

REPORT ON CORPORATE GOVERNANCE AND OWNER- SHIP STRUCTURE

Pursuant to Article 123-*bis* of the TUF

Name of issuer: SABAF S.p.A.
Website: www.sabaf.it
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GLOSSARY

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

the Corporate Governance Code of listed companies approved in July 2014 by the Corporate Governance Committee and recommended by Borsa Italiana S.p.A., ABI, Ania, Asso-gestioni, Assonime and Confindustria.

Civil Code./c.c.: the Italian Civil Code.

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

Financial year: the company financial year 2014 to which the Report refers.

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

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

Stock Exchange Regulatory Instructions: Instructions for Regulation of Markets organised and managed by Borsa Italiana S.p.A.

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

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

Consob Issuers' Regulations: the Issuers' Regulations published by CONSOB pursuant to Resolution 11971 of 1999 (as amended) on issuers.

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

Consob Related Party Regulations: the Regulations issued by Consob pursuant to resolution 17221 of 12 March 2010 (as amended) on related-party transactions.

Report: the Report on Corporate Governance and Ownership Structure that companies must prepare pursuant to Article 123-*bis* of the TUF.

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

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

1. ISSUER PROFILE

Sabaf's entrepreneurial model is rendered explicit in its corporate vision, i.e. to combine business decisions and results with ethical values by going beyond family capitalism and opting for a managerial rationale oriented not only towards the creation of value but also towards the respect of values.

The Corporate Governance Model adopted is based, initially, on the decision to strictly separate the interests and choices of the reference shareholder – the Saleri family – from those of the Company and the Group, and therefore assign corporate management to managers who are distinct from the reference shareholder.

Expansion of the shareholding base following the listing on the stock exchange, admission to the STAR segment (and consequently the Company's voluntary acceptance of stricter transparency and disclosure rules), and the Company's desire to consistently comply with applicable corporate governance recommendations and best 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 of common values, set at the head of the creation of value, are able to help take decisions that are in line with the corporate culture and significantly contribute to assuring the Company's sustainable long-term growth. For this purpose, Sabaf has prepared and published the Charter of Values, prepared in accordance with the existing national and international regulatory principles, guidelines and documents with regard to human rights of corporate social responsibility and corporate governance. The document is considered to be the governance tool through which the Board of Directors clearly explains the Company's values, standards of conduct, and commitments in respect of all the stakeholders – shareholders, employees, customers, suppliers, financiers, the public administration, the community and the environment.

The Charter of Values was approved by the Board of Directors on 11 February 2014 and is available on the website www.sabaf.it under the section "Sustainability".

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

Sabaf administration and control model

Sabaf has chosen a traditional management and control model, consisting of:

- a Board of Directors in charge of company administration and management of Company operations;
- the Board of Statutory Auditors in charge of supervising:
 - compliance with the law and Articles of Incorporation and adherence to principles of proper management in the performance of corporate activities;
 - the adequacy of the Company's organisational structure, internal control and risk management system, and administrative/accounting system;

- the procedures for effective implementation of the corporate governance rules envisaged in the Code;
- risk management;
- the regulatory audit of the accounts and the independence of the auditing firm;
- Shareholders' Meetings (ordinary and extraordinary) called to pass resolutions pursuant to the laws in force and the Company's bylaws (refer to these for details).

2. INFORMATION ON OWNERSHIP STRUCTURES

(pursuant to art. 123-bis, paragraph 1, T.U.F.) **AT 24 03 2015**

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

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

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

b) Restrictions on the transfer of financial instruments (pursuant to Article 123-bis (1)(b) TUF)

There are no restrictions on the transfer of financial instruments.

c) Significant shareholdings (pursuant to Article 123-bis (1)(c) TUF)

On the basis of the disclosures made pursuant to Art. 120 TUF and the other information available to the Company, the owners of more than 2% of the share capital are listed as follows:

Table 1 – SIGNIFICANT SHAREHOLDINGS

<i>SIGNIFICANT SHAREHOLDINGS</i>			
Declarant	Direct shareholder	% share of ordinary share capital	% share of voting share capital
Saleri Giuseppe	Giuseppe Saleri SAPA (Ownership)	50.72%	50.72%
Delta Lloyd Asset Management NV	Delta Lloyd Asset Management NV (Asset management)	15.01%	15.01%
Pendoli Anna	Pendoli Anna (usufruct, through Sirefid S.p.A. - Società Italiana di Revisione e Fiduciaria)	3.90%	3.90%
FMR LLC	FMR LLC (Asset management)	3.27%	3.27%

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

No financial instruments which confer special rights have been issued.

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

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

f) Restrictions on voting rights (pursuant to Article 123-bis (1)(f) TUF)

There are no restrictions on voting rights.

g) Shareholders' agreements (pursuant to Article 123-bis (1)(g) TUF)

A shareholders' agreement (renewed until 08 January 2016) is in effect at Giuseppe Saleri S.p.a., the controlling company of Sabaf S.p.A. This agreement was made by Cinzia Saleri, born in Brescia on 18 December 1961, Gianbattista Saleri, born in Brescia on 13 November 1963, Ettore Saleri, born in Brescia on 24 April 1973, Giuseppe Saleri, born in Lumezzane on 21 August 1931, Flavio 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.p.a., representing 100% of the share capital.

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

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

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

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

i) Delegations of authority for recapitalisation and authorisations for buyback of treasury stock (pursuant to Art. 123-bis (1)(m) TUF)

Sabaf S.p.A. has no delegations in place for share capital increases.

There is authorisation for the purchase of treasury shares, approved by the Ordinary Shareholders' Meeting on 29 April 2014, valid for 18 months, which has the objective of:

- in accordance with Company strategy, to use 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 assignment or utilisation of treasury shares;
- to offer shareholders an additional tool to liquidate their investments;

- to carry out operations to support market liquidity.

The Shareholders' Meeting approved the possibility of organising the treasury shares on a rolling basis, establishing limits and conditions. For details of the above resolution, see the Shareholders' Meeting minutes available on the company website www.sabaf.it, under the section "Shareholders' Meetings".

In 2014 Sabaf S.p.A. did not purchase or sell treasury shares.

