

# **REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE**

Pursuant to Article 123-*bis* of the TUF

Name of Issuer: SABAF S.p.A.  
Website: [www.sabaf.it](http://www.sabaf.it)  
Report financial year: 2018  
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## GLOSSARY

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

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

**Code/Corporate Governance Code:** the Corporate Governance Code of listed companies approved in July 2018 by the Corporate Governance Committee and recommended by Borsa Italiana S.p.A., ABI, Ania, Assogestioni, Assonime and Confindustria.

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

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

**Financial year:** the 2018 financial year to which the Report refers.

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

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

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

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

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

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

**Report:** the report on corporate governance and ownership structure that companies must prepare pursuant to Article 123-*bis* of the TUF.

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

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

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

## 1. ISSUER PROFILE

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

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

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

As a further step along this path, Sabaf's management believes that ethics founded on the centrality of the individual and respect for common values, set at the head of the creation of value, are able to help take decisions that are in line with the corporate culture and significantly contribute to assuring the Company's sustainable long-term growth. For this purpose, Sabaf has prepared and published the Charter of Values, prepared in accordance with the existing national and international regulatory principles, guidelines and documents with regard to human rights of corporate social responsibility and corporate governance. The document is the governance tool through which Sabaf clearly explains the Company's values, standards of conduct and commitments in relations with all the stakeholders – shareholders, employees, customers, suppliers, financiers, the Public Administration, the community and the environment.

The Charter of Values was approved by the Board of Directors on 11 February 2014 and is available on the website [www.sabaf.it](http://www.sabaf.it) under the section "Sustainability".

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

### **Sabaf S.p.A. management and control model**

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

- a Board of Directors in charge of company administration and management of Company operations;
- the Board of Statutory Auditors in charge of supervising:
  - compliance with the Law and Articles of Association 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 external 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 Articles of Association (refer to these for details).

## 2. INFORMATION on the OWNERSHIP STRUCTURES (pursuant to Art. 123-*bis*, (1), TUF) as of 26 03 2019

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

The share capital of Sabaf S.p.A., fully subscribed and paid, is € 11,533,450 and composed of 11,533,450 ordinary shares with a nominal value of 1.00 euro per share, of which 400,000 shares with increased voting rights.

The Company has not issued other financial instruments that grant the right to subscribed new issue shares.

The structure of the share capital is shown in the table below.

TABLE 1 - STRUCTURE OF THE SHARE CAPITAL

<b>STRUCTURE OF THE SHARE CAPITAL</b>				
	<b>No. of shares</b>	<b>% of share capital</b>	<b>Listed/unlisted</b>	<b>Rights and obligations</b>
Ordinary shares	11,133,450	96.532%	MTA listed	--
Ordinary shares with increased vote	400,000	3.468%	MTA listed	Two voting rights per share
<b>TOTAL</b>	<b>11,533,450</b>	<b>100%</b>		

### b) Restrictions on the transfer of financial instruments (pursuant to Art. 123-*bis* (1)(b) TUF)

There are no restrictions on the transfer of financial instruments.

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

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

TABLE 2 - MAJOR SHAREHOLDINGS

<b>MAJOR SHAREHOLDINGS</b>			
<b>Declarant</b>	<b>Direct shareholder</b>	<b>% share of ordinary share capital</b>	<b>% share of voting share capital</b>
Saleri Giuseppe	Giuseppe Saleri S.a.p.A.	23.99%	23.19%
Quaestio Capital SGR S.p.A.	Quaestio Italian Growth	20.00%	19.33%
NN Group NV	Delta Lloyd Asset Management NV	9.98%	9.65%
Bulgarelli Claudio	FIN TEL S.r.l.	7.37%	7.12%

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

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

In particular, the attribution of two votes is provided for each ordinary share held. This list includes - at their request - the subjects who have requested the increase of the voting rights.

Pursuant to Art. 5-bis of Company by-Laws the increase in voting is obtained upon entry in the specific list referred to in article 5-quater of the Articles of Association ("Special List"):

- a) subsequent to the holder's application;
- b) upon expiry of the period of twenty-four months of uninterrupted ownership from entry in the Special List;
- c) with effect from the fifth open market day of the calendar month following the expiry of the period specified in letter b) above.

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

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

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

<b>Parent company</b>	<b>Shareholder</b>	<b>Number of shares enrolled</b>	<b>% of share capital</b>	<b>Enrolment date</b>
Quaestio Capital SGR S.p.A.	Quaestio Italian Growth	2,306,690	20.00%	01/08/2016
Saleri Giuseppe	Giuseppe Saleri S.a.p.A.	2,766,313	23.99%	from 20/10/2016 to 08/02/2018
Bulgarelli Claudio	Fintel S.r.l.	850,000	7.37%	12/04/2018

At the date of this report (26 March 2019), none of the above-mentioned shareholders has applied to increase voting rights pursuant to Art. 5-bis of Company by-Laws.

As a whole, at the date of this report, shareholders holding n° 5,963,003 ordinary shares are enrolled in the Special List.

On 7 September 2018, the increase in voting rights for 400,000 ordinary shares of Sabaf S.p.A. became effective. At the date of this report, the figures relating to the number of shares outstanding and the number of voting rights exercisable are as follows:

<b>Shares</b>	<b>No. of shares making up the share capital</b>	<b>Number of voting rights</b>
Ordinary shares	11,133,450	11,133,450
Ordinary shares with increased vote	400,000	800,000
<i>TOTAL</i>	<i>11,533,450</i>	<i>11,933,450</i>

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

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

**f) Restrictions on voting rights** (pursuant to *Art. 123-bis (1)(f)* TUF)

There are no restrictions on voting rights.

**g) Shareholders' agreements** (pursuant to *Art. 123-bis (1)(g)* TUF)

There are no shareholders' agreements pursuant to Article 122 of the TUF.

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

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

The Company's Articles of Association do not make provisions for exemptions with regard to company takeover on the passivity rule pursuant to Art. 104, paragraph 1-*ter* of the TUF or the application of the rules pursuant to Art. 104-*bis*, paragraph 1 of the TUF.

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

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

The Shareholders' Meeting of 8 May 2018 resolved to withdraw, for the part not yet executed, the buyback deed of treasury shares assumed during the session held on 27 April 2017, and, at the same time, to authorise a programme of buyback of treasury shares with a duration of 18 months. The Shareholders' Meeting approved the possibility of organising the treasury shares on a rolling basis, establishing limits and conditions.

The Shareholders' Meeting has therefore granted to the Board of Directors of Sabaf, with express authority of delegating to one or more of its members, powers to implement the resolution. The Board of Directors during the session held on 25 September 2018 gave a mandate to the Executive Directors Pietro Iotti and Gianluca Beschi to implement the buyback of treasury shares programme, within the time limits set by the Shareholders' Meeting resolution.

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

- disposing of treasury shares to be used for equity-based incentive plans, reserved for directors and/or employees of the Company or of subsidiary companies and, in particular, the *stock* grant plan approved by the Shareholders' meeting of 8 May 2018;
- using, in accordance with Company strategy, treasury shares as part of the transactions related to business plans or agreements with strategic partners or in the framework of investment transactions, or that imply assignation or utilisation of treasury shares;
- offering shareholders an additional tool to liquidate their investments;
- carrying out operations to support market liquidity.

For details concerning the above resolution, see the Shareholders' Meeting minutes of 8 May 2018 available on the company website [www.sabaf.it](http://www.sabaf.it), under the section "Investors - Shareholders' Meetings".

In the context of the buyback programme resolved by the Shareholders' Meeting, the Company has purchased globally 132,737 Sabaf shares throughout 2018. At 31 December 2018, the Company holds 514,506 treasury shares, equal to 4.461% of the share capital.

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

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

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Note that:

- the information required by Art. 123-*bis* (1)(i) (“*agreements between companies and directors ... which envisage indemnities in the event of resignation or dismissal without just cause, or if their employment contract terminates as the result of a takeover bid*”), are contained in the Report on Remuneration published pursuant to Art. 123-*ter* of the TUF;
- the information required pursuant to Article 123-*bis* (1)(l) (“*rules applying to the appointment and replacement of directors ... and to amendments to the Articles of Association if different from those applied as a supplementary measure*”) are illustrated in the section of the Report dedicated to the Board of Directors (Section 4.1 Appointment and replacement).

### **3. COMPLIANCE (pursuant to Art. 123-*bis*, (2)(a) TUF)**

In 2006, the Company adhered to the Corporate Governance Code, approved by the Corporate Governance Committee of Borsa Italiana (available to the public on Borsa Italiana's website on the Corporate Governance Committee's page <http://www.borsaitaliana.it/comitato-corporate-governance/codice/codice.htm>).

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

This Corporate Governance Manual, adopted by Board resolution of 19 December 2006, has been updated several times over the years, in order to reflect changes in laws and regulations regarding corporate governance, as well as best practices adopted by the Company. The latest version of the document, approved by the Board of Directors on 25 September 2018, is available on the Company website, at [www.sabaf.it](http://www.sabaf.it) under the "*Investors - Corporate Governance*" section.

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

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

Please note that this report on corporate governance and ownership structure is made available on the Company website at: [www.sabaf.it](http://www.sabaf.it) under the section "Investors - Corporate Governance".

