

Administrative offices: Via Dei Carpini 1 – 25035 OSPITALETTO (BRESCIA) - ITALY
✉ P.O. Box no. 68 - ☎ 030/6843001 – Fax 030/6843250 - Web Address: sabaf@sabaf.it

Registered office: Via Rango, 23 - 25065 LUMEZZANE (BRESCIA) - ITALY

Report on Corporate Governance and degree of compliance with the Code of Conduct of Listed Companies

Composition and role of the Board of Directors

The Board of Directors, whose term of office is for the three-year period 2000-2002 (expiring on the date that the 2002 financial statements are approved), is made up of seven members:

Giuseppe Saleri – Chairman

Gianbattista Saleri – Deputy Chairman

Angelo Bettinzoli – Managing Director

Alberto Bartoli – Executive Director

Erminio Bonatti – Non-executive and Independent Director

Leonardo Cossu – Non-executive and Independent Director

Franco Carlo Papa – Non-executive and Independent Director

On 12 May 2000 the Board of Directors decided that it would have exclusive power to authorise not only on the matters laid down in art. 2381 of the Civil Code, but also the purchase and sale of equity investments, property assets and own shares, the hiring of managers or promoting others to that status, approval of the corporate budget, taking out loans and opening lines of credit at banks, giving guarantees, carrying out transactions with related parties, as well as, naturally, those transactions that are individually over the limits set in the mandates given to individual directors, as described in detail below.

The Articles of Association lay down that the Company is represented severally by the Chairman, the Deputy Chairmen and delegated Directors, within the ambit of the powers granted to them.

The Managing Director, who is responsible for the day-to-day running of the Company, has been granted wide powers for all areas of the Company's operations, up to a limit of 2 billion lire (Euro 1,032,914) per individual transaction. The Chairman and Deputy Chairman have been granted wide powers up to a limit of 1 billion lire (Euro 516,457) per individual transaction.

The Managing Director reports at each board meeting on the activities carried out and provides qualitative and quantitative information on any atypical, unusual or related party transactions. The Articles of



Share capital Euro 11,333,500 fully paid-in.

Administrative offices: Via Dei Carpini 1 – 25035 OSPITALETTO (BRESCIA) - ITALY
✉ P.O. Box no. 68 - ☎ 030/6843001 – Fax 030/6843250 - Web Address: sabaf@sabaf.it

Registered office: Via Rango, 23 - 25065 LUMEZZANE (BRESCIA) - ITALY

Association lay down that the directors have to keep the Statutory Auditors informed on a timely basis, either directly or at board meetings, and in any case at least quarterly, verbally or in writing, with regard to their activities and the main economic, financial and capital transactions carried out by the Company or by its subsidiaries; particularly with regard to any transactions that could cause a potential conflict of interest.

During 2001 the Board held seven meetings, and six meetings are foreseen in 2002. The executive directors were always present at board meetings, while on average 80% of the non-executive directors were present.

Members of the board are provided with sufficient documentation and information prior to board meetings to allow them to express a reasoned opinion with regard to the matters on the agenda.

Appointment and remuneration of directors

It is general practice, followed voluntarily by the shareholders, to deposit the curriculum vitae of each candidate at the Company's head office prior to the shareholders' meeting. The voting list system has not been adopted for the appointment of directors.

A Nominations Committee has not been set up.

The remuneration received by the directors is decided on a fixed basis and is detailed in the notes to the financial statements. A significant part of the remuneration received by the Managing Director, the Executive Director Alberto Bartoli and by the other members of top management is linked to the achievement of specific objectives, as explained in the Directors' Report on Operations which accompanies the financial statements.

There is a Remuneration Committee consisting of three directors: Gianbattista Saleri, Erminio Bonatti and Leonardo Cossu. The Remuneration Committee makes proposals to the Board of Directors as regards the remuneration of the Managing Directors and of those that hold particular positions, as well as proposals regarding the criteria for the remuneration of the Company's top management, based on input from the Managing Director. The Remuneration Committee met four times during the course of 2001.