At 31 December 2014, the Company holds 507 treasury shares equal to 0.004% of the share capital.

1) Management and co-ordination (pursuant to Art. 2497 and ff. of the Italian Civil Code)

Although Sabaf S.p.A. is controlled by the company Giuseppe Saleri S.a.p.a., the Board of Directors holds that the Company is not subject to management and co-ordination by the parent company, since the Board of Directors of Sabaf S.p.A. enjoys full operating autonomy and does not have to justify its actions to the parent company, except at the annual Shareholders' Meeting held to approve the statutory financial statements and, obviously, in the event of violation of the law and/or the Bylaws. Also note that the Bylaws of the parent company explain that it does not exercise management and coordination activities with regard to Sabaf S.p.A.

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Note that:

- as regards the information required by 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*"), the Company has not envisaged this type of agreements;
- *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 Article 123-bis, paragraph 2, letter a), OF THE T.U.F.)

In 2006, the Company. adopted the Corporate Governance Code (the complete text is available on Borsa Italiana's website - www.borsaitaliana.it).

The Board of Directors of Sabaf S.p.A. confirmed the Company's adoption of the Code also by adopting a Corporate Governance Manual. This manual sets forth the principles, rules, and operating procedures that will enable the Company to comply with the Code's recommendations.

This Corporate Governance Manual, adopted by Board resolution of 19 December 2006, has been updated several times over the years, in order to reflect changes in laws and regulations regarding corporate governance, as well as best practices adopted by the Company.

The latest version of the text, approved by the Board of Directors at the meeting held on 25 September 2012, available on the Company website, at www.sabaf.it in the “Investor Relations - Corporate Governance” section.

The Sabaf S.p.A. Corporate Governance Manual contains certain operating guidelines, which were approved by the Board of Directors. These guidelines were issued to ensure that the management and control bodies of Sabaf properly carried out their duties.

More specifically, the Guidelines govern:

- the self-evaluation of the Board of Directors;
- the management, coordination and control of Group subsidiaries;
- the means of compliance with disclosure obligations to unions, pursuant to Article 150 TUF;
- the evaluation of the Group internal control and risk management system;
- the process of periodically identifying and measuring Group risks;
- the management of significant operations in which directors have an interest.
- the assignment of professional mandates to the statutory auditing firm.

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Sabaf S.p.A. and its subsidiaries are not subject to the laws of countries outside Italy that might have an impact on the corporate governance structure.

4. BOARD OF DIRECTORS

4.1. APPOINTMENT AND REPLACEMENT (pursuant to Article 123-*bis* (1)(l) TUF)

According to the Company Bylaws, directors hold office for the period established at the time of their appointment, but in any case for not more than three years, and may be re-elected.

The Bylaws establish that:

- appointment to the office of director is conditional on possession of the requirements laid down by the legislation and other applicable provisions. At least two members of the Board of Directors must satisfy the requirements of independence set out in the laws and regulations applicable to the statutory auditors of companies listed in Italian regulated markets;
- the call notice of the Shareholders' Meeting called to resolve on the appointment of directors indicates the minimum investment share for the presentation of the lists equal to at least 2.5% of the share capital with voting rights for shareholders' resolutions for the appointment of members of the administration bodies, or a different investment share calculated in accordance with Article 144-*quater* of the Consob Issuers' Regulation.
- for the purpose of allocating the directors to be elected, no account will be taken of lists which do not obtain a percentage of the votes amounting to at least half the percentage required by the Company Bylaws for submission of lists.
- based on the requirements of Article 147-*ter*, paragraph 1-*ter*, of the T.U.F., each list which has three or more candidates must have a number of candidates belonging to the less represented gender which ensures, under the scope of said list, that the bal-

ance between the genders is complied with to at least the minimum required under the law *pro tempore* in force.

For details on the mechanisms used to ensure the election of: (i) at least one director nominated by minorities pursuant to Art. 147-*ter*, paragraph 3 of the TUF and (ii) the minimum number of independent directors pursuant to Art. 147-*ter*, paragraph 4 of the TUF, please refer to the Company Bylaws, available on the Company's website: www.sabaf.it, in the "Investor Relations – Corporate Governance" section.

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The Board of Directors is vested with the widest powers of ordinary and extraordinary management. Thus it is vested with all the powers required to achieve the company objects, excluding only those that the law or the Bylaws reserve to the Shareholders' Meeting. Without prejudice to the limits imposed by the law, the Board of Directors may also resolve on the following matters:

- setting up or closing company branches;
- transferring the registered office in Italy;
- mergers in the cases envisaged by Articles 2505 and 2505-*bis* of the Civil Code, also as recalled due to splitting of Article 2506-*ter* of the Civil Code;
- reducing the share capital if a shareholder withdraws;
- updating the articles of association 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 Article 123-bis*, paragraph 2, letter d), of the T.U.F.)

The Board of Directors currently in office is composed of the following thirteen (13) members: Giuseppe Saleri (Chairman), Gianbattista Saleri, Ettore Saleri and Cinzia Saleri (Vice Chairmen), Alberto Bartoli (CEO) and eight non-executive directors (Leonardo Cossu, Salvatore Bragantini, Giuseppe Cavalli, Fausto Gardoni, Renato Camodeca, Rizza Riccardo, Nicla Picchi and Maria Chiara Franceschetti).

The Shareholders' Meeting on 29 April 2014 confirmed Maria Chiara Franceschetti in the post of Director. Ms. Franceschetti was coopted by the Board of Directors at the meeting on 8 May 2013 to replace Prof. Gregorio Gitti following his resignation. Note that in the meeting on 13 May 2014, the Board of Directors verified that Director Maria Chiara Franceschetti has the autonomy requirements required by the TUF and the code of corporate governance by Borsa Italiana.

In its current composition, the Board of Directors of Sabaf has launched the early voluntary compliance ahead of legal requirements with the "Gender equality in the composition of boards of administration and control" provision, as defined by the Consob regulation

adopted through resolution 18098 of 8 February 2012 from the appointment which took place in April 2012.