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Sabaf S.p.A. and its subsidiaries are not subject to foreign laws that might have an impact on the Corporate Governance structure.

## 4. BOARD OF DIRECTORS

### 4.1. APPOINTMENT AND REPLACEMENT (pursuant to art. 123-*bis* (1)(I) TUF)

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

In particular, the Articles of Association envisage that:

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

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

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

On the occasion of the approval of the financial statements at 31 December 2017, approved by the Shareholders' Meeting of 8 May 2018, the mandates of the management and control bodies appointed by ordinary shareholders' resolution of 5 May 2015, for the 2015-2017 financial years, expired.

Therefore, the Shareholders' Meeting of 8 May 2018 was called upon to appoint the new Board of Directors, setting the number of members of the Board at 9 (nine) and the term of office at 3 (three) years (2018-2020 financial years). Based on the results of the shareholders' votes, the Board of Directors, appointed for the three-year period 2018 to 2020, is as follows: Giuseppe Saleri (Chairman), Nicla Picchi (Vice Chairman), Pietro Iotti (Chief Executive Officer), Gianluca Beschi (executive director), Renato Camodeca, Daniela Toscani, Stefania Triva, Alessandro Potestà, Claudio Bulgarelli (non-executive directors).

Please note that at its meeting held on 13 February 2018, the Board of Directors confirmed that the non-executive directors in office until the approval of the financial statements at 31 December 2017 (Renato Camodeca, Giuseppe Cavalli, Fausto Gardoni, Nicla Picchi and Anna Pendoli) had fulfilled the independence requirements set forth by the TUF and the Corporate Governance Code of listed companies.

Moreover, following the new appointment of the administration and control bodies, the Board of Directors, at its meeting of 8 May 2018, confirmed that the non-executive directors Nicla Picchi, Renato Camodeca, Daniela Toscani and Stefania Triva met the independence requirements of the T.U.F. and the Corporate Governance Code of Listed Companies, and appointed Renato Camodeca as Lead Independent Director.

In its current composition, the Board of Directors of Sabaf meets the legal requirements regarding "Gender equality in the composition of boards of administration and control", as

defined by the Consob regulation adopted through resolution 18098 of 8 February 2012 and Art. 147-ter, (1-ter) of the TUF.

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

- *Giuseppe Saleri*, main member of the family who holds the Company's main share;
- *Nicla Picchi*, partner of the Law Firm Picchi & Associati of Brescia and independent director in important listed companies;
- *Pietro Iotti*, who held positions of increasing responsibility in several industrial companies, has been with Sabaf since 2017 and holds the position of Chief Executive Officer;
- *Gianluca Beschi*, who has been at Sabaf since 1997, Administration, Finance and Control Director, as well as Investor Relator;
- *Claudio Bulgarelli*, holds important positions in other companies such as Fintel S.r.l. and Walvoli S.p.A.;
- *Renato Camodeca*, university lecturer in economics;
- *Alessandro Potestà*: Senior Portfolio Manager at Quaestio Capital Management SGR S.p.A.;
- *Daniela Toscani*, held positions of responsibility at Borsa Italiana S.p.A., London Stock Exchange Group and Mittel S.p.A., and currently provides consultancy on Corporate finance transactions;
- *Stefania Triva*, holds the position of Chairman and Chief Executive Officer of Copan Italia S.p.A.

Note that, following the resignation of Prof. Renato Camodeca from the office of director, resigned due to unexpected professional commitments and with immediate effect during the meeting of the Board of Directors held on 23 January 2019, the Board of Directors appointed, by co-optation - in compliance with Article 13 of the Articles of Association - Prof. Carlo Scarpa, first candidate among the non-elected from the majority list presented by Giuseppe Saleri S.p.A., (from which the resigning director was elected) during the Shareholders' Meeting of 8 May 2018. The Board verified the existence of the independence and integrity requirements envisaged by the applicable law and by the Corporate Governance Code for listed companies; Prof. Scarpa will remain in office until the next Shareholders' Meeting.

The full *curricula vitae* of all the directors are available for examination on the Company's website [www.sabaf.it](http://www.sabaf.it), in the "Investors - Corporate Governance" section.

**TABLE 2 – STRUCTURE OF THE BOARD OF DIRECTORS AND ITS COMMITTEES**

Board of Directors													Control and Risk Committee		Remuneration and Nomination Committee	
Office	Members	Year of birth	Date of first appointment <sup>4</sup>	In office from	In office until	List <sup>5</sup>	Exec.	Non-exec.	Indep. pursuant to Code	Indep. pursuant to TUF	Number of other offices <sup>6</sup>	7	7	8	7	8
Chairman	Giuseppe Saleri	21/03/1931	1993	08/05/2018	2020	M	X				1	82%				
Chief Executive Officer <sup>1,2</sup>	Pietro Iotti	25/06/1966	2017	08/05/2018	2020	M	X				0	100%				
Vice Chairman	Nicla Picchi	12/07/1960	2012	08/05/2018	2020	M		X	X	X	1	100%	100%	P		
Director	Gianluca Beschi	11/12/1968	2015	08/05/2018	2020	M	X				0	100%				
Director	Claudio Bulgarelli	21/05/1940	2018	08/05/2018	2020	m		X			0	100%			100%	M <sup>9</sup>
Director	Daniela Toscani	12/09/1963	2018	08/05/2018	2020	M		X	X	X	3	100%	83%	M		
Director	Stefania Triva	07/10/1964	2018	08/05/2018	2020	M		X	X	X	1	89%			100%	M <sup>9</sup>
Director	Alessandro Potestà	16/01/1968	2016	08/05/2018	2020	M		X			3	100%			86%	M
Director <sup>3</sup>	Renato Camodeca	28/11/1966	2012	08/05/2018	2020	M		X	X	X	2	100%	100%	M	100%	P

----- DIRECTORS NO LONGER IN OFFICE DURING THE YEAR UNDER REVIEW -----																
Office	Members	Year of birth	Date of first appointment <sup>4</sup>	In office from	In office until	List <sup>5</sup>	Exec.	Non-exec.	Indep. pursuant to Code	Indep. pursuant to TUF	Number of other offices <sup>6</sup>	7	7	8	7	8
Vice Chairman	Cinzia Saleri	18/12/1961	2012	05/05/2015	2018	M	X				--	50%				
Vice Chairman	Roberta Forzanini	03/09/1964	2015	05/05/2015	2018	M	X				--	100%				
Vice Chairman	Ettore Saleri	24/04/1973	2006	05/05/2015	2018	M	X				--	100%				
Director	Giuseppe Cavalli	07/11/1960	2009	05/05/2015	2018	M		X	X	X	--	100%	100%	M	80%	M
Director	Fausto Gardoni	17/12/1942	2009	05/05/2015	2018	M		X	X	X	--	100%			100%	P
Director	Anna Pendoli	25/12/1974	2015	05/05/2015	2018	m		X	X	X	--	100%				

<b>Number of meetings held during the year under review:</b>	<b>BoD:11</b>	<b>ICRC: 7</b>	<b>CRN: 7</b>
<b>Quorum required for the presentation of the lists for the latest appointment:</b> <i>2.5% of the share capital with voting rights at the Ordinary Shareholders' Meeting</i>			

## NOTES

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

<sup>2</sup> Main person in charge of managing the issuer (Chief Executive Officer or CEO).

<sup>3</sup> Lead Independent Director (LID).

<sup>4</sup> The date each director was first appointed refers to the date on which the director was appointed for the first time by the Board of Directors of the issuer.

<sup>5</sup> List from which each director is taken) ("M": majority list; "m": minority list; "BoD": list presented by the BoD).

<sup>6</sup> Number of positions as director or statutory auditor held by the concerned subject at other companies listed in regulated markets, also overseas, in financial, banking, insurance companies or very large companies.

<sup>7</sup> Attendance of directors at BoD and committee meetings, respectively (number of meetings they have taken part in with respect to the total number of meetings they could have taken part in)

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

<sup>9</sup> At the meeting of the Board of Directors held on 26 June 2018, the composition of the Remuneration and Nomination Committee was changed: the director Stefania Triva replaced the director Claudio Bulgarelli.

### **Diversity criteria and policies**

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

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

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

- **Independence**. An optimal composition of the Board of Directors is characterised by the presence of non-executive and independent Directors, such as to ensure that their opinion can have a significant impact on the Board's decisions in terms of number, authority, competence and availability of time. Non-executive Directors contribute their specific competences to the board discussions, helping to take informed decisions and paying particular attention to areas where conflict of interest may occur. All independent Directors must meet the independence requirements envisaged by law and by the Corporate Governance Code, as illustrated in the Corporate Governance Manual of Sabaf. Non-executive directors must be the majority compared to executive directors and independent directors must be at least 3.
- **Training and professional experience**. In addition to the provisions of the Corporate Governance Code, (Principle 2.P.1.), also implemented within the Corporate Governance Manual of Sabaf, the Company believes that for an optimal composition of the Board of Directors there must be a mix of professionalism and experience suitable to understand the current management, risks and opportunities of the company, in order to guide and adequately support the Sabaf Group in a long-term sustainable growth. In particular, Sabaf considers the following skills and experience to be fundamental:
  - legal and corporate, also with reference to the legislative and regulatory aspects important for listed companies;
  - economic and financial, ability to analyse and interpret financial statement data prepared in accordance with international accounting standards and to evaluate extraordinary transactions;
  - business and managerial, in the sector in which the Group operates or in adjacent sectors, in the management of international companies, in merger and acquisition transactions;
  - on economic, social and environmental sustainability.
- **Gender**. In addition to the law provisions on gender distribution (Italian Law 120/2011), it is considered essential to create and maintain a gender balance within the collective body, continuing to ensure that at least one third of the Board of

Directors, both at the time of appointment and during the term of office, is made up of Directors of the least represented gender.

