

# **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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## TABLE OF CONTENTS

<b>TABLE OF CONTENTS</b> .....	<b>2</b>
<b>GLOSSARY</b> .....	<b>4</b>
<b>1. ISSUER PROFILE</b> .....	<b>5</b>
<b>2. INFORMATION on the OWNERSHIP STRUCTURES (pursuant to Art. 123-bis, (1), TUF) as of 26.03.2018</b> .....	<b>7</b>
a) Structure of the share capital (pursuant to Art. 123-bis (1)(a) TUF).....	7
b) Restrictions on the transfer of financial instruments (pursuant to Art. 123-bis (1)(b) TUF).....	7
c) Major shareholdings (pursuant to Art. 123-bis (1)(c) TUF).....	7
d) Financial instruments granting special rights (pursuant to Art. 123-bis (1)(d) TUF)	7
e) Employee stock plans: mechanism for the exercise of voting rights ( <i>pursuant to Art. 123-bis (1)(e) TUF</i> ).....	8
f) Restrictions on voting rights (pursuant to Art. 123-bis (1)(f) TUF).....	8
g) Shareholders' agreements (pursuant to Art. 123-bis (1)(g) TUF).....	8
h) Change of control clauses (pursuant to Art. 123-bis (1)(h) TUF) and statutory provisions for takeovers (pursuant to Arts. 104, (1-ter), and 104-bis, (1)).....	9
i) Delegations of powers for recapitalisation and authorisations for buyback of treasury stock (pursuant to Art. 123-bis, (1)(m) TUF).....	9
l) Management and coordination activities (pursuant to Art. 2497 and ff. of the Italian Civil Code.).....	9
<b>3. COMPLIANCE (pursuant to Art. 123-bis, (2)(a) TUF)</b> .....	<b>11</b>
<b>4. BOARD OF DIRECTORS</b> .....	<b>12</b>
4.1. APPOINTMENT AND REPLACEMENT (pursuant to art. 123-bis (1)(l) TUF).....	12
4.2. COMPOSITION (pursuant to art. 123-bis, (2), (d) and (d-bis), TUF) .....	13
4.3. ROLE OF THE BOARD OF DIRECTORS (pursuant to art. 123-bis, (2), (d), TUF) .....	21
4.4. DELEGATED BODIES .....	23
4.5. OTHER EXECUTIVE DIRECTORS .....	25
4.6. INDEPENDENT DIRECTORS .....	25
4.7. LEAD INDEPENDENT DIRECTOR.....	26
<b>5. HANDLING OF CORPORATE INFORMATION</b> .....	<b>27</b>
<b>6. INTERNAL COMMITTEES OF THE BOARD OF DIRECTORS (pursuant to art. 123-bis, (2)(d) TUF)</b> .....	<b>28</b>
<b>7. REMUNERATION AND NOMINATION COMMITTEE</b> .....	<b>29</b>
<b>8. REMUNERATION OF DIRECTORS</b> .....	<b>32</b>
<b>9. CONTROL AND RISK COMMITTEE</b> .....	<b>33</b>
<b>10. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM</b> .....	<b>36</b>
10.1. DIRECTOR IN CHARGE OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM	41
10.2. HEAD OF INTERNAL AUDIT .....	42

10.3.	ORGANISATIONAL MODEL pursuant to Legislative Decree 231/2001 .....	43
10.4.	INDEPENDENT AUDITORS REGULATORY AUDIT .....	44
10.5.	MANAGER RESPONSIBLE FOR THE PREPARATION OF THE CORPORATE FINANCIAL DOCUMENTS.....	45
10.6.	COORDINATION BETWEEN PERSONS INVOLVED IN THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM .....	46
<b>11.</b>	<b>DIRECTORS' INTERESTS AND TRANSACTIONS WITH RELATED PARTIES.....</b>	<b>48</b>
<b>12.</b>	<b>APPOINTMENT OF STATUTORY AUDITORS.....</b>	<b>49</b>
<b>13.</b>	<b>COMPOSITION AND OPERATION OF THE BOARD OF STATUTORY AUDITORS (pursuant to art. 231-<i>bis</i>, (2)(d) and (d-<i>bis</i>), TUF).....</b>	<b>51</b>
<b>14.</b>	<b>SHAREHOLDER RELATIONS.....</b>	<b>55</b>
<b>15.</b>	<b>SHAREHOLDERS' MEETINGS (pursuant to Art. 123-<i>bis</i>, (2)(c) TUF) .....</b>	<b>56</b>
<b>16.</b>	<b>OTHER CORPORATE GOVERNANCE PRACTICES (pursuant to Art. 123-<i>bis</i>, (2)(c) TUF).....</b>	<b>58</b>
<b>17.</b>	<b>CHANGES SINCE THE END OF THE REPORTING YEAR .....</b>	<b>59</b>

## GLOSSARY

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

**Civ. Cod./c.c.:** the Italian Civil Code.

**Code/Corporate Governance 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.

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

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

**Financial year:** the company financial year 2017 to which the Report refers.

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

**Law on Savings/Law 262/2005:** Law 262 of 28 December 2005 concerning "Provisions for the protection of savings and discipline of financial markets".

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

**Consob Issuers' Regulation:** the Regulations issued by Consob pursuant to Resolution 11971 of 1999 (as successively amended) on issuers.

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

**Consob Related Party Regulation:** the Regulations issued by Consob pursuant to resolution 17221 of 12 March 2010 (as successively 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.

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

**Bylaws:** the Bylaws approved by the Shareholders' Meeting of Sabaf S.p.A.

**Testo Unico della Finanza/TUF:** Legislative Decree 58 of 24 February 1998.

## 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 by the Issuer is based, initially, on the decision to strictly separate the interests and choices of the main shareholder – the Saleri family – from those of the Company and the Group, and therefore assign corporate management to managers who are distinct from the main shareholder.

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

As a further step along this path, Sabaf's management believes that ethics founded on the centrality of the individual and respect 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 the governance tool through which Sabaf clearly explains the Company's values, standards of conduct and commitments in relations with 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 S.p.A. management and control model**

Sabaf has adopted 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 Bylaws 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 the OWNERSHIP STRUCTURES (pursuant to Art. 123-*bis*, (1), TUF) as of 26.03.2018

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

The share capital of Sabaf S.p.A., fully subscribed and paid, is € 11,533,450 and composed of 11,533,450 ordinary shares with a nominal value of 1.00 euro per share.

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) Major shareholdings (pursuant to Art. 123-*bis* (1)(c) TUF)

On the basis of the disclosures made pursuant to Art. 120 of the TUF and the other information available to the Company, shareholders owning more than 5% of the share capital are listed as follows:

TABLE 1 – MAJOR SHAREHOLDINGS

<b>MAJOR SHAREHOLDINGS</b>			
<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 S.a.p.A.	23.985%	23.985%
Quaestio Capital SGR S.p.A.	Quaestio Capital SGR S.p.A.	20.000%	20.000%
NN Group NV	Delta Lloyd Asset Management NV	9.984%	9.984%
Bulgarelli Claudio	FIN TEL S.r.l.	7.369%	7.369%

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

On 28 April 2016, the Shareholders' Meeting approved the amendment of the Sabaf Bylaws, with the introduction of the "increase of voting rights" pursuant to Art. 127-*quinquies* of Legislative Decree 58/1998, through the insertion of the new articles 5-*bis*, 5-*ter* and 5-*quarter*.