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

- *Giuseppe, Gianbattista, Ettore and Cinzia Saleri*, who are members of the family that controls the Company;
- *Alberto Bartoli*, who has been at Sabaf since 1994, CEO since May 2012 and Finance Director before that;
- *Leonardo Cossu*, who is a professional accountant;
- *Salvatore Bragantini*, economist and a former commissioner of CONSOB;
- *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;
- *Riccardo Rizza*, who is a professional accountant;
- *Nicla Picchi*, partner of the Brescia-based “Picchi & Associati” law practice, President of the Supervisory Body of Sabaf S.p.A. and its subsidiary Faringosi-Hinges s.r.l.
- *Maria Chiara Franceschetti*, CEO of the listed company Gefran S.p.A. and executive director in numerous industrial organisations.

The full curricula vitae of all the directors are available for examination on the Company’s website www.sabaf.it, in the “Investor Relations - Corporate Governance” section.

No changes were made to the composition of the Board of Directors or the composition of the Committees during the year or up to the date of this report.

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

Board of Directors													Committee for Control and Risks		Remuneration and Appointments Committee	
Office	Members	Year of birth	Date before appointment ⁴	In office since	In office until	List (M/m) ⁵	Exec.	Non-exec.	Indep. pursuant to Code.	Indep. pursuant to TUF	Number of other offices ⁶	7	7	8	7	8
Chairman	Giuseppe Saleri	21/08/1931	1993	08/05/2012	2015	M	X				1	100%				
Chief Executive Officer ^{1,2}	Alberto Bartoli	06/06/1960	1997	08/05/2012	2015	M	X				0	100%				
Vice Chairman	Gianbattista Saleri	13/11/1963	1994	08/05/2012	2015	M	X				3	71%				
Vice Chairman	Ettore Saleri	24/04/1973	2006	08/05/2012	2015	M	X				1	100%				
Vice Chairman	Cinzia Saleri	18/12/1961	2012	08/05/2012	2015	M	X				1	100%				
Director	Leonardo Cossu	23/05/1958	1994	08/05/2012	2015	M		X	X	X	7	100%	100%	P	100%	M
Director	Maria Chiara Franceschetti	22/07/1969	2013	07/05/2013	2015	M		X	X	X	2	100%				
Director	Nicla Picchi	12/07/1960	2012	08/05/2012	2015	M		X	X	X	2	71%	100%	M		
Director	Riccardo Rizza	22/03/1965	2012	08/05/2012	2015	m		X	X	X	0	100%				
Director	Giuseppe Cavalli	07/11/1960	2009	08/05/2012	2015	M		X	X	X	3	100%			0%	M
Director	Salvatore Bragantini	17/09/1943	2006	08/05/2012	2015	M		X	X	X	4	71%	100%	M		
Director	Fausto Gardoni	17/12/1942	2009	08/05/2012	2015	M		X	X	X	1	100%			100%	P
Director ³	Renato Camodeca	28/11/1966	2012	08/05/2012	2015	M		X	X	X	1	100%	100%	M		
-----DIRECTORS NO LONGER IN OFFICE DURING THE YEAR UNDER REVIEW-----																
//	//			//	//	//	//	//	//	//	//		//	//	//	//
Indicate the quorum required for the presentation of the lists for the latest appointment: 2,5% of the share capital with voting rights at the Ordinary Shareholders' Meeting																
Number of meetings held during the year under review:						BOD: 7			CCR: 5			CR-N: 1				

NOTES

1 Director in charge of the Internal Control and Risk Management System.

2 Chief Executive Officer of CEO.

3 Lead Independent Director (LID).

4 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.

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

6 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.

7 Attendance of directors at Board of Directors and committee meetings, respectively

8 Qualification of the director within the Committee: "P": chairman; "M": member.

Maximum number of positions held in other companies

To ensure that the position of director is held by subjects that can devote the necessary time to diligently perform their duties, by resolution passed on 28 April 2006 renewed in 2009 and as provided in the Corporate Governance Manual the Board of Directors defined the maximum number of positions as director or statutory auditor that each director may hold, in its opinion, at companies listed on regulated markets (also overseas), as well as at financial, banking, insurance or other large companies, also taking account of the fact that they may also be members of the various Committees established within the same Board of Directors.

Specifically:

- for executive directors, the maximum number of positions is 3, not including the offices held under the scope of the Group;
- non-executive directors: a maximum of seven offices, not counting the positions held at the financial companies envisaged in Art. 113 of the Italian Consolidated Banking Act (“Testo Unico Bancario”).

At its meeting of 20 March 2014, the Board of Directors, in its current composition, verified compliance with the aforementioned criteria for 2014.

Below we disclose the offices held by 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 financial company that controls Sabaf S.p.A.;
- *Gianbattista Saleri* is the Chairman of Immobiliare Arco S.r.l., the Chairman of the Board of Management of West Energy S.p.A. and a director of Getto S.r.l.;
- *Ettore Saleri* is a director of Getto S.r.l. and of Santa Radegonda s.r.l.;
- *Cinzia Saleri* is the Chairman of Getto S.r.l.;
- *Leonardo Cossu* is Chairman and executive director of Holding Umberto Gnutti S.p.A., a director of Almag S.p.A. and of ASO Siderugica S.p.A., the Chairman of the Board of Statutory Auditors of Guido Berlucci & C. S.p.A. and Credito Lombardo Veneto S.p.A., and he is also a standing auditor of Ambrosi S.p.A. and Fingefran s.r.l.;
- *Maria Chiara Franceschetti* is the CEO of Gefran S.p.A. and the Chairman of Fingefran S.r.l.;
- *Nicla Picchi* is a non-executive director of Unipol Sai S.p.A. and Saipem S.p.A.;
- *Giuseppe Cavalli* is the General Director of Alfa Acciai S.p.A., Chairman and managing director of Acciaierie di Sicilia and member of the Supervisory Board of TSR GmbH;
- *Salvatore Bragantini* is a non-executive director of SEA S.p.A., Extrabanca S.p.A., PerMicro S.p.A. and Intek S.p.A.;
- *Renato Camodeca* is a standing auditor of MetalWork S.p.A.;

Induction Programme

The Chairman of the Board of Directors ensures that, after their appointment and during their term of office, the directors and the statutory auditors take part in initiatives aimed at providing them with adequate knowledge of the activity sector in which the company op-

erates, the company dynamics and their evolution as well as the relevant regulatory framework.