- **Age and seniority in office.** With the aim of creating a balance between the need for continuity and renewal of management, it is considered useful to ensure a balanced combination of different seniorities in office - as well as age groups - within the Board of Directors.
- **Numbers.** Taking into account the characteristics described above (including diversity requirements and the presence of an adequate number of independent directors) and, at the same time, the need to ensure the effectiveness and efficiency of the Board's activities, a Board of Directors composed of nine directors is considered to be adequate. Moreover, this plurality guarantees the possibility of setting up within the Board the Committees envisaged by the Corporate Governance Code.

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

The Board of Directors, with the support of the Remuneration and Nomination Committee and the Board of Statutory Auditors, is responsible for monitoring and implementing the Policy on the composition of Corporate Bodies, which is published on the Company's website at [www.sabaf.it](http://www.sabaf.it), in the section "*Investors - Corporate Governance*". The composition of the current Board meets the criteria of diversity, including gender diversity, laid down in the current Policy.

The composition of the current Board of Directors complies with the diversity requirements laid down in the above Policy. With particular reference to gender balance, one third of the Board of Directors is made up of directors of the less represented gender (3 out of 9 directors).

### **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 15 May 2018, and as provided by the Corporate Governance Manual, the Board of Directors defined the maximum number of positions as director or statutory auditor that each director may hold at companies listed on regulated markets (also overseas), as well as at financial, banking, insurance or other large companies, also taking account of the fact that they may also be members of the various Committees established within the same Board of Directors.

Specifically:

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

The Board of Directors confirmed compliance with the above-mentioned criteria for the directors currently in office at its meeting held on 26 March 2019.

Below we disclose the offices held by current Sabaf directors as directors or statutory auditors of other listed companies, financial, banking and/or insurance companies, and/or large companies.

- *Giuseppe Saleri* is the Chairman of Giuseppe Saleri S.p.A., the main shareholder of Sabaf S.p.A.;
- *Nicla Picchi* is a non-executive Director of Unipol Sai SpA;
- *Claudio Bulgarelli* is a non-executive Director of Esautomotion SpA;
- *Renato Camodeca* is Chairman of the Board of Statutory Auditors of Gnutti Carlo SpA and Metal Work SpA;
- *Alessandro Potestà* is a non-executive Director of FILA SpA, Tinexta SpA, BOMI SpA and Alpitour SpA;
- *Daniela Toscani* is a non-executive Director of DEA Capital SpA, Banca Intermobiliare di Investimenti e Gestioni and Openjobmetis SpA;
- *Stefania Triva* is the Chairman of the Board of Directors of Copan Italia SpA.

### **Induction Programme**

The Chairman of the Board of Directors ensures that, after their appointment and during their term of office, the directors and the statutory auditors take part in initiatives, in the most appropriate forms, aimed at providing them with adequate knowledge of the activity sector in which the Company operates, the enterprise dynamics and their evolution, the principles of proper risk management, as well as the relevant regulatory framework.

In 2018, the Company continued with the induction programme so as to offer the opportunity to members of the Board of Directors and the Board of Statutory Auditors to improve their knowledge of the issuer and its subsidiaries.

In particular, during the meeting of the Board of Directors on 25 September 2018, the Head of Internal Audit provided a training session on Sabaf's corporate governance system and related procedures.

Moreover, during the meeting of the Board of Directors on 25 September 2018, the Company invited some external consultants to explain to the members of the Board of Directors and the Board of Statutory Auditors the trends of the main macroeconomic indicators at Italian and European level.

Please note that the induction sessions were held during meetings put regularly on record.

### **4.3. ROLE OF THE BOARD OF DIRECTORS (pursuant to art. 123-*bis*, (2), (d), TUF)**

During the 2018 financial year, the Board of Directors met on 11 (eleven) occasions, two of which took place prior to the renewal of the Corporate Bodies at the Shareholders' Meeting held on 8 May 2018. The meetings lasted an average of about three hours. The percentages of attendance of each director at the meetings are shown in Table 2 of paragraph 4.2.

Seven meetings are planned for 2019, of which eight have already been held on 23 January, on 12 February and 26 March, the date of this report.

In order to allow the Board of Directors to carry out its tasks with an adequate level of organisation and to preliminarily analyse in depth the issues subject matter of the resolution, the "BoD on Board" application is currently in use for the scheduling and management of Board meetings, as well as for sending documentation to Directors and Statutory Auditors. The documentation relating to the items on the agenda is made available on the "BoD on Board" well in advance of the date of the Board meeting (usually three days or more in advance)<sup>1</sup>.

The meetings of the Board of Directors, coordinated and presided over by the Chairman, are always attended by the members of the Board of Statutory Auditors and the managers of Sabaf and other group companies, in charge of the relevant corporate functions concerned by the topics dealt with, invited by the Chairman, also upon request by one or more directors and with the consent of those attending, to provide the necessary in-depth analyses in relation to the items on the agenda. The meetings of the Board of Director are put regularly on record.

In the course of 2018, the Board of Directors met the following heads of the corporate functions:

- Massimo Dora (Technical Director),
- Nicola Belpietro, Pietro Benedetti, Luca Gorini (Executive Regional Sales Director),
- Alberto Cancarini (Production Director and Employer pursuant to Legislative Decree 81/2008),
- Andrea Bonfadelli (Purchasing, Programming, Logistics Director),
- Claudio Migliorati (Chief Information Officer),
- Maddalena Giacomelli (Human Resources Director),
- Emma Marcandalli (Head of Internal Audit).

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The Board of Directors is responsible for the examination and approval of the long-term plans and the budgets of the Company and the Group, as well as for periodically monitoring their implementation through the information supplied by the CEO in his quarterly reports. In this regard, the Board of Directors viewed and evaluated the risks underlying these plans and the budget and assessed the compatible level of risk, also with reference to the risks that may assume significance in terms of medium-/long-term sustainability.

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 2018, 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 assessment.

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<sup>1</sup> With the exception of the evaluation of cases of unforeseen situations of necessity or urgency that require the prior information to be limited. In these cases, the Chairman ensures that adequate examinations are carried out during board meetings.

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

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

An operational Guideline attached to the Corporate Governance Manual defines the general criteria for identifying transactions of importance, namely:

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

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

Finally, as provided for by Consob resolution 17221 of 12 March 2010 on related-party transactions, and in compliance with the "Procedure regulating related-party transactions" which came into force in January 2011 and was subsequently updated in 2012, 2015 and 2018, the Board of Directors assessed the transactions with related parties carried out in the course of the year. No related-party transaction carried out in the year was considered to be of major significance.

Moreover, the Board of Directors carried out its annual assessment for 2018 of the size, membership (including professional competences, managerial skills and seniority) and activities of the Board of Directors and its Committees. With regard to possible approaches to assessment, Sabaf's Board of Directors opted, as defined under the guideline attached to the Corporate Governance Manual "Assessment of the Board of Directors", for the self-assessment of individual directors through the distribution, filling-in, collection and processing of questionnaires. It then discussed the results at the 23 January 2019 Board meeting. The Company deemed not necessary to avail itself of external consultants.

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

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

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

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

Note that, as described in paragraph 4.2 above, the Board of Directors approved a Policy on the composition of Corporate Bodies, drawn up on the basis of the self-assessments formulated by the Board in previous years.

In 2018, 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), Pietro Iotti, is responsible for running the Company according to the strategic guidelines defined by the Board of Directors. The Chief Executive Officer coordinates all corporate functions, guaranteeing a rapid decision-making process and ensuring efficient and transparent management. The Chief Executive Officer has wide-ranging powers with regard to all areas of operation of the company, with powers of attorney for up to one million euros per transaction. The Chief Executive Officer of Sabaf can be identified as the main responsible for the management of the company; the situation of interlocking directorate is not applicable (Pietro Iotti has not undertaken the office of director in another Issuer whose chief executive officer is a director of Sabaf S.p.A.).

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

The Chairman of the Board of Directors, Giuseppe Saleri, is the reference shareholder of Sabaf S.p.A. On 8 May 2018, the Board of Directors resolved to confer on the Chairman the following powers, to be exercised with individual signature:

- establish the agenda of the Board of Directors, taking into account the proposals of the Chief Executive Officer;
- supervise the carrying-out of the resolutions of the Corporate Bodies of Sabaf;
- propose to the Board the candidates for membership of such committees as the Board may decide to set up;

- represent the Company before public and private bodies and offices;
- represent the Company as plaintiff or defendant.

On 8 May 2018, the Board of Directors granted the Vice-Chairman, Nicla Picchi, the following vicarious powers, to be exercised only in the event of urgency, absence or impediment of the Chairman, with individual signature:

- establish the agenda of the Board of Directors, taking into account the proposals of the Chief Executive Officer;
- supervise the carrying-out of the resolutions of the Corporate Bodies of Sabaf;
- propose to the Board the candidates for membership of such committees as the Board may decide to set up.