In particular, the attribution of two votes is provided for each ordinary share held on a permanent basis for at least twenty-four (24) months from the date of effectiveness of the enrolment in the "Special List" (referred to in Art. 5-*quarter* of the Bylaws). This list

includes - at their request - the subjects who have requested the increase of the voting rights.

At the date of this report, the following shareholders with holdings greater than 5% are enrolled in the Special List:

<b>Parent company</b>	<b>Shareholder</b>	<b>Number of shares enrolled</b>	<b>% of share capital</b>	<b>Enrolment date</b>
Quaestio Investments S.A.	Quamvis S.C.A. SICAV FIS	2,306,690	20%	01/08/2016
Saleri Giuseppe	Giuseppe Saleri S.a.p.A.	2,766,313	23.985%	from 0/10/2016 to 05/02/2018

The introduction of the increased voting rights derives from the desire of the Company to encourage investment in the medium-long term, ensuring the stability of the shareholding structure.

Through the mandate of the Shareholders' Meeting on 9 June 2016, the Board of Directors of the Company resolved on the adoption of a regulation for the management of the special list, published on the company website [www.sabaf.it](http://www.sabaf.it), under the section "Investors - Corporate Governance".

**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 (tacitly renewed until 12 January 2016 and valid until 8 January 2019) is in effect for Giuseppe Saleri S.a.p.A., the main shareholder 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 Gnechi, 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 coordinate management of the equity investment in Sabaf S.p.A.

On 31 December 2017, the shareholders' agreement signed on 21 January 2016 between Giuseppe Saleri S.a.p.A. and Quaestio Capital Management S.G.R. S.p.A. was terminated due to the expiry of the last commitment envisaged by the Agreement, i.e. the commitment assumed by Quaestio, until 31 December 2017, not to sell the equity investments of Sabaf S.p.A., originally acquired under a purchase agreement by Giuseppe Saleri S.a.p.A.



**h) Change of control clauses** (pursuant to Art. 123-*bis* (1)(h) TUF) **and statutory provisions for takeovers** (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 provisions for exemptions with regard to company takeover on the passivity rule pursuant to Art. 104, paragraph 1-*ter* of the TUF or the application of the rules pursuant to Art. 104-*bis*, paragraph 1 of the TUF.

**i) Delegations of powers 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.

The Shareholders' Meeting of 27 April 2017 resolved to withdraw, for the part not yet executed, the buyback deed of treasury shares assumed during the session held on 28 April 2016, and, at the same time, to authorise a programme of buyback of treasury shares with a duration of 18 months. The Shareholders' Meeting approved the possibility of organising the treasury shares on a rolling basis, establishing limits and conditions.

The Shareholders' Meeting has therefore granted to the Board of Directors of Sabaf, with express authority of delegating to one or more of its members, powers to implement the resolution. The Board of Directors during the session held on 27 April 2017 gave a mandate to the Director Gianluca Beschi to implement the buyback of treasury shares programme, within the time limits set by the Shareholders' Meeting resolution.

The programme for the buyback of treasury shares has the objective of:

- using, in accordance with Company strategy, 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;
- carry out operations to support market liquidity.

For details concerning the above resolution, see the Shareholders' Meeting minutes of 27 April 2017 available on the company website [www.sabaf.it](http://www.sabaf.it), under the section "Investors - Shareholders' Meetings".

In the context of the buyback programme resolved by the Shareholders' Meeting, the Company has purchased globally 148,630 Sabaf shares throughout 2017. At 31 December 2017, the Company holds 381,769 treasury shares, equal to 3.310% of the share capital.

**l) Management and coordination activities** (pursuant to Art. 2497 and ff. of the Italian Civil Code.)

Sabaf S.p.A. is not subject to management and coordination by other subjects.

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Note that:

- the information required by Art. 123-*bis* (1)(i) (“*agreements between companies and directors ... which envisage indemnities in the event of resignation or dismissal without just cause, or if their employment contract terminates as the result of a takeover bid*”), are contained in the Report on Remuneration published pursuant to Art. 123-*ter* of the TUF;
- 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 adhered to the Corporate Governance Code, approved by the Corporate Governance Committee of Borsa Italiana (available to the public on Borsa Italiana's website on the Corporate Governance Committee's page <http://www.borsaitaliana.it/comitato-corporate-governance/codice/codice.htm>).

The Board of Directors of Sabaf S.p.A. confirmed the Company's adherence to 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 document, approved by the Board of Directors on 29 September 2016, is available on the Company website, at [www.sabaf.it](http://www.sabaf.it) under the "*Investors - Corporate Governance*" section.

The Corporate Governance Manual of Sabaf S.p.A. includes some operating guidelines, also approved by the Board of Directors, prepared for the purpose of the correct performance of the activities pertaining to Sabaf's management and control bodies. More specifically, the guidelines govern:

- the evaluation process of the Board of Directors of the Issuer;
- the evaluation by the Board of Directors of the adequacy of the Internal Control and Risk Management System;
- the management of significant operations in which directors have an interest;
- the means of compliance with disclosure obligations to Statutory Auditors, pursuant to Art. 150 of the TUF;
- the process of periodic Group risk assessments;
- the assignment of professional mandates to the statutory auditing firm.
- the management, coordination and control of Group subsidiaries.

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 foreign laws 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)(I) 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.

In particular, the Bylaws envisage that:

- the Company is managed by a Board of Directors made up of, at the option of the Shareholders' Meeting, from 3 (three) to 15 (fifteen) members;
- the Board of Directors is appointed on the basis of lists submitted by the holders of voting rights who, alone or together with other holders of voting rights, hold at least 2.5% of the share capital with the voting rights in the resolutions of the Shareholders' Meeting that relate to the appointment of the members of the Board of Directors, or the different stake determined pursuant to Art. 144-*quarter* of the Consob regulation. In the notice convening the Shareholders' Meeting called to decide on the appointment of directors, the minimum share threshold for the submission of the lists is indicated;
- for the purpose of allocating the directors to be elected, 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 will not be taken into account.
- based on the requirements of Art. 147-*ter*, (1)-*ter*, of the TUF, each list that has three or more candidates must have a number of candidates belonging to the less represented gender that 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.
- as required by Art. 147-*ter*, (3) TUF, to ensure the election of at least one minority Director: (i) from the list that has obtained the majority of votes cast are drawn, in progressive order, from the list, a number of Directors equal to the number of directors to be elected minus two; (ii) the two remaining Directors are drawn, the first from the second most voted list, and the second from the third most voted list respecting the progressive order and on condition that these lists are not mutually connected and that none of them is connected in any way (even indirectly) with the most voted list. For further details on this mechanism, please refer to the Company Bylaws, available on the company's website at: [www.sabaf.it](http://www.sabaf.it) under the section "*Investors - Corporate Governance*".
- with reference to the requirements of Art. 147-*ter* (4) of the TUF, regarding the minimum number of independent Directors, at least one of the components of the Board of Directors, or at least two in case the Shareholders' Meeting has determined the number of members of the Board in more than seven, must meet the independence requirements established by the regulations applicable to the auditors of the companies listed on Italian regulated markets.

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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 Art. 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) and (d-*bis*), TUF)**

The Shareholders' Meeting in the session of 20 April 2017 has proposed and then approved the increase in the number of Directors on the Board, bringing it from 11 (eleven) to 12 (twelve). Therefore, on the basis of the results of the shareholders' voting, the Board of Directors has been integrated with one component: Pietro Iotti, who shall remain in office until the expiry of the mandate of the current Board of Directors (i.e. until the approval of the financial statements at 31 December 2017). This decision is the result of the resignation, on 23 January 2017, of the office of Director and Chief Executive Officer by Alberto Bartoli, appointed by the Ordinary Shareholders' Meeting of 5 May 2015.

