

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

Dear Shareholders,

We hereby report to you on the supervisory activity performed during the 2016 financial year.

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

We note below the activity performed.

1. Supervisory activity on compliance with the law and the articles of association and respect of the principles of correct administration

During the 2016 financial year, the Board met on six occasions and attended nine meetings of the Board of Directors, five meetings of the Control and Risks Committee and two meetings of the Company's Control Bodies (Board of Statutory Auditors, Control and Risks Committee, Supervisory Body, Appointed Executive, Head of the Internal Audit Function, Independent Auditing Company).

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

In that regard, it is noted that, during 2016:

- we have not identified or received information on any atypical and/or unusual operations performed with third parties, with related parties or within the group. That fact is also confirmed by the Directors in their management report;
- no significant operations that require a mention in this report have been performed;
- intergroup operations and operations with related parties are of ordinary nature and reduced significance compared to the group's activity as a whole, as highlighted in note no. 36 of the Separate Financial Statements and in the corresponding note of the Consolidated Financial Statements. The Board believes that the conditions under which those operations were concluded are congruous and compliant with the Company's interests.

The Board of Statutory Auditors has expressed its favourable opinion with reference to the work plan prepared by the Head of the Internal Audit Function.

In conclusion, based upon the activity performed, we have not identified any violations of the law and/or the articles of association or any manifestly imprudent or risky operations or operations in potential conflict of interest or such as to compromise the integrity of the company's finances.

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

The Board has overseen the existence of an adequate **organisational structure** in relation to the company's dimensions.

In that regard, it is noted that the Company has for some time now adopted an Organisation Model compliant with the provisions of Italian Legislative Decree

231/2001, recently updated in relation to the latest organisational and regulatory changes.

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

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

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

The information sources based upon which the Board has been able to express its assessment are the following:

- periodic meetings with the Company assigned the Internal Audit Function and with the Representative of that Function. During those meetings, the Board had the opportunity to assess the activity performed and the results of the same. In that regard, it is noted that the Company itself performs the Internal Audit Function also with reference to the strategic subsidiaries;
- periodic meetings with the Independent Auditing Company;
- the report of the Head of the Internal Audit Function on the control system, examined during the meeting of the Control and Risks Committee held on 1 February 2017;
- attendance at meetings of the Control and Risks Committee;
- the report of the Control and Risks Committee to the Board of Directors on the adequacy and effective functioning of the internal control system and the risk management system;

- meetings with the Appointed Executive;
- examination of the company procedures, therein including those provided within the Organisation Model adopted by Sabaf (and by the subsidiary Faringosi Hinges S.r.l.) in application of Italian Legislative Decree 231/2001 and those established by the Appointed Executive in charge of preparing the corporate accounting documents, in accordance with Italian Law 262/2005.

As already highlighted by the Directors in the Management Report, it is worth noting that on 23 January 2017, the Managing Director submitted his resignation commencing from the shareholders' meeting convened to approve the financial statements (27 April 2017). The Board has been informed that activities are in progress with a view to identifying the new Managing Director.

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

The Board has overseen the adequacy of the **administrative-accounting system**, as well as the reliability of the latter correctly to represent the management facts, by way of:

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

Based upon the information gathered, no findings have emerged.

The Managing Director and the Appointed Executive have certified with a specific report attached to the 2016 financial statements:

- the adequacy and effective application of the administrative and accounting procedures for producing the financial statements;
- the conformity of the same to the international accounting standards and their correspondence to the records of the accounting ledgers and deeds as well as their suitability to provide a true and accurate representation of the Company's capital, economic and financial situation.

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

With reference to the **statutory auditing** activity, it is noted that the same was entrusted, by resolution of the shareholders' meeting dated 28 April 2009, to Deloitte & Touche S.p.A. for the period 2009/2017.

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

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

It is also noted that the Independent Auditing Company submitted on 5 April 2017 the report referred to in Art. 19, 3rd paragraph of Italian Legislative Decree 39/2010, which does not highlight any fundamental issues found during the audit or any significant deficiencies identified in the internal control system in relation to the financial reporting process.

The Independent Auditing Company, in accordance with the provisions of Art. 17, 9th Paragraph of Italian Legislative Decree 39/2010, has confirmed its independence to the Board of Statutory Auditors and has communicated the overall fees for the auditing and other services rendered by the same, and by other entities belonging to the same network, to the Company and to the subsidiaries, as set out in the appendices to the separate and consolidated financial statements.

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

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

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

The Company drafted the 2016 financial statements in accordance with international accounting standards (IAS/IFRS).