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

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

**Information flows toward the Board of Directors**

The CEO reports quarterly to the Board of Directors and to the Statutory Auditors on the activities conducted in exercising the powers conferred on him. An operational Guideline of the Corporate Governance Manual regulates the flow of information to the Board of Directors and Statutory Auditors, also in order to comply with the reporting obligations provided by Art. 150 (1) of the TUF; in particular, the Chief Executive Officer summarises periodically through written reports the following activities and operations carried out by Sabaf and its subsidiaries:

- activities carried out in the period,
- transactions with strategic, economic, capital or financial significance for the Group,
- transactions in potential conflict,
- related-party transactions,
- atypical or unusual transactions or those concluded in non-standard conditions,
- any other activity or transaction that he deems it appropriate to communicate.

#### **4.5. OTHER EXECUTIVE DIRECTORS**

The current composition of the Board of Directors envisages 1 (one) executive director, Gianluca Beschi, Administration, Finance and Control Director (CFO), in addition to the Chief Executive Officer (Pietro Iotti).

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

The current composition of the Board of Directors includes 4 (four) non-executive and independent directors.

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

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

On the occasion of the appointment of the management and control bodies for the three-year period 2018 to 2020, implemented by the shareholders' resolution of 8 May 2018, the Board of Directors assessed on the same date whether the directors Renato Camodeca, Nicla Picchi, Daniela Toscani and Stefania Triva met the independence requirements pursuant to the Code and the T.U.F. Subsequently, on 12 February 2019, the Board of Directors assessed the maintenance of the independence requirements pursuant to the Code and the T.U.F. for the directors qualified as independent, as well as for the director Carlo Scarpa, appointed by co-optation, on 23 January 2019 following the resignation of the director Renato Camodeca.

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

On 8 March 2018, the Board of Statutory Auditors checked and certified the proper implementation of the criteria and procedures adopted by the Board of Directors to determine the independence of the directors who qualify as such.

On 23 January 2019, the independent directors met without the other directors. One of the main items on the agenda for this meeting was an analysis of the Board of Directors' self-assessment questionnaires for 2018. The Board of Directors was promptly informed of the results of this meeting, formalised in an official meeting minutes.

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

#### **4.7. LEAD INDEPENDENT DIRECTOR**

Since the Chairman of the Board of Directors is the main shareholder of Sabaf, the Board of Directors meeting held on 5 May 2015 has renewed the designation of Renato Camodeca as Lead Independent Director. On the occasion of the renewal of the administrative and control bodies during the 2018 financial year, the Board of Directors, at its meeting of 8 May 2018, renewed the appointment of Renato Camodeca as Lead Independent Director. Following

the resignation of Director Renato Camodeca, the Board of Directors on 12 February 2019 appointed Nicla Picchi as the new Lead Independent Director.

This person will remain in office for the entire term of the Board of Directors and is a point of reference and coordination for the applications and contributions of non-executive directors, with particular reference to independent directors.

During the financial year, the Lead Independent Director 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 also coordinated the Board of Directors self-assessment process.

## **5. HANDLING OF CORPORATE INFORMATION**

The CEO manages the processing of confidential information in accordance with a specific procedure, adopted by the Board of Directors, for internal management and external disclosure of documents and information concerning the Company. Special attention is paid to the management of privileged information, as defined by Article 181 of the TUF (or information of a precise nature, not yet made public, concerning Sabaf - directly or indirectly - or one or more financial instruments of the Company and that, if made public, could have a significant effect on the prices of such financial instruments or on the prices of related derivative financial instruments).

In particular, in order to comply with the new European provisions on market abuse, as well as the indications of the Consob Guidelines on the Management of Inside Information, on the occasion of the meeting held on 26 June 2018, the Board of Directors of Sabaf approved the "Procedure for the Management of Important and Inside Information", amending and replacing the former "Procedure for the Processing of confidential and inside information" and "Procedure for the Management of the Insider Register".

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

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

## **6. INTERNAL COMMITTEES OF THE BOARD OF DIRECTORS (pursuant to art. 123-*bis*, (2)(d) TUF)**

The Board of Directors can set up one or more Committees within the Board, such Committees being responsible for making proposals or providing consultancy on specific topics and having no decision-making powers.

Following the appointment of the new administration and control bodies, on 8 May 2018 the Sabaf Board of Directors established the Remuneration and Nomination Committee and Internal Control and Risk Committee with functions also of Related Parties Committee, in line with the provisions of the Corporate Governance Code.

Taking into consideration the characteristics, dimensions and organisational structure of the Issuer, the Board of Directors has - at the current time - deemed it necessary to attribute the functions of the Nomination Committee to the Remuneration Committee thereby establishing the Remuneration and Nomination Committee, composed of 3 non-executive directors, with an independent majority.

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

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

## 7. REMUNERATION AND NOMINATION COMMITTEE

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

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

With a resolution on 8 May 2018, Remuneration and Nomination Committee was set up by three non-executive, including one independent member, with the knowledge and experience in accounting, finance and remuneration policies that are deemed adequate by the Board of Directors. Subsequently, on 26 June 2018, the Board of Directors resolved to replace, within the Remuneration and Appointments Committee, director Claudio Bulgarelli with director Stefania Triva in order to ensure compliance with the indications set out in Article 6 of the Corporate Governance Code for listed companies; the Committee is therefore composed of non-executive members, the majority of which is independent, with the Chairman chosen amongst the independent members. The composition of the Committee is set out in Table 2 of paragraph 4.2 above.

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

Other directors, employees and experts, as well as the Chairman of the Board of Statutory Auditors and other statutory auditors, may be invited to attend with advisory roles in Committee meetings on a case-by-case basis.

In 2018, the Committee met 7 (seven) times, with each meeting lasting, on average, around two hours and forty minutes. The percentages of attendance of each director at the meetings of the Committee is shown in Table 2 of paragraph 4.2. At the invitation of the Committee, the meetings were attended by the Chief Executive Officer, the Administration, Finance and Control Director and some members of the Board of Statutory Auditors, to discuss the items on the agenda from time to time.

At its meeting of 10 May 2018, the Committee submitted to the Board of Directors a proposal for the distribution of the annual remuneration of directors in compliance with the amount approved by the Shareholders' Meeting of 8 May, and confirmed its orientation on the maximum number of offices held by directors and statutory auditors in compliance with the Corporate Governance Code and Manual.

Moreover, in 2018, the Committee prepared a long-term incentive plan for directors and employees of the Company and its subsidiaries through the free allocation of shares ("Stock Grant Plan"), approved by the Board of Directors on 15 May 2018. For details, refer to the 2018 Report on Remuneration, available on the Company's website at: [www.sabaf.it](http://www.sabaf.it), in the section "Investors - Corporate Governance", and published in the 2015 Annual Report available on the Company's website at: [www.sabaf.it](http://www.sabaf.it), in the section "Investors - Annual and Interim Financial Statements".

The Committee met three times in 2019 (20 February, 11 March and 25 March).

### **Duties of the Remuneration and Nomination Committee**

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

- to support the Board in the definition of the remuneration policy of directors and managers with strategic responsibilities;
- to periodically assess the adequacy, overall consistency and actual application of the policy for the remuneration of directors and key management personnel, also on the basis of the information provided by the CEO; it shall formulate proposals to the Board of Directors in that regard;
- to submit proposals or issues opinions, in the absence of any directors concerned, to the Board of Directors for the remuneration of executive directors and other directors who cover particular offices as well as for the identification of performance objectives related to the variable component of that remuneration;
- to monitor the application of decisions adopted by the Board of Directors itself, verifying in particular the actual achievement of performance objectives;
- to express opinions to the Board of Directors on the size and composition of the board and express recommendations on the professional subjects that are considered important for the Board of Directors as well as on the topics stated hereinafter (referred to in Articles 1.C.3 and 1.C.4. of the Corporate Governance Code):
  - opinion with regard to the maximum number of offices as director or statutory auditor that can be considered compatible with an effective discharge of the duties of a director of the Company, taking into account the participation of directors in the Committees established within the actual Board of Directors,
  - any derogations from the rules prohibiting competition as per Art. 2390 of the Italian Civil Code, with particular regard to critical ones,
- to put forward candidates to the Board of Directors for the office of director in cases of co-option, when independent directors have to be replaced;
- supporting the Board of Directors in the possible adoption of a plan of succession for executive directors.

In addition to the above, in 2018, the Committee:

- analysed final results of the managerial incentive plan (MBO) for the financial year 2017 and prepared the managerial incentive plan for the year 2018, approved by the Board of Directors on 26 March 2018,
- analysed the final results of the project, defined by management as the "Premio Produciamo Qualità" for 2017 and expressed a favourable opinion on 2018,
- analysed the final results of the Long-term Incentive Plan (LTI) for the three-year period 2015 to 2017,
- prepared the regulations relating to the long-term incentive plan through the assignment of free shares ("Stock Grant Plan"),
- defined the remuneration of the members of the Board of Directors of Okida Elektronik San. Ve Tic. Ltd. Şti, a company acquired in 2018.