In 2014, the Board of Director's meeting that took place on 16 December 2014, was held at the offices of the Turkish subsidiary in Manisa, in order to give members of the Board of Directors and the Board of Statutory Auditors to get to know the Group companies better.

4.3. ROLE OF THE BOARD OF DIRECTORS (pursuant to Article 123-bis, paragraph 2, letter d), of the T.U.F.)

The Board of Directors met seven times during the 2014 financial year. The meetings lasted an average of two and a quarter hours. Eight meetings have been planned for 2015, of which two have already been held, on 10 February and 23 March, the date of this report.

In order to enable the Board of Directors to carry out its duties with an adequate level of organisation and to carry out a preliminary in-depth examination of the items on the agenda, the *Lead Independent Director* helps the Chairman ensure that, given the date set for the Board meeting, the documentation concerning the items on the agenda is communicated to the Directors with reasonable notice, via email and protected by password (usually three or more days' notice)¹.

During the year, the introductory preliminary documentation for the board meetings, including the risk assessment document and the audit plan for 2015, was sent to the Directors by email usually three or more days in advance.

The meetings of the Board of Directors, coordinated and presided over by the Chairman, are always attended by the members of the Board of Statutory Auditors as well as the Administration, Finance and Control Director, as well as the Executive Officer responsible for Financial Reporting and the managers of Sabaf and other group companies, in charge of the relevant corporate functions concerned by the topics dealt with, invited by the Chairman, also upon request by one or more directors and with the consent of those attending, to provide the necessary in-depth analyses in relation to the items on the agenda. The Board of Director's meetings are regularly minuted.

The Board of Directors is responsible for the examination and approval of the long-term plans and the budgets of the Company and the Group, as well as for periodically monitoring their implementation through the information supplied by the Managing Director in his quarterly reports. Having regard to the above, the Board of Directors has examined and evaluated the risks underlying such plans and budgets.

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 2014, 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.

¹ *With the exception of the evaluation of cases of unforeseen situations of necessity or urgency which require the prior information to be limited.*

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

The Corporate Governance Manual envisages that the Board of Directors is responsible for examining and approving in advance any ordinary or extraordinary transactions of Sabaf and its subsidiaries that might have a material impact on its assets, liabilities, operating result and financial position, especially if entailing a potential conflict of interest.

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

- transactions reserved to the Board of Directors of Sabaf pursuant to the Bylaws, namely:
 - setting-up or closing of branch offices;
 - transfer of the registered office within the territory of Italy;
 - mergers in the cases envisaged by Articles 2505 and 2505-*bis* of the Civil Code, also as recalled due to splitting of Article 2506-*ter* of the Civil Code;
 - reducing the share capital if a shareholder withdraws;
- the purchasing or sale of investments, properties and treasury shares;
- the issue of financial instruments;
- the undertaking of unsecured loans, requests to open bank facilities and the release of sureties;
- the undertaking and allocation to third parties of the status of executives, the dismissal, as well as the definition of relations, including economic ones, with executives;
- any other transaction that, separately considered, exceeds the limits set for the Chief Executive Officers of Sabaf.

The Corporate Governance Manual also provides that the Board of Directors be vested with the power to examine and approve any ordinary and extraordinary transactions of Sabaf and its subsidiaries, in which one or more directors have a personal interest or could be bearers of someone else's interest. For this purpose, an application guideline of the Corporate Governance Manual governs the operating methods suitable to facilitate the identification and adequate management of these situations.

Finally, as provided for by CONSOB resolution 17221 of 12 March 2010 on related-party transactions, and in compliance with the "Procedure regulating related-party transactions" which came into force in January 2011 and subsequently updated in 2012, the Board of Directors assessed the transactions with related parties carried out in 2014.

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

During the financial year, the Board of Directors carried out its annual review of the size, membership (including professional competences, managerial skills and seniority) and activities of the Board of Directors and its Committees. After having considered various approaches for evaluation, the Sabaf Board of Directors decided, as defined under the guideline attached to the Corporate Governance Manual "Evaluation of the Board of Directors" that the individual directors would evaluate themselves, by filling out and returning specific questionnaires. It then discussed the results at the 16 December 2014 Board meeting. The Company does not therefore consider it necessary to avail itself of external consultants.

The Lead Independent Director (Renato Camodeca) is responsible for co-ordinating the annual assessment and for defining the topics to be discussed at the self-assessment. The results of the evaluation were generally positive.

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

In 2014, the Shareholders' Meeting did not authorise any exemptions, generally or in advance, to the prohibition on competition required by Article 2390 of the Italian Civil Code.

4.4. DELEGATED BODIES

Chief Executive Officer

The Chief Executive Officer (CEO), Alberto Bartoli, is responsible for running the Company according to the strategic guidelines defined by the Board of Directors. The CEO coordinates all corporate functions, guaranteeing a rapid decision-making process and ensuring efficient and transparent management. The CEO has wide-ranging powers with regard to all areas of operation of the company, and is the sole signatory for up to one million euros per transaction..

Chairman and Vice Chairmen of the Board of Directors

The Chairman of the Board of Directors, Giuseppe Saleri, is the controlling shareholder of Sabaf S.p.A.; the Chairmen Gianbattista Saleri, Ettore Saleri and Cinzia Saleri the two sons and daughter of the Chairman.

The Chairman and Deputy 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 Deputy Chairmen to assure more streamlined management and is specifically designed to ensure that there are never any management “hiatuses” if the CEO is unable to exercise his functions.

Executive Committee *(pursuant to Art. 123-bis (2)(d) TUF)*

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

Information for the Board of Directors

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

- activities conducted in the period,
- transactions with strategic, economic, capital or financial significance for the Group,
- transactions in potential conflict,
- related-party transactions,
- atypical or unusual transactions or those concluded in non-standard conditions,

- any other activity or transaction that he deems it appropriate to communicate.

4.5. OTHER EXECUTIVE DIRECTORS

The current composition of the Board of Directors does not envisage executive directors other than the Chief Executive Officer (Alberto Bartoli), the Chairman (Giuseppe Saleri) and the Deputy Chairmen (Gianbattista Saleri, Ettore Saleri and Cinzia Saleri) mentioned in the previous paragraphs.

