

Explanatory Report by the Board of Directors

Item 1 on the agenda

Distribution of a dividend. Related and consequent resolutions.

Dear Shareholders,

As is well known, the last Shareholders' Meeting of 4 May 2020 resolved, together with the approval of the financial statements for the year ended 31 December 2019, to allocate the net profit for the year of €3,821,876 to the extraordinary reserve, in accordance with the proposal made by the Board of Directors "on a completely prudential basis", due to "the significant change in the global economic scenario following the spread of the coronavirus pandemic" which, at the time the proposal in question was made, was going through its most acute phase. At the time, in fact, it was difficult to foresee the repercussions of the emergency on the Company's activities, which - in compliance with the regulatory obligations in force at the time - had been forced to suspend production at the Italian plants.

The accounting, financial and operating data for the first half of 2020 show that the Company was able to face and overcome that difficult phase positively.

With a view to contributing to the valorisation of the company, it is therefore considered appropriate to enunciate today the proposal in question, with which you are called to discuss and deliberate on the distribution of corporate reserves as a dividend.

In this regard, the Board of Directors wishes to point out that:

- a) the proposed transaction does not compromise the company's financial equilibrium;
- b) moreover, the company has significant credit lines, some of which have not been drawn down;
- c) the industrial strategy and the implementation of the planned investment plans are in no way affected by the distribution of the dividend covered by this proposal;
- d) the company has always achieved positive economic results;
- e) the company has recognised significant available reserves in its financial statements.

In particular, the Board notes that as at 30 June 2020 the situation of capital and reserves is as follows:

- the subscribed and paid-up capital to date amounts to €11,533,450;
- the legal reserve amounts to €2,306,690;
- revaluation reserve, law no. 413/91 amounts to €42,207;
- revaluation reserve, law no. 342/00 amounts to €1,591,967;
- the share premium reserve amounts to €10,001,935;
- the merger surplus reserve amounts to €13,514,413;
- the stock grant valuation reserve amounts to €750,837;
- other retained earnings amount to €68,002,808;
- post-employment benefit actuarial valuation reserve is negative by €504,649

The non-available reserves for the distribution to shareholders amounts to €3,057,527.

Consequently, reserves total €95,706,208; available reserves amount to €92,648,681.

According to current tax legislation, available reserves include €81,517,221 from taxed profits and €1,634,174 subject to taxation by the company in the event of distribution to shareholders.

SABAF S.p.a.

Via Dei Carpini, 1 - 25035 Ospitaletto - Brescia - Italia

Cap. Soc. Euro 11.533.450 int.vers. - Reg. Imp. di Brescia N. 52821

Tel: +39 030 6843001 - Fax +39 030 6848249 - info@sabaf.it - sabaf@legal.sabaf.it - www.sabaf.it

The situation outlined above allows the distribution of a dividend from retained earnings in the proposed amount of €0.35 for each of the outstanding shares entitled to profits (taking into account 11,533,450 shares outstanding and 302,580 treasury shares as at 6 August 2020), the amount to be drawn from the extraordinary reserve for the distribution of the dividend amounts to €3,930,804.50.

Dear Shareholders, in the light of the above, we invite you to pass the following resolution:

“The ordinary shareholders’ meeting of SABAF S.p.A., considering the existence of available reserves to an adequate extent,

resolved

1. to distribute to the shareholders a dividend of €0.35, using part of the extraordinary reserve, for each of the outstanding shares entitled to profits;

2. to establish that the ex-date is 12 October 2020, the record date is 13 October 2020 and the payment date is 14 October 2020;

3. to acknowledge that for this dividend, from a tax point of view, Article 1 Paragraph 2, Italian Ministerial Decree of 2 April 2008 applies.”

Ospitaletto, 6 August 2020

For the Board of Directors
The Chairman
Giuseppe Saleri