For details of the Remuneration Policy, the short-term (MBO) and long-term (LTI) management incentive plans and bonus share allocation plans, please refer to the 2018 Report on Remuneration, available on the Company's website at the following address:

[www.sabaf.it](http://www.sabaf.it), under the section "*Investors - Corporate Governance*" and included in the 2018 Annual Report.

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

Directors do not attend Remuneration Committee meetings in which proposals are submitted to the Board concerning their remuneration.

The Board of Directors set up an expenses fund of € 30,000 available to the Remuneration and Nomination Committee to carry out its duties. The fund was not used in 2018.

## **8. REMUNERATION OF DIRECTORS**

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

For more information about the above mentioned Policy, and for more details of the specific information relating to 2018, please see the full document, available on the Company's website: [www.sabaf.it](http://www.sabaf.it), under the section "*Investors - Corporate Governance*" and reports on remuneration published pursuant to Art. 123-ter of the TUF.

## 9. CONTROL AND RISK COMMITTEE

The Board of Directors has set up a Control and Risk Committee, also with functions of Committee for related-party transactions. Following the renewal of the corporate bodies, on 8 May 2018 the Board of Directors resolved to set up the Control and Risk Committee for the three-year period 2018 to 2020, made up of the directors Nicla Picchi, Renato Camodeca and Daniela Toscani. On 12 February 2019, the Board of Directors supplemented the composition of the Committee by appointing the director Carlo Scarpa to replace the director Renato Camodeca.

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

In 2018, the Committee met seven times, with each meeting lasting, on average, around an hour and forty five minutes. The percentages of attendance of each director at the meetings of the Committee is shown in Table 2 of paragraph 4.2. Five meetings are scheduled for 2019, one of which already took place on 5 February.

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

Upon invitation of the Committee, the following people attended the Control and Risk Committee meetings: the Head of Internal Audit, the consulting firm Protiviti as provider of Internal Control Services, which also provides secretarial services, the Board of Statutory Auditors, the CFO as the "Manager Responsible for the preparation of the Corporate Financial Documents", and the Director in charge of the Internal Control and Risk Management System.

Moreover, at its meeting of 15 May 2018, the Committee invited the Chief Information Officer of Sabaf S.p.A. to attend the meeting in order to discuss the results of an IT Audit and receive information on the adoption by Sabaf of the Organisational Model on personal data protection, prepared following the entry into force of European Regulation 2016/679 (General Data Protection Regulation - GDPR).

The work of the Control and Risk Committee is coordinated by the Chairman and the meeting minutes are regularly put on record. After each meeting of the Committee, the Chairman is responsible for informing the Board of Directors during the first available meeting, reporting on the activities carried out and giving suggestions and recommendations on matters of relevance.

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

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

- supporting, with adequate preliminary activity, the assessments and decisions of the Board of Directors relating to the internal control and risk management system, as well as those relating to the approval of regular financial reports;
- evaluating, together with the Manager Responsible for the preparation of the Corporate Financial Documents and with the advice of the 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;

- expressing opinions on specific aspects pertaining to the identification of the main corporate risks;
- examining the periodic reports evaluating the Internal Control and Risk Management System and those of particular significance prepared by Internal Audit;
- monitoring the autonomy, adequacy, effectiveness and efficiency of the Internal Audit Department;
- asking Internal Audit, when necessary, to audit specific operating areas, and in this case also informing the Chairman of the Board of Statutory Auditors;
- expressing opinions with regard to transactions in which a Director has a personal interest or could be a bearer of someone else's interest, submitted for the attention of the Committee by the Board of Directors;
- examining related-party transactions, expressing a reasoned opinion in the interest of the Company to the deliberative body, as well as on the suitability and essential correctness of the related conditions;
- reporting to the Board at least every six months, at the time of approval of the annual and half-year financial reports, on the activities carried out as well as on the adequacy of the internal control and risk management system;
- supporting the Board of Directors following the favourable opinion, and having obtained the opinion of the Board of Statutory Auditors, with regard to the appointment, termination and remuneration of the Head of Internal Audit;
- supporting the evaluations and decisions of the Board of Directors, with adequate preliminary investigations, relating to the management of risks deriving from detrimental events of which the Board of Directors has become aware.

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

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

In addition to the above, in 2018, the Committee:

- evaluated, together with the Manager Responsible for the preparation of the Corporate Financial Documents and the auditors, the correct application of the accounting standards,
- analysed the results of the risk assessment carried out at the end of 2018 and the consequent 2019 Audit Plan Proposal,
- analysed the results of the Internal Audit operations carried out during the year,
- analysed the actions taken by Sabaf in relation to the management of personal data, in order to comply with the European Regulation GDPR 2016/679,

- examined the proposed acquisition of the company Okida Elektronik San. Ve Tic. Ltd. Şti.

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 2018.

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

The annual process of identifying and assessing the main corporate risks was carried out in the second half of 2018 and was approved by the Board of Directors with the favourable opinion of the Control and Risk Committee having heard the Board of Statutory Auditors and the Director in charge of the Internal Control and Risk Management System, at the meeting held on 23 January 2019. On that occasion, the Issuer took into account not only risks deriving from the external context in which Sabaf operates, but also the strategic, organisational and "execution" risks that may be significant from the point of view of sustainability in the medium/long term.

In the Corporate Governance Manual, the Board of Directors defined the guidelines for the Internal Control and Risk Management System so that the main risks relating to the Issuer and its subsidiaries are properly identified, measured, managed and monitored, as well as being compatible with the strategic objectives of the Group.

The Internal Control and Risk Management System applies to Companies and strategically significant subsidiaries (Faringosi Hinges, Sabaf do Brasil, Sabaf Turchia and Okida), identified as such by the Sabaf Board of Directors on the occasion of the meetings of 8 May and 25 September 2018.

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

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

The fundamental components of Sabaf's Internal Control and Risk Management System and of the strategically significant subsidiaries are based on:

- the organisation of the Internal Control and Risk Management System, created by the collection of players involved to whom different roles and responsibilities are assigned (as specified later on);
- the periodic process of identification, assessment and monitoring of the main risks of the Group (as specified below);
- the methods and mechanisms for the practical implementation of control principles, reflected in the documentation constantly produced and updated by the Company to define the rules of behaviour, the division of tasks and the delegation of responsibilities. This includes the following:

- the Charter of Values,
- the arrangements involving the corporate and organisational structure and the powers granted,
- the segregation of duties in the organisation (also reflected in the corporate information systems), aimed at preventing excessive concentration of decision-making/authorisation, implementation/executive, accounting and verification/control powers and functions,
- the development and professional growth policies for personnel,
- the systems for defining corporate targets and for verifying and monitoring corporate performance,
- the management and economic-financial reporting systems, as well internal and external communication systems,
- the body of corporate procedures, including those under the scope of the Organisational Model adopted by Sabaf to implement Legislative Decree 231/2001 and those established pursuant to Law 262/2005 on the subject of administrative-accounting procedures for the preparation of the financial statements;
- procedures for the preparation of the financial statements, the continuous monitoring and verification procedures conducted at various levels of the organisation, both under the scope of corporate processes and through independent structures.

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### **The Internal Control and Risk Management System for financial information**

Sabaf considers the Internal Control and Risk Management System for financial information an integral part of its risk management system.

In this regard, as far back as 2008, Sabaf integrated the activities relating to the management of the Internal Control and Risk Management System on financial reporting in its Internal Audit and compliance process (i) preparing a unique Audit Plan, with a shared programme of tests, organised according to specific control objectives (e.g. operational, compliance with Law 262/2005 and Legislative Decree 231/2001, security and profiling of corporate information systems) and (ii) assigning the carrying-out of the interventions to a unique structure, responsible for reporting the outcomes to the competent control bodies.

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

With specific reference to the Internal Control and Risk Management System on financial reporting, the Group defined its own Accounting Control Model that defines the rules that the Group follows for the purpose of:

- aligning itself to the regulations on preparing corporate accounting documents, as well as all deeds and communications of an economic, capital or financial nature disclosed to the market,
- describing the components of the Control Model adopted by the Company,

- indicating the responsibilities of the Manager Responsible for the preparation of the Corporate Financial Documents and other players involved in the process,
- establishing a certification process (for both Sabaf and the subsidiaries),
- guaranteeing dependability, accuracy, reliability and timeliness of the financial information.

Note that, in 2018, the Accounting Control Model did not require any updating. The internal instructions and standards are added to the Model (including, for instance, the powers of attorney system, the reporting instructions, the supporting information systems, the visits to Group company offices) through which the Parent Company guarantees an efficient exchange of data with the Subsidiaries.

The Accounting Control Model relies on the following key elements:

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

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

- Board of Directors,
- Chief Executive Officer,
- Manager Responsible for the preparation of the Corporate Financial Documents,
- Investor Relator,
- Heads of significant/involved functions,
- Director of Information Systems,
- CEOs and heads of management structures of subsidiaries.

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

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

In line with the best practices, the process of identifying and assessing the processes and organisational units takes into account both qualitative criteria (linked to the visibility of the Manager Responsible for the preparation of the Corporate Financial Documents and his structure in the individual processes and the degree of control; the intrinsic risk level of the underlying process; the complexity of calculation and subjectivity of the estimates) as well

as quantitative criteria (related to the importance of the values generated by the individual financial reporting processes).