The Board of Directors currently in office is therefore composed of the following twelve (12) members: Giuseppe Saleri (Chairman), Cinzia Saleri, Ettore Saleri and Roberta Forzanini (Vice Chairmen), Pietro Iotti (Chief Executive Officer), Gianluca Beschi (Director) and eight non-executive Directors (Renato Camodeca, Giuseppe Cavalli, Fausto Gardoni, Anna Pendoli, Nicla Picchi, Alessandro Potestà).

Please note that at its meeting held on 14 February 2017, the Board of Directors confirmed that the non-executive directors in office (Renato Camodeca, Giuseppe Cavalli, Fausto Gardoni, Nicla Picchi and Anna Pendoli) have fulfilled the independence requisites set forth by the TUF and the Corporate Governance Code of listed companies.

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, (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 holds the Company's main share;
- *Pietro Iotti*, who has held positions of increasing responsibility in several industrial companies, has been with Sabaf since 2017 and holds the position of Chief Executive Officer;
- *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 Law Firm Picchi & Associati of Brescia and independent director in important listed companies;
- *Anna Pendoli*, who carries out the profession of real estate broker;
- *Alessandro Potestà*: Senior Portfolio Manager at Quaestio Capital Management SGR S.p.A.

The full *curricula vitae* 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													Committee for Control and Risks		Remuneration and Nomination Committee	
Office	Members	Year of birth	Date of first appointment <sup>4</sup>	In office from	In office until	List <sup>5</sup>	Exec.	Non-exec.	Indep. pursuant to Code	Indep. pursuant to TUF	Number of other offices <sup>6</sup>	<sup>7</sup>	<sup>7</sup>	<sup>8</sup>	<sup>7</sup>	<sup>8</sup>
Chairman	Giuseppe Saleri	21/08/1931	1993	05/05/2015	2018	M	X				1	100%				
Chief Executive Officer <sup>1,2</sup>	Pietro Iotti	25/06/1966	2017	01/08/2017	2018	n/a	X				0	100%				
Vice Chairman	Ettore Saleri	24/04/1973	2006	05/05/2015	2018	M	X				1	78%				
Vice Chairman	Cinzia Saleri	18/12/1961	2012	05/05/2015	2018	M	X				1	100%				
Vice Chairman	Roberta Forzanini	03/09/1964	2015	05/05/2015	2018	M	X				0	89%				
Director	Gianluca Beschi	11/12/1968	2015	05/05/2015	2018	M	X				0	100%				
Director	Nicla Picchi	12/07/1960	2012	05/05/2015	2018	M		X	X	X	2	89%	100%	P		
Director	Giuseppe Cavalli	07/11/1960	2009	05/05/2015	2018	M		X	X	X	2	89%	80%	M	90%	M
Director	Fausto Gardoni	17/12/1942	2009	05/05/2015	2018	M		X	X	X	0	100%			100%	P
Director	Anna Pendoli	25/12/1974	2015	05/05/2015	2018	M		X	X	X	0	89%				
Director <sup>3</sup>	Renato Camodeca	28/11/1966	2012	05/05/2015	2018	M		X	X	X	2	100%	100%	M	90%	M
Director	Alessandro Potestà	16/01/1968	2016	28/04/2016	2018	n/a		X			3	100%			100%	M

----- DIRECTORS NO LONGER IN OFFICE DURING THE YEAR UNDER REVIEW -----																
Office	Members	Year of birth	Date of first appointment <sup>4</sup>	In office from	In office until	List <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
Chief Executive Officer	Alberto Bartoli	06/06/1960	1997	05/05/2015	2018	M	X				0	100%				

<b>Number of meetings held during the year under review:</b>	<b>BOD:9</b>	<b>ICRC: 5</b>	<b>CRN: 10</b>
<b>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>			

**NOTES**

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



<sup>2</sup> Main person in charge of managing the issuer (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; "BoD": list presented by the BoD).

<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 BoD and committee meetings, respectively (number of meetings they have taken part in with respect to the total number of meetings they could have taken part in)

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

### **Diversity policies**

On 26 March 2018, the Board of Directors of Sabaf S.p.A. at the suggestion of the Remuneration and Nomination Committee, with the opinion of the Board of Statutory Auditors, adopted a Policy on the composition of the Corporate Bodies.

This Policy sets out the Company's guidelines on the characteristics considered functional to ensuring an optimal composition of the corporate bodies (Board of Directors and Board of Statutory Auditors), with the aim of guiding the names put forward by the Shareholders when renewing the Corporate Bodies, so that the benefits that can derive from a balanced composition of the Board and Board of Statutory Auditors inspired by criteria of diversity are taken into consideration.

In addition to the provisions of the Laws in force and of Sabaf's Bylaws, the Policy sets out the characteristics and factors considered necessary for the BoD to be able to carry out its assigned tasks more efficiently, take decisions thanks to the contribution of a number of qualified points of view and examine the issues under discussion from different perspectives, also within the framework of the internal board committees established from time to time. Specifically:

- **Independence**. An optimal composition of the Board of Directors is characterised by the presence of non-executive and independent Directors, such as to ensure that their opinion can have a significant impact on the Board's decisions in terms of number, authority, competence and availability of time. Non-executive Directors contribute their specific competences to the board discussions, helping to take informed decisions and paying particular attention to areas where conflict of interest may occur. All independent Directors must meet the independence requirements envisaged by law and by the Corporate Governance Code, as illustrated in the Corporate Governance Manual of Sabaf (paragraph 4.3.3). Non-executive directors must be the majority compared to executive directors and independent directors must be at least 3.
- **Training and professional experience**. In addition to the provisions of the Corporate Governance Code, (Principle 2.P.1.), also implemented within the Corporate Governance Manual of Sabaf, the Company believes that for an optimal composition of the Board of Directors there must be a mix of professionalism and experience suitable to understand the current management, risks and opportunities of the company, in order to guide and adequately support the Sabaf Group in a long-term sustainable growth. In particular, Sabaf considers the following skills and experience to be fundamental:
  - legal and corporate, also with reference to the legislative and regulatory aspects important for listed companies;
  - economic and financial, ability to analyse and interpret financial statement data prepared in accordance with international accounting standards and to evaluate extraordinary transactions;

- *business and managerial*, in the sector in which the Group operates or in adjacent sectors, in the management of international companies, in merger and acquisition transactions;
- *on* economic, social and environmental *sustainability*.
- **Gender**. In addition to the law provisions on gender distribution (Italian Law 120/2011), it is considered essential to create and maintain a gender balance within the collective body, continuing to ensure that at least one third of the Board of Directors, both at the time of appointment and during the term of office, is made up of Directors of the least represented gender.
- **Age and seniority in office**. With the aim of creating a balance between the need for continuity and renewal of management, it is considered useful to ensure a balanced combination of different seniorities in office - as well as age groups - within the Board of Directors.
- **Numbers**. Taking into account the characteristics described above (including diversity requirements and the presence of an adequate number of independent directors) and, at the same time, the need to ensure the effectiveness and efficiency of the Board's activities, a Board of Directors composed of nine directors is considered to be adequate. Moreover, this plurality guarantees the possibility of setting up within the Board the Committees envisaged by the Corporate Governance Code.

Furthermore, the Policy stresses the need for all Directors to ensure that they have sufficient time to perform their duties diligently and, for this reason, refers to the guidelines adopted by the Board of Directors on the maximum number of positions held in other companies (for more details, see the next paragraph).