4.6. INDEPENDENT DIRECTORS

With the abstention of those concerned, the Board of Directors assesses whether the independent directors meet the independence requisites as soon as they are appointed and, subsequently, once a year, paying more attention to substance than to form.

This assessment was performed at the meeting held on 11 February 2014. On this occasion the representations of the independent directors were handed in and the Board of Directors verified the existence of the independence requisites pursuant to the Civil Code and the TUF for directors Salvatore Bragantini, Giuseppe Cavalli, Fausto Gardoni, Nicola Picchi, Renato Camodeca, Riccardo Rizza, Leonardo Cossu² and Maria Chiara Franceschetti.

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

At its meeting on 05 May 2014, the Board of Statutory Auditors checked and certified 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 2014, the independent directors meet without the other directors. This meeting took place on 11 November 2014 and among the items on the agenda were the operating methods of the Board of Directors and the existing interaction between executive and non-executive directors and company management. The Board of Directors was promptly informed of the results of this meeting, formalised in an official report.

At the meetings of the Internal Control and Risk Committee and meetings with the Supervisory Bodies, the Independent Directors were able to assess the completeness and timeliness of the information provided to them at least three days before every meeting of the Board of Directors and to identify and discuss beforehand any issues that could emerge.

4.7. LEAD INDEPENDENT DIRECTOR

Since the Chairman of the Board of Directors is the person in charge of Sabaf, the Board of Directors meeting held on 08 May 2012 designated Renato Camodeca as Lead Independent Director. This person will remain in office for the entire term of the Board of Directors

² Although part of Sabaf S.p.A.'s Board of Directors for more than nine years, the Board assessed the independence of Director Leonardo Cossu, taking into consideration his effective independent judgment demonstrated during previous terms of office, with regard more to substance rather than form.

and is a point of reference and coordination for the applications and contributions of non-executive directors, with special reference to independent directors.

During the financial year, the Lead Independent Director has collaborated with the Chairman to ensure that the Directors received complete and prompt information on the adoption of resolutions by the Board of Directors and the exercise of its powers of direction, coordination, and supervision of Company and Group activities.

The Lead Independent Director has also co-ordinated the Board of Directors self-assessment process.

5. HANDLING OF CORPORATE INFORMATION

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

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

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

6. INTERNAL BOARD COMMITTEES

(pursuant to Art. 123-bis, paragraph 2, letter d), OF THE T.U.F.)

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.

In accordance with the provisions of the Code, Sabaf's Board of Directors sets up within itself a Remuneration and Nomination Committee (see chapter 7) and Internal Control and Risk Committee (chapter 9). The Board of Directors has not deemed it necessary, during the term of office, to re-evaluate the establishment and composition of the Committees.

Taking into consideration the characteristics, dimensions and organisational structure of the Issuer, the Board of Directors has not - at the current time - deemed it necessary to attribute the functions of the Nomination Committee to the Remuneration Committee thereby establishing the Committee for Remuneration and Nominations, composed of 3 members from the independent directors in accordance with the most stringent criteria of the Remuneration Committee.

The Committee for Remuneration and Nominations, established in compliance with the conditions laid down by the Corporate Code of Governance, met once in 2014. The minutes of this meeting are available.

The Board of Directors has assigned the functions previously carried out by the Related-Party Committee to the Internal Control and Risk Committee, especially the duty to support the Board of Directors, through reasoned opinion, with any amendments and supplements to the new "Procedure regulating related party transactions".

In 2014 the Control and Risk Committee met four times, but related-party transactions of a less important nature were only dealt with at one of these meetings. No further committees responsible for making proposals and providing advice have been established other than the ones envisaged in the Code.

7. REMUNERATION AND NOMINATION COMMITTEE

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

The Board of Directors has set up within itself a Remuneration and Nomination Committee, comprising three non-executive and independent members, with the knowledge and experience in accounting and finance and remuneration policies that is required of a Board of Directors. The Committee members are identified in Table 2 in section 4.2. above.

The Committee met once in 2014 on 4 March, with the meeting lasting about two hours. It developed the managerial incentive plan (MBO 2014). For more details, see the 2014 Remuneration Report published in the 2014 Annual Report, available on the company's website: www.sabaf.it, in the "Investor Relations – Online documentation" section. The CEO, the Administration, Finance and Control Director and the Personnel Director took part in the meeting.

The Committee also assessed the introduction for 2014, of a non-competition agreement for some employees of the Company in the event that the employment relationship comes to an end, defining its terms and conditions. The Committee did not avail itself of consulting services in carrying out its duties. In this regard, with the favourable opinion of the Remuneration and Nomination Committee, the company signed a non-competition agreement with six employees, the terms of which were outlined by the Remuneration and Nomination Committee and approved by the Board of Directors on 17 December 2013. The Board of Directors of Sabaf reported on the outcome of the signing of the non-competition agreement at the meeting of 20 March 2014.

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

Directors must not take part to Committee meetings dealing with proposals to be submitted to the Board concerning their remuneration.

Duties of the Remuneration and Nomination Committee

The Company's Corporate Governance Manual assigns the following duties to the Remuneration and Nomination Committee:

- to support the Board with defining the remuneration policy of directors and managers with strategic responsibilities;
- to periodically assess the adequacy, overall consistency and actual application of the remuneration policy of directors and managers with strategic responsibilities, also based on the information provided by the Chief Executive Officer, as well as formulate related proposals to the Board of Directors;

- to formulate, in the absence of any directors concerned, proposals to the Board of Directors or express opinions on the remuneration of executive and other directors holding particular positions, as well as on the setting of objectives relating to the variable part of such remuneration;
- monitoring the application of decisions adopted by the Board of Directors itself, checking in particular the effective achievement of performance objectives.
- to express opinions to the Board of Directors on the size and composition of the board and express recommendations on the professional subjects that are considered important for the Board of Directors as well as on the topics stated hereinafter (referred to in art 1.C.3 and 1.C.4. of the Corporate Governance Code):
 - opinion with regard to the maximum number of offices of director or statutory auditor can be considered compatible with the effective discharge of the duties of a director of the Company, taking into account the participation of directors in the Committees established within the actual Board of Directors,
 - any exemptions to the prohibition of competition required by Article 2390 of the Italian Civil Code, specifically each problematic case,
- putting forward candidates to the Board of Directors for the office of director in cases of cooption, when independent directors have to be replaced.
- supporting the Board of Directors in the possible adoption of a plan of succession for executive directors.