The 2018 evaluation highlighted the significant processes that were subject during the year to timely audit operations with regard to specific control objectives (*existence, completeness and accuracy, evaluation, rights and obligations, presentation and information*).

The outcomes of the audits into the single processes are reported by the Internal Audit department to the Manager Responsible for the preparation of the Corporate Financial Documents and to Control and Risk Committee, as well as to those attending the meetings with the Control Bodies, who are informed of the results of the interventions at the scheduled meetings.

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

For 2018, this report was presented to the Control and Risk Committee at the meeting on 5 February 2019.

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

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

During 2018, 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 2019, approved by the Board of Directors with the favourable opinion of the Control and Risk Committee having heard the Board of Statutory Auditors and the Director responsible for the Control and Risk Committee, in the meeting held on 23 January 2019.

The Group risk identification and assessment process, carried out in compliance with the new method developed by Sabaf's Internal Audit, envisaged the broad involvement of all the Parent Company department heads, also in their capacity as representatives for the Subsidiaries, each for their respective areas, and taking into consideration the risks that may assume significance in terms of medium-/long-term sustainability.

In line with the Guidelines, the potential effects are assessed for each risk measured (in terms of impact and likelihood according to qualitative/quantitative scales), analysing the causes and evaluating the existing strategies and mitigation systems.

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

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

For 2018, the assessment of the overall adequacy of the Internal Control and Risk Management System was expressed on the basis of the analysis of the following aspects:

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

- Corporate governance regulatory changes,
- Amendments to the Corporate Governance Manual,
- Amendments to Corporate Governance Procedures,
- Amendments to the Group Charter of Values,
- Risk Assessment and Audit Plan,
- Amendments to the Articles of Association and Shareholders' Meeting Regulations,
- Changes in the composition of the administration and control bodies and the organisational structure,
- Changes in the powers of attorney system,
- Compliance with Law 262/05 on accounting and corporate documentation,
- Information systems,
- Acquisition of Okida Elektronik San. Ve Tic. Ltd. Şti,
- Export Compliance,
- Transactions in derivative financial instruments,
- Treasury share transactions,
- Related-party transactions,
- Intra-group transactions and transactions in potential conflict,
- Internal dealing transactions,
- Monitoring internal control and risk management systems of subsidiaries,
- Main disputes in place,
- Situation of non-performing account receivables.

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

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

Based on the information and evidence collected, and after consulting with the Control and Risk Committee, the Board of Directors believes that the Internal Control and Risk Management System in place in 2018 is adequate and effective in relation to the dimensions and characteristics of the Group and suitable overall for achieving the company targets.

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

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

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

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

## **10.2. HEAD OF INTERNAL AUDIT**

On 8 May 2018, the Board of Directors, upon the proposal of the Director in charge of the Internal Control and Risk Management System, subject to the favourable opinion of the Control and Risk Committee, as well as after hearing the Board of statutory auditors, renewed the engagement of an independent external company that provides Internal Audit services, Protiviti s.r.l., to carry out the functions of the Internal Audit Department for the years 2018-2020 as well. It then identified Emma Marcandalli, the company's Managing Director, as Head of that department. This decision has been made because the professional resources to establish such a function are not available internally and also taking into account the greater skills and efficiency that a specialist outside firm can offer with regard to internal control given the size of Sabaf.

Upon engagement renewal, the Board of Directors established the remuneration of the Head of Internal Audit in compliance with corporate policies and market rates and laid out her functions in line with the Corporate Governance Code.

The Head of the Internal Audit department is responsible for verifying that the Internal Control and Risk Management System is working properly and is not responsible for any

operational areas and remains in office for the entire term of the Board of Directors which appointed him/her.

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

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During the year, the Head of the Internal Audit department:

- had direct access to all information useful for the performance of her duties,
- reported with regard to operations to the Control and Risk Committee and the Board of Statutory Auditors at their meetings,
- also reported with regard to operations to the Director in charge of the Internal Control and Risk Management System,
- helped the CEO and the Heads of the Functions in the planning and management of the Internal Control and Risk Management System,
- planned the auditing activities regarding the adequacy and operation of the Internal Control and Risk Management System implemented according to a risk based approach; the resulting Audit Plan was approved by the Board of Directors on 23 January 2019,
- verified, under the scope of the Audit Plan, the reliability of the information systems including the financial reporting systems,
- reported on the outcome of all the audit operations carried out by sending the audit reports to the members of the Control and Risk Committee and the Board of Statutory Auditors,
- reported regularly on her activities, the procedures for managing risks, as well as compliance with plans defined for their containment; provided an assessment - for the areas/processes subject to her audits - on the suitability of the internal control and risk management system and sent these to the Chairmen of the Board of Statutory Auditors and the Internal Control and Risk Management Committee, as well as the Director in charge of the Internal Control and Risk Management System,
- prepared prompt reports on events of particular significance.

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

In 2006, Sabaf S.p.A. adopted the Organisational Management and Control Model ("Organisational Model"), as suggested by Legislative Decree 231/2001, aimed at preventing the possibility of significant administrative offences and crimes with regard to the Decree, which involve the administrative responsibility of the Company in cases where certain types of crime are committed by employees or collaborators in the interest or for the benefit of the Company. In the course of 2008, also the Italian subsidiary Faringosi-Hinges s.r.l. adopted its own Organisation, Management and Control Model pursuant to Legislative Decree 231/2001.

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

The Organisational Model comprises a **General Part**, that describes the underlying principles and the aims of Sabaf S.p.A. set itself through its adoption, and a series of **Special Parts**, which identify and regulate specific behaviour in areas identified as potentially at risk for the Company, with regard to different types of offences. The General Part of the Sabaf Organisational Model is made available on the company website at [www.sabaf.it](http://www.sabaf.it), under the section "*Investors - Corporate Governance*".

In the definition of the Model, Sabaf S.p.A. analysed corporate activities, training processes and the implementation of decisions within the individual corporate areas, as well as internal control systems. Based on the results of the analyses and the areas identified as potentially at risk, Sabaf S.p.A. deemed it appropriate to regulate the processes with regard to the following types of crimes and offences under Legislative Decree 231/2001: Articles 24 and 25 (offences against the Public Administration), Art. 25- *bis* (as regards falsehood in instruments or signs of recognition), Art. 25- *ter* (corporate crimes, including the offence of corruption between private individuals), Art. 26- *sexies* (offences and administrative offences of market abuse), Art. 25- *septies* (offences in the field of safety, hygiene and health at work), Art. 25- *octies* (offences of receiving stolen goods, money laundering and use of money, goods or assets of illicit origin as well as self-laundering), Art. 25- *undecies* (environmental crimes), and Art. 25- *duodecies* (offences regarding the use of third-country nationals whose stay is unlawful).

On 25 September 2018, the Board of Directors approved the new version of Sabaf's Model 231, aimed at implementing the implications of the new regulations pursuant to Italian Law 179/2017 on "*Provisions for the protection of whistleblowers of offences or irregularities of which they have become aware as part of public or private work*" (known as Whistleblowing law) and also to bring the body of procedures of the Model into line with operations of the Company by means of a number of operational and organisational changes.

The Model also includes the mandatory establishment of the Supervisory Body, composed of several people with the members being particularly well qualified and in possession of the requirement of integrity pursuant to Article 109 of Legislative Decree 385 of 1 September 1993.

The Supervisory Body (appointed on 5 May 2015 by the Board of Directors for the three-year period 2015 to 2017 and re-appointed on 8 May 2018 for the three-year period 2018 to 2020) comprises Nicla Picchi, independent director of the Company (Chairman) and Emma Marcandalli, Head of the Internal Audit Function.

Moreover, an annual expense fund of € 20,000 was made available to the Supervisory Body to carry out its tasks, which was not used in 2018.

During the financial year, through the Internal Audit function and in line with its Audit Plan, the Supervisory Body carried out checks on the effective application and awareness of the rules of control and conduct. In addition, during the year specific preliminary investigation activities were carried out, regarding which the Supervisory Body reported to the company's administration and control bodies.

The Body met 5 (five) times during the year and:

- analysed the new regulations on administrative liability of Entities and started the activities for updating the Organisation, Management and Control Model pursuant to Legislative Decree 231/01,
- verified the effectiveness of the Model, both through checks carried out by Internal Audit and through conversations with personnel involved in sensitive activities,
- carried out specific investigation activities regarding the occupational health and safety management processes, held periodic consultation meetings with Company management in order to analyse certain environmental and occupational health and safety matters, as well as issues subject to audits during the year,
- carried out informational and training exercises aimed at employees with respect to several protocols governed by the Model, as well as training sessions on Italian Legislative Decree no. 231/01.

#### **10.4. INDEPENDENT AUDITORS**

At the time of approval of the financial statements for the year ended 31 December 2017, which took place at the Shareholders' Meeting of 8 May 2018, the assignment of external auditing granted to the company Deloitte & Touche S.p.A. for the period 2009-2017 expired. Therefore, the Ordinary Shareholders' Meeting, in consideration of the recommendation prepared by the Board of Statutory Auditors pursuant to Art. 13 of Italian Legislative Decree 39/2010 and Regulation (EU) 537/2014, resolved to grant the external auditing assignment for the period 2018 to 2026 to EY S.p.A.

