragraph 4 (Those responsible for internal control also report to the board of statutory auditors at their own initiative or at the request of even only one statutory auditor); Art. 151, paragraph 1 (Statutory auditors may, including individually, proceed at any time with inspections and controls, as well as ask directors for news, also with reference to subsidiaries, about the performance of corporate transactions or specific dealings, or make the same information requests directly of the administration and control bodies of the subsidiaries) and paragraph 2 (The Board of Statutory Auditors may exchange information with the corresponding bodies of the subsidiaries with respect to the administration and control systems and the general trends of corporate activities. [omissis]).

- Official Corporate Financial Reporting Manager,
- Independent Auditors,

during which information is exchanged on the main results and/or criticalities encountered during the course of the audit activities conducted, with regard to organisational, administrative, internal control and risk management structures. The meetings are minuted.

In addition to the board meetings referred to above, the continuity and promptness of exchanges of information between the above-mentioned control bodies is ensured by:

- the attendance of the Board of Statutory Auditors at the Internal Control and Risk Committee meetings,
- regular information from the Supervisory Body to the Internal Control and Risk Committee and the Board of Statutory Auditors,
- regular information from the Head of Internal Audit to the Internal Control and Risk Committee and the Board of Statutory Auditors,
- the exchange of information between the Internal Control and Risk Committee, the Independent Auditors and the Official Corporate Financial Reporting Manager with regard to the accounting principles applied and the adequacy of the administrative-accounting procedures applied for the preparation of information of a financial nature about the Company and the Group.

## **11. DIRECTORS' INTERESTS AND TRANSACTIONS WITH RELATED PARTIES**

In conformity with the "Procedure regulating related-party transactions" approved in 2010 and later updated in 2012 and in 2015, the Board of Directors has evaluated and resolved on the execution of related-party transactions for 2015.

No related-party transaction carried out by the issuer in the year was considered to be of major significance.

Pending the update of the Procedure regulating related-party transactions (see Section 9 above), the Internal Control and Risk Committee, as well as the Related-Party Committee, expressed no opinions on the execution of related-party transactions of minor significance carried out in 2015.

For more information about the above procedure, please see the full text of same, available on the Company's website: [www.sabaf.it](http://www.sabaf.it), under the section "*Investors – Corporate Governance*".

Lastly, in 2015 the Board of Directors did not examine transactions in which a director had a personal interest and for which the application of the "Significant transactions in which directors have an interest" procedure attached to the *Corporate Governance* Manual, updated in 2012, was necessary.

## 12. APPOINTMENT OF STATUTORY AUDITORS

The following persons cannot be elected as statutory auditors and, if elected, their office is forfeited: persons not possessing the qualities of professionalism, integrity and independence established by existing laws or else they will find themselves in a situation of ineligibility, incompatibility or forfeiture under the law. In addition, the limits on the maximum number of positions established through the Consob Regulation apply to statutory auditors.

The appointment of the Board of Statutory Auditors takes place based on the lists submitted by holders of voting rights in which the candidates are ranked progressively.

Each list has two sections: one for candidates for the office of standing auditor and the other for candidates for the office of alternate auditor.

Only holders of voting rights have the right to submit lists. On their own or together with others, they must overall own shares with voting rights representing at least 2.5% of the share capital with voting rights at the shareholders' meetings for the appointment of members of the administration and control bodies, or the different stake for the presentation of lists for the appointment of the members of the Board of Directors.

Each holder of voting rights, as well as shareholders who are part of a group pursuant to Article 2359 of the Italian Civil Code and those participating in a shareholders' agreement involving company shares, cannot submit, including through a third party or trust company, more than one list or vote for different lists.

Each candidate may be included on only one slate, under penalty of ineligibility. Outgoing statutory auditors can be re-elected.

The lists submitted should be filed at the Company's registered office and made available to the public at the registered office and on the Company website, under the terms and conditions of the applicable primary and secondary regulations, and this will be mentioned in the call notice. The lists are accompanied by:

- information on the identity of the shareholders with voting rights who have submitted the lists and the percentages of shareholdings held overall, and certification proving ownership of this shareholding;
- a declaration of the holders of voting rights other than those who can express an absolute or relative majority in the Shareholders' Meeting or holders, including jointly, of a controlling or relative majority interest, attesting to the absence of relations connecting them to the latter, pursuant to the applicable regulations,
- exhaustive information about the personal and professional characteristics of the candidates, as well as a declaration by said candidates certifying the fulfilment of the requirements laid down by law and by the Bylaws and the acceptance of the candidature.