The Board of Directors set up an expenses fund of €25,000 available to the Remuneration and Nomination Committee to carry out their duties. The fund was not used in 2014.

8. REMUNERATION OF DIRECTORS

The remuneration of (i) members of the Board of Directors, (ii) members of the Board of Statutory Auditors and (iii) directors with strategic responsibilities are defined consistent with the "General Remuneration Policy", approved by the Board of Directors on 22 December 2011 and updated on 20 March 2013.

For more information about the above Policy, and for more details of the specific information relating to 2014, please see the full text of same, available on the Company's website: www.sabaf.it, in the "Investor Relations – Corporate Governance" section.

9. INTERNAL CONTROL AND RISK COMMITTEE

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

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

In 2014 the Committee met five times, with each meeting lasting, on average, around an hour. Four meetings are scheduled for 2015, one of which has already been held on 3 February.

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

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

The Control and Risk Committee meetings were minuted.

Functions attributed to the Control and Risk Committee

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

- supporting, with adequate preliminary activity, the evaluations and decisions of the Board of Directors relating to the internal control and risk management system, as well as those relating to the approval of regular financial reports,
- it evaluates, together with the director in charge of preparing corporate accounting documents and on the advice of the Independent Auditors and the Board of Statutory Auditors, the correct application of the accounting standards adopted and their homogeneity for the purposes of preparing the Consolidated Financial Statements;
- expresses opinions on specific aspects pertaining to the identification of the main corporate risks;
- examines periodic reports evaluating the internal control and risk management system and those of particular significance prepared by Internal Audit;
- monitors the autonomy, adequacy, effectiveness and efficiency of the Internal Audit Department;
- may ask Internal Audit, when necessary, to audit specific operating areas, and in this case also informs the Chairman of the Board of Statutory Auditors;
- express 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,
- examine 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,
- reports to the Board of Directors at least every six months, at the time of approval of the annual and half-year financial reports, on the activities carried out as well as on the adequacy of the internal control and risk management system.
- supports the Board of Directors following the favourable opinion, and having heard the opinion of the Board of Statutory Auditors, with regard to the appointment, termination and remuneration of the Head of Internal Audit.

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

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

In 2014, the Committee:

- evaluated, together with the Official Corporate Financial Reporting Manager and the auditors, the correct application of the accounting standards, specifically as far as the evaluation of receivables, inventories and investments were concerned and it expressed its judgment on the correct application and homogeneity of the accounting standards for the purpose of preparing the 2013 consolidated financial statements,
- analysed the results of the risk assessment conducted at the end of 2014 and the consequent 2015 Audit Plan,
- analysed the results of the Internal Audit operations conducted during the year,
- analysed and expressed, in the capacity of the Related-Parties Committee, its assessment of the completion of the related-party transactions proposed in 2014 with regard to (i) the 2014 MBO plan for the CEO and Management and (ii) the signing of a short-term loan agreement between Sabaf S.p.A. and the subsidiary Faringosi Hinges.

The Control and Risk Committee meetings were minuted.

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 2014.

10. THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

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

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

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

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

The fundamental components of Sabaf's internal control and risk management system are based on:

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

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In 2014, 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 2015, approved by the Board of Directors with the favourable opinion of the Internal Control and Risk Committee having heard the Board of Statutory Auditors in the meeting of 16 December 2014.

In conformity with the requirements of the Guidelines relating to the risk identification and assessment process attached to the Corporate Governance Manual, the Group risk identification and assessment process requires greater involvement of the Group Director/Function heads of the respective areas, including Italian and foreign subsidiaries.

In line with the Guidelines, the potential effects are assessed for each risk measured (in terms of impact and probability of happening according to qualitative/quantitative scales, analysing the causes and evaluating the existing strategies and mitigation systems. For more information about the main risks that emerged from the analysis conducted, see chapter three of the Annual Report, available on the Company's website at www.sabaf.it.

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For 2014 the assessment of the overall adequacy of the internal control and risk management system was expressed on the basis of the analysis of the following aspects:

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

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

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

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

Based on the information and evidence collected, the Board of Directors believes that the internal control and risk management system in place in 2014 is adequate and effective in relation to the dimensions and characteristics of the Group and suitable overall for achieving the company targets.

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Internal Control and Risk Management System

Sabaf considers the internal control and risks 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, com-

pliance to Law 262/2005 and Legislative Decree. 231/2001, security and profiling of corporate information systems) and (ii) assigning the execution of the interventions to a 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 Group level, supplementing it for specific aspects relating to individual compliances, including the one related to Law 262/2005.

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

- aligning itself 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 Official Corporate Financial Reporting Manager and other players involved in the process,
- establishing a certification process (for both Sabaf and the subsidiaries),
- guaranteeing dependability, accuracy, reliability and timeliness of the financial information.

Note that in 2014 the Accounting Control Model did not require any updating. With reference to Sabaf S.p.A.'s administrative-accounting procedures, there were minimal changes to the administrative-accounting procedures for aligning them with existing corporate practices, which the Official Corporate Financial Reporting Manager reported to the Board of Directors at the meeting of 23 September 2014.

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

The Accounting Control Model relies on the following key elements:

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

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

- Board of Directors
- Chief Executive Officer
- Official Corporate Financial Reporting Manager,

- Investor Relator,
- Heads of significant functions/functions involved,
- Director of Information Systems,
- CEOs and heads of management structures of subsidiaries.

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

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

In line with 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 Official Corporate Financial Reporting Manager and his structure in the individual processes and the degree of control; the intrinsic risk level of the underlying process; the complexity of calculation and subjectiveness of the estimates) as well as quantitative criteria (related to the importance of the values generated by the individual financial reporting processes).