In 2018, the independent auditors met twice (on 6 February and 26 July) with the other Sabaf Control Bodies. Both of these meetings are put on record.

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

On 8 May 2018, when the new administration and control bodies were appointed, the Board of Directors selected and confirmed Gianluca Beschi, the Director of Administration, Finance and Control, as the Manager Responsible for the preparation of the Corporate Financial Documents.

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

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

- having direct contact with the independent auditors, the Control and Risk Committee and the Board of Statutory Auditors,
- acquiring, controlling and verifying information and news, at all equivalent hierarchical levels and above, and also at lower hierarchical levels not dependent on the actual manager; the same powers can also be exercised with regard to subsidiaries and corporate hierarchies of companies subject to consolidation,
- having powers of proposal/evaluation over all procedures adopted within the Company,
- preparing adequate administrative and accounting procedures for the creation of the financial statements and the consolidated financial statements, as well as all other communications of financial nature,
- being equipped with the control and management instruments, including I.T. (both hardware and software) up to a limit of € 25,000 per year,
- assigning tasks, responsibilities and deadlines for the collection and verification of the information,
- availing itself of specialist external consulting services to deal with particular subjects, with a limit for these professional services of € 25,000 per year,
- using the Internal Audit Function for adjustments to comply with Law 262/2005,
- attending conferences, training courses and seminars for updating purposes,
- arranging internal communication channels that guarantee correct intercompany information,
- calling company personnel, at their discretion, in order to update, train and make them aware of their obligations,
- issuing a written statement that attests to the compliance of the Company's acts and communications divulged to the market and relating to the accounting information of the Company, including interim information, with the entries made in the accounting documents, ledgers and records,
- confirming through a dedicated report made available in accordance with the model established through the Consob regulation, attached to the financial statements, interim financial statements and consolidated financial statements:

- the adequate and effective application of the procedures in the previous points in the period to which the documents refer,
- that the documents were prepared in compliance with the applicable international accounting standards recognised in the European Union pursuant to (EC) regulation 1606/2002 of the European Parliament and of the Council of 19 July 2002,
- match with the results of the accounting entries and ledgers,
- are appropriate to give a true and fair view of the financial position, the results of the operations and of the cash flows of the Company and the companies included in the consolidation,
- for the financial statements and the consolidated financial statements, the interim report includes a credible analysis of the performance and results of operations, the situation at the issuer, and the companies included in the area of consolidation, along with a description of the key risks and uncertainties to which they are exposed,
- for the interim financial statements, that the interim report contains a reliable analysis of the information in paragraph 4 of Article 154-*ter* of the TUF,
- attendance at the meetings of the Company's Board of Directors where the examination of the Company's economic and financial data is on the agenda,
- reporting without delay to the CEO and the Board of Directors, also via the Control and Risk Committee, on any aspects of particular significance that he deems incorrect and, as such, must be declared in the certification required by Article 154-*bis* of the TUF,
- reporting, at least once a year, to the Board of Directors directly or via the Control and Risk Committee and to the Board of Statutory Auditors.

The Company 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 independent auditors<sup>2</sup>, a meeting is held at least ten days before the approval by the Board

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

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 Italian Legislative Decree 231/2001,
- Head of Internal Audit,
- Manager Responsible for the preparation of the Corporate Financial Documents,
- Director in charge of the Internal Control and Risk Management System,
- Independent Auditors,

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

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

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

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

In compliance with the "Procedure regulating related-party transactions" approved in 2010 and later updated in 2012, 2015 and 2018, the Board of Directors has evaluated and resolved on the execution of related-party transactions for 2018.

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](http://www.sabaf.it), under the section "*Investors - Corporate Governance*".

Moreover, in 2018 the Board of Directors did not examine transactions in which a director had a personal interest and for which the application of the "Significant transactions in which directors have an interest" procedure attached to the Corporate Governance Manual.

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

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

The appointment of the Board of Statutory Auditors takes place based on the lists submitted by holders of voting rights in which the candidates are ranked progressively. Each list has two sections: one for candidates for the office of standing auditor and the other for candidates for the office of alternate auditor.

Only holders of voting rights have the right to submit lists. On their own or together with others, they must overall own shares with voting rights representing at least 2.5% of the share capital with voting rights at the shareholders' meetings for the appointment of members of the administration and control bodies, or the different stake for the presentation of lists for the appointment of the members of the Board of Directors.

Each holder of voting rights, as well as shareholders who are part of a group pursuant to Art. 2359 of the Italian Civil Code and those that agree to a shareholders' agreement having as its object the shares of the Company, may not submit, not even through a third party or trust company, more than one list and cannot vote for different lists.

Each candidate may be included on only one slate, under penalty of ineligibility. Outgoing statutory auditors can be re-elected.

The lists submitted should be filed at the Company's registered office and made available to the public at the registered office and on the Company website, under the terms and conditions of the applicable primary and secondary regulations, and this will be mentioned in the call notice. The lists are accompanied by:

- information on the identity of the shareholders with voting rights who have submitted the lists and the percentages of shareholdings held overall, and certification proving ownership of this shareholding;
- a declaration that the holders of voting rights other than those who can express an absolute majority or relating to the Shareholders' Meeting where they hold, including jointly, a controlling or majority interest, attesting to the absence of relations connecting them to the latter, pursuant to the applicable regulations,
- exhaustive information about the personal and professional characteristics of the candidates, as well as a declaration by said candidates certifying the fulfilment of the requirements laid down by law and by the Articles of Association and the acceptance of the candidature.

The election of statutory auditors takes place according to the following procedure:

- two standing auditors and one alternate auditor are taken from the list which obtained the absolute highest number of votes at the Shareholders' Meeting, based on the progressive order in which they are listed,

- the remaining standing auditor and the other alternate auditor from the list that obtained the greatest number of votes at the Shareholders' Meeting, from the lists submitted and voted on by shareholders who have voting rights and are not connected to the reference shareholders pursuant to the applicable regulations.

If there is a tie in the voting between two or more lists, the most senior candidates in terms of age will be elected.

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

If it is not possible to proceed, in full or in part, with the appointments following the above methods, the Shareholders' Meeting will resolve with a majority decision.

If the regulatory and statutory requirements are not met, the statutory auditor's office will be forfeited.

In the event of the replacement of an auditor, he or she is succeeded by the alternate auditor belonging to the same list as the auditor to be replaced.

### **13. COMPOSITION AND OPERATION OF THE BOARD OF STATUTORY AUDITORS** **(pursuant to art. 123-bis, (2)(d) and (d-bis), TUF)**

The Board of Statutory Auditors was appointed by the Shareholders' Meeting on 8 May 2018 for the 2018-2019-2020 financial years.

With reference to the appointment of the Board of Statutory Auditors, two lists were filed, the first one by the shareholder Giuseppe Saleri S.p.a., which at the date of presentation of the list held 2,766,313 ordinary shares of Sabaf S.p.A. equal to 23.9% of the share capital with voting rights, the other one by the shareholder Quaestio Capital SGR S.p.A., which at the date of presentation of the list held 2,306,690 ordinary shares of Sabaf S.p.A. equal to 20% of the share capital with voting rights, accompanied by all the documentation required by the laws in force. The names of the candidates in the above lists were as follows:

Giuseppe Saleri S.p.A. list:

- Anselmi Luisa (Standing Auditor)
- Vivenzi Mauro Giorgio (Standing Auditor)
- Guidetti Paolo (Alternate Auditor)

Quaestio Capital SGR S.p.A. list:

- Tronconi Alessandra (Standing Auditor)
- Massarotto Stefano (Alternate Auditor)

Following the vote cast, the list presented by the shareholder Giuseppe Saleri S.p.a. obtained favourable votes equal to 68.59% of the share capital represented at the Shareholders' Meeting, the list presented by the shareholder Quaestio Capital SGR S.p.A. obtained favourable votes equal to 30.55% of the share capital represented at the Shareholders' Meeting.

Therefore, the Shareholders' Meeting of 8 May 2018 elected the following candidates as members of the Board of Statutory Auditors of Sabaf S.p.A., who will remain in office until the Shareholders' Meeting to approve the financial statements at 31 December 2020:

- Tronconi Alessandra (Chairman)
- Anselmi Luisa (Standing Auditor)
- Vivenzi Mauro Giorgio (Standing Auditor)
- Guidetti Paolo (Alternate Auditor)
- Massarotto Stefano (Alternate Auditor)

The standing auditors of the Board of Statutory Auditors fulfil the requirements of eligibility, professionalism, respectability and independence as set forth in the law and other applicable

provisions. The *curricula vitae* are available on the Company's website [www.sabaf.it](http://www.sabaf.it), in the "Investors - Corporate Governance" section.

During the year ended 31 December 2018, the Board of Statutory Auditors met 11 times. These meetings lasted, on average, roughly two hours. At the date of this report, the Board of Statutory Auditors met twice, on 5 February and 12 March 2019, respectively. Five additional meetings were planned for 2019.