The election of statutory auditors takes place according to the following procedure:

- two standing auditors and one alternate auditor are taken from the list which obtained the absolute highest number of votes at the Shareholders' Meeting, based on the progressive order in which they are listed,
- the remaining standing auditor and the other alternate auditor are taken, based on the progressive order in which they are listed, from the list that obtained the highest number of votes at the Shareholders' Meeting considering only the lists submitted and voted for by shareholders who have voting rights and are not connected to the reference shareholders pursuant to the applicable regulations.

If there is a tie in the voting between two or more lists, the most senior candidates in terms of age will be elected.

If it is not possible to proceed, in full or in part, with the appointments following the above methods, the Shareholders' Meeting will resolve with a majority decision.

If the regulatory and statutory requirements are not met, the statutory auditor's office will be forfeited.

In the event of the replacement of an auditor, he or she is succeeded by the alternate auditor belonging to the same list as the auditor to be replaced.

### **13. COMPOSITION AND OPERATION OF THE BOARD OF STATUTORY AUDITORS**

(pursuant to Art. 231-*bis* (2)(d) TUF)

The Board of Statutory Auditors was appointed by the Shareholders' Meeting on 5 May 2015 for the period 2015-2017.

Two lists were filed under the required terms, one by the reference shareholder "Giuseppe Saleri S.a.p.a." and one by a minority shareholder "SIREFID S.p.A.", accompanied by all the documentation required by the laws in force.

The list from the reference shareholder contained the following candidates: (i) Enrico Broli and Luisa Anselmi, standing auditors; (ii) Paolo Guidetti, alternate auditor.

The list from the minority shareholder, on the other hand, contained the following candidates: Antonio Passantino, Chairman and Riccardo Rizza, alternate auditor.

The list of those elected, based on the proposal of the Board of Directors and voted for unanimously, is provided in table 3 below:

The standing auditors on the Board of Statutory Auditors are professional accountants and fulfil the requirements of eligibility, professionalism, respectability and independence, as set forth in the law and other applicable provisions. For details of their professional profiles, their CVs are available on the Company website at: [www.sabaf.it](http://www.sabaf.it), under the section "*Investors – Corporate Governance*".

In 2015, the Board of Statutory Auditors met six times. These meetings lasted, on average, roughly two hours and fifty minutes. In 2016 there are five meetings of the Board of Statutory Auditors scheduled; from the beginning of 2016 to the date of this report the Board of Statutory Auditors has met once, on 22 February 2016.

At its first meeting on 26 June 2015 after appointment by the shareholders' meeting, the Board of Statutory Auditors confirmed compliance with the declaration of transparency and acceptance of the position for each member. In addition, based on the declarations provided, it confirmed that none of the statutory auditors are ineligible or required to forfeit the office on the basis of laws in force. Lastly, the Board of Statutory Auditors confirmed compliance with the provisions pursuant to Art. 1-*bis* of Art. 148 of the TUF, regarding gender quotas.

In addition, at the meeting on 26 June 2015, the Board verified the correct application of the criteria and procedures adopted by the Board of Directors for the purpose of evaluating the

satisfaction and continuing fulfilment of the requisites of independence for all members. When carrying out the above evaluations, the Board of Statutory Auditors confirmed that the Board of Directors applied all the criteria required by the Code with reference to the independence of directors.