The 2014 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 Official Corporate Financial Reporting Manager and to Internal Control and Risk Committee, as well as to those attending the meetings with the Control Bodies, who are informed of the results of the interventions at the scheduled meetings.

On an annual basis, the Head of Internal Audit notifies the Internal Control and Risk Committee, through a detailed report, of the adequate and effective operation of the internal control and risk management system relating to the areas/processes that were checked.

For 2014, this report was presented to the Internal Control and Risk Committee at the meeting on 03 February 2015 and to the Board of Directors at the meeting on 10 February 2015.

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

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

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

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

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

10.2. INTERNAL AUDIT MANAGER

On 8 May 2012, the Board of Directors, on the proposal of the Director responsible for supervising the operation of the internal control and risk management system, following the favourable opinion of the Internal Control and Risk Committee and having heard the Board of Statutory Auditors, assigned the task and established the remuneration consist with corporate policies and market rates, for the three-year period 2012-2014, of the Internal Audit department to an external company Protiviti s.r.l., with Emma Marcandalli, the Managing Director of the company, as the Head of the function.

Internal Audits' activities are entrusted to the independent Internal Control services provider Protiviti S.r.l., 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.

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

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

In the year this report refers to the Head of the Internal Audit department:

- had direct access to all information useful for the performance of his/her duties,
- reported with regard to operations to the Internal Control and Risk Committee and the Board of Statutory Auditors at their meetings,
- also reported with regard to operations to the Director responsible for supervising the operation of the internal control and risk management system,

- helped the CEO and the Heads of Function in the planning and management of the internal control and risk management system,
- planned the auditing activities regarding the adequacy and operation of the internal control and risk management system implemented according to a risk based type approach; the resulting Audit Plan was approved by the Board of Directors on 16 December 2014,
- verified, under the scope of the Audit Plan, the reliability of the information systems including the accounting measurement systems,
- reported on the outcome of all the audit operations carried out by sending the audit reports to the members of the Internal Control and Risk Committee and the Board of Statutory Auditors,
- reported regularly on its activities, management conduct, risk management, as well as compliance of plans defined for their containment; provided an assessment - for the areas/processes subject to their 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 responsible for 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 2014.

10.3. ORGANISATIONAL MODEL pursuant to Legislative Decree 231/2001

In 2006 Sabaf S.p.A. adopted the Organisational and Management Model, as suggested by Legislative Decree 231/2001, aimed at preventing the possibility of administrative offences and crimes significant 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 of or advantage to the Company.

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

The Organisational Model comprises a **General Part**, that describes the underlying principles and the aims 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.

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

Based on the results of the analyses and the areas identified as potentially at risk, Sabaf S.p.A. deemed it appropriate to regulate the processes with regard to the following types of crimes and offences under Legislative Decree: Articles 24 and 25 (offences against the Public Administration), Article 25-ter (company crimes, including the crimes of "Undue enticement to give or promise profits" and "Corruption between private parties", Article 26-

sexies (market abuse), Article 25-*septies* (manslaughter and serious or extremely serious injury through negligence committed in violation of occupational health and safety regulations), Article 25-*bis* (Falsification of instruments and signs of recognition), Article 25-*undecies* (environmental crimes) and Article 25-*duodecies* (employment of citizens in third countries residing illegally).

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

The Model also includes the mandatory establishment of the Supervisory Body, composed of several people with the members being particularly well qualified and in possession of the requirement of integrity pursuant to Article 109 of Legislative Decree 385 of 01 September 1993.

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

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.

The Body met 7 times during the period and:

- systematically verified the effectiveness of the Model, both through checks conducted by Internal Audit and through conversations with personnel involved in sensitive activities,
- updated the Model which involved the integration of the contents of Model 231 with those of the ISO 14001 certified Environmental Management system,
- carried out information and training exercises aimed at employees surrounding specific protocols governed by the Model,
- proposed, and on 11 February 2014, submitted several amendments for the approval of the Board of Directors of Sabaf, to the Group's Charter of Values in order to guarantee greater consistency with the current strategic guidelines, the existing governance model, as well as to focus the growing attention of the Group on subjects such as respecting the environment and the management of transparent and correct relations with all stakeholders.

The latest version of the General Part of the Model, approved by the Board of Directors on 23 September 2014, is available on the Company's website at: www.sabaf.it, in the “Investor Relations – Corporate Governance” section.

10.4. INDEPENDENT AUDITORS REGULATORY AUDIT

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

In 2014, the independent auditors met twice (on 28 January and 22 July) with the other Sabaf Control Bodies. Both these meetings were minuted.

10.5. OFFICIAL CORPORATE FINANCIAL REPORTING MANAGER

On 8 May 2012 the Board of Directors selected the Official Corporate Financial Reporting Manager as Gianluca Beschi, the Director of Administration, Finance and Control.

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

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

- having direct contact with the independent auditors, the Control and Risk Committee and the Board of Statutory Auditors,
- acquiring, controlling and verifying information and news, at all equivalent hierarchical levels and above, and also at lower hierarchical levels not dependent on the actual manager; the same powers can also be exercised with regard to subsidiaries and corporate hierarchies of companies subject to consolidation,
- possessing powers of proposal/evaluation over all procedures adopted within the Company,
- preparing adequate administrative and accounting procedures for the creation of the financial statements and the consolidated financial statements, as well as all other communications of a financial nature,
- being equipped with the control and management instruments, including I.T. (both hardware and software) up to a limit of €25,000 per year,
- assigning tasks, responsibilities and deadlines for the collection and verification of the information,
- availing itself of specialist external consulting services to deal with particular subjects, with a limit for these professional services of €25,000 per year,
- using the Internal Audit Function for adjustments to Law 262/2005;
- attending conferences, training courses and seminars for updating purposes,
- arranging internal communication channels that guarantee correct infra-corporate 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,
 - were prepared in conformity with the international accounting standards applicable recognised in the European Union pursuant to (EC) regulation 1606/2002 of the European Parliament and Council, of 19 July 2002
 - correspond to 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,
 - attending 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, the Board of Directors, also via the Control and Risks Committee, on any aspects of particular significance that they deem incorrect and, as such, must be declared in the certification required by Article 154-bis of the T.U.F.,
- report, at least once a year, to the Board of Directors directly or via the Control and Risks 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 auditors³, a meeting is held at least ten days before the ap-

³ 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 executing 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]).

proval 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
- Internal Audit Manager,
- Official Corporate Financial Reporting Manager,
- Independent Auditors,

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

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

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

11. DIRECTORS' INTERESTS AND TRANSACTIONS WITH RELATED PARTIES

In conformity with the "Procedure governing related-party transactions" approved in 2010 and updated in 2012, the Board of Directors, having heard the Control and Risks Committee, has evaluated and resolved the execution of related-party operations for 2014. No related-party transaction carried out by the issuer in the year was considered to be of major significance.