The Board of Directors, with the support of the Remuneration and Nomination Committee and the Board of Statutory Auditors, is responsible for monitoring the implementation of the Policy, the results of which will be analysed starting with the renewal of the Corporate Bodies envisaged during the Shareholders' Meeting convened on 8 May 2018.

The Policy on the composition of the Corporate Bodies is published on the company website at [www.sabaf.it](http://www.sabaf.it), under the section "*Investors - Corporate Governance*".

### **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 by the Corporate Governance Manual the Board of Directors defined the maximum number of positions as director or statutory auditor that each director may hold 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 within the Group;

- for 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 currently in office at its meeting held on 26 March 2018.

Below we disclose the offices held by 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.a.p.A., the main shareholder of 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 Managing Director and COO of Alfa Acciai S.p.A., Chairman and Chief Executive Officer of Acciaierie di Sicilia;
- *Renato Camodeca* is Chairman of the Board of Statutory Auditors of MetalWork S.p.A. and Statutory Auditor of Gnutti Carlo S.p.A.;
- *Alessandro Potestà* is a non-executive director of Banca Intermobiliare di Investimento e Gestioni S.p.A., Openjobmetis S.p.A. and Tecnoinvestimenti 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 enterprise dynamics and their evolution, the principles of proper risk management, as well as the relevant regulatory framework.

In 2017, the Company continued with the introduction 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, during the meeting of the Board of Directors on 26 September 2017, the directors and statutory auditors visited the production facilities, accompanied by the Production Director and the Technical Director, to visit the plants and personally view the technical and organisational innovations launched by the Group in the field of production management in view of industry 4.0.

Moreover, during the meeting of the Board of Directors on 3 August 2017, the Company invited some external consultants to explain to the members of the Board of Directors and the Board of Statutory Auditors the trends of the main macroeconomic indicators at Italian and European level.

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 nine times during the 2017 financial year. The meetings lasted an average of two hours. The percentages of the participation of each director at the meetings are shown in Table 2 of paragraph 4.2.

Seven meetings are planned for 2018, of which eight have already been held, on 13 February and 26 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 ensuring 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 2018, 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 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 meetings of the Board of Director are regularly minuted.

In the course of 2017, the Board of Directors met the following heads of the corporate functions:

- Massimo Dora (Technical Director),
- Alberto Cancarini (Production Director and "*Datore di Lavoro*" (Employee) pursuant to Legislative Decree 81/2008),
- Emma Marcandalli (Head of Internal Audit).

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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 CEO 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 of unforeseen situations of necessity or urgency that require the prior information to be limited. In these cases, the Chairman ensures that adequate examinations are carried out during 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 2017, 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 by 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 results and financial position, especially if entailing a potential conflict of interest.

An operational Guideline attached to 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;
  - 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 Art. 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 is 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. For this purpose, an operational 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, 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 19 December 2017 Board meeting. The Company deemed not necessary to avail itself of external consultants.

The Lead Independent Director (Renato Camodeca) is responsible for coordinating the annual assessment and for defining the topics to be discussed at the self-assessment.

The questionnaires distributed to the directors (and compiled in anonymous form) involve the use of multiple criteria (e.g. dimensional, effectiveness, efficiency, professional characteristics, etc.) and cover the following areas of assessment:

- Functioning of the Board,
- Composition and powers of the Board,
- Contributions made by the Board during the reference period,
- Internal Board committees,
- Relations with Top Management (Board of Directors with delegated powers and executives),
- Self-Assessment of individual performance.

The self-assessment questionnaire was completed by all the directors and the results of the assessment were generally positive.

It should be noted that the results of the self-assessment process concerning the composition of the Board and the competence of the Directors were also taken into account in the process of preparing the Policy on the composition of the Corporate Bodies, as described in paragraph 4.2 above.

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 2017, 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***

On 23 January 2017, Alberto Bartoli – appointed by the ordinary shareholders' meeting of 5 May 2015 – resigned from the role of Director and Chief Executive Officer, with effect from the date of the shareholders' meeting to approve the 2016 financial statements, occurred on 27 April 2017. On 27 April 2017, the Board of Directors approved the interim assignment to Gianluca Beschi - Executive Director and Administration, Finance and

Control Director - of the powers already assigned to Bartoli, until the appointment of a new director. On 3 August 2017, the Board of Directors appointed Pietro Iotti as Chief Executive Officer, effective as from 12 September 2017.

The Chief Executive Officer is responsible for running the Company according to the strategic guidelines defined by the Board of Directors. The Chief Executive Officer coordinates all corporate functions, guaranteeing a rapid decision-making process and ensuring efficient and transparent management. The Chief Executive Officer has wide-ranging powers with regard to all areas of operation of the company, with powers of attorney for up to one million euros per transaction. The Chief Executive Officer of Sabaf can be identified as the main responsible for the management of the company; the situation of interlocking directorate is not applicable (Pietro Iotti has not undertaken the office of director in another Issuer whose chief executive officer is a director of Sabaf S.p.A.).

### **Chairman and Vice Chairmen of the Board of Directors**

The Chairman of the Board of Directors, Giuseppe Saleri, is the main 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 management gaps are avoided, should the CEO be 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 flows toward the Board of Directors**

The CEO reports quarterly to the Board of Directors and to the Statutory Auditors on the activities conducted in exercising the powers conferred on him. An operational Guideline of the Corporate Governance Manual regulates the flow of information to the Board of Directors and Statutory Auditors, also in order to comply with the reporting obligations provided by Art. 150 (1) of the TUF; in particular, the Chief Executive Officer summarises periodically through written reports the following activities and operations 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, Gianluca Beschi, Administration, Finance and Control Director (CFO), in addition to the Chief Executive Officer (Pietro Iotti), the Chairman (Giuseppe Saleri) and the Vice Chairmen (Ettore and Cinzia Saleri and Roberta Forzanini) mentioned in the previous paragraphs.

#### **4.6. INDEPENDENT DIRECTORS**

The current composition of the Board of Directors includes 5 (five) non-executive and 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 reference to the independent directors in office for the three-year period 2015-2017, such assessment was performed upon Board appointment (5 May 2015) and, subsequently, on 14 February 2017 and 13 February 2018: on this occasion the declarations of the independent directors were delivered. The Board of Directors assessed the existence of the requisites of independence pursuant to the Code and the TUF regarding the directors: Renato Camodeca, Giuseppe Cavalli, Fausto Gardoni, Nicla Picchi and Anna Pendoli.

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

At its meeting on 26 June 2015, and subsequently on 2 March 2017 and 8 March 2018, 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 2017, the independent directors met without the other directors. This meeting took place on 19 December 2017 and among the items on the agenda was the analysis of the self-assessment questionnaires of the Board of Directors for the year 2017. The Board of Directors was promptly informed of the results of this meeting, formalised in an official meeting minutes.

At the meetings of the Internal Control and Risk Committee and meetings with the Supervisory Bodies, the Independent Directors were able to assess the completeness and timeliness of the information provided to them 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 main shareholder of Sabaf, the Board of Directors meeting held on 5 May 2015 has renewed the designation of Renato Camodeca as Lead Independent Director.

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 particular 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, coordination, and supervision of Company and Group activities.

The Lead Independent Director has also coordinated 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 (or information of a precise nature, not yet made public, concerning Sabaf - directly or indirectly - or one or more financial instruments of the Company and that, if made public, could have a significant effect on the prices of such financial instruments or on the prices of related derivative financial instruments).