**Table 3: STRUCTURE OF THE BOARD OF STATUTORY AUDITORS**

Board of Statutory Auditors									
Office	Members	Year of birth	Date of first appointment <sup>1</sup>	In office since	In office until	List (M/m) <sup>2</sup>	Indep. pursuant to Code	Attendance at Board meetings <sup>3</sup>	Number of other offices <sup>4</sup>
Chairman	Passantino Antonio	07/12/1947	2015	05/05/2015	2017	m	X	100%	9
Standing Statutory Auditor	Broli Enrico	14/12/1944	2006	05/05/2015	2017	M	X	100%	19
Standing Statutory Auditor	Anselmi Luisa	19/02/1966	2015	05/05/2015	2017	M	X	100%	7
Alternate Statutory Auditor	Guidetti Paolo	21/05/1959	2000	05/05/2015	2017	M	N/A	N/A	N/A
Alternate Statutory Auditor	Rizza Riccardo	22/03/1965	2015	05/05/2015	2017	m	N/A	N/A	N/A

**Indicate the quorum required for the presentation of the lists for the latest appointment:** *2.5% of the share capital with voting rights at the Shareholders' Meeting*

**Number of meetings held during the year under review:** 6

**NOTES**

<sup>1</sup>The date each statutory auditor was first appointed refers to the date on which the statutory auditor was appointed for the first time by the Board of Directors of the issuer.

<sup>2</sup>This column indicates the list from which each statutory auditor was taken ("M": majority list; "m": minority list).

<sup>3</sup>This column indicates the attendance of statutory auditors at board meetings (indicate the number of meetings attended in relation to the total number of meetings that could have been attended: e.g. 6/8; 8/8 etc.).

<sup>4</sup>This column indicates the number of director or auditor offices held by the party in question pursuant to Article 148-*bis* of the TUF and implementation arrangements in the Consob Issuers' Regulations. The full list of offices is published by Consob on its website pursuant to Article 144-*quinquiesdecies* of the Consob Issuers' Regulations.

The Company's *Corporate Governance* Manual obliges each statutory auditor to promptly and exhaustively inform the other statutory auditors and the Chairman of the Board of Directors if they have an interest, of their own or on behalf of third parties, in a given transaction relating to Sabaf or its subsidiaries. No situations were verified in 2015 in which statutory auditors had to make such declarations.

In 2015 and in conformity with the requirements of Article 19 of Legislative Decree 39/2010, the Board of Statutory Auditors:

- oversaw the independence of the legally-required independent auditors;
- coordinated with the Internal Audit Function and the Internal Control and Risk Committee, through:
  - half-yearly meetings to exchange information with the parties carrying out the control functions,
  - inviting the Official Corporate Financial Reporting Manager to the meetings of the Board of Statutory Auditors,
  - the attendance of the statutory auditors at the Internal Control and Risk Committee meetings,
  - conducting audits into specific corporate transactions and areas of operation.

In 2015 the members of the Board of Statutory Auditors were involved in specific *induction* activities, as defined in section 4.2 of this report, aimed at providing them with adequate knowledge about the sector of activity in which the Sabaf operates, corporate dynamics and their development, as well as the reference regulatory framework.

## **14. SHAREHOLDER RELATIONS**

The Company has established a dedicated section in its website, that can be easily identified and accessed, in which the information that is important to shareholders is available so that they can exercise their rights with full knowledge.

Gianluca Beschi is the Investor Relations Manager. A specific corporate structure has not been set up because, also taking into consideration the size of the Company, the functions are performed directly by the Investor Relations Manager.

## **15. SHAREHOLDERS' MEETINGS**

(pursuant to Art. 123-*bis* (2)(c) TUF)

In 2015 the shareholders' meeting regulations and company bylaws did not change. For more details about the Regulations and the Bylaws mentioned above, please see the complete text available on the website, at: [www.sabaf.it](http://www.sabaf.it), under the section "Investors – Corporate Governance".

On the occasion of the Shareholders' Meetings, the Board of Directors has reported on the activities carried out and planned and has provided the shareholders with adequate information surrounding the necessary elements so that they can take the necessary decisions with full knowledge of the facts.

In 2015 there were no significant changes in market capitalisation or in the composition of the corporate structure for which the Board of Directors had to evaluate the possibility of



proposing changes to the Bylaws to the Shareholders' Meeting with regard to the percentages established for exercising the actions and prerogatives established to protect minority interests.

## **16. OTHER CORPORATE GOVERNANCE PRACTICES**

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

There are no further corporate governance practices to report in addition to the descriptions provided in the previous points of this document.

## **17. CHANGES SINCE THE END OF THE REPORTING YEAR**

There were no changes to the Corporate Governance structure between 31 December 2015 and the date of this report.