For more information about the above procedure, please see the full text of same, available on the Company's website: www.sabaf.it, in the "Investor Relations – Corporate Governance" section.

Lastly, in 2014 the Board of Directors did not examine transactions in which a director had a personal interest and for which the application of the "Significant transactions in which directors have an interest" procedure attached to the Corporate Governance Manual, updated in 2012.

12. APPOINTMENT OF STATUTORY AUDITORS

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

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

The list is in 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 the voting rights of at least 2.5% of the share capital with voting rights at the shareholders' meetings for the appointment of members of the administrative and control bodies in other words the different stake for the presentation of lists for the appointment of the members of the Board of Directors.

Each holder of voting rights, as well as shareholders who are part of a group pursuant to Article 2359 of the Italian Civil Code and those belonging to a shareholders' agreement involving company shares, cannot submit, either through a third party or trust company, more than one list or vote for various 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 the Company website, under the terms and conditions of the primary and secondary regulations application 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 possession of the requirements laid down by law and by the Bylaws and the acceptance of the candidature.

The following procedure is followed to elect statutory auditors:

- two standing auditors and one alternate auditor are taken from the list which obtained the greatest number of absolute 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.

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 do not exist, 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, paragraph 2, letter d), OF THE T.U.F.)**

The Board of Statutory Auditors was appointed by the Shareholders' Meeting on 8 May 2012 for the period 2012 - 2015.

Two lists were filed under the required terms, one by a reference shareholder "Giuseppe Saleri S.p.a." and one by a minority shareholder "Nazionale Fiduciaria 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 Anna Domenighini, standing auditors; (ii) Paolo Guidetti, alternate auditor.

The list from the minority shareholder, on the other hand, contained the following candidates: Alessandro Busi, Chairman and Maurizio Fioretti, alternate auditor.

The list of the elected, based on the proposal of the Board of Directors and with a unanimous vote, is given in table 3 below:

The effective members of the Board of Statutory Auditors are tax advisors by profession. For details of their professional profiles, their *Curricula Vitae* are available on the Company website at: www.sabaf.it, in the "Investor Relations – Corporate Governance" section.

In 2014, the Board of Statutory Auditors met five times. These meetings lasted, on average, two and a quarter hours. In 2015 there are four meetings of the Board of Statutory Auditors scheduled; since the beginning of 2015 at the date of this report the Board of Statutory Auditors has met once, on 16 January.

At the meeting on 5 May 2014, the Board verified the correct application of the criteria and procedures adopted by the Board of Directors for the purpose of evaluating the existence of the requirements of independence pertaining to all members. When carrying out the above evaluations all the criteria required by the Code with reference to the independence of directors were applied.

Table 3: STRUCTURE OF THE BOARD OF STATUTORY AUDITORS

Board of Statutory Auditors									
Office	Members	Year of birth	Date of first appointment ¹	In office since	In office until	List (M/m) ²	Indep. pursuant to Code.	Attendance of Board meetings ³	Number of other offices ⁴
Chairman	Busi Alessandro	29/05/1949	2009	08/05/2012	2015	m	X	80%	6
Statutory Auditor	Broli Enrico	14/12/1944	2006	08/05/2012	2015	M	X	100%	21
Statutory Auditor	Domenighini Anna	28/08/1961	2012	08/05/2012	2015	M	X	100%	11
Alternate statutory auditor	Guidetti Paolo	21/05/1959	2000	08/05/2012	2015	M	n/a	n/a	n/a
Alternate statutory auditor	Fioretti Maurizio	31/07/1970	2012	08/05/2012	2015	m	n/a	n/a	n/a

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

Number of meetings held during the year under review: 5

NOTES

¹ 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.

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

³ 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.).

⁴ 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.

The Company's Corporate Governance Manual obliges each statutory auditor to promptly and exhaustively inform the other statutory auditors and the Chairman of the Board of Directors if they have an interest, of their own or on behalf of third parties, in a given transaction relating to Sabaf or its subsidiaries. No situations were verified in 2014 in which statutory auditors had to make such declarations.

In 2014 and in conformity with the requirements of Article 19 of Legislative Decree 39/2010, the Board of Statutory Auditors

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

In 2014 the members of the Board of Statutory Auditors were involved in specific induction activities, as defined in section 4.2 of this report, aimed at providing them with adequate knowledge about the sector of activity in which the Company operates, corporate dynamics and their development, as well as the regulatory reference framework.

14. SHAREHOLDER RELATIONS

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

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

15. SHAREHOLDERS' MEETINGS

(pursuant to Art. 123-bis, paragraph 2, letter c), of the T.U.F.)

In 2014 the shareholders' meeting regulations and company bylaws did not change. For more details about the Regulations and the Bylaws mentioned above, please see the complete text available on the website, at: www.sabaf.it, in the "Investor Relations – Corporate Governance" section.

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

In 2014 there were no significant changes in market capitalisation or in the composition of the corporate structure for which the Board of Directors had to evaluate the opportunity of proposing changes to the Bylaws to the Shareholders' Assembly with regard to the percentages established for exercising shares and prerogatives established to protect minority interests.

16. OTHER CORPORATE GOVERNANCE PRACTICES **(pursuant to Art. 123-bis, paragraph 2, letter c), of the T.U.F.)**

There are no further corporate governance practices to report with regard to the description in the previous points of this document.

17. CHANGES SINCE THE END OF THE REPORTING YEAR

There were no changes to the Corporate Governance structure between 31 December 2014 and the date of this report.