The Internal Control System

The Board of Directors is of the opinion that the current system of internal control is able to guard against the risks that are typical of the activities carried on by the Company and its subsidiaries, and to monitor the

Administrative offices: Via Dei Carpini 1 – 25035 OSPITALETTO (BRESCIA) - ITALY
✉ P.O. Box no. 68 - ☎ 030/6843001 – Fax 030/6843250 - Web Address: sabaf@sabaf.it

Registered office: Via Rango, 23 - 25065 LUMEZZANE (BRESCIA) - ITALY

economic and financial position of the Company and of the Group. A three-year internal audit plan is currently underway with the objective of monitoring all of the processes that are considered critical.

A person has been put in charge of internal control and he coordinates all of the activities in this area. For this task, the person concerned does not report to any of the heads of the operating areas, but directly to the Managing Director; he also keeps the Internal Control Committee and the Board of Statutory Auditors informed of his activities.

The internal control activity is also carried out with the help of an auditing firm, different from the one that audits the Company's financial statements.

The Internal Control Committee consists of three non-executive directors: Erminio Bonatti, Leonardo Cossu and Franco Carlo Papa. The Internal Control Committee has policy functions with regard to the internal control activity; it also evaluates the adequacy of the internal control system, the work of the person in charge of internal control and of the auditing firm that helps him. The Committee has reviewed the Company's risk management plan and has constantly monitored its updating and implementation. The Committee has also reviewed in detail the results of the internal audit work carried out on the processes chosen for analysis. The Internal Control Committee met three times during the course of 2001.

Treatment of confidential information

On 14 May 2001 the Board of Directors approved an internal procedure for the treatment of confidential information. This procedure identifies the Managing Director as the person in charge of handling confidential information and for the publication of price-sensitive news.

In brief, this procedure states that:

- ❑ the directors and statutory auditors of Group companies are required to maintain the confidentiality of the information and documents acquired during the course of their duties;
- ❑ employees who become aware of confidential information must not communicate it to others, except for professional or job-related purposes. Any communication has to state that the information being transmitted is "confidential", requiring the recipient to maintain its confidentiality as well;
- ❑ special attention is paid to the circulation of confidential documents inside and outside the Company to avoid harm to the Company and undesirable disclosure of information; documents containing confidential information have to be classified as such, marked "confidential", and in cases of particular sensitivity, the copies have to be numbered.

Administrative offices: Via Dei Carpini 1 – 25035 OSPITALETTO (BRESCIA) - ITALY
✉ P.O. Box no. 68 - ☎ 030/6843001 – Fax 030/6843250 - Web Address: sabaf@sabaf.it

Registered office: Via Rango, 23 - 25065 LUMEZZANE (BRESCIA) - ITALY

- the transmission of documents by e-mail has to be protected by passwords communicated only to those who need to know for work reasons.

The procedure also defines the ways in which price-sensitive news is to be divulged, in other words by press release in compliance with the legal and regulatory requirements

Lastly, the procedure defines the criteria governing relations with institutional and private investors.

Investor relations

A special function has been set up to deal with investor relations, whose task is to foster an open dialogue with institutional and private investors.

Periodically, meetings are organised with Italian and foreign members of the financial community.

Shareholders' meetings are also an occasion to communicate company information to shareholders.

The Company now has Regulations for Shareholders' Meetings, which were approved at the AGM held on 4 May 2001.

Statutory Auditors

The Articles of Association lay down that the Board of Statutory Auditors is to be appointed on the basis of lists presented by the shareholders. Lists can be presented by shareholders who collectively hold shares representing at least 3% of the share capital with voting rights at ordinary general meetings. The lists presented have to be deposited at the Company's head office at least ten days prior to the date of the meeting at first calling. The shareholders have adopted the practice of accompanying the lists with the curriculum vitae of each candidate.

Ospitaletto, 19 March 2002

The Board of Directors