



# Sabaf S.p.A.

Financial statements as at December 31, 2018

Independent auditor's report pursuant to article 14 of  
Legislative Decree n. 39, dated 27 January 2010, and article  
10 of EU Regulation n. 537/2014

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014  
(Translation from the original Italian text)

To the Shareholders of  
Sabaf S.p.A.

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of Sabaf S.p.A. (the Company), which comprise the statement of financial position as at December 31, 2018, and the income statement, the comprehensive income statement, statement of changes in shareholders' equity and cash flows statement for the year then ended, and explanatory notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other matters

The financial statements of Sabaf S.p.A. for the year ended December 31<sup>st</sup> 2017 were audited by another auditor who expressed an unmodified opinion on those statements on April 12th 2018.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We identified the following key audit matters:

Key Audit Matters	Audit Responses
<p><b>Valuation of investments</b></p> <p>The balance of investments at December 31, 2018 amounted to € 58,1 million. The most significant investments related to:            Sabaf Immobiliare S.r.l.: € 13,5 million            Faringosi Hinges S.p.A.: € 10,3 million            Sabaf do Brasil: € 8,5 million            Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited: € 12 million            A.R.C. s.r.l.: € 4,8 million            Okida Elektronik Sanayi Limited Sirket: € 8,7 million</p> <p>Management assesses the existence of impairment indicators on investments at least annually, in line with its strategy in managing each separate entity within the group and, if present, such investments are subject to an impairment test.</p> <p>The processes and methodologies to value and determine the recoverable amount of investments are based on complex assumptions that, due to their nature, imply the use of judgement by management, in particular with reference to the assumptions underlying future cash flow forecasts in the period covered by the business plan, the estimate of the terminal value and the calculation of the long-term growth and discount rates applied to the future cash flow forecasts.</p> <p>Considering the level of judgement and complexity of the assumptions applied in estimating the recoverable amount of investments, we determined that this area represents a key audit matter.</p> <p>The disclosures related to the valuation of investments are included in paragraph "Use of estimates" and in note "4 Equity Investments".</p>	<p>Our audit procedures in response to this key audit matter included, among others: (i) assessment of the process and key controls implemented by the Company in connection with the valuation of investments; (ii) assessment of the assumptions underlying future cash flow forecasts; (iii) test of the consistency of the investments future cash flow forecasts against the 2019-2023 business plan approved by the Board of Directors; (iv) assessment of the accuracy of cash flow projections as compared to historical results; (v) assessment of the long-term growth rates and discount rates.</p> <p>In performing our analysis, we engaged our experts in valuation techniques, who have independently performed calculation and sensitivity analyses of key assumptions in order to determine any changes in assumptions that could materially impact the valuation of the recoverable amount.</p> <p>Lastly, we evaluated the adequacy of the disclosures made in the explanatory notes to the financial statements regarding the key audit matter.</p>

## Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Company's ability to continue as a going concern and, when preparing the financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the financial statements on a going concern basis unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Company's financial reporting process.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.

However, future events or conditions may cause the Company to cease to continue as a going concern;

- we have evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

#### **Additional information pursuant to article 10 of EU Regulation n. 537/14**

The shareholders of Sabaf S.p.A., in the general meeting held on May 8, 2018, engaged us to perform the audits of the financial statements for each of the years ending December 31, 2018 to December 31, 2016.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

#### **Report on compliance with other legal and regulatory requirements**

**Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998**

The Directors of Sabaf S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure of Sabaf S.p.A. as at December 31, 2018, including their consistency with the related financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the financial statements of Sabaf S.p.A. as at December 31, 2018 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operations and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the financial statements of Sabaf S.p.A. as at December 31, 2018 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Milan, April 12, 2019

EY S.p.A.  
Signed by: Massimo Meloni, Partner

This report has been translated into the English language solely for the convenience of international readers.