The separate Financial Statements show a financial year profit of Euro 2,459,688 and a shareholders' equity of Euro 91,523,902.

Those financial statements were audited by the Company Deloitte & Touche Spa which issued its report dated 5 April 2017 without findings or information requests.

The financial statements, together with the management report, were made available to us within the legal timescales and we have no particular comments to report.

The Company has also drafted the 2016 consolidated financial statements of the Sabaf Spa Group.

The consolidated financial statements show a net financial year profit of Euro/thousand 9,009 and shareholders' equity of Euro/thousand 112,309.

Those financial statements have also been subject to statutory audit by Deloitte & Touche Spa which issued its report on 5 April 2017 without findings or information requests.

It is also acknowledged that the Independent Auditing Company has expressed, in the reports set out above, a positive opinion with reference to the coherence of the management report and the information contained in the corporate governance report and ownership structure indicated in Art. 123 bis of Italian Legislative Decree 58/98, both with respect to the separate financial statements and the consolidated financial statements.

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

In particular, the outcomes of the impairment test conducted with reference to the value of the investments held in the subsidiaries, Faringosi Hinges S.r.l. and the newly acquired A.R.C. S.r.l., indicated in the separate financial statements, and the goodwill value recorded with reference to the same in the consolidated financial statements, have been assessed.

The test, conducted by external professionals specifically instructed based upon the provisional plans developed by the Board of Directors of the subsidiary, led:

- For Faringosi Hinges S.r.l., to the determination of the recoverable value of the

investment of between Euro 11.7 and 13.8 million, higher values than the book value of the same, amounting to Euro 10.329 million. Based upon those valuations, the Board of Directors has kept unchanged the book value of the investment with respect to the initial historical cost (amounting to Euro 10.329 million), as restored in the previous financial year;

- For A.R.C. S.r.l., to the determination of the recoverable value of the investment of between Euro 6.4 and 7.7 million, higher values than the book value of the same, amounting to Euro 4.8 million. Based upon those valuations, the Board of Directors has kept unchanged the book value of the investment with respect to the acquisition cost incurred in the financial year (amounting to Euro 4.8 million).

In that regard, the Board has no comments to make.

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

5. Methods of concrete implementation of the corporate governance rules

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

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

During the financial year, the Board has overseen the methods of concrete application of the corporate governance rules adopted by the Company and, in that

regard, it believes that the same have been effectively and correctly applied.

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

- the Board of Directors has checked the continued existence of the requirements of independence for the directors qualified as such upon their appointment. The Board of Statutory Auditors has checked the correct application of the assessment criteria and procedures adopted by the Board;
- we have performed the self-assessment of the requirement of independence for the members of the Board of Statutory Auditors, as required by the Self-Regulation Code, both initially, after appointment and later, on an annual basis (most recently during the meeting held on 2 March 2017), with methods compliant with those adopted by the directors;
- we have respected the provisions of the management regulation and those on the processing of confidential and privileged corporate information.

6. Supervisory activities on relationships with subsidiary and parent companies

The Board has overseen the adequacy of the instructions imparted by the Company to the subsidiaries, in accordance with Art. 114, 2nd Paragraph of Italian Legislative Decree 58/1998.

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

From the periodic meetings with management and the Company assigned the

Internal Audit no elements of criticality have emerged which require a mention in this report.

Finally, it is acknowledged that, at today's date, no communications have been received from the Control Bodies of the subsidiary and/or parent companies containing findings to be noted in this report.

7. Supervisory activity over operations with related parties

In relation to the provisions of Art. 2391 bis of the Italian Civil Code, we acknowledge that the Board has adopted a procedure for the regulation of Operations with Related Parties, whose main objective is to define the guidelines and criteria for identifying Operations with Related Parties and structuring the roles, responsibilities and operating methods so as to guarantee, for those operations, adequate information transparency and the respective procedural and substantial correctness.

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

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

8. Conclusions

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

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

With reference to the financial statements, the Board has acknowledged the resolution proposals submitted by the Board of Directors, both with reference to the approval of the draft financial statements and to the proposal of distribution of the dividend. In that regard, it is noted that the dividend that the Board proposes to distribute, albeit in a higher amount than the financial year profit emerging from the separate financial statements, amounts to approximately 60% of the group's consolidated profit, a result towards which the subsidiary companies greatly contributed.

Ospitaletto, 5 April 2017

Antonio Passantino

Chairman of the Board of Statutory Auditors

Enrico Broli

Statutory Auditor

Luisa Anselmi

Statutory Auditor