The aim of this procedure is to ensure that the company handles confidential information carefully, safely and privately, and discloses any insider information in a symmetrical, non-selective, prompt, complete and adequate manner.

Corporate officers are obliged to maintain the confidentiality of information and documents obtained in the performance of their duties and to comply with the procedure referred to in this section.

## **6. INTERNAL COMMITTEES OF THE BOARD OF DIRECTORS (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, on 5 May 2015 the Sabaf Board of Directors established the Remuneration and Nomination Committee (chapter 7) and Internal Control and Risk Committee with functions also of Related Parties Committee (chapter 9), in line 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 4 non-executive directors, with an independent majority.

The Board of Directors has also assigned the functions 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, in any amendments and supplements to the "Procedure regulating related-party transactions".

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

## 7. REMUNERATION AND NOMINATION COMMITTEE

The Board of Directors has set up a Remuneration Committee, also with the function of Nomination Committee.

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

With a resolution on 5 May 2015, Remuneration and Nomination Committee was set up, comprising three non-executive and independent members, with the knowledge and experience in accounting, finance and remuneration policies that are deemed adequate by the Board of Directors. Subsequently, on 10 May 2016, the Board resolved to increase to the members of the Remuneration and Nomination Committee to four, with the appointment of Alessandro Potestà. At the date of this report, the Committee is therefore composed of four non-executive members, the majority of which is independent, with the Chairman chosen amongst the independent members. The current Committee members are identified in Table 2 in paragraph 4.2.

The work of the Remuneration and Nominations Committee is coordinated by the Chairman and the meetings minutes are regularly drafted. After each meeting of the Committee, the Chairman shall be responsible for informing the Board of Directors thereof, during the at the first available meeting, reporting on the activities carried out and giving suggestions and recommendations on matters of relevance.

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 with advisory roles in Committee meetings on a case-by-case basis.

In 2017, the Committee met ten times, with each meeting lasting, on average, around two hours and fifteen minutes. The percentages of the participation of each director at the meetings of the Committee are shown in Table 2 of paragraph 4.2.

The Committee met five times in 2018 (17 January, 6 February, 21 February, 12 March and 26 March); further meetings will be organised after the renewal of the Corporate Bodies.

At the invitation of the Committee, the meetings were attended by the Chief Executive Officer, the Administration, Finance and Control Director, the Human Resources Director and some members of the Board of Statutory Auditors, to discuss the items on the agenda from time to time.

Moreover, all the Strategic Directors and other Heads of Function were invited to the Committee's meeting of 6 February 2017, in order to gather information useful for defining the profile of the new Chief Executive Officer.

### **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 in the definition of the remuneration policy of directors and managers with strategic responsibilities;
- to periodically evaluate the adequacy, overall consistency and actual application of the policy for the remuneration of directors and key management personnel, also

on the basis of the information provided by the CEO; it shall formulate proposals to the Board of Directors in that regard;

- to submit proposals or issues opinions, in the absence of any directors concerned, to the Board of Directors for the remuneration of executive directors and other directors who cover particular offices as well as for the identification of performance objectives related to the variable component of that remuneration;
- to monitor the application of decisions adopted by the Board of Directors itself, verifying in particular the actual 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 Articles 1.C.3 and 1.C.4. of the Corporate Governance Code):
  - opinion with regard to the maximum number of offices as director or statutory auditor that can be considered compatible with an 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 derogations from the rules prohibiting competition as per Art. 2390 of the Italian Civil Code, with particular regard to critical ones,
- 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;
- supporting the Board of Directors in the possible adoption of a plan of succession for executive directors.

In the course of the financial year, the Committee has analysed final results of the managerial incentive plan (MBO) for the financial year 2016 and prepared the managerial incentive plan for the year 2017, approved by the Board of Directors on 20 March 2017. Moreover, it analysed the final results of the project, defined by management as the "Premio Produciamo Qualità" for 2016 and expressed a favourable opinion on 2017.

Following the resignation of the Chief Executive Officer on 23 January 2017, the Committee carried out a preliminary investigation to define the profile of the new Chief Executive Officer. Moreover, following the appointment of the new Director and Chief Executive Officer Pietro Iotti, the Committee submitted a proposal to the Board of Directors regarding the distribution of the remuneration to be paid to the Board for 2017, within the limits set by the Shareholders' Meeting. The proposal was approved during the Board of Directors' meeting of 3 August 2017.

Finally, the Committee proposed an update of the Remuneration Policy, approved during meeting of the Board of Directors on 14 November 2017, to be submitted to the shareholders' meeting for approval at the time of the approval of the 2017 financial statements.

For details of the Remuneration Policy and the short-term (MBO) and long-term (LTI) management incentive plans, please refer to the 2017 Remuneration Report, available on the Company's website at the following address: [www.sabaf.it](http://www.sabaf.it), under the section "*Investors - Corporate Governance*" and included in the 2017 Annual Report.

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

Directors shall not take part in Remuneration Committee meetings in which proposals are submitted to the Board concerning their remuneration.

The Board of Directors set up an expenses fund of € 25,000 available to the Remuneration and Nomination Committee to carry out its duties. The fund was not used in 2017.

## **8. REMUNERATION OF DIRECTORS**

The remuneration of (i) members of the Board of Directors, (ii) members of the Board of Statutory Auditors and (iii) key management personnel are defined in line with the "General Remuneration Policy", approved by the Board of Directors and submitted to the advisory vote of the Shareholders' Meeting.

For more information about the above mentioned Policy, and for more details of the specific information relating to 2017, please see the full document, available on the Company's website: [www.sabaf.it](http://www.sabaf.it), under the section "*Investors - Corporate Governance*" and reports on remuneration published pursuant to Art. 123-ter of the TUF.



## 9. CONTROL AND RISK COMMITTEE

The Board of Directors has set up a Control and Risk Committee, also with functions of Committee for related-party transactions.

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

In 2017, the Committee met five times, with each meeting lasting, on average, around one hour. The percentages of the participation of each director at the meetings of the Committee are shown in Table 2 of paragraph 4.2. Five meetings are scheduled for 2018, one of which already took place on 6 February.

The 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 deemed adequate by the Board of Directors at the time of appointment.

Upon invitation of the Committee, the following people took part in the Control and Risk Committee meetings: 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 CFO as the "Manager Responsible for the preparation of the Corporate Financial Documents", and the Director in charge of the Internal Control and Risk Management System.

Moreover, in 2017, the Committee invited the Chief Information Officer of Sabaf S.p.A. to participate on two occasions in order to discuss the results of an IT Audit, receive updates on the activities undertaken by the Company regarding Information Security area and obtain details of the results of the IT Risk Assessment activities carried out during the year. The work of the Control and Risk Committee is coordinated by the Chairman and the meeting minutes are regularly drafted. After each meeting of the Committee, the Chairman shall be responsible for informing the Board of Directors thereof, during the at the first available meeting, reporting on the activities carried out and giving suggestions and recommendations on matters of relevance.

### **Functions entrusted to the Control and Risk Committee**

The following tasks were entrusted to the 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 Manager Responsible for the preparation of the Corporate Financial Documents and with the advice of the Auditing Firm 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 the 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 informing 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 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 referred to the Board of Statutory Auditors, also by virtue of the functions assigned to them by the existing regulations (Legislative Decree 39/2010).