The Board of Statutory Auditors, at the meeting on 12 March 2019, verified the correct application of the criteria and procedures adopted by the Board of Directors for the purpose of evaluating the satisfaction and continuing fulfilment of the independence requirements for the directors. On the same date, the Board of Statutory Auditors also carried out its own self-assessment, as required by standard Q.1.1 of the "Rules of Behaviour of the Board of Statutory Auditors of listed companies", sending the results to the Board of Directors. During the above self-assessment, the Board of Statutory Auditors verified, among other things, that the independence requirement was still valid for its members, as envisaged by Application Principle 8.C.1 of the Corporate Governance Code.

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

<b>Board of Statutory Auditors</b>									
<b>Office</b>	<b>Members</b>	<b>Year of birth</b>	<b>Date of first appointment <sup>1</sup></b>	<b>In office since</b>	<b>In office until</b>	<b>List (M/m) <sup>2</sup></b>	<b>Indep. pursuant to Code</b>	<b>Attendance at Board meetings<sup>3</sup></b>	<b>No. of other offices<sup>4</sup></b>
Chairman	Tronconi Alessandra	24/07/1967	2018	08/05/2018	2020	m	X	83%	14
Standing Auditor	Vivenzi Mauro	23/11/1965	2018	08/05/2018	2020	M	X	100%	11
Standing Auditor	Anselmi Luisa	19/02/1966	2015	05/05/2015	2020	M	X	100%	7
Alternate Auditor	Guidetti Paolo	21/05/1959	2000	08/05/2018	2020	M	--	--	--
Alternate Auditor	Massarotto Stefano	23/11/1971	2018	08/05/2018	2020	m	--	--	--
<b>----- AUDITORS NO LONGER IN OFFICE DURING THE YEAR UNDER REVIEW -----</b>									
Chairman	Passantino Antonio	07/12/1947	2015	05/05/2015	2017	m	X	100%	--
Standing Auditor	Broli Enrico	14/12/1944	2006	05/05/2015	2017	M	X	100%	--
Alternate Auditor	Rizza Riccardo	22/03/1965	2015	05/05/2015	2017	m	--	--	--
<b>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</b>									
<b>Number of meetings held during the year under review: 11</b>									

**NOTES**

<sup>1</sup>The date each statutory auditor was first appointed refers to the date on which the statutory auditor was appointed for the first time by the Board of Directors of the issuer.

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

<sup>3</sup>This column indicates the attendance of statutory auditors at board meetings (indicate the number of meetings attended in relation to the total number of meetings that could have been attended: e.g. 6/8; 8/8 etc.).

<sup>4</sup>This column indicates the number of director or auditor offices held by the party in question pursuant to Article 148-bis of the TUF and implementation arrangements in the Consob Issuers' Regulation. The full list of offices is published by Consob on its website pursuant to Article 144-quinquiesdecies of the Consob Issuers' Regulation.

### **Diversity criteria and policies**

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

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

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

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

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

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

The composition of the current Board of Statutory Auditors complies with the diversity requirements laid down in the above Policy. With particular reference to gender balance, one third of Standing and Alternate Auditors belong to the less represented gender (2 auditors of five).

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

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In 2018, and in compliance with the requirements of Article 19 of Legislative Decree 39/2010, the Board of Statutory Auditors analysed the data, information and documents made available by the Company, which fall within the scope of the ordinary control duties of the Board of Statutory Auditors

In 2018, the members of the Board of Statutory Auditors were involved in specific induction activities with the members of the Board of Directors, as defined in section 4.2 of this report, aimed at providing them with adequate knowledge about the sector of activity in which Sabaf operates, corporate dynamics and their development, as well as the regulatory reference framework.

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

- they act with autonomy and independence even in regard to the Shareholders who elected them;
- they accept the office when they consider to be able to dedicate the time necessary to the diligent performance of their duties (and in any case after satisfaction of the requisites required by law);
- the remuneration of the Statutory Auditors is commensurate with the required commitment, to the importance of the role and to the dimensional and sectoral characteristics of the undertaking;
- each Statutory Auditor will promptly and exhaustively inform the others and the Chairman of the Board of Directors if they have an interest, of their own or on behalf of third parties, in a given transaction relating to Sabaf or its subsidiaries. During 2018, there were no situations in which the auditors had to make such declarations;
- they are required to maintain confidential the documents and information acquired in the performance of their duties and to comply with the procedure adopted by Sabaf for internal management and external disclosure of such documents and information.

## **14. SHAREHOLDER RELATIONS**

The Company has established a dedicated section in its website, 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 directly performed by the Investor Relations Manager.

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

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

In 2010, the Shareholders' Meeting has approved Meeting Regulations governing the orderly and effective carrying-out of the shareholders' meetings; during the 2018 financial year the Meetings Regulations have not changed.

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

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

For more details about the Shareholders' Meeting Regulations mentioned above, please see the complete text available on the website, at: [www.sabaf.it](http://www.sabaf.it) under the section "Investors - Corporate Governance".

The Shareholders' Meeting held on 8 May 2018 was attended by the Chairman of the Board of Directors Giuseppe Saleri and CEO Pietro Iotti, four directors (Gianluca Beschi, Renato Camodeca, Alessandro Potestà and Anna Pendoli) and the statutory auditors Luisa Anselmi and Enrico Broli.

On that occasion, the Shareholders' Meeting resolved to renew Sabaf's Corporate Bodies by appointing the new Board of Directors and Board of Statutory Auditors, in office for the three-year period 2018 to 2020, and also appointed EY S.p.A. as independent auditor for the period 2018 to 2026.

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. During the 2018 financial year, there were no

significant changes in market capitalisation or in the composition of the shareholding structure for the Board of Directors to assess whether to propose to the Shareholders' Meeting amendments to the Articles of Association concerning the percentages set for exercising the actions and rights provided to protect minority shareholders.

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

**16. OTHER CORPORATE GOVERNANCE PRACTICES  
(pursuant to Art. 123-bis, (2)(c) TUF)**

There are no further corporate governance practices to report in addition to the descriptions provided in the previous points of this document.

## **17. CHANGES SINCE THE END OF THE REPORTING YEAR**

As described in the previous chapters of the Report, at the meeting of the Board of Directors held on 23 January 2019, the director Renato Camodeca, resigned with immediate effect from the office of director due to unexpected professional commitments. At the same time, the Board of Directors appointed, by co-optation – in compliance with the provisions of Article 13 of the Articles of Association – Prof. Carlo Scarpa, first candidate among the non-elected from the majority list presented by Giuseppe Saleri S.a.p.A. (on which the resigning director had been elected) during the Shareholders' Meeting of 8 May 2018, verifying also the existence of the independence and integrity requirements envisaged by the applicable law and by the Corporate Governance Code for listed companies.

Subsequently, on 12 February 2019, the Board of Directors integrated the Remuneration and Nomination Committee and the Control and Risk Committee by appointing Carlo Scarpa and Daniela Toscani, respectively.

There have not been further changes in the structure of Corporate Governance at 31 December 2018 and up to the date of this Report.

## **18. CONSIDERATIONS ON THE LETTER OF 21 December 2018 OF THE CHAIRMAN OF THE CORPORATE GOVERNANCE COMMITTEE**

The recommendations made in the letter of 21 December 2018 by the Chairman of the Corporate Governance Committee, although not formally brought to the attention of the Board of Directors and the Board of Statutory Auditors, were examined and taken into consideration by Sabaf, with a view to ensuring full compliance with the best practices of Corporate Governance. In particular, note the following:

### ***1) Adequacy of the pre-meeting disclosure***

The format currently used by the Sabaf Directors for self-assessment includes 13 different assessment aspects on the functioning of the Board, including 2 specific points on the pre-meeting disclosure received during the year (i.e. quality of the reporting/documents made available and timeliness in sending such documentation).

The analysis of the questionnaires filled in with reference to the 2018 financial year shows a general level of satisfaction of the Directors with regard to pre-meeting disclosure, also thanks to the adoption of the "BoD on Board" application, described in paragraph 4.3 above.

### ***2) Application of the independence criteria defined by the Code***

In the assessment carried out by the Board of Directors regarding the existence and permanence of the independence requirements of its Directors, no cases of exception or non-application of the indications of the Corporate Governance Code were found; none of the Directors qualified as independent is in one of the situations described by principle 3.C.1 of the Corporate Governance Code.

### ***3) Board review***

The periodic board review process, already described in detail in paragraph 4.3 above, is coordinated by the Lead Independent Director, who is in charge of defining the topics to be assessed and collecting the questionnaires filled in by the Directors. In order to enhance the contributions of individuals, the results of the self-assessment are always discussed at a Board meeting.

### ***4) Adequacy of remuneration policies with respect to the pursuit of the company's objective of sustainability in the medium to long term***

With the aim of relating the remuneration of executive directors to medium and long-term sustainability objectives, Sabaf's Remuneration Policy also envisages a long-term incentive plan for the benefit of the Chief Executive Officer and Executives with strategic responsibilities. The long-term financial incentive is dependent on measurable and predetermined performance targets relating to the creation of value for shareholders and extends over three years coinciding with the mandate of the Board of Directors. In implementation of the Policy in 2018, Sabaf introduced a stock grants plan aimed at the Group's executive directors and executives who hold or will hold key positions in the implementation of the Business Plan. The assignment of rights is subject to the achievement of company targets (based on ROI, TSR and EBITDA) and individual targets over the three-year period 2018 to 2020, consistent with the objectives of the Business Plan.

The current Remuneration Policy does not include "*ad hoc*" bonuses for executive directors.