In 2017, the Committee:

- evaluated, together with the Manager Responsible for the preparation of the Corporate Financial Documents and the auditors, the correct application of the accounting standards,
- analysed the proposal of the Internal Audit Function regarding the adoption of an integrated Risk Assessment method,
- analysed the results of the risk assessment carried out, in accordance with the new integrated method, at the end of 2017 and the consequent 2018 Audit Plan Proposal,
- analysed the results of the Internal Audit operations conducted during the year,
- analysed the actions undertaken by the Information Systems Management of Sabaf regarding Information Security, for the strengthening of the security of the IT systems, as well as the results of the IT Risk Assessment, carried out with the support of an external consultant.

Please note that, in the absence of elements deemed adverse by the Board of Directors, in 2017 the Committee did not carry out specific preliminary investigation activities.

With resolution dated 14 November 2017, the Board of Directors approved the text of the new Remuneration Policy for 2018 and acknowledged the conclusion of the employment agreement with the new Chief Executive Officer Iotti. This agreement includes the payment of a variable remuneration that envisages certain conditions that depart from the provisions of the current general Sabaf Remuneration Policy. Therefore, during the meeting of 12 December 2017, the Control and Risk Committee expressed a favourable opinion on the Company's interest in carrying out this transaction.

In performing its functions, the 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 2017.

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

The annual process of identifying and assessing the main corporate risks was carried out in the second half of 2017, and was approved by the Board of Directors with the favourable opinion of the Control and Risk Committee having heard the Board of Statutory Auditors and the Director in charge of the Internal Control and Risk Management System, at the meeting held on 19 December 2017. On that occasion, the Issuer took into account not only risks deriving from the external context in which Sabaf operates, but also the strategic, organisational and "execution" risks that may be significant from the point of view of sustainability in the medium/long term.

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 properly identified, measured, managed and monitored, as well as being compatible with the strategic objectives of the Group.

The Internal Control and Risk Management System applies to Companies and strategically significant subsidiaries (Faringosi Hinges, Sabaf do Brasil and Sabaf Turkey), identified as such by the Sabaf Board of Directors.

The Internal Control and Risk Management System is the collection of rules, procedures and organisational structures designed to ensure, with reasonable certainty, the achievement of the following objectives:

- adequate control of corporate risks,
- effectiveness and efficiency of corporate operating processes,
- safeguarding capital integrity,
- completeness, reliability and promptness of accounting and management information,
- compliance of corporate behaviour with laws, regulations, directives and corporate procedures.

The fundamental components of Sabaf's Internal Control and Risk Management System and of the strategically significant subsidiaries 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 periodic process of identification, assessment and monitoring of the main risks of the Group (as specified below);
- 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. This includes the following:

- the Charter of Values,
- the arrangements involving the corporate and organisational structure and the powers granted,
- the segregation of duties in the organisation (also reflected in the corporate information systems), aimed at preventing excessive concentration 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;
- 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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### **The Internal Control and Risk Management System for financial information**

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 unique 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 carrying-out of the interventions to a unique structure, responsible for reporting the outcomes to the competent control bodies.

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

With specific 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 to 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 Manager Responsible for the preparation of the Corporate Financial Documents 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 2017, the Accounting Control Model did not require any updating. The internal instructions and standards are added to the Model (including, for instance, the 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,
- Manager Responsible for the preparation of the Corporate Financial Documents,
- Investor Relator,
- Heads of significant/involved functions,
- 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 process under the scope of the Group's Accounting Control Model, formalised and structured - which is the responsibility of the Manager Responsible for the preparation of the Corporate Financial Documents, supported 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 the 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 Manager Responsible for the preparation of the Corporate Financial Documents 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 2017 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 single processes are reported by the Internal Audit department to the Manager Responsible for the preparation of the Corporate Financial Documents and to 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 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 2017, this report was presented to the Control and Risk Committee at the meeting on 6 February 2018.

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.

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### **Annual process of risk assessment and Audit Plan drafting**

During 2017, 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 2018, approved by the Board of Directors with the favourable opinion of the Control and Risk Committee having heard the Board of Statutory Auditors and the Director responsible for the Control and Risk Committee, in the meeting held on 19 December 2017.

The Risk Assessment activity was carried out in compliance with the new method developed by Sabaf's Internal Audit in the second half of 2017. In particular, the scales used for risk assessment and the integration of the risk catalogue ("Risk Model") were revised with the aim of adopting an integrated methodology, also valid for carrying out Risk Assessments in the IT, ISO 14001:2015 and ISO 9001:2015 areas. In consideration of this update, the Group risk identification and assessment process envisaged the broad involvement of all the 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 likelihood according to qualitative/quantitative scales), analysing the causes and evaluating the existing strategies and mitigation systems.

For further details on the main risks arising from the analysis carried out, reference is made to the Report on Operations.

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### **Assessment of the adequacy of the Internal Control and Risk Management System**

For 2017, 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:**

- Corporate governance regulatory changes,
- Amendments to the Corporate Governance Manual,
- Amendments to Corporate Governance Procedures,
- Amendments to the Group Charter of Values,
- Risk Assessment and Audit Plan,
- 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 of attorney system,
- Compliance with Law 262/05 on accounting and corporate documentation,
- Information systems,
- Export Compliance,
- Transactions in derivative financial instruments,
- Treasury share transactions,
- Related-party transactions,
- Intercompany transactions and transactions in potential conflict,
- Internal dealing transactions,
- Monitoring internal control and risk management systems of subsidiaries,
- Main disputes in place,
- Situation of non-performing loans.

#### **Results of audit activities carried out by internal and external control bodies:**

- Results of monitoring activities carried out by the Internal Audit department,



- Meeting between Control Bodies,
- Information from the Appointed Executive,
- Results of monitoring activities carried out by the Supervisory Body,
- Results of audits carried out by third parties on quality, environment, energy and social responsibility management systems,
- Information from the Prevention and Protection Service and environmental protection.

Based on the information and evidence collected, and after consulting with the Control and Risk Committee, the Board of Directors believes that the Internal Control and Risk Management System in place in 2017 is adequate and effective in relation to the dimensions and characteristics of the Group and suitable overall for achieving the company targets.

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

The Board of Directors has identified CEO Pietro Iotti as the director responsible for supervising the operations of the Internal Control and Risk Management System.

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Under the scope of the responsibilities entrusted to him by the Board of Directors, the CEO has executed the guidelines and implementation of the Internal Control and Risk Management System, defined by the Board of Directors:

- 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;
- implementing the guidelines defined by the Board, 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;
- 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;
- promptly reporting to the 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, upon the proposal of the Director in charge of the Internal Control and Risk Management System, subject to the favourable opinion of the Control and Risk Committee, as well as after hearing the Board of statutory auditors, renewed the engagement of an independent external company that 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.

Upon engagement renewal, 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 verifying that the Internal Control and Risk Management System is working properly, and 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 Internal Audit Plan, as well as the appointment, and also defines the termination of the engagement.

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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 Control and Risk Committee and the Board of Statutory Auditors at their meetings,
- also reported with regard to operations to the Director in charge of the Internal Control and Risk Management System,
- helped the CEO and the Heads of the Functions 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 approach; the resulting Audit Plan was approved by the Board of Directors on 19 December 2017,
- 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 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 his/her tasks, which was not used in 2017.

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

In 2006, Sabaf S.p.A. adopted the Organisational Management and Control Model ("Organisational 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. In the course of 2008, also the Italian subsidiary Faringosi-Hinges s.r.l. has adopted its own Organisation, Management and Control Model pursuant to Legislative Decree 231/2001.

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 of Sabaf S.p.A. set 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. The General Part of the Sabaf Organisational Model of is made available on the company website at [www.sabaf.it](http://www.sabaf.it), under the section "*Investors - Corporate Governance*".

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 231/2001: Articles 24 and 25 (offences against the Public Administration), Art. 25- *bis* (as regards falsehood in instruments or signs of recognition), Art. 25-*ter* (corporate crimes, including the offence of corruption between private individuals), Art. 26-*sexies* (offences and administrative offences of market abuse), Art. 25-*septies* (offences in the field of safety, hygiene and health at work), Art. 25-*octies* (offences of receiving stolen goods, money laundering and use of money, goods or assets of illicit origin as well as self-laundering), Art. 25-*undecies* (environmental crimes), and Art.

25-*duodecies* (offences regarding the use of third-country nationals whose stay is unlawful).

The Model also includes the mandatory establishment of the Supervisory Body, composed of several people with the members being particularly well qualified and in possession of 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 Nicola Picchi, independent director of the Company (Chairman) and Emma Marcandalli, Head of the Internal Audit Function.

Moreover, an annual expense fund of € 20,000 was made available to the Supervisory Body to carry out its tasks, which was not used in 2017.

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. Finally, following the updating of the Organisational Model in 2016, some training sessions were provided to Sabaf personnel.

The Body met 4 (four) times during the year and:

- analysed the new regulations on administrative liability of Entities and started the activities preparatory to the updating of the Organisation, Management and Control Model pursuant to Legislative Decree 231/01,
- 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, as well as training sessions on the changes made to the Model in 2016.

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

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

In 2017, the independent auditors met twice (on 1 February and 26 July) with the other Sabaf Control Bodies. Meetings minutes have been drafted.

## **10.5. MANAGER RESPONSIBLE FOR THE PREPARATION OF THE CORPORATE FINANCIAL DOCUMENTS**

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 Manager Responsible for the preparation of the Corporate Financial Documents.

The Bylaws state the Manager Responsible for the preparation of the Corporate Financial Documents should own the requirements laid down by law, and - in all events - special competences 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 Manager Responsible for the preparation of the Corporate Financial Documents, upon the mandatory and non-binding opinion of the Board of Statutory Auditors.

The Board of Directors has invested the following powers in the Manager Responsible for the preparation of the Corporate Financial Documents:

- having direct contact with the independent auditors, the 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,
- having 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 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 intercompany 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 compliance 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,
  - match with the results of the accounting entries and ledgers,
  - are appropriate to provide a truthful and correct picture 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, the interim report includes a credible analysis of the performance and results of operations, the situation at the issuer, and the companies included in the area of consolidation, along with a description of the key risks and uncertainties to which they are exposed,
  - for the interim financial statements, that the interim report 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 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 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 and control training 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>2</sup>, a meeting is held at least ten days before the approval by the Board of Directors of the draft financial statements (separate the consolidated) and Sabaf's interim report for the following bodies:

- Committee for Control and Risks,
- Board of Statutory Auditors,
- Supervisory Body pursuant to Legislative Decree 231/2001,
- Head of Internal Audit,
- Manager Responsible for the preparation of the Corporate Financial Documents,
- Director in charge of the Internal Control and Risk Management System,
- Independent Auditors,

during which information is exchanged on the main results and/or criticalities encountered during the course of the audit activities carried out, with regard to organisational, administrative, internal control and risk management structures. Meeting minutes are drafted.

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

- the attendance of the Board of Statutory Auditors at the Control and Risk Committee meetings,
- regular information from the Supervisory Body to the Control and Risk Committee and the Board of Statutory Auditors,
- regular information from the Head of Internal Audit to the 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 Manager Responsible for the preparation of the Corporate Financial Documents 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.

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<sup>2</sup>The reference is to the following articles of the TUF: Article 150, paragraph 3, (The Board of Statutory Auditors and the Independent Auditors must promptly exchange the data and information important for carrying out their respective tasks) and paragraph 4 (Those who are involved in internal controls should also report to the Board of Statutory Auditors surrounding their initiative or, on request, even to just one of the auditors); Article 151, paragraph 1 (Statutory Auditors can, even individually, carry out inspections or audits, at any time, as well as ask directors for information, also with reference to subsidiaries, about corporate transactions or certain affairs, or direct the same requests for information directly to the administration and control bodies of subsidiaries) and paragraph 2 (the Board of Statutory Auditors can exchange information with corresponding bodies of subsidiaries with regard to administration and control systems and the general performance of corporate activities. [omissis]).

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

In 2017, the Board of Directors evaluated and resolved on the carrying-out of related-party transactions, in compliance with "Procedure regulating related-party transactions" approved in 2010 and later updated in 2012 and in 2015.

In particular, following the appointment of Pietro Iotti as the new Chief Executive Officer of the Company, the Board of Directors, with the support of the Remuneration and Nomination Committee, approved the remuneration of the new director, establishing the amount of the Annual Gross Salary, the variable remuneration in the short and long term, the fee as a member of the Board of Directors, as well as the value of any benefits.

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 2017 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.



## **12. APPOINTMENT OF STATUTORY AUDITORS**

On the basis of what is laid down by the Issuer's Bylaws, 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 Art. 2359 of the Italian Civil Code and those that agree to a shareholders' agreement having as its object the shares of the Company, may not submit, not even through a third party or trust company, more than one list and cannot 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 that the holders of voting rights other than those who can express an absolute majority or relating to the Shareholders' Meeting where they hold, including jointly, a controlling or 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 from the list that obtained the greatest number of votes at the Shareholders' Meeting, from the lists submitted and voted on 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.

In case the minimum prescribed number necessary of standing Auditors or Alternate Auditors belonging to the less represented gender is not elected, one shall proceed to the replacement of the most recently elected candidate of the more represented gender of the majority list with the next candidate of the less represented gender who is part of the same list.

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) and (d-bis), 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 of the Board of Statutory Auditors 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 2017, the Board of Statutory Auditors met seven times. These meetings lasted, on average, roughly one hour and fifty minutes. From the beginning of 2018 to the date of this report, the Board of Statutory Auditors met twice, on 6 February and 8 March 2018. A further meeting was set for 4 April 2018; subsequent meetings will be scheduled following renewal of the Corporate Bodies.

The Board of Statutory Auditors, at the meeting on 8 March 2018, 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 the directors. In carrying out these evaluations, the Board of Statutory Auditors also has a self-assessment of the permanence of the independence requirement for each of its members.

**TABLE 3 - STRUCTURE OF THE BOARD OF STATUTORY AUDITORS**

<b>Board of Statutory Auditors</b>									
<b>Office</b>	<b>Members</b>	<b>Year of birth</b>	<b>Date of first appointment <sup>1</sup></b>	<b>In office since</b>	<b>In office until</b>	<b>List (M/m) <sup>2</sup></b>	<b>Indep. pursuant to Code</b>	<b>Attendance at Board meetings<sup>3</sup></b>	<b>No. of other offices<sup>4</sup></b>
Chairman	Passantino Antonio	07/12/1947	2015	05/05/2015	2017	m	X	100%	5
Standing Auditor	Broli Enrico	14/12/1944	2006	05/05/2015	2017	M	X	100%	15
Standing Auditor	Anselmi Luisa	19/02/1966	2015	05/05/2015	2017	M	X	100%	6

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

**Number of meetings held during the year under review: 7**

**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' Regulation. The full list of offices is published by Consob on its website pursuant to Article 144-quinquiesdecies of the Consob Issuers' Regulation.

***Diversity policies***

On 26 March 2018, the Board of Directors of Sabaf S.p.A. at the suggestion of the Remuneration and Nomination Committee, with the opinion of the Board of Statutory Auditors, adopted a Policy on the composition of the Corporate Bodies.

This Policy sets out the Company's guidelines on the characteristics considered functional to ensuring an optimal composition of the corporate bodies (Board of Directors and Board of Statutory Auditors), with the aim of guiding the names put forward by the Shareholders when renewing the Corporate Bodies, so that the benefits that can derive from a balanced composition of the Board and Board of Statutory Auditors inspired by criteria of diversity are taken into consideration.

In the same way as with the Board of Directors, also with regard to the composition of the Board of Statutory Auditors, the Policy adopted by Sabaf is in addition to (but does not replace) the regulatory requirements and the provisions of law in force and illustrates the characteristics deemed essential for the Statutory Auditors to be able to carry out their duties in the most effective way; specifically:

- a) **Independence, training and professional experience**: Please refer to the requirements of the mandatory regulations and Corporate Governance Code (according to Article 8.C.1, Statutory Auditors may be qualified as independent auditors on the basis of the same criteria as those laid down for Directors).
- b) **Gender**: As already defined in the Articles of Association (which implements the law provisions on gender distribution), gender balance must be guaranteed within the Board of Statutory Auditors.
- c) **Age and seniority in office**: It is considered useful to ensure a balanced combination of different seniorities in office - as well as age groups - within the Board of Statutory Auditors.
- d) **Numbers**: Pursuant to the Articles of Association, the Board of Statutory Auditors is composed of three Statutory auditors and two deputy auditors.

Furthermore, the Policy stresses the need for all Statutory Auditors to ensure that they have sufficient time to perform their duties diligently.

The Board of Directors, with the support of the Remuneration and Nomination Committee and the Board of Statutory Auditors, is responsible for monitoring the implementation of the Policy, the results of which will be analysed starting with the renewal of the Corporate Bodies envisaged during the Shareholders' Meeting convened on 8 May 2018.

The Policy on the composition of the Corporate Bodies is published on the company website at [www.sabaf.it](http://www.sabaf.it), under the section "*Investors - Corporate Governance*".

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In 2017, and in compliance with the requirements of Article 19 of Legislative Decree 39/2010, the Board of Statutory Auditors:

- oversaw the obligations following the appointment of the new Chief Executive Officer;
- oversaw the independence of the legally-required independent auditors;
- followed the activities carried out by the Remuneration and Nomination Committee to define the profile of the new Chief Executive Officer and the review of the Remuneration Policy;
- coordinated with the Internal Audit Function and the Control and Risk Committee, through:
  - half-yearly meetings to exchange information with the parties carrying out the control functions,
  - inviting the Manager Responsible for the preparation of the Corporate Financial Documents to the meetings of the Board of Statutory Auditors,
  - the attendance of the statutory auditors at the Control and Risk Committee meetings,
  - conducting audits into specific corporate transactions and areas of operation.

In 2017, the members of the Board of Statutory Auditors were involved in specific induction activities with the members of the Board of Directors, as defined in section 4.2 of this report, aimed at providing them with adequate knowledge about the sector of activity in which Sabaf operates, corporate dynamics and their development, as well as the regulatory reference framework.

In line with the provisions of the Corporate Governance Manual of the Issuer, the following principles of conduct apply to the members of the Board of Statutory Auditors:

- they act with autonomy and independence even in regard to the Shareholders who elected them;
- they accept the office when they consider to be able to dedicate the time necessary to the diligent conduct of their tasks (and in any case after satisfaction of the requisites required by law);
- the remuneration of the Statutory Auditors is commensurate with the required commitment, to the importance of the role and to the dimensional and sectoral characteristics of the undertaking;
- each Statutory Auditor will promptly and exhaustively inform the others 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 2017 in which Statutory Auditors had to make such declarations.
- they are required to maintain confidential the documents and information acquired in the performance of their duties and to comply with the procedure adopted by Sabaf for internal management and external disclosure of such documents and information.

## **14. SHAREHOLDER RELATIONS**

The Company has established a dedicated section in its website, which 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, even taking into consideration the size of the Company, the functions are directly performed by the Investor Relations Manager.

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

The operating mechanisms of the Shareholders' Meeting, its main powers, shareholders' rights and how to exercise them are those provided for by the laws in force and are governed within the Company Bylaws and the Shareholders' Meeting Regulations to which reference is made.

In 2010, the Shareholders' Meeting has approved Meeting Regulations governing the orderly and effective carrying-out of the shareholders' meetings; during the 2017 financial year the Meetings Regulations have not changed.

The Meetings Regulation describes, among other things, the manner by which the right of each shareholder to speak on the topics on the agenda for discussion is guaranteed. Specifically:

- the Chairman of the Meeting directs the discussion by giving the floor to the directors, auditors and to those who have requested to speak;
- those entitled to exercise their voting rights may ask to speak only once about the items on the agenda for discussion, making observations and asking for information. Those entitled to exercise their voting rights may also make proposals. The request can be made until the Chairman has declared the discussion on the matter concerned closed;
- the Chairman establishes the procedures for requesting the floor and the order of the floor. The Chairman and, at his invitation, those who assist him, shall respond to the speakers at the end of all interventions on the items under discussion, or after each intervention, also taking into account any questions made by members prior to the Meeting which have not already been answered by the Company;
- those who have asked for the floor have the right to make a brief reply;
- the Chairman, taking into account the object and the importance of the individual items on the agenda for discussion, as well as the number of requests to speak, and any questions raised by members prior to the Meeting that have not already been answered by the Company, predetermines the duration of interventions and replies in order to ensure that the Meeting can conclude its work in a single meeting.

For more details about the Shareholders' Meeting Regulations 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".

The Shareholders' Meeting held on 27 April 2017 was attended by the Chairman of the Board of Directors Giuseppe Saleri and CEO Alberto Bartoli, six directors (Gianluca Beschi, Cinzia Saleri, Renato Camodeca, Giuseppe Cavalli, Fausto Gardoni and Anna Pendoli), the Chairman of the Board of Statutory Auditors Antonio Passantino and the Statutory Auditors Luisa Anselmi and Enrico Broli.

Moreover, 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.



The Shareholders' Meeting held on 20 July 2017 was attended by the Chairman of the Board of Directors Giuseppe Saleri and interim CEO Alberto Bartoli, six directors (Cinzia Saleri, Renato Camodeca, Giuseppe Cavalli, Fausto Gardoni e Nicla Picchi), the Chairman of the Board of Statutory Auditors Antonio Passantino and the Statutory Auditors Luisa Anselmi and Enrico Broli.

On that occasion, the Shareholders' Meeting appointed a new director to supplement the Board of Directors, Pietro Iotti, who also took on the position of Chief Executive Officer effective as from 12 September 2017.

During the 2017 financial year, there have not been any significant changes in market capitalisation.

As regards the composition of the shareholding structure, on 15 December 2017, the company Giuseppe Saleri S.a.p.A. sold to FIN TEL s.r.l. 750,000 ordinary shares of Sabaf S.p.A., representing approximately 6.5% of the Company's share capital.

Giuseppe Saleri S.a.p.A. remains the main shareholder of Sabaf with a shareholding of approximately 23.99%. For more details, please refer to Chapter 2 of this report.

For further details about the Bylaws, please see the complete text available on the website, at: [www.sabaf.it](http://www.sabaf.it), under the section "*Investors - Corporate Governance*".

**16. OTHER CORPORATE GOVERNANCE PRACTICES  
(pursuant to Art. 123-bis, (2)(c) 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 have not been further changes in the structure of Corporate Governance at 31 December 2017 and up to the